Adding Value through Consulting Activities: Leading Practices

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Agenda

📑	**Talking about Value**

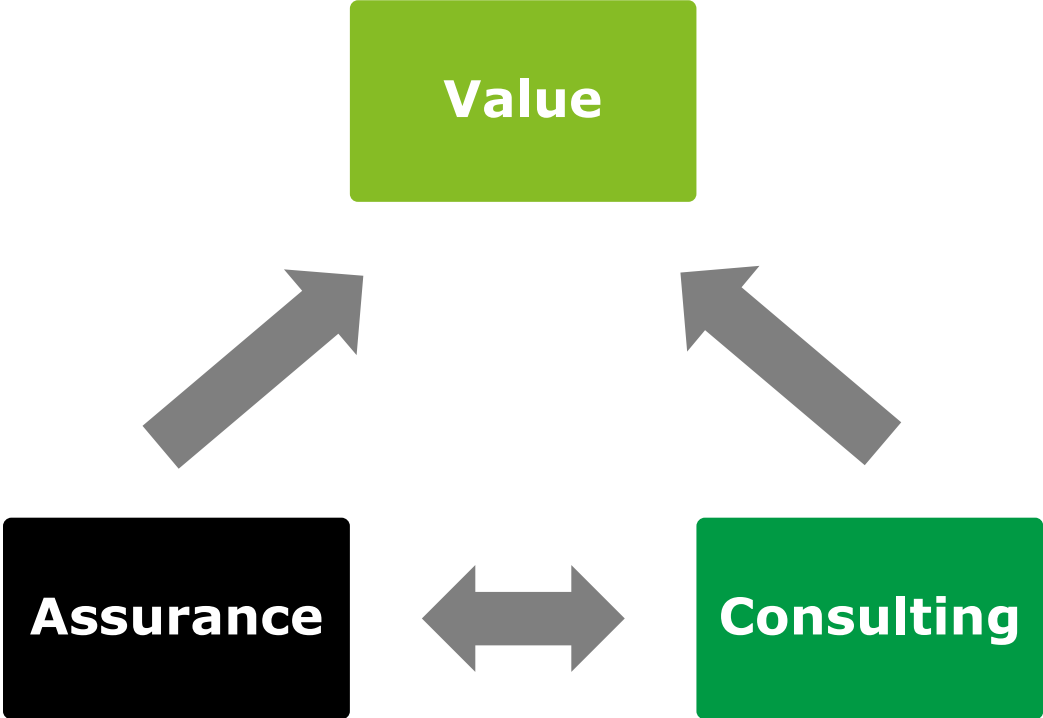|	
💡	**Building Consulting Capabilities**

🌐	**Q&A**

Talking about Value

Adding Value is Internal Auditor's Ultimate Goal

"Internal auditing is an independent, objective **assurance** and **consulting** activity designed to **add value** and improve an organization's operations."
(The Institute of Internal Auditors)

Related Standards

1000.C1

The nature of consulting services **must be defined** in the internal audit charter.

1130.A3

The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting **did not impair objectivity** and provided individual objectivity is managed when assigning resources to the engagement.

1130.C1

Internal auditors may provide consulting services relating to operations for which they had **previous responsibilities.**

Related Standards

1130.C2

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, **disclosure must be made** to the engagement client prior to accepting the engagement.

1210.C1

The chief audit executive **must decline** the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

Related Standards

1220.C1

Internal auditors must exercise **due professional care** during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing, and communication of engagement results.
- Relative complexity and extent of work needed to achieve the engagement's objectives.
- Cost of the consulting engagement in relation to potential benefits.

2010.C1

The chief audit executive should consider accepting **proposed consulting engagements** based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.

Related Standards

2201.C1
Internal auditors must establish an **understanding with** consulting engagement clients about objectives, scope, respective responsibilities, and other client expectations. For significant engagements, this understanding must be documented.

2210.C2
Consulting engagement objectives **must be consistent** with the organization's values, strategies, and objectives.

2240.C1
Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement.
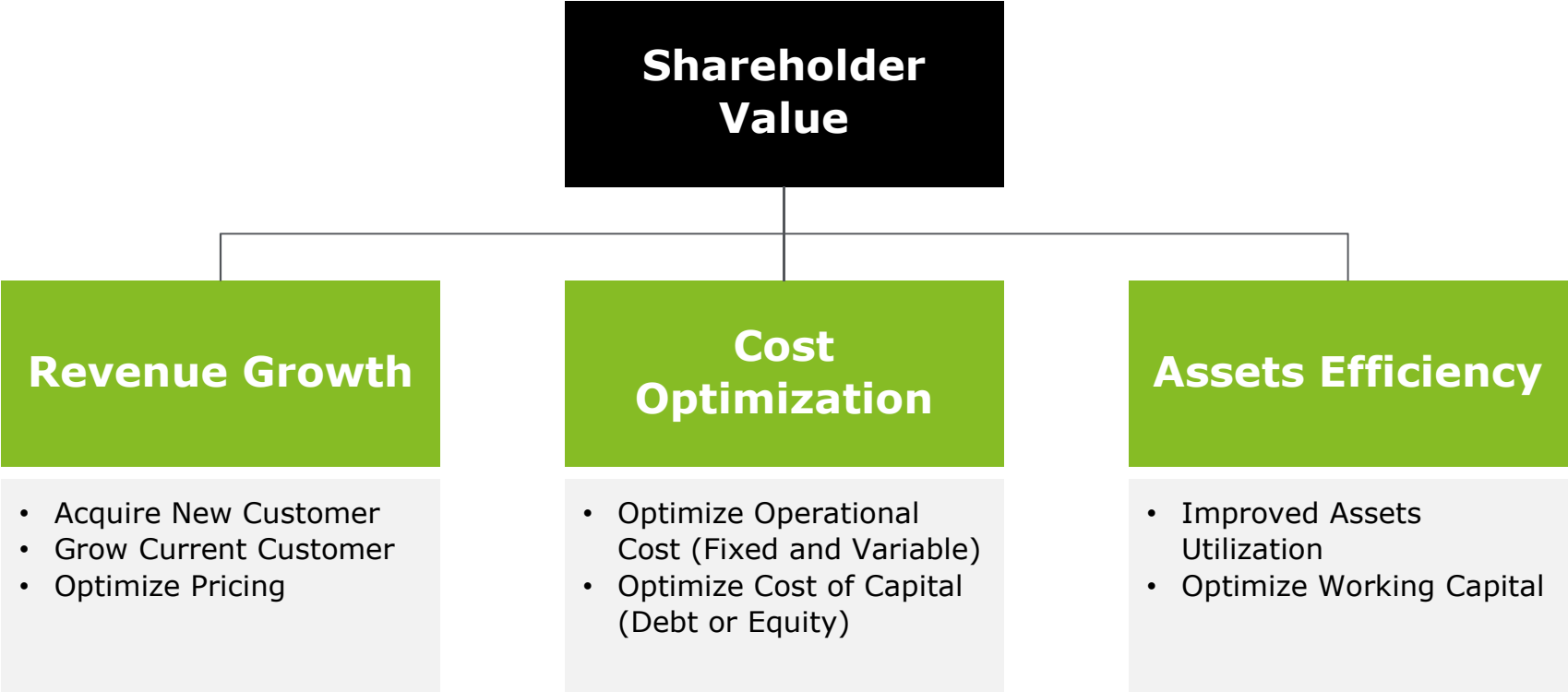
Whose Value to Add?

