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CREATING AN INTERNAL AUDIT COMPETENCY PROCESS FOR THE PUBLIC SECTOR

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The Institute of Internal Auditors | *Global*

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Executive Summary

Across the globe, public sector entities are facing increasing demands and heightened expectations from the community, government, and other stakeholders. In part, this reflects the complexity, depth, breadth, and cross-jurisdictional nature of the public sector landscape. Independent assessment of public sector accountability, risk management, and internal control is increasingly reliant on well-mandated and structured audit activities comprising competent internal auditors. An internal audit competency process is designed to meet audit activities' competency requirements and support the Internal Audit Capability Model (IA-CM) for the public sector.[1]

The Internal Audit Competency Process (IA-CP) is a flexible process that can be used to benefit the audit function's activities. Key players in the process include the Board or Board Oversight Committee (BOC)[2] and the chief audit executive (CAE). Effective audit planning — including the strategic alignment of the IA-CP with the entity's strategic plan — will help to streamline efforts.

The IA-CP comprises five phases, broken down into 12 steps. The five phases include:

1. Vision – Assess the current position of the audit function's collective competencies and identify the desired position.

2. Oversight – Determine the audit function's competency goals and identify competencies that need to be developed or sourced.

3. Direction – Decide how to best develop the required skills or source them from third parties.

4. Competency – Develop and implement a strategic competency plan.

5. Monitoring – Evaluate effectiveness of the strategic competency plan.

Each phase includes multiple steps to be executed by the CAE, Board, or BOC. Each step is described in detail within this guidance, and case studies from the United States and Australia depict how this guidance has been put into practice.

Introduction

National, regional, and local level public sector internal audit activities work with government officials, boards, CEOs, and management on behalf of taxpayers, consumers of government services, and the general public. The audit function's effectiveness is impacted by unique public sector characteristics, including:

- The demand for a high level of transparency and performance.

- The usual absence of a profit motive.

- A wide variety of organizational forms (e.g., national, regional, and local governments and quasi-governmental and international government organizations).

- Complex legal frameworks for governing bodies.

In 2009, The IIA Research Foundation published the Internal Audit Capability Model (IA-CM) for the Public Sector. The IA-CM is a framework that identifies the fundamentals needed for effective internal auditing in government and the broader public sector. The IA-CM illustrates the stages through which an audit function evolves as it defines, implements, measures, controls, and improves its processes and practices.

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[1] The IIA Research Foundation, Internal Audit Capability Model (IA-CM) for the Public Sector, 2009.
[2] See definition on page 2.

- The IA-CM describes WHAT capabilities are required of a public sector audit function.
- The IA-CP describes HOW to achieve those capabilities through the competence of the audit staff.

This practice guide complements the IA-CM by providing specific guidance on developing, implementing, and sustaining an IA-CP to ensure that the organization's audit function has the collective knowledge, skills, and other competencies necessary to complete planned audits and to support the audit function as it evolves. The IA-CP attempts to match the capability level of the audit function with the internal auditor competencies needed to support it.

Business Significance and Related Risks

In times of change and uncertainty, political risk is heightened, as reflected in the potential for financial or market losses or the reduction in talent and human resources because of political decisions or disruptions. Public sector internal auditing is being reframed by 21st century economic and technological events.

Not surprisingly, this reframing has created both risks and opportunities. Rapid change, emerging technologies, and increasingly complex economic, regulatory, and operating environments may increase audit risk — the risk of reaching invalid audit conclusions and/or providing faulty advice based on the audit work conducted.[3] At the same time, these circumstances serve as a catalyst for the audit function to develop an IA-CP to provide the opportunity to enhance and develop the necessary competencies to meet these challenges head on. Without sufficient investment in internal audit competencies, there may be increased exposure to key risks associated with not improving the audit function activities across government, such as:

- Failing to meet government commitments due to loss of control, particularly during critical policy, service delivery, and business system change.
- Service delivery failure (e.g. cross-agency matters, poor procurement and operations, and information communication and technology systems).
- Inefficient use of existing resources and potential maladministration.
- Unreliable information for government decision-making.
- Increased opportunities for fraud and corruption, particularly with increased electronic service delivery.[4]

Definitions of Key Concepts

Audit function – See definition of Internal Auditing on page 3.

