



Striking an Optimal Balance Between Assurance and Consulting Services

Practical Insights from Internal Audit Leaders

A CBOK Stakeholder Report

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CBOK

The Global Internal Audit
Common Body of Knowledge

STAKEHOLDER STUDY FACTS

Survey participants	1,124
Interview participants	112
Countries	23
Languages	13

STAKEHOLDER POSITIONS REPRESENTED

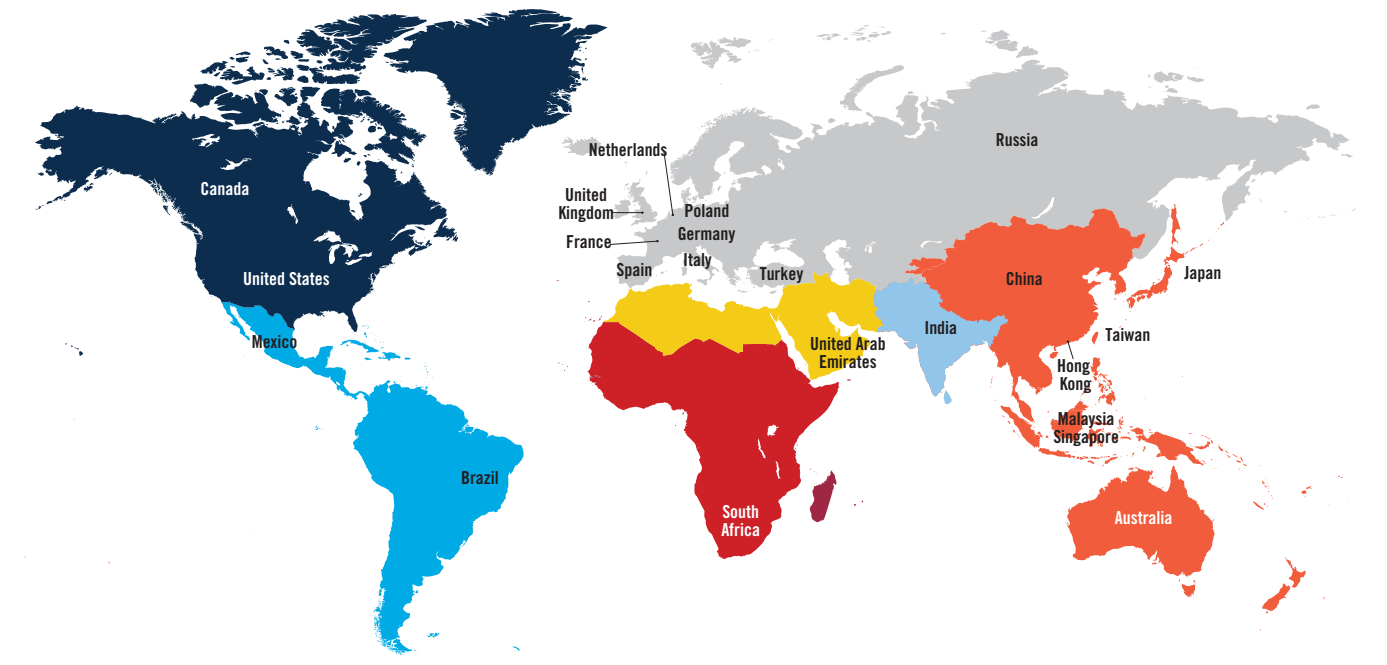
Board member	34%
Chief executive officer (CEO)	15%
Chief financial officer (CFO)	18%
Other C-suite	33%

About CBOK

The Global Internal Audit Common Body of Knowledge (CBOK) is the world's largest ongoing study of the internal audit profession. The current CBOK study has two major components: practitioner and stakeholder. The practitioner study encompasses reports that explore a variety of internal audit practices. To complement this information, the stakeholder study seeks out perspectives from stakeholders about internal audit performance. Surveys, interviews, and data analysis for the stakeholder project were conducted by Protiviti in partnership with IIA institutes around the world. Stakeholder reports focus on identifying leading practices that can improve internal audit effectiveness.