Adding Shareholder Value is Internal Auditor's Ultimate Goal

- For every Rp 1 investment in organization, shareholder expects return
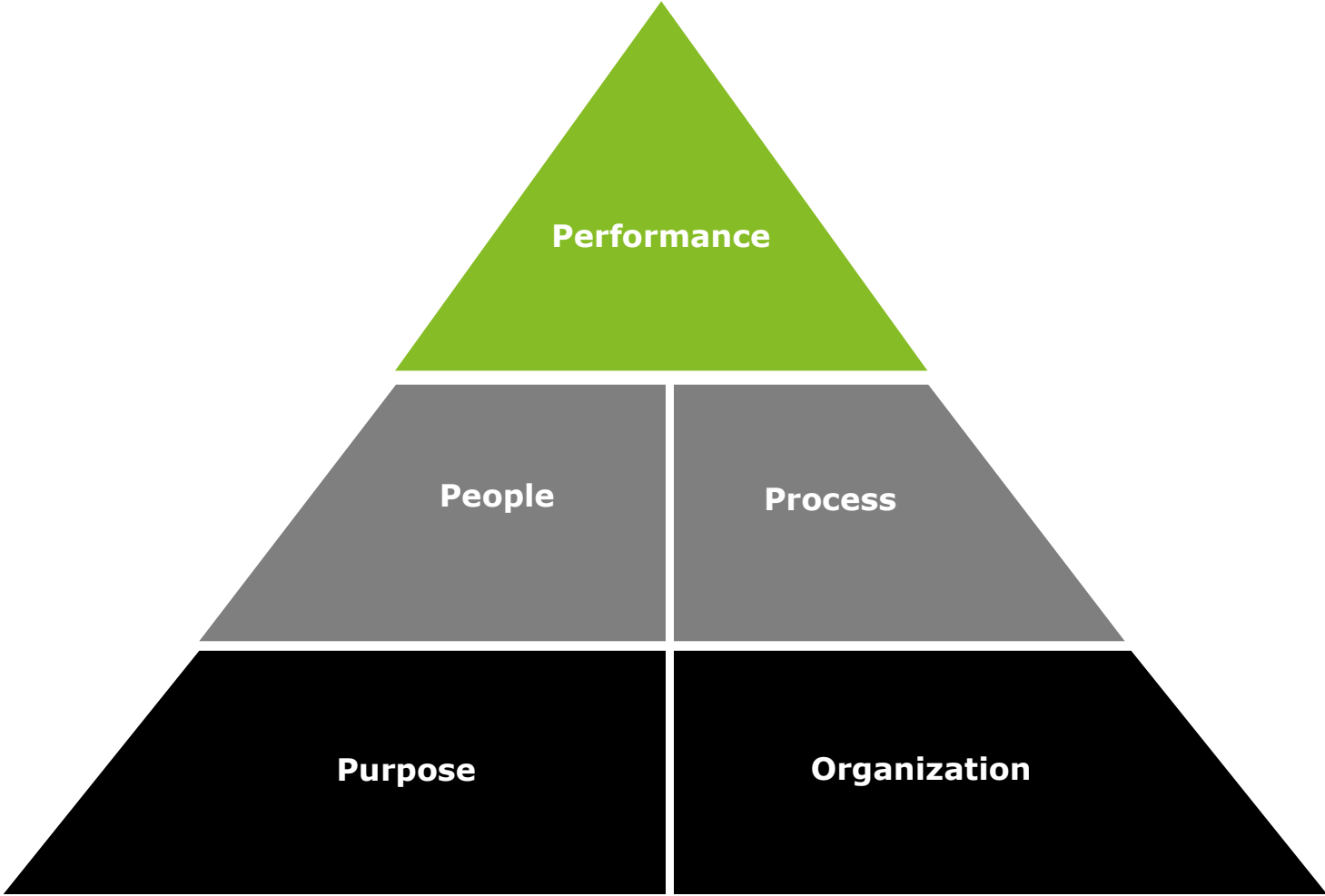- Each Rp return to shareholder is **value** given to shareholder

**Internal Auditor should contribute directly to increase the "Rp" return to shareholder**

Shareholder Value

Revenue Growth
- Acquire New Customer
- Grow Current Customer
- Optimize Pricing

Cost Optimization
- Optimize Operational Cost (Fixed and Variable)
- Optimize Cost of Capital (Debt or Equity)