Audit risk – The risk of reaching invalid conclusions and/or providing faulty advice based on the audit work conducted.[5]

Board – The highest level of governing body charged with the responsibility to direct and/or oversee the activities and management of the organization. Typically, this includes an independent group of directors (e.g., a board of directors, a supervisory board, or a board of governors or trustees). If such a group does not exist, the "board" may refer to the head of the organization. "Board" may refer to an audit committee to which the governing body has "delegated certain functions."[6] As used in this guidance, "board" refers to the governing body of a public sector entity.

Board Oversight Committee (BOC) – As used in this guidance, BOC refers to a board committee with responsibility for oversight of the internal audit function. In some jurisdictions, this will be an audit committee.

Competency – The ability of an individual to perform a job or task properly, being a set of defined knowledge, skills, and behavior.[7]

[3,5] Kurt F. Reding et. al., *Internal Auditing Assurance & Advisory Services*, 3rd Ed, p. 10-3 (The Institute of Internal Auditors Research Foundation, 2013).

[4] *"Review of Internal Audit Capacity in NSW Public Sector,"* New South Wales Department of Premier and Cabinet, Performance Review Unit, 2008.

[6] The IIA's *International Standards for the Professional Practice of Internal Auditing* (*Standards*).

[7] *The IIA's Global Internal Audit Competency Framework*, The Institute of Internal Auditors, Inc., 2013.

Internal Auditing – An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Internal Audit Capability Model (IA-CM) – A framework that identifies the fundamentals needed for effective internal auditing in the public sector.[8]

Internal Audit Competency Process (IA-CP) – A series of activities designed to enhance the likelihood that public sector internal auditors collectively achieve the knowledge, skills, and other competencies necessary to support their respective audit activities as their capabilities progressively evolve.

The IIA's Global Internal Audit Competency Framework – A tool that defines the competencies needed to meet the requirements of the International Professional Practices Framework® (IPPF®) for the success of the internal audit profession.[9] The framework outlines the 10 core competencies to be demonstrated by each of three broad job levels — internal audit staff, internal audit management, and the CAE. Core competencies include:

I. Professional ethics: Promotes and applies professional ethics.

II. Internal audit management: Develops and manages the internal audit function.

III. IPPF: Applies the International Professional Practices Framework (IPPF).

IV. Governance, risk, and control: Applies a thorough understanding of governance, risk, and control appropriate to the organization.

V. Business acumen: Maintains expertise of the business environment, industry practices, and specific organizational factors.

VI. Communication: Communicates with impact.

VII. Persuasion and collaboration: Persuades and motivates others through collaboration and cooperation.

VIII. Critical thinking: Applies process analysis, business intelligence, and problem solving techniques.

IX. Internal audit delivery: Delivers internal audit engagements.

X. Improvement and innovation: Embraces change and drives improvement and innovation.

Related IIA Standards

The International Professional Practices Framework (IPPF) outlines the following *International Standards for the Professional Practice of Internal Auditing* (*Standards*) related to competency. Additional competency-related IIA guidance documents are identified in Appendix C.

Standard 1010: Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

Standard 1200: Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

- 1210 – Proficiency: Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

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[8] Internal Audit Capability Model (IA-CM) for the Public Sector, 2009 The IIA Research Foundation, 2009
[9] The IIA's Global Internal Audit Competency Framework, 2013.

- 1210.A1 – The chief audit executive must 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.

- 1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

- 1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

- 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.

- 1220 – Due Professional Care: Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

Standard 1230: Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

Planning

Effective planning is key to the successful development and implementation of an IA-CP. The following planning activities will help to streamline efforts.

- Determine the strategic links between the audit function and the organization's statutory objectives, values, and strategic plan.

- Research the legal basis of the audit function within the entity's geopolitical environment.

- Evaluate compliance of the audit function with government policy on internal auditing.

- Establish alignment with The IIA's *Standards* and other applicable standards.

- Assess congruence between the audit function mandate and the audit committee charter.

- Review existing documents:

  › The audit function charter.

  › The audit function organizational structure.

  › Audit plan.

