What’s Your Definition of Value?

Renowned statistician W. Edwards Deming (1900-1993) said, “It is important that an aim never be defined in terms of activity or methods. It must always relate directly to how life is better for everyone… The aim of the system must be clear to everyone in the system. The aim must include plans for the future. The aim is a value judgment.”

As one responsible for ensuring effective governance and strong systems of internal control, you likely would agree with the importance Deming put on clarity, goals, and the future. Although he used the term value judgment, one might consider it a judgment of value.

How do you judge (define) value in regard to corporate governance and internal control? What do you deem most important in ensuring things are going as intended, goals are being met, and the culture is one grounded on the high road? Clearly, the internal audit activity plays a key role in all of the above, but how do you define the value internal auditing brings to an organization and to its internal and external stakeholders?

HOW INTERNAL AUDITING PROVIDES VALUE

Internal auditors bring value to senior management, governing bodies, and other organizational stakeholders primarily through their insight into the organization; the objectivity with which they view the organization’s culture, system of internal control, and risks; and the assurance they provide that policies and procedures are being followed, that the organization is complying with laws and regulations, and that the internal controls in place are adequate to mitigate risks.

ASSURANCE

Although an independent activity within the organization, the internal audit activity is integral to the organization. Its role is to help management and the board to meet the organization’s goals and objectives. The internal auditors provide assurance on strategic, operational, financial, and compliance objectives. Armed with an in-depth understanding of the organization’s culture and ethical environment, they are positioned to bring great value to the entire process of effective governance, risk management, and internal control.

One example of how this works is when CEOs and CFOs are required by law to sign financials or other information provided to them by various entities within their organization. Having assurance from their internal auditor that appropriate policies and procedures were followed in the preparation of that information certainly helps steady the hands of those CEOs and CFOs as they sign off on the documents!
OBJECTIVITY

Because they are independent of the functions they audit, internal auditors are able to provide objective assessments of the organization to senior management and governing bodies. Professional internal auditors are committed to accountability and help management and the board hold all individuals and units accountable for their roles in the organization’s system of internal control. Uncompromised integrity should be inherent in every internal auditor’s work style.

An example of this is demonstrated by the skills that placed Carman L. Lapointe, CIA, in her new position at the United Nations. As Under-Secretary-General for the Office of Internal Oversight Services (OIOS), Lapointe came to her post with an impressive track record of independence, integrity, and accountability, all of which are critical to her role.

“Transparency and accountability are essential to the work of the Organization, and OIOS is critical to advancing that effort,” stated a United Nations announcement about Lapointe’s position. “Ms. Lapointe possesses the breadth and depth of experience and expertise required for this demanding position.”

When asked about what she views as most critical to both her current and past roles, she quickly points out the absolute necessity of objectivity in understanding the perspectives of all, while maintaining a view of the big picture and ensuring that important issues are appropriately addressed. She also talks about integrity and professionalism and the need to understand that “…we are on the same side, after all.”

INSIGHT

Having insight is very similar to having integrity; either you have it, or you don’t. It is also an essential component of an effective internal auditor’s profile.

Without having the sometimes elusive trait of good insight, internal audit practitioners could not be a catalyst for improving the organization’s effectiveness and efficiency through their analyses and assessments. Insight is critical to analyzing and accurately assessing data and business processes, and then making recommendations for improvement. These are all key functions of an internal audit activity. Senior management and governing bodies depend on the insights of professional internal auditors to help sustain a strong enterprise-wide system of internal control and effective operations.

MEETING EXPECTATIONS

To help define internal auditing’s role and ensure it adds the most value, the activity should have a charter in place. The internal audit charter should delineate:

- Roles and responsibilities of the internal audit activity.
- The functional reporting relationship to the audit committee.
- The administrative reporting relationship.
- Unrestricted access to corporate employees, facilities, records (including those of contractors), management, and the board.
- Any restrictions of the scope or authority of the internal audit activity.
- Cooperation between management and internal auditing.
- The importance for the activity to comply with The IIA’s Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.
• The necessity for and nature of the relationship with external auditors.
• Distribution of and responses to audit reports and summaries.
• How recommendations are followed.
• The presence of the CAE at audit committee meetings.

Sometimes internal auditors are asked to perform functions beyond their usual scope of work. In these instances, the CAE is obligated to ensure an appropriate level of proficiency of the auditor assigned to the task. These might include activities such as:

• Reviewing controls over major projects and new computer systems to help ensure controls are “built in” rather than retrofitted after being detected by a subsequent audit or system failure.
• Conducting audits of the efficiency and effectiveness of operations.
• Assessing the risks related to reputation, customer service, the environment, privacy, etc.
• Providing consulting and advisory services on controls and related matters.
• Participating in the investigation of fraud.

INTERNAL AUDITING’S VALUE PROPOSITION

A task force of Global IIA leaders was challenged to develop a “value proposition” for internal auditing that is concise and describes the unique value an internal audit activity provides an organization. For internal auditing, the value proposition can be best depicted as providing assurance, insight, and objectivity.

Assurance = Internal auditing provides assurance on the organization’s governance, risk management, and control processes to help the organization achieve its strategic, operational, financial, and compliance objectives.

Insight = Internal auditing is a catalyst for improving an organization’s effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.

Objectivity = With commitment to integrity and accountability, internal auditing provides value to governing bodies and senior management as an objective source of independent advice.

For information on “Internal Auditing’s Value to Stakeholders,” visit The IIA’s website at www.theiia.org/valueproposition.

THE VALUE OF PROFESSIONALISM

In addition to their experience and expertise, to be effective and to add the utmost value internal auditors should practice with a commitment to professionalism by:

• Conforming to The IIA’s International Standards for the Professional Practice of Internal Auditing.
• Maintaining a quality assurance and improvement program, including ongoing and periodic quality assessments.
• Earning professional designations such as the Certified Internal Auditor (CIA), Certified Financial Services Auditor (CFSA), Certified Government Audit Professional (CGAP), and the Certification in Control Self-Assessment (CCSA).
• Ensuring they are competent through ongoing training and professional development offered by organizations such as The IIA.
• Being integral to their organizations by gaining a thorough understanding of the business and its culture, while maintaining independence and objectivity.
• Holding true to the highest ethical standards and helping to promote a strong ethical culture throughout their organizations.
**Mission**

To provide executive management, boards of directors, and audit committees with concise, leading-edge information on such issues as ethics, internal control, governance, and the changing role of internal auditing; and guidance relative to their roles in, and responsibilities for, the internal audit activity.

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**The Institute of Internal Auditors** *(www.theiia.org)* is dedicated to the global promotion and development of internal auditing.

Established in 1941, The IIA is an international professional association with global headquarters in Altamonte Springs, Fla. The IIA has more than 160,000 members in internal auditing, risk management, governance, internal control, IT auditing, education, and security.

The IIA is the global voice, recognized authority, chief advocate, principal educator, and acknowledged leader in certification, research, and technological guidance for the internal audit profession worldwide. The IIA enhances the professionalism of internal auditors and is internationally recognized as a trustworthy guidance-setting body. It fosters professional development, certifies qualified audit professionals, provides benchmarking, and through The IIA Research Foundation, conducts research projects and produces educational products.