Assets Efficiency
- Improved Assets Utilization
- Optimize Working Capital

Building Consulting Capabilities

Building Blocks to Build Consulting Capabilities

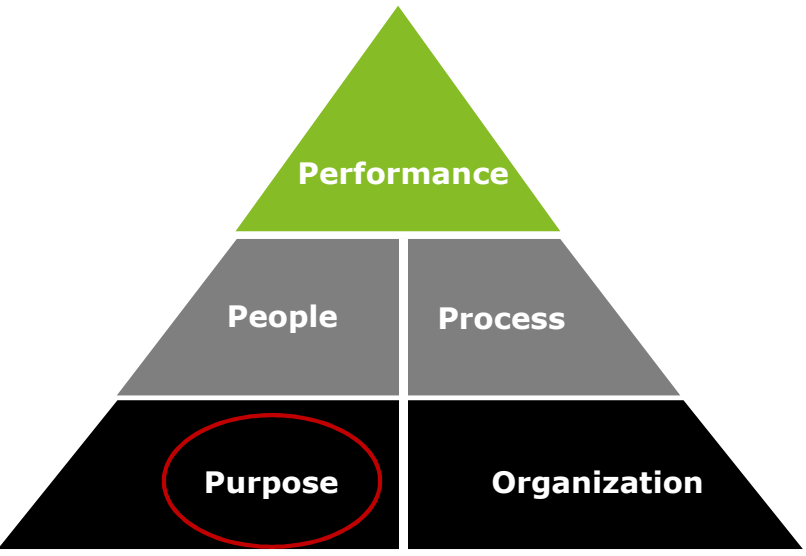# Building Blocks to Build Consulting Capabilities
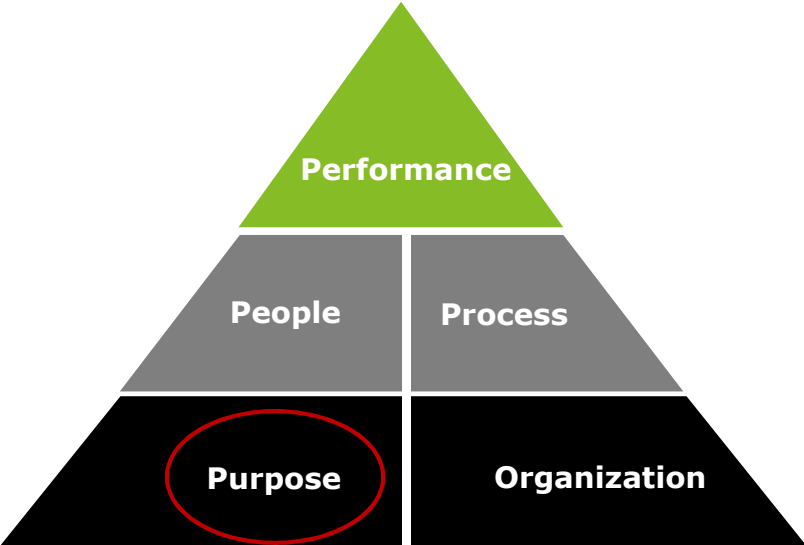
I. Develop Internal Audit Business Model

Source: Alexander Osterwalder Business Model Generation (2017)

Building Blocks to Build Consulting Capabilities
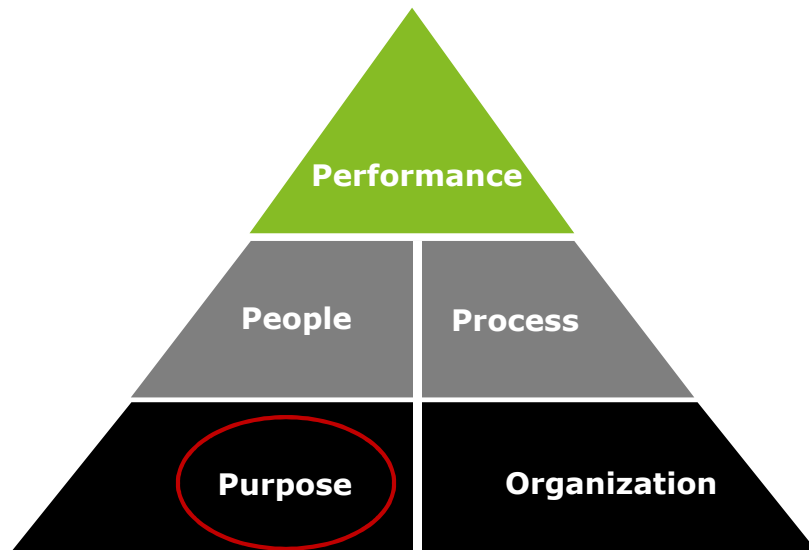
I. Develop Internal Audit Business Model

Company Internal Audit Business Model Canvas

Legend: Assurance Activities (COSO, SOX, GAAP, Company Policies) Consulting Activities Relevant to Both Activities

Source: iaonline.theiia.org

Building Blocks to Build Consulting Capabilities

II. Put into Internal Audit Charter

1. The type of consulting activities IA provide:
    *   Tactical consulting (Private meeting, group meeting, or FGD)
    *   Strategic consulting which is thematic with formal engagement letter (Participation in Strategic Planning, Investment Decision, Cost Optimization, System Development, etc.)

2. Put clause:
    *   *Layanan konsultasi Internal Audit tidak mengambil alih tanggung jawab manajemen dalam mengambil keputusan*
    *   *Internal Audit memiliki akses tidak terbatas dan berkelanjutan ke dalam basis data perusahaan*

Building Blocks to Build Consulting Capabilities

Performance

People **Process**

Purpose **Organization**
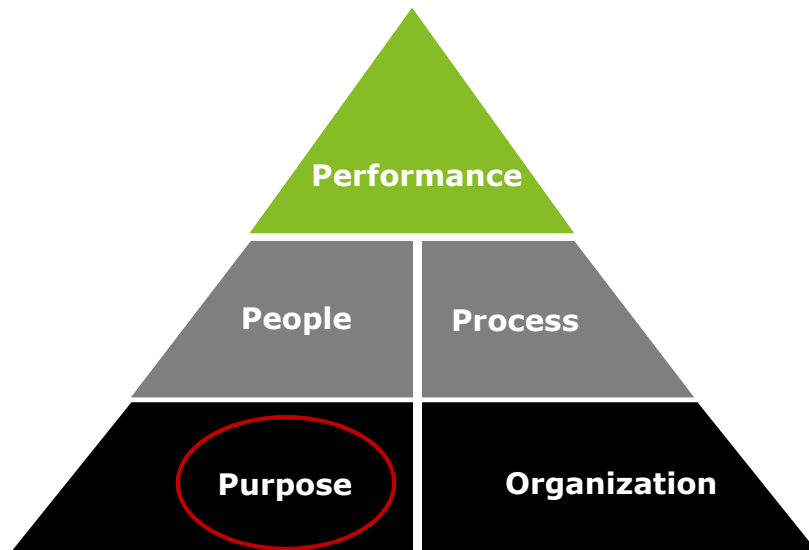
III. Develop Internal Audit Strategic Plan

1. Vision, Mission and Objective of Organization
2. Vision, Mission and Objective Of Internal Audit
3. External Analysis of Organization (Political, Economic, Social, Technology, Legal and Environment)
4. External Analysis of Internal Audit (Organization's value chain, Leading Practices, Technology and Legal)
5. Internal Analysis of Internal Audit (People, Process and Technology)
6. Stakeholders' aspirations (Board of Commissioners, President Director, Directors, one level below directors and external auditor)
7. Benchmarking results (Qualitatively through visits or desktop research and Quantitatively through IIA GAIN)
8. Initiatives and strategies
9. Execution Plan
10. Risk Management

