



## Key Habits of Effective Audit Departments: How Do You Measure Up?

During my 30 years of working with internal audit departments of all sizes and in different industries, I have found that there is no one version of a “World-class Audit Department”. The practices of effective audit departments depend on the industry, the firm’s organizational structure and culture, e.g., privately held versus publicly traded, and the audit department’s leadership. But, however different these departments are, I have found commonalities among them.

First, let’s define “world-class”. Some synonyms are: top-notch, premier, blue-ribbon, and distinguished. A world-class entity is at the forefront of industry practices, is emulated by others, and may even receive official recognition of its excellence from outside parties. At its core, a world-class entity is about the people. A leading audit department is composed of effective auditors who consistently perform certain behaviors in order to become trusted advisors. These behaviors are:

1. Demonstrate business savvy and acumen.
2. Achieve tactical results while remaining strategically oriented.
3. Are a source of and shares institutional knowledge.
4. Express the same message in a variety of ways until others’ understanding is achieved.
5. Write well.
6. Simplify complex or intangible concepts without compromising the meaning.
7. Speak mindfully and are cognizant of the impact of what they say and don’t say.
8. Focus on cause and effect relationships within businesses, processes, functions.
9. Get to root causes of problems, risk triggers, and control breakdowns.
10. Demonstrate professional skepticism and critical thinking without antagonizing and irritating others.

These auditors perform key practices that can be categorized as people-related, process-related or positioning-related. People-related practices affect the human capital: how departments attract, develop, and retain their talent and preserve their institutional memory. Process-related practices are comprised of defined, repeatable tactics that can be taught, measured, and enhanced. Positioning-related practices pertain to the audit department’s role in relation to the board and C-suite. Of the three categories, the positioning-related practices are the most susceptible to an organization’s culture and structure, and the audit department’s leadership.

### People-related

If you were auditing an internal audit group, what attributes would you want to see that would indicate the members of this group were a team and not just a collection of individuals? Following are the attributes of an effective team that pertain to talent and human capital. As you look over this list of characteristics, consider how your team measures up.

- Shares a common goal or objective
- Harnesses the efforts of a mentally diverse team.
- Leverages mechanisms to identify and close skill and competency gaps, especially in the areas of business acumen and technology
- Follows a defined process to build bench strength, business acumen, and technical proficiency
- Develops human capital at all levels within the audit organization
- Has a reliable, useful co-sourcing partner

### **Process-related**

Internal audit has taught me that everything works better and runs more smoothly if there is a controlled, repeatable, and documented process in place. For example, for some time I found that in my frequent travels, I invariably forgot to bring something – shampoo, reading materials, and once, comfortable walking shoes. I would waste time and money trying to find a decent temporary replacement. I resolved to fix this issue by documenting my travel preparation and packing process. I converted this into a checklist that I use every time I travel, and it has been invaluable. Throughout the years this checklist has become embedded into my travel habits.

More importantly, my team and I have adopted a process-oriented training and consulting approach. While each of our clients has unique needs, our approach to training and consulting is the same: conduct a needs assessment, draft a statement of work, conduct the training or consulting if the client decides to move forward, and provide a post-project assessment. With this framework we provide customized, behaviorally-based solutions within a reasonable timeframe. This process has been tweaked throughout the years, but its main controlled, repeatable steps are the same. By mimicking the tenets of premier audit departments' methodologies, we increase the probability of providing practical, customized, efficient, and effective solutions to our clients.

A world-class audit department engages in the following process-related habits:

- Uses a guidance-based methodology to keep the universe evergreen and perform risk assessments of its auditable entities
- Uses a risk focus to set priorities and allocate resources
- Employs a methodology but not a strict, mathematical formula to evaluate inherent and residual risk at the audit level, not just at the universe level
- Leverages technology to complete audits
- Optimizes data analytics and monitoring

- Demonstrates a commitment to continuous improvement and quality
- Provides roll-up trend reporting on inherent risks, residual risks, and common findings

### Positioning-related

Fundamentally, the question of accountability is not difficult: Management is responsible for operating the business. The board of directors is responsible for seeing that management does a good job and shareholder or stakeholder value is enhanced. As such, a world-class audit department:

- Has a strong relationship with business leadership, including a board of director reporting relationship (and the audit committee decides compensation)
- Is positioned within the organization as a source of value, exemplified by inclusion and participation in strategic initiatives
- Provides talent to the rest of the organization
- Partners effectively with business leaders without compromising integrity and independence

As an auditor, ask yourself: How many repeat issues do you identify and report? How often do your Audit Committee and Executive Committee meet? What is your role in these meetings? How has your Department handled Quality Assessment Reviews and ongoing internal audit quality control? How and to whom do you report on audit quality control results?

How do you and your team measure up against these people-, process-, and positioning-related habits? If you found some areas of need, view this as an opportunity. Another aspect of a competent auditor and audit department is the ability to notice a need for change and take steps to make the change a reality. From a change management perspective, what support would you need to introduce the change and achieve the desired results from it? Would you need a champion? If so, who would this person be?

You may already have a predilection of striving towards excellence. Excellence is not static – industry and organizational standards change. Whether you are a one-person department or one of hundreds of auditors, your effectiveness as an auditor should have an important impact on your organization. How do you measure up?



Ann M. Butera, MBA, CRP, is President of The Whole Person Project, Inc., an organizational development consulting and training firm, is a frequent conference speaker, and served as audit committee chair for a financial services firm. Please visit [www.wholepersonproject.com](http://www.wholepersonproject.com) for more information on her consulting and training services. She welcomes your reactions and questions concerning this article, and can be reached at [amb@wholepersonproject.com](mailto:amb@wholepersonproject.com) or 516-354-3551.

Ann published her first book, *Mastering the Five Tiers of Audit Competency: The Essence of Effective Auditing* in May 2016. In it she shares best practices for every stage of the audit and explains how and why the most effective auditors master five essential competencies. New and seasoned auditors will benefit from her insight culled from over 30 years' experience in training thousands of their peers.