CBOK reports are available free of charge thanks to generous contributions and support from individuals, organizations, IIA chapters, and IIA institutes worldwide. Practitioner and stakeholder reports are available for download at the CBOK Resource Exchange (www.theiia.org/CBOK). Stakeholder reports are also available at the Protiviti website (www.protiviti.com).

CBOK 2015 Stakeholder Study: Participants from 23 Countries



Note: Twenty-three countries participated with the Internal Audit Foundation, formerly The IIA Research Foundation (IIARF), and Protiviti to distribute surveys and interview questionnaires to stakeholders in their region from July 2015 to February 2016. Partially completed surveys were included in the analysis as long as demographic questions were complete. The colors on the map show the seven global regions (based on World Bank categories) used for CBOK studies.

About the CBOK Global Stakeholder Study

This report is part of the Internal Audit Foundation’s 2015 Common Body of Knowledge (CBOK) Global Stakeholder Study. One of the key findings in this study is that a majority of stakeholders – board members, CEOs, CFOs, CIOs, CROs, and more – see value in internal audit performing advisory and consulting work in addition to fulfilling its assurance responsibilities. As a follow-up initiative in this ongoing study, chief audit executives (CAEs) from across multiple industries were interviewed to provide insight on how they balance internal audit’s assurance responsibilities with the type of consulting and advisory work that more boards and management teams are requesting from their internal audit groups. The insights of these audit leaders, whom we cite throughout our report without attribution in exchange for their candid feedback and views, inform our discussion.



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Introduction: Don't Be (Too) Rigid

“The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function.”

F. Scott Fitzgerald's description of a superb intellect applies to first-rate internal audit functions that maintain an optimal balance between their assurance and consulting work. On the one hand, CAEs who shared insights on how to maintain this balance are resolute that assurance services and the internal audit function's unwavering devotion to independence come first. Yet auditing leaders emphasize that flexibility is crucial in adding strategic value to their organizations via client services that extend beyond their traditional assurance work.

“We make sure we tell our people not to be so rigid that they constantly worry about crossing the line of independence,” says one CAE. “If we're going to err in our consulting work, we're going to err on the side of being a little less rigid so that we can provide great client service. That means teaching our clients the best ways to achieve the right balance between controls and getting the job done.”

According to the results of the 2015 CBOK Stakeholder Study (www.theiia.org/CBOK), internal audit's stakeholders want internal audit to provide advisory work where it does not interfere with its assurance work. Areas beyond assurance cited most frequently by respondents to our study – who included a broad range of C-level executives along with board members – include consulting on business process improvements, facilitating and monitoring effective risk management, alerting management to emerging issues and changing scenarios, identifying known and emerging risk areas, and identifying risk management frameworks and practices.

To be clear, all of the CAEs who shared their insights on leading practices for balancing assurance and consulting work describe an ironclad commitment to maintaining their function's objectivity and prioritizing internal audit's assurance services over all other activities. They deploy processes and tactics to ensure these table-stakes assurance

Defining Your Terms

The IIA's International Professional Practices Framework (IPPF) defines assurance and consulting as follows:

Assurance Services: *An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.*

Consulting Services: *Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.*

and independence requirements are adhered to, monitored, resourced appropriately, and communicated to the audit committee. These CAEs also have in place a collection of interesting practices to select, deploy, monitor, and report on consulting services, which may comprise anywhere from 7 percent to 40 percent of an internal audit function's time and resources. In most cases, CAEs report that their assurance-consulting work breakdowns range from 80/20 to 75/25.

The consulting practices and approaches shared by these audit leaders, which we detail in this report, are compelling, in large part due to the benefits – for both the organization as a whole as well as for the culture and reputation of the internal audit function – that these governance, risk, and control-focused consulting activities generate. “Consulting helps internal auditors demonstrate that including us in the conversation up front adds value,” one CAE asserts. “We're bringing governance, risk management, and control expertise, and are asking questions that are critical to business success, at a time that could influence management's decision, and helping our partners move the business forward.”