Building Blocks to Build Consulting Capabilities

IV. Design Organizational Culture of Consulting Team

Performance

People | Process

Purpose | Organization

Customer-centric

Innovative

Building Blocks to Build Consulting Capabilities

Performance

People

Process

Purpose

Organization

V. Design Organization Structure of Consulting Team

a

Internal Audit

Assurance and Consulting Team

Pooled

b

Internal Audit

Assurance Team

Consulting Team

CoE

c

Internal Audit

Assurance Team

Consulting Team

Dedicated
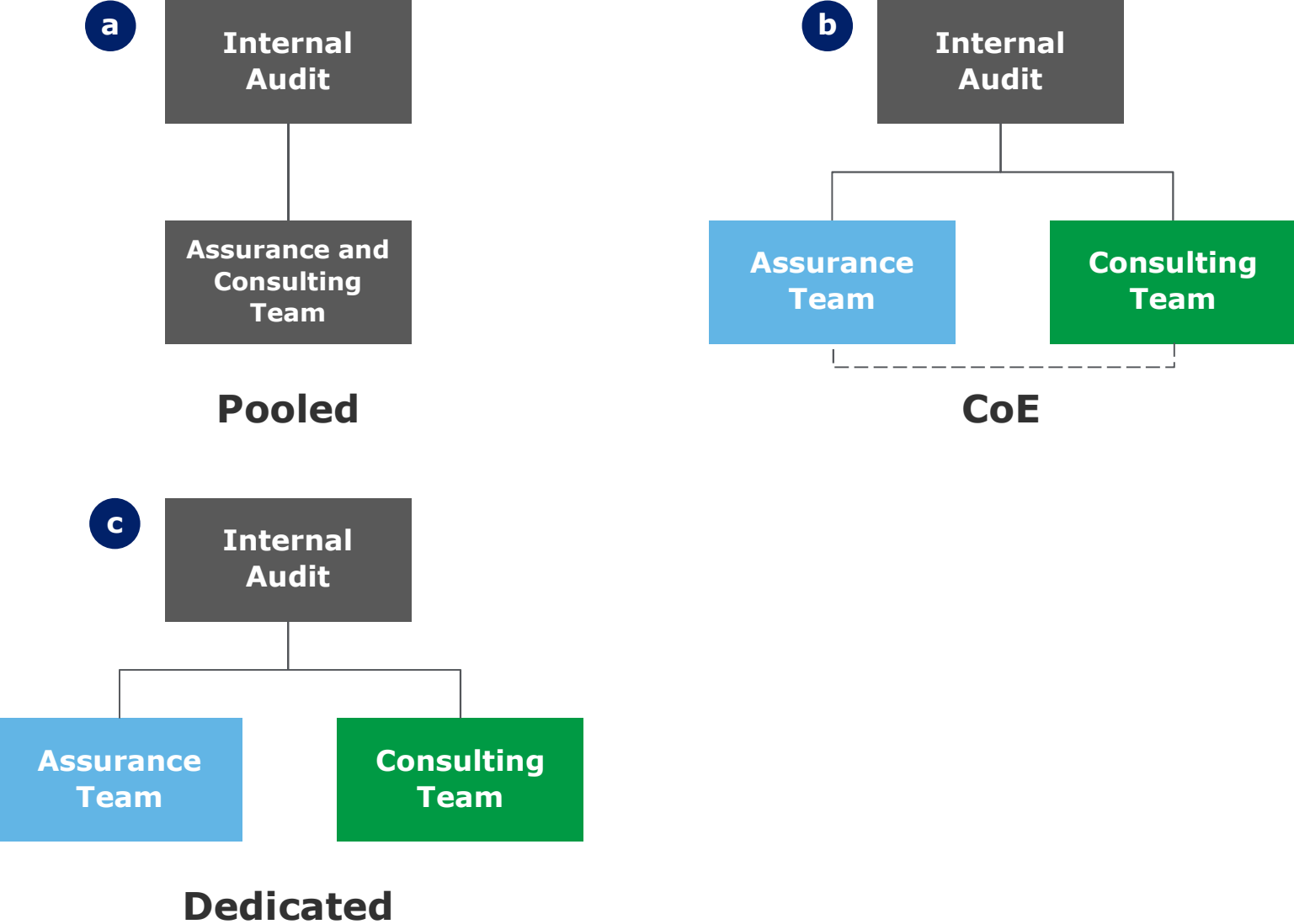
Building Blocks to Build Consulting Capabilities
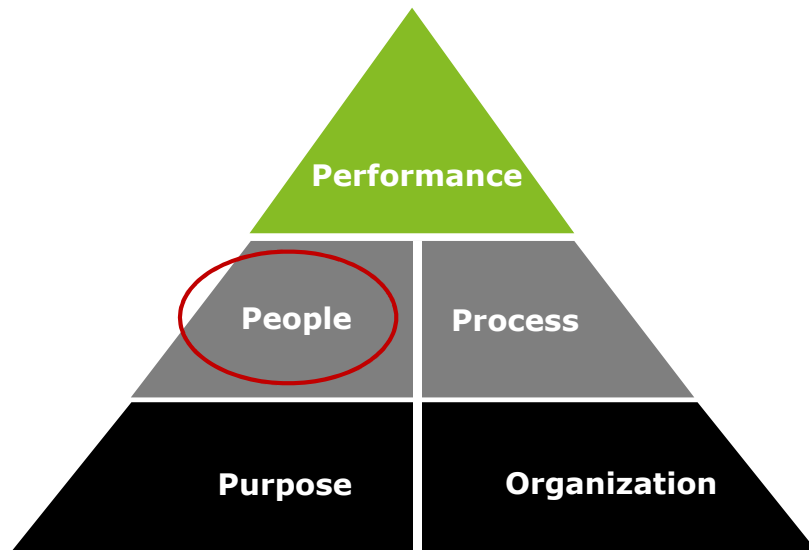
VI. Select Team Member with Experience in Business and Internal Audit

General Team Profile

- **Subject Matter Expert:** Senior consulting team member with minimum 10 years experience in business (Dedicated)
- **Team Leader:** Team member with minimum 5 years experience in business and internal audit (Dedicated)
- **Team Member:** Team member can provide assurance and consulting services (Pooled)

