Supplemental Guidance: 
VALUE PROPOSITION OF 
INTERNAL AUDITING AND THE 
INTERNAL AUDIT CAPABILITY MODEL 
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# Supplemental Guidance: Value Proposition of Internal Auditing and the Internal Audit Capability Model

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Introduction

The purpose of this guidance is to identify the links between the Value Proposition for Internal Auditing and the Internal Audit Capability Model (IA-CM) for the Public Sector. It should be read in conjunction with the International Professional Practices Framework (IPPF).

In 2010, The Institute of Internal Auditors (IIA) introduced the Value Proposition for Internal Auditing to help internal audit activities effectively communicate the value of their work to primary stakeholders — such as audit committees, boards, management, and audit clients.

The Internal Audit Capability Model (IA-CM) for the Public Sector was developed by The Institute of Internal Auditors Research Foundation (IIARF) in 2009 to reinforce the importance of internal audit in public sector governance and accountability.
The Value Proposition of Internal Auditing

The value proposition of internal auditing is based on three core elements of value delivered by internal audit to an organization:

- **Assurance = Governance, Risk, and Control.** Internal audit 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 = Catalyst, Analyses, and Assessments.** Internal audit 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 process.

- **Objectivity = Integrity, Accountability, and Independence.** With commitment to integrity and accountability, internal audit provides value to governing bodies and senior management as an objective source of independent advice.

Governing bodies and senior management rely on internal audit for objective assurance and insight on the effectiveness and efficiency of governance, risk management, and internal control processes.
The Internal Audit Capability Model

The Internal Audit Capability Model (IA-CM) is a framework that identifies the fundamentals needed for effective internal audit. It describes an evolutionary path for an organization to follow in developing an effective internal audit activity to meet the organization’s governance needs and professional expectations. The IA-CM shows the steps in progressing from a level of internal audit typical of a less established organization to the strong, effective internal audit capabilities generally associated with a mature, complex organization.

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 audit to decision makers.
- A framework for assessment — a framework for evaluating the capabilities of an internal audit activity against the International Standards for the Professional Practice of Internal Auditing (Standards) and professional practices, either as a self-assessment or an external assessment.
- A roadmap for orderly improvement — a process for building capability that sets out the steps an organization can follow to establish and strengthen its internal audit activity.

The IA-CM is a tool that an 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.

A number of principles underlie the IA-CM:

- Internal audit is an integral component of effective governance and helps organizations achieve their objectives and measure their results.
- Three variables should 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 and ensure that it meets the needs of the organization.

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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. There is 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 internal audit capabilities and the measures taken by the organization’s management to establish a supportive environment for internal auditing.

- Internal audit should be delivered in a cost-effective manner.

The five levels of the IA-CM — Initial, Infrastructure, Integrated, Managed, and Optimizing — are described in “IA-CM Levels” and table below:

**Table: IA-CM Levels**

<table>
<thead>
<tr>
<th>Level 1</th>
<th>Initial</th>
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<td>No sustainable, repeatable capabilities — dependent upon individual efforts</td>
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<table>
<thead>
<tr>
<th>Level 2</th>
<th>Infrastructure</th>
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<tbody>
<tr>
<td>Sustainable and repeatable IA practices and procedures</td>
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<table>
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<tr>
<th>Level 3</th>
<th>Integrated</th>
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<tbody>
<tr>
<td>IA management and professional practices uniformly applied</td>
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<tr>
<th>Level 4</th>
<th>Managed</th>
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<tr>
<td>IA integrates information from across the organization to improve governance and risk management</td>
<td></td>
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<tr>
<th>Level 5</th>
<th>Optimizing</th>
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<tbody>
<tr>
<td>IA learning from inside and outside the organization for continuous improvement</td>
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</table>
Each of the five levels of the model characterizes an internal audit activity with a given set of capabilities:

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<tr>
<th>Level</th>
<th>Description</th>
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| **5 — Optimizing** | - Internal audit is a learning organization with continuous process improvements and innovation.  
- Internal audit uses information from inside and outside the organization to contribute to achieving strategic objectives.  
- World-class/recommended/best practice performance.  
- Internal audit is a critical part of the organization’s governance structure.  
- Top-level professional and specialized skills.  
- Individual, unit, and organizational performance measures are fully integrated to drive performance improvements. |
| **4 — Managed** | - Internal audit and key stakeholders’ expectations are in alignment.  
- Performance metrics are in place to measure and monitor internal audit processes and results.  
- Internal audit is recognized as delivering significant contributions to the organization.  
- Internal audit functions as an integral part of the organization’s governance and risk management.  
- Internal audit is a well-managed business unit.  
- Risks are measured and managed quantitatively.  
- Requisite skills and competencies are in place with a capacity for renewal and knowledge sharing (within internal audit and across the organization). |
| **3 — Integrated** | - Internal audit policies, processes, and procedures are defined, documented, and integrated into each other and the organization’s infrastructure.  
- Internal audit management and professional practices are well established and uniformly applied across the activity.  
- Internal audit is starting to align with the organization’s business and the risks it faces.  
- Internal audit evolves from conducting only traditional audits to integrating as a team player and providing advice on performance and management of risks.  
- Focus is on team building and capacity of the internal audit activity and its independence and objectivity.  
- Generally conforms to the International Standards for the Professional Practice of Internal Auditing (Standards). |
### 2 — Infrastructure

- Key question or challenge for Level 2 is how to establish and maintain repeatability of processes and thus a repeatable capability.
- Internal audit reporting relationships, management and administrative infrastructures, and professional practices and processes are being established (guidance, processes, and procedures).
- Audit planning is based principally on management priorities.
- Continued reliance essentially on the skills and competencies of specific persons.
- Partial conformance with the Standards.

### 1 — Initial

- Ad hoc or unstructured.
- Isolated single audits or reviews of documents and transactions for accuracy and compliance.
- Outputs dependent upon the skills of the specific person holding the position.
- No professional practices established other than those provided by professional associations.
- Funding approval by management, as needed.
- Absence of infrastructure.
- Auditors likely part of a larger organizational unit.
- Institutional capability is not developed.

The following six essential elements were identified in the *Internal Audit Capability Model (IA-CM) for the Public Sector* for an internal audit activity:

- Services and Role of Internal Auditing.
- People Management.
- Professional Practices.
- Performance Management and Accountability.
- Organizational Relationships and Culture.
- 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 internal audit activity itself. The last two elements — Organizational Relationships and Culture and Governance Structures — also include the internal audit activity’s relationship with the organization that it supports and the external environment.
## Links between IA-CM and the Value Proposition

In determining the relationship between the value proposition and IA-CM, it is helpful to break the value proposition into component pieces. The three elements of the value proposition can be considered in terms of the outcomes of internal audit and the professional practices that support internal audit in delivering the outcomes.

The outcomes of internal audit are the assurances it provides on the organization’s governance, risk management, and control practices. Outcomes or assurances are developed through the insight of internal auditors in assessing the organization’s practices in an objective and independent manner.

In that context, there is a clear alignment between the IA-CM and the value proposition of internal auditing.

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<th>VALUE PROPOSITION</th>
<th>IA-CM</th>
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| Assurances = Governance, Risk, and Control practices  
(Internal audit provides assurance on the organization’s governance, risk management, and control processes to help the organization achieve its strategic, operational, financial, and compliance objectives.) | There is a direct link between the value proposition and the Services and Role of Internal Auditing element of the IA-CM. |
| Insight = Catalyst, Analyses, and Assessments  
(Internal audit 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 process.) | The link between the value proposition and the IA-CM is direct. Three elements of the IA-CM (People Management, Professional Practices, and Performance Management and Accountability) form the basis for the professional practice of internal auditing, the manner in which internal auditors conduct their work, and the insight they bring to the organization. |
| Objectivity = Integrity, Accountability, and Independence  
(With commitment to integrity and accountability, internal audit provides value to governing bodies and senior management as an objective source of independent advice.) | The Governance Structures element of the IA-CM links to the third component of the value proposition. Governance structures adopted by an organization contribute to the independence of the internal audit activity. |
Conclusion

The Internal Audit Capability Model (IA-CM) For the Public Sector was developed by The IIARF in 2009 to reinforce the importance of internal audit in public sector governance and accountability. The IA-CM model sets out the steps that an organization, in either the public or private sector, can follow to establish and maintain the capabilities needed to be an internal audit activity that adds value to the organization.

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About The Institute

Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in Altamonte Springs, Fla., USA. The IIA is the internal audit profession’s global voice, recognized authority, acknowledged leader, chief advocate, and principal educator.

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