Varied Services, Similar Benefits

“Our consulting work has put us in a very favorable position with the rest of the company, which views us not as the police but as a function that helps our managers move the business forward and enables our auditors to gain a deeper understanding of the business.”

The collection of consulting services and projects that CAEs described is large, varied, and strategic in nature. These services can be identified by internal audit or requested by the stakeholders. Some of these offerings – perhaps 20 percent – consist of what many readers might expect given that the services directly relate to the internal audit function’s core governance, risk management, and control expertise – assistance with the implementation of an ethics hotline, for example, or consulting focused on SOX-compliance process changes that need to be implemented to adhere to a new accounting standard. Other consulting activities – a notably larger portion – center on broader and often more strategic initiatives: the design and launch of a new business line, product offering, or service offering; a massive manufacturing plant overhaul; or the launch of a new joint venture, among many others. Consulting services tend to address projects that are at the consideration or planning phase, are in progress, or prior to implementation. Getting internal audit’s inputs on governance, risk management, and control at this time enables management to make better decisions and achieve their objectives and business success.

Still other consulting services requested by management reflect a desire by the business to integrate internal audit’s know-how into important initiatives – such as business continuity planning or executive onboarding – to achieve process improvements and help amplify the organization’s focus on governance, risk management, and control processes. One CAE detailed a consulting engagement in which the internal audit function assessed the company’s recent disaster recovery response following an extreme weather event. Another explained that the internal audit group assigns auditors to an annual executive retreat in which incoming C-level and top-tier executives are instructed and advised on a range of leadership topics,

Benefits of Internal Audit Consulting Work

- Business process and governance improvements.
- Increase credibility of internal audit.
- Enhance the business’s understanding of, and comfort with, governance, risk management, and internal controls.
- More effective and efficient assurance work.
- Mutual recruiting benefits.

including the ways in which internal controls are an integral part of the company’s culture and management’s responsibilities.

While information technology (IT) projects also comprise a significant share of internal audit’s advisory work, this technology-related consulting also varies considerably, ranging from involvement in the implementation of a new treasury or human resources system, to the selection of a new cloud vendor, to broader reviews of multiple enterprise systems. Internal audit’s involvement up front is especially important given the integration of IT into many operations, processes, products, and services and the high costs of retrofitting IT controls and technical solutions to meet business, customer, and regulatory requirements.

Despite the fact that different internal audit functions focus their consulting activities on a wide range of areas in their businesses, the payoffs these efforts yield tend to be similar and the benefits tend to be mutual: They add value to the business while also strengthening the culture and skill sets of various functions and internal audit, and while enhancing the reputation of internal audit functions.

“The business really values that we are willing to help them address risks up front, without putting a label or audit opinion in that work that we do with them,” one CAE notes. Audit leaders point out that much of this payback is difficult to quantify (e.g., enhancements to the internal audit function’s credibility), but they emphasize that these rewards are extremely valuable. The benefits include:

- **Business process and governance improvements:** Audit leaders describe the top benefit of their function's consulting work as a series of cascading governance, risk, and control improvements that begin with a specific engagement. This advisory work (1) reduces the likelihood and/or magnitude of future governance, risk, and control issues in that part of the business; (2) motivates business partners to consider governance, risk, and control issues earlier in subsequent process, technology, and staffing changes; and (3) makes business partners more comfortable with proactively calling internal audit for assistance or guidance related to internal audit's core expertise in governance, risk, and controls.
- **Increase credibility of internal audit:** Nearly every CAE cites reputational improvements (i.e., greater credibility) as the top benefit that consulting services deliver beyond improvements in risk management and business processes. "Our consulting work helps our auditors understand the business better, which makes them better business people," says one CAE. "That helps them, one, perform more effective assurance work, and two, have better discussions with management. All of that lends itself to the business units viewing internal audit as a talent pool for the organization."
- **Enhancing the business's understanding of, and comfort with, governance, risk management, and internal controls:** By collaborating with internal auditors on a consultative basis, business partners gain an opportunity to learn more about these concepts in a more comfortable setting. "There's more openness in these conversations," one CAE says. "The business learns about governance, risk management, and controls in a non-adversarial manner as opposed to waiting to see what we will put in our audit report."
- **More effective and efficient assurance work:** Internal audit consulting engagements that identify and address governance, risk, and/or control issues can help reduce the duration of subsequent assurance work that internal audit conducts in those areas. One CAE estimates that a consulting engagement related to a systems implementation reduced the number of hours required to subsequently audit that system by 33 percent. CAEs also report that business clients who have learned more about internal audit's purview through consulting engagements tend to collaborate more effectively during assurance engagements, which helps increase efficiency.
- **Mutual recruiting benefits:** Some internal audit functions assign auditors to consulting projects based on their interest in that part of the business. Such an approach helps groom auditors to thrive in other business functions when they opt to transfer to operational roles. Those transfers also tend to help the internal audit function by disseminating additional internal audit expertise and awareness into various parts of the organization. Consulting-related work also can deliver recruiting and retention benefits to the internal audit function. Several CAEs use the word "fun" to describe how their staffers feel about consulting work, which according to one audit leader, "absolutely provides a benefit to our culture ... It helps me from a recruiting perspective. It helps me from a retention perspective. It helps me develop my staff and provides a talent pool to the organization."

Maintaining Objectivity: Crucial and Controllable

“I tell our team this all the time: I would rather have that discussion on whether we are getting close to the line than having us run from that line.”

While it is crucial to sustain the internal audit function’s objectivity on consulting engagements, CAEs whose functions devote 20 percent or more of their resources to advisory work say it is not difficult to do so as long as this need is communicated clearly to all stakeholders and the audit management team, and a handful of key practices are followed.

The need for communications and training concerning independence is greater when auditors and managers (typically those at the front end of their careers), business partners, and/or audit committee members have relatively little experience with the assurance/advisory dynamic. CAEs indicate that the following practices are helpful in maintaining the function’s objectivity while consulting:

- **Keep the audit committee informed:** Most CAEs include at least a brief description of their function’s consulting services in their annual audit plan. Most audit committees want to see the breakdown of assurance work versus consulting work. Some audit committees – especially those who serve in highly regulated industries and those populated with more traditionally minded board members – may want to know more about how internal audit will preserve its objectivity on these engagements and related, subsequent assurance engagements. Some CAEs conduct an annual “deep-dive” session with audit committee members focused on independence and other aspects of their consulting services.
- **Educate internal auditors on the key risks to independence and how to maintain objectivity:** CAEs emphasize it is crucial for everyone on their team to clearly understand

Best Practices for Maintaining Internal Audit Independence

- *Keep the audit committee informed.*
- *Educate internal auditors on the key risks to independence and how to maintain objectivity.*
- *Assess potential independence issues up front.*
- *Clarify to business partners what maintaining objectivity looks like.*
- *Be prepared when a business partner asks for too much.*
- *Recognize the need for back-and-forth work.*
- *Adapt when necessary.*

how the internal audit function can put its objectivity at risk on a consulting project, and how such risks should be mitigated. Presenting hypothetical scenarios and case examples helps, as do guidelines for identifying risks and managing the project as well as lists of unacceptable activities (those that veer too close to the independence line). Other CAEs promote mantras such as “don’t be the decision-maker,” designed to keep independence top of mind for auditors and business partners during consulting work. Audit leaders also emphasize the importance of instructing their teams how to respond if they feel their objectivity is even slightly at risk. “My team is keenly aware of what crossing that line looks like,” one CAE asserts. “They know when to come to me and say, ‘OK, I’m kind of uncomfortable with this for the following reasons.’”

- **Assess potential independence issues up front:** Determining if a potential consulting engagement is a fit for internal audit involves two initial considerations:
 - (1) Does this work fit our expertise and skill sets?
 - (2) Are there any potential independence risks?