Development Program

- Rotational program between business and internal audit
- Training program more focus on increasing business acumen and soft skills

Building Blocks to Build Consulting Capabilities
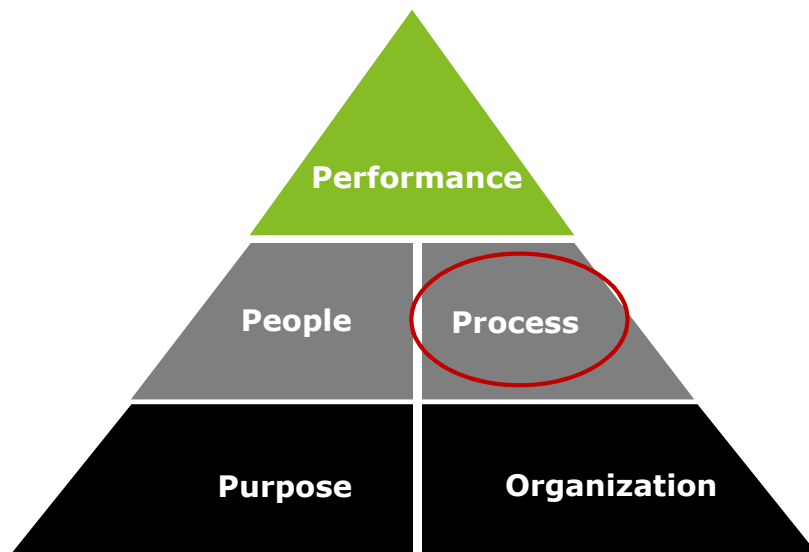
VII. Implement Agile but Robust Processes

Principles

- **Presentation:** Perfection in Power Point final report and presentation is more important than perfection in Excel working paper

- **Decrease administrative works:** The more internal audit solving management problem the more internal audit add value

- **Incorporate research methodology:** Conclusions are based on qualitative, quantitative or both research methods. Analytical skills heavily used.

Enabler

- Data Analytics Tool → Managed by Internal Audit Technology Team
- Robotic Automation Tool → Managed by Internal Audit Technology Team
- Knowledge Management System → Managed by Internal Audit Methodology Team

Building Blocks to Build Consulting Capabilities
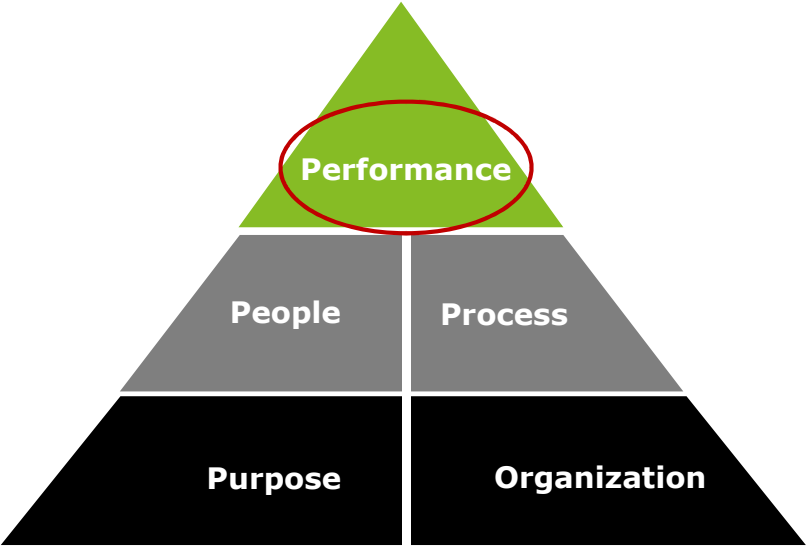
VIII. Implement Stakeholders Relationship Management

Effective stakeholder relationship management programs build, develop, and maintain vital working relationships among internal audit's stakeholders, providing value to internal audit, stakeholders, and the organisation.
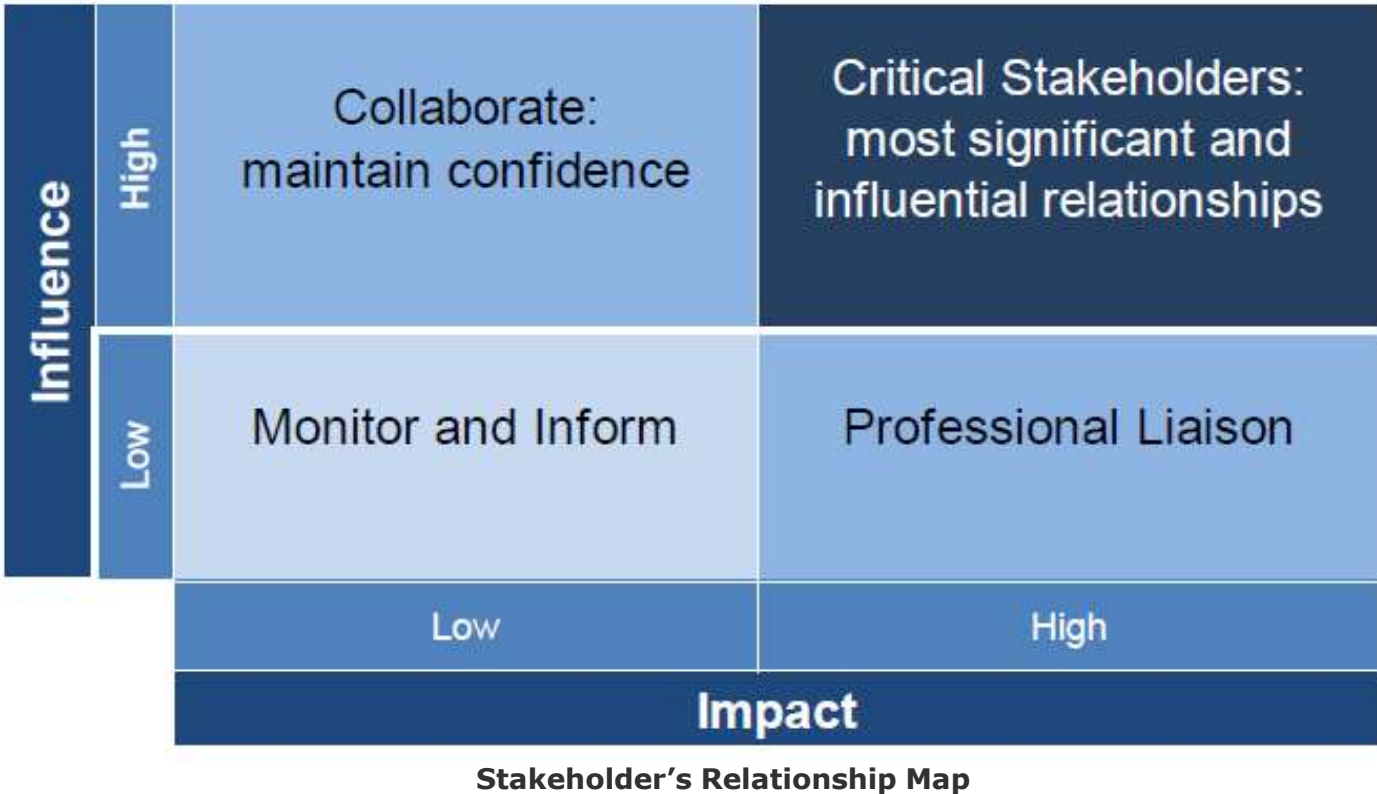
Stakeholder's Relationship Map