  › Audit universe that addresses new threats and opportunities that may quickly evolve or appear on the horizon.

  › The audit function job descriptions (CAE, manager, staff auditor, IT auditor, etc.).

The Internal Audit Competency Process (IA-CP)

The IA-CP can be applied by public sector entities striving to establish a new audit function as well as by established audit activities striving to progress to a higher IA-CM level. The IA-CP comprises five phases, which are further broken down into 12 steps, as illustrated in Table 1: Internal Audit Competency Process (IA-CP).

Table 1: Internal Audit Competency Process (IA-CP)

NEW OR REPOSITIONED AUDIT FUNCTION			ESTABLISHED AUDIT FUNCTION		
Vision Phase	Oversight Phase	Direction Phase	Competency Phase	Monitoring Phase	
Step 1 – Assess the balance of skills within the board.	**Step 4** – Select qualified board oversight committee (BOC).	**Step 6** – Identify and recruit a qualified CAE.	**Step 8** – CAE develops a strategic competency plan.	**Step 11** – BOC reviews audit function competency profile.	The internal audit function fulfills competency needs and achieves conformance with IIA *Standards*. It has positioned itself to add value to the business and help it achieve its objectives.
Step 2 – Assess the organization's needs.	**Step 5** – Develop BOC charter.	**Step 7** – Develop internal audit charter.	**Step 9** – CAE identifies existing competencies.	**Step 12** – BOC endorses and monitors strategic competency plan.	
Step 3 – Identify desired IA-CM level and scope of responsibility and authority.			**Step 10** – CAE identifies competency gaps.		

Note: The IA-CP is designed to be flexible. An entity or audit function may begin at any phase, and steps within a phase may be conducted simultaneously or in different order, as needed.

Vision Phase

The IA-CP vision relates to how the board wants to position the audit function in the future. It should align with the organization's statutory objectives, values, board mandate, strategic plan, business plans, and assurance framework, with consideration for known and emerging risks and vulnerabilities. The cultural, social, economic, political, and legal characteristics of the entity's jurisdiction will impact the IA-CP vision. The vision phase should be performed by, or on behalf of, the board and may be in response to a legislative mandate, a regulatory requirement, an administrative policy, or a management dictate.[10] The vision phase comprises three steps.

Step 1 – Assess the Balance of Skills within the Board

The first step is an assessment of the board's ability to oversee the establishment or repositioning of the audit function. Qualifications should provide a multidisciplinary mix of professions including legal, accounting, technology, and public administration. The mix of skills should include a working knowledge of contemporary governance, risk, and compliance frameworks, and leading internal control frameworks such as The Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) *Internal Control–Integrated Framework*, the Canadian Criteria of Control Board's *Internal Control Framework*, the King Code of Governance, or the U.K. Corporate Governance Code. Experience should be commensurate with the audit function's current position within the IA-CM, and the entity's complexity and level of government (e.g., national, regional, or local).
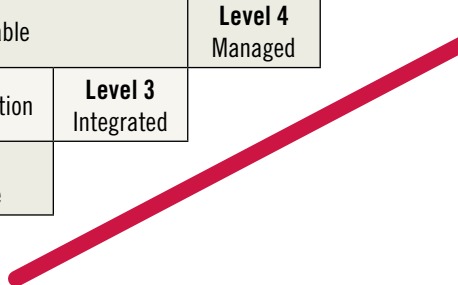
Step 2 – Assess the Organization's Needs

The second step in the vision phase is to assess the audit activities current IA-CM level (see Table 2), relative to the needs of the organization. Consideration should be given for required competencies of internal audit staff at all levels. Public sector audit functions operate in a complex environment. The vision should be congruent with the degree of complexity. For example, an audit function

Table 2: Competencies Associated with IA-CM Levels

COMPETENCIES ASSOCIATED WITH IA-CM LEVELS				
Top-level professional and specialized skills				**Level 5** Optimizing
Requisite skills/competencies in place; renewable and shareable			**Level 4** Managed	
Professionally qualified staff/internal audit function coordination		**Level 3** Integrated		
Continued reliance on individual auditor	**Level 2** Infrastructure			
Skills of individual auditor	**Level 1** Initial			

operating in an industry with unique risks (such as nuclear energy) most likely would be required to have more technical competencies compared to an audit function operating in a less complex environment (such as policy setting).