“We always look for any independence risks before we take on an engagement to make sure there is no issue,” one CAE says. Audit leaders also point out that there is a convenient solution whenever a potential consulting engagement may threaten objectivity: Don’t do the work. One CAE has a process in place to evaluate any consulting project that will consume more than 40 hours in order to closely assess fit and any independence concerns.

- **Clarify to business partners what maintaining objectivity looks like:** Prior to a consulting engagement, internal auditors should clearly communicate to business partners their need to maintain objectivity. “We sit across the table from them and let them know what we will and will not do,” one CAE reported. “We might provide some examples of how we’ve done this type of work in other situations. We stress to them that they ultimately need to make the decision. Those conversations give our business partners and, quite honestly, our team more comfort.” Internal audit should also be up front about its reporting obligations if the team encounters potential fraud or significant issues.
- **Be prepared when a business partner asks for too much:** CAEs advocate being ready to reset expectations when a business leader requests or expects too much of internal auditors on a consulting project. “I’ve had leaders reach out to me and ask, ‘Can you help me draft a policy on X?’ My answer to that is, ‘We’re happy to help, and we can give you examples of what we would expect to see in such a policy. But we’re not going to write the policy for you, and we’re not going to sign off on the policy because that crosses the independence line.’”

- **Recognize the need for back-and-forth work:** While the business group must take ownership of any new policies or processes being developed during an internal audit consulting engagement, the development of these policies or processes typically includes a healthy amount of back and forth. For example, a business group may draft a new policy following a consultation with internal auditors and then share the draft policy with the same audit team for review. The audit team would then make suggestions for how the draft policy can be improved.
- **Adapt when necessary:** In some cases, it is necessary to ensure auditors who conducted consulting work for a specific business area will not participate in audits of that business area for 12 months. Though infrequent, consulting work occasionally may identify an issue that requires a formal auditing action. In these instances, CAEs say it is important for internal audit to communicate the rationale for this decision to the business partner and lay out the next steps.



Delivering Consulting Services

“Our CEO has clearly said that he measures a significant portion of internal audit’s value based on the consulting work that we’re being asked to do.”

Regardless of how much consulting internal audit delivers, most audit leaders describe a similar set of execution best practices.

- **Establish and reinforce internal audit’s approach to consulting:** One CAE describes the internal audit function’s consulting work as “risk pursuit.” Another indicates the function’s consulting mission is to “teach best practices” regarding governance, risk, and control. Another audit leader notes the function’s consulting approach is designed to “spark conversations about internal controls” as new processes and tools are being designed. Articulating a consulting approach, mission, and/or mindset helps align internal audit and business partner expectations while keeping consulting activities focused on relevant objectives. New audit committee members often need to be briefed on the internal audit function’s approach to consulting. One CAE recently clarified to two new board members (neither of whom had much familiarity with internal audit consulting services) that “the advisory work we do is around risk and controls – it’s not McKinsey-type consulting work.”
- **Raise awareness:** Internal audit functions that are relatively new to delivering consulting services need to get the word out to the rest of the organization about their advisory services. CAEs encourage their auditors (and former internal auditors who have moved on to other areas of the company) to promote consulting offerings informally with business partners whenever possible – on steering committees, at lunch in the cafeteria, and during audits,

Best Practices for Delivering Consulting Services

- *Establish and reinforce internal audit’s approach to consulting.*
- *Raise awareness.*
- *Carefully screen new consulting opportunities.*
- *Articulate, report, and distribute insights appropriately.*
- *Follow up, measure and improve.*

for example. Many audit leaders also conduct their own marketing activities. “I visit many of our global locations throughout the year,” one CAE explains, “and I frequently share suggestions and observations about various improvement opportunities based on what I see. That helps establish trust.” It also gives the CAE an “in” to discuss the internal audit function’s consulting services when business partners ask for more suggestions. Above all, strong consulting work is perhaps the best way to market these services. “When you do great work, word spreads quickly,” one CAE notes.