Source: IIA White Paper – Stakeholder Relationship Management (2016)

Building Blocks to Build Consulting Capabilities

VIII. Implement Stakeholders Relationship Management

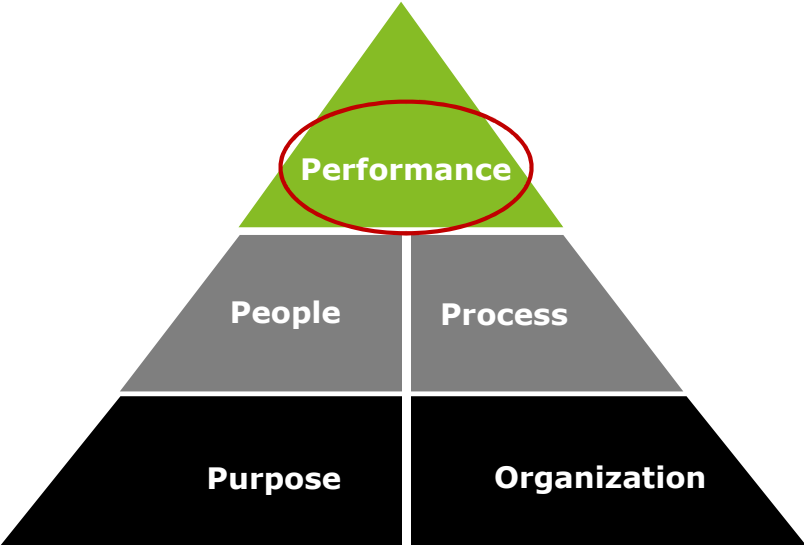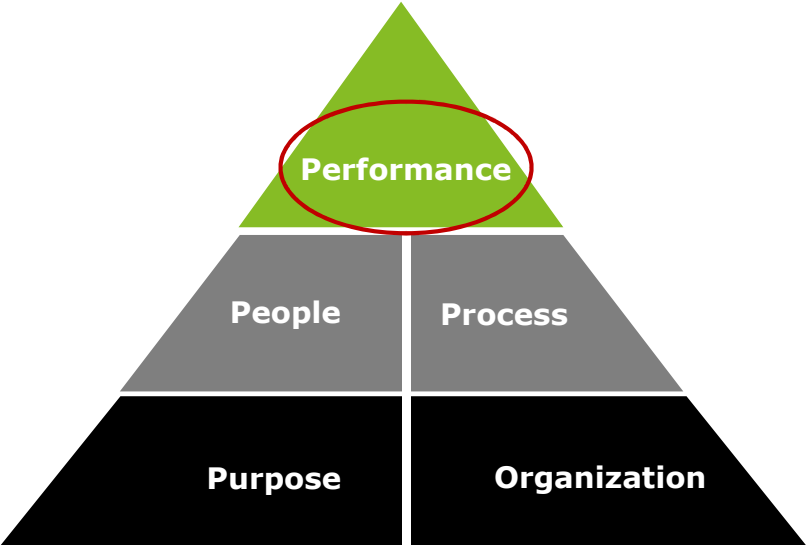As the level of stakeholder influence increases, so does the nature and extent of communication. Moreover, the more influential a stakeholder group is, the more senior will be the level of internal auditor charged with fostering and maintaining that relationship.

Collaborate	Critical Stakeholders
▪ Other internal assurance providers ▪ Senior executives in business lines ▪ Audit clients ▪ Auditor General (Legislative auditor) ▪ Corporate Secretariat ▪ Organizational Committees	▪ Chief Executive Officer ▪ Chair of Audit Committee ▪ Audit Committee Members ▪ CFO ▪ C-Suite
Monitor and Inform ▪ Senior Accounting practitioners ▪ Other members of the public sector ▪ Counterparts in other jurisdictions ▪ Local professional leaders ▪ *Third party service providers* ▪ Infernal Service providers (HR, Legal etc)	**Professional Liaison** ▪ Professional bodies (IIA, ISACA, CPA etc)

Example of Stakeholder's Relationship Map

Source: IIA White Paper – Stakeholder Relationship Management (2016)

Performance

People | Process

Purpose | Organization

Building Blocks to Build Consulting Capabilities

VIII. Implement Stakeholders Relationship Management

Performance	(circled)
People	Process
Purpose	Organization

Stakeholder	Importance of Relationship	Interests / Needs of the stakeholder	Staff Responsibility	Frequency	How and What provided
Chief Executive Officer	Powerful as a key champion	High level and significant issues that relate to achievement of strategic priorities of the entity	CAE	Formal Quarterly scheduled meetings As necessary	Timely insights
Chair – Audit Committee	Critical as the CAE reports functionally to this role	Advice on trends and issues related to governance, risk management and control Assurance that the audit plan is being accomplished Appropriateness of staffing and resourcing of IA Early warning on emerging issues from audits	CAE	Monthly discussions Scheduled audit committee In camera sessions as part of all audit committee meetings As required	Formal audit committee meetings Scheduled off line discussions