Step 3 – Identify the Desired IA-CM Level and Scope of Responsibility and Authority

The board should clearly identify the desired position of the audit function, in accordance with the IA-CM illustrated in Table 2: Competencies Associated With IA-CM Levels. Factors to consider include the scope of audits, the structural arrangements within the audit function, and the balance of skills needed. The board and the CAE should collaborate to the greatest extent possible — each will have varying degrees of input depending on their own respective competencies and the current position of the audit function.

Oversight Phase

During the oversight phase, the audit activities' competency goals are determined and competencies that need to be developed or sourced are identified.

Step 4 – Select Qualified Board Oversight Committee (BOC)

For new audit activities, the board should appoint a BOC with the skills described in Step 1. If a BOC already exists, the governing board should confirm that it is well qualified. See *Global Public Sector Insight: Independent Audit Committees in Public Sector Organizations* for more information.

Step 5 – Develop BOC Charter

The BOC should develop a charter addressing competencies expected of the committee members in conjunction with the desired IA-CM maturity level and the organization's operations, reporting, and compliance objectives. See model charter contained in the *Global Public Sector Insight: Independent Audit Committees in Public Sector Organizations*.

Direction Phase

The direction phase involves activities to define and acquire a qualified CAE and, subsequently, for that CAE to initiate steps to move the audit function forward.

Step 6 – Identify and Recruit a Qualified CAE

The BOC should identify the competencies required for the CAE. The BOC, the CEO, and the existing CAE (if applicable) should be involved in creating or updating the CAE's job description. Next, it should be determined if the identified competencies are present within the audit function and, if not, whether they can be developed

internally, recruited from within the organization, or provided by a third party. The CAE must have relevant public sector experience and have achieved competency on the IA-CM at a level consistent with or better than the desired IA-CM level established by the BOC in Step 3. The CAE also should demonstrate CAE-level competencies identified in The IIA Global Internal Audit Competency Framework (Competency Framework). See The IIA's Practice Guide, Chief Audit Executives Appointment, Performance Evaluation, and Termination for more information.

Step 7 – Develop Internal Audit Charter

A CAE must develop an internal audit charter in conformance with IIA Standard 1010: Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter. The charter should be consistent with the related BOC charter and address the relevant IA-CM maturity level and the desired competency requirements in accordance with the Competency Framework. Sample language:

> *Our vision is to continue to evolve the internal audit function within the entity to embrace the relevant and recognized elements of a "world-class" audit function. These elements are founded on client experience, audit planning, maximizing audit resources, audit strategy, and audit breadth. By (year), the internal audit function will be recognized through an independent review as operating at an "optimizing" level on the IA-CM.*

Competency Phase

The strategic competency plan is developed and implemented during the competency phase.

Step 8 – CAE Develops a Strategic Competency Plan

In conjunction with the development of the audit plan, the CAE should develop a complementary competency plan. The competency plan should identify the competencies necessary to implement the audit plan. Key points to consider when developing a competency plan include:

- Develop an aspiration statement. For example: *By (year), anyone who is practicing internal auditing at the entity will be appropriately certified or will be reporting to someone who is appropriately certified.*

- Leverage the Competency Framework.

  › An approach is to distinguish between basic awareness and greater degrees of competence including understanding, proficiency, and expertise.

  › Consider the size of the audit function, the audit environment, and complexity of the audit plan in selecting an approach.

- If an entity has its own capability framework, map the Competency Framework's core competencies to the entity's framework.

- Apply the Competency Framework to the audit function's third-party providers. For more information, see The IIA's Position Paper, The Role of Internal Auditing in Resourcing the Internal Audit Activity.

- Identify sophisticated technical and business acumen competencies necessary to anticipate how risks impacting other industries or sectors might eventually impact the entity.

- Revise applicable policies, procedures, and job descriptions to reflect the strategic competency plan requirements.