- **Carefully screen new consulting opportunities:** Internal auditors should scrutinize a potential consulting opportunity up front to (1) understand the reasons for the project, the objectives of the project, and the expected deliverables; (2) determine if the opportunity is a match for internal audit’s expertise, if internal audit can leverage expertise within the organization by using guest auditors from the first and second lines of defense, and/or if co-sourcing or outsourcing is an option; (3) assess objectivity concerns and risk mitigation safeguards; and (4) understand the context of the work so that the consulting can be performed more effectively. This includes understanding who is requesting the consulting support, which business

partners will participate, any implications attached to the work (and recommendations internal audit may deliver), and an estimate of duration. By getting a feel for that context, “you have a much better chance of doing much more effective work,” a CAE says. “You want to avoid handing business partners a review and then hear them say, ‘This isn’t what we asked for.’”

- **Articulate, report, and distribute insights appropriately:** CAEs tend to describe their consulting services and the reports that accompany them by differentiating these from traditional audit reports. Formal audit reports include observations, recommendations, and management action plans with specified due dates. Audit reports also tend to be distributed broadly. Reports issued from consulting work, which are often called interim reports or memorandums, tend to contain much less information – three to five sentences each on what was requested, what the internal audit group discovered, and the team’s recommendations or conclusions – and have a more limited distribution. Depending on the conclusions identified in the consulting memo or report, senior officers and the audit committee may or may not be included on that distribution. In order to align expectations, CAEs also find it is beneficial to share a sample consulting report with business partners before the work begins. Internal audit should also be up front about its reporting obligations if the team encounters potential fraud or significant issues.

- **Follow up, measure, and improve:** Since consulting-related reports do not contain management action plans, business partners are not formally required to implement any recommendations these reports identify. CAEs indicate that it is helpful to follow up nonetheless. “We still follow up,” says a CAE. “We don’t report on the status of their subsequent work, but we still check in after the fact and ask them if they’ve completed X, Y, and Z.” Audit leaders with thriving consulting services also promote the importance of measuring and tracking the number of consulting projects they complete. Some also track the number of consulting projects requested by the business as a means of gauging how effectively the function is raising awareness of its consulting services and as a proxy for effective consulting work. A steadily increasing number of annual consulting requests suggests the internal audit function’s consulting services are effective. “Over the last several years, we have tracked the number of management requests for consulting that we receive,” reports one CAE, “and that number has increased every year. We also hear from satisfied business executives who not only tell me that they like it, but also share that view with their counterparts. Those are good things.” Consulting work should also be subject to evaluation and quality assurance reviews that can provide lessons learned and opportunities for continuous improvement.

Final Thoughts: Objectivity Is Not an Obstacle

Obtaining the many rewards that consulting services can generate requires smarts, flexibility, and a first-rate approach to walking what is, at times, a fine line of objectivity. As leading CAEs emphasize, this balance requires careful

attention and ongoing consideration – but it is not too difficult to achieve when deploying best practices. Perhaps the biggest mistake internal audit leaders can make is failing to try to strike the balance needed to deliver consulting services. “Don’t be so rigid,” one CAE advised, “that you miss out on great opportunities to provide more value for your clients.”



About the Author

Karen Brady, CIA, CRMA, CFE, is the Vice President of Audit and Chief Compliance Officer for Baptist Health South Florida (BHSF), which includes 10 hospitals, over 40 physician practices, and more than 50 outpatient facilities. BHSF has been recognized for being among the best healthcare providers in the country by *U.S News & World Report* and has consistently been recognized as one of *Fortune Magazine's* 100 Best Companies to Work For and one of the World's Most Ethical Companies. Karen has more than 30 years of professional experience and has been with BHSF for over 20 years. She has served in a number of volunteer positions with The IIA, including chair of the North American Board.

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CBOK is administered through the Internal Audit Foundation, which has provided groundbreaking research for the internal audit profession for the past four decades. Through initiatives that explore current issues, emerging trends, and future needs, the Foundation has been a driving force behind the evolution and advancement of the profession. The Foundation may be contacted at 1035 Greenwood Blvd., Suite 401, Lake Mary, Florida 32746, USA.

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