Example of Stakeholder's Communication Plan

Source: IIA White Paper – Stakeholder Relationship Management (2016)
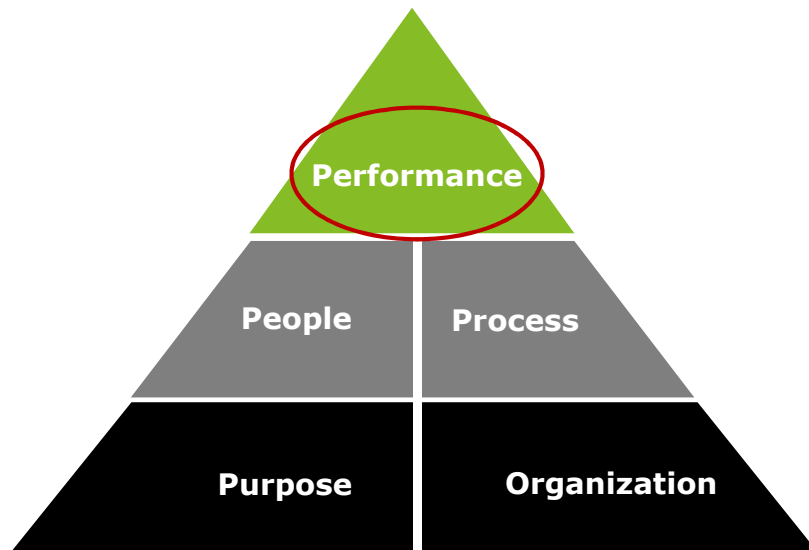
# Building Blocks to Build Consulting Capabilities

VIII. Implement Stakeholders Relationship Management

Seven critical success factors of an effective stakeholder relationship management program are:

1. Establishing a formal, systemic and cohesive program
2. Championed by the CAE and having engagement of key internal audit staff
3. Rational assessment of the influence, impact, and priority of stakeholders
4. Clear and consistent engagement and communication
5. Active two-way communication (listen and feedback)
6. Sharing of meaningful insights that have an impact
7. Follow-through of commitments given

Source: IIA White Paper – Stakeholder Relationship Management (2016)

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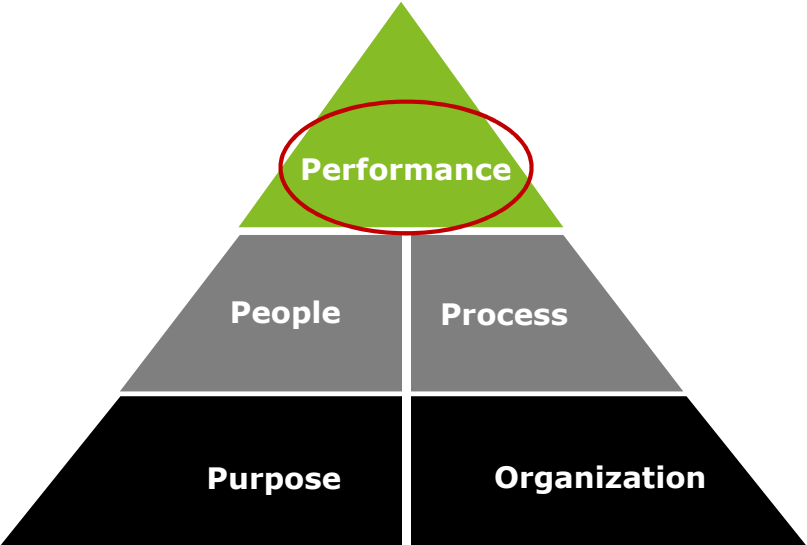
IX. Design Consulting-supportive KPI

The Global Internal Audit Common Body of Knowledge (CBOK) study in 2015 found:

- About 57% of CAEs report their internal audit department is fully aligned or almost fully aligned with the strategy of their organisations; the remaining **43% are somewhat, minimally, or not aligned.**

- There was a six-fold increase in the use by CAEs of **balanced scorecard reporting** between 2010 and 2015 (increasing from 4% to 26%). The upward trend is expected to continue.

Building Blocks to Build Consulting Capabilities
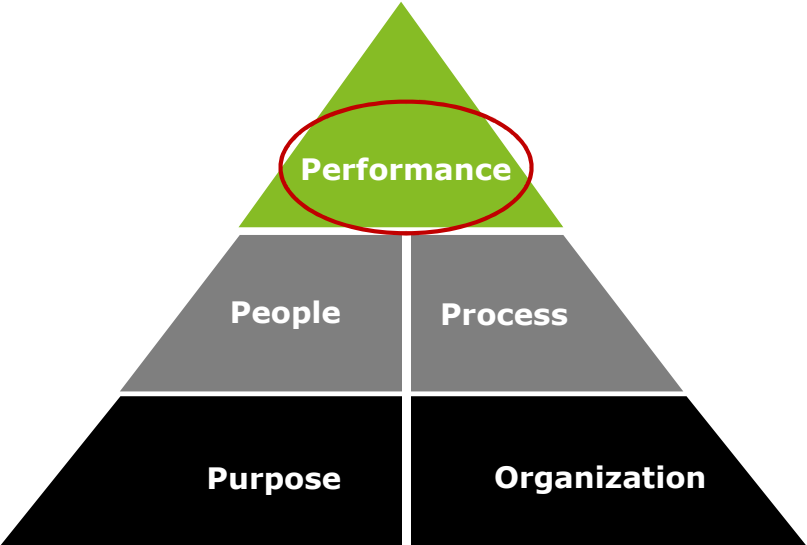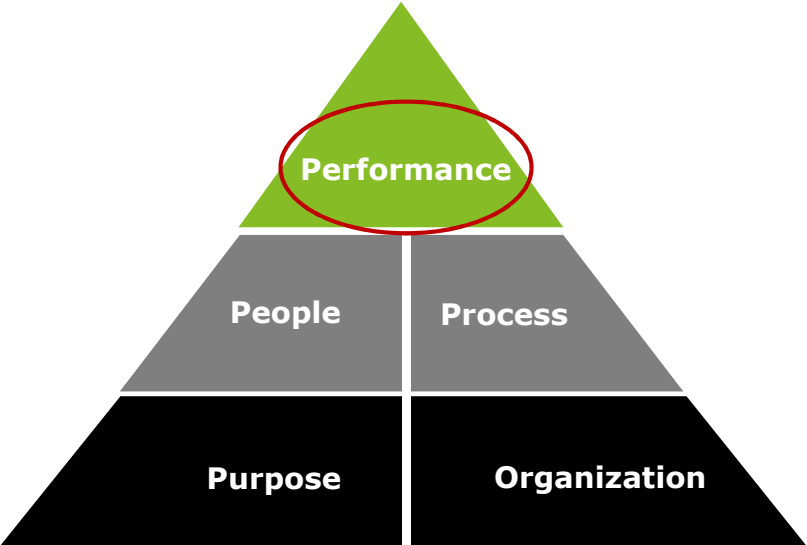
IX. Design Consulting-supportive KPI

Align KPI with Executive Management's KPI, for example, if Management's KPI is 30% cost reduction, internal audit's KPI should address that.

Performance			
BoC and Audit Committee	**Executive Management**	**Internal Process**	**Innovation and Learning**
• BoC and Audit Committee Satisfaction Score	• Number of Management Consulting Request • Number of implemented recommendation • Monetary value of operational efficiency identified • Customer Satisfaction Score	• Budget vs Actual Cost Saving • Level of Compliance to Procedures	• Number of innovative idea identified

Performance

People | Process

Purpose | Organization

Building Blocks to Build Consulting Capabilities

X. Implement Formal Knowledge Management

Performance

People | **Process**

Purpose | **Organization**

1

Knowledge Management are:
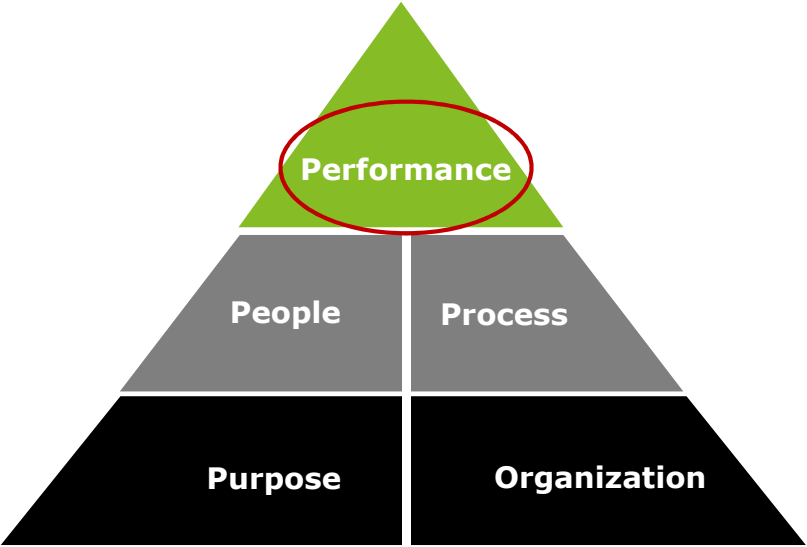- Knowing what our internal auditor know.
- Making sure that internal audit capture, share and store that knowledge.
- Delivering that knowledge to internal audit team and externally to organization
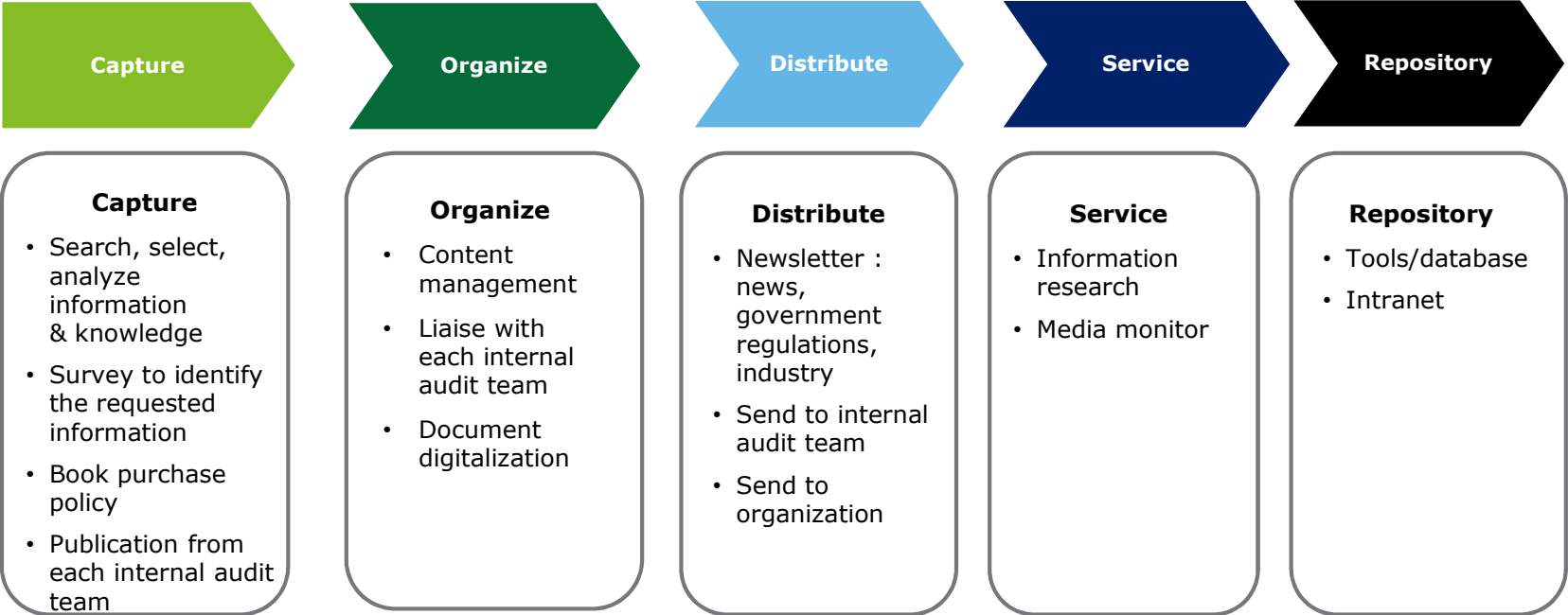
2

The primary value of KM for internal auditor are:
- Using knowledge to innovate, streamline, deliver to stakeholders and reduce risk.
- Connecting people to people.
- Connecting people to content.

Building Blocks to Build Consulting Capabilities

X. Implement Formal Knowledge Management

Performance

People

Process

Purpose

Organization

Capture	Organize	Distribute	Service	Repository

Capture
- Search, select, analyze information & knowledge
- Survey to identify the requested information
- Book purchase policy
- Publication from each internal audit team

Organize
- Content management
- Liaise with each internal audit team
- Document digitalization

Distribute
- Newsletter : news, government regulations, industry
- Send to internal audit team
- Send to organization

Service
- Information research
- Media monitor

Repository
- Tools/database
- Intranet

Q&A