Table 3: Sample IA-CP Skills Matrix

SAMPLE IA-CP SKILLS MATRIX			
IA-CP Stakeholder	**Competency Goal**	**Gap**	**Action**
Board	Stable, well balanced, and multiskilled with extensive public sector experience. Well connected with government's agenda.	New government-directed business initiatives are being explored with the likelihood of a commercial business arm being established to cover utility services.	Appoint a member to the governing body with extensive business and transformational leadership experience.
Board Oversight Committee (BOC)	Strong governance, risk, control, financial, and auditing skills.	The entity is set to embark on a complex multimillion-dollar technology solution. BOC has limited IT experience.	Recruit a BOC member with extensive skills in IT governance.
CAE	Well respected and highly experienced in traditional auditing techniques.	BOC is looking for the audit function to add greater value, and sees a need for them to step up to a higher maturity level.	Engage an executive coach to assist the CAE in the transformation of the audit function.
Auditor	Multidiscipline skill set with strong public sector auditing experience.	Objective feedback in stakeholder satisfaction surveys has indicated that auditors need to improve in their communication skills.	Deliver a tailored communications training course for all internal auditors, including writing, presenting, controlling meetings, listening, and body language.

Step 9 – CAE Identifies Existing Competencies

The CAE should inventory existing competencies among the audit staff. Procedures for gathering information include:

- Benchmarking – Comparing the overall profile of the audit staff against entities with leading audit practices.
- Feedback – Analysis of responses to stakeholder satisfaction surveys (e.g., audit committee, internal clients, and audit staff).
- Inquiry – Interviewing clients or third parties, or ask internal auditors to complete a competency self-assessment.
- Observation – Watch internal auditors perform various duties.
- Inspection – Review performance evaluations and training records.

Step 10 – CAE Identifies Competency Gaps

The CAE should perform a competency gap analysis and develop an action plan to fill the gaps. Various matrices may be utilized to report the findings as illustrated in Table 3: Sample IA-CP Skills Matrix. For example:

- A skills matrix would identify current competencies within the audit function and provided through existing contracts with third-party providers.
- A blended skill matrix would identify business-specific competencies as well as internal auditing competencies.

The CAE should develop an action plan to fill the gaps using a three-pillar solution.

Table 4: Three Pillar Solution

THREE PILLAR SOLUTION		
Nurture a professional learning environment.	Maintain a structured professional development plan.	Selective recruitment to achieve a well-balanced audit team.

It can be difficult to reach the competency levels needed if internal auditors are not enthused to embark on further studies or training. So it is important to nurture a professional learning environment, which becomes self-motivating as colleagues achieve success.

In many jurisdictions across the globe, public sector organizations need to trim their costs and manage discretionary expenditure areas such as training and development. The establishment of a professional development plan for the audit function provides a well-considered strategic driver for the board to support the audit function's investment in this area.

An investment in training and development alone will not always deliver all the competencies needed, so the targeted recruitment of audit team members with the desired skill sets becomes an important strategy. This is illustrated in Table 5: Sample High-level Competency Profile.

Monitoring Phase

During the monitoring phase, the results of the strategic competency plan are evaluated against defined targets and key performance indicators.

Step 11 – BOC Reviews Audit Function Competency Profile

BOCs play a key role in monitoring the competency, performance, and contribution of the audit function. Leading practice audit entities typically produce a periodic (at least annual) profile of their staffing competency at an overall and individual level.

The high-level profile typically includes benchmarking of the audit activities competencies as a whole against relevant resources, such as The IIA's IA-CM, The IIA's Global Audit Information Network data, and against leading public sector agencies in their region. It will be informed by collating and analyzing a detail-level profile, which provides insights on key indicators such as the average years of audit experience, base qualifications, post-graduate qualifications, and auditing and other professional certifications. After the first year, the CAE should be able to provide trends against the targets and key performance indicators (KPIs) established in agreement with the BOC.

Table 5: Sample High-level Competency Profile

SAMPLE HIGH-LEVEL COMPETENCY PROFILE				
Outcome	Measure	Result		
		Year 1	Year 2	Year 3
Specific Strategies				
Boost proportion of qualified staff	Percentage of staff with tertiary qualifications	77%	97%	97%
	Percentage of staff with post-graduate qualifications	30%	67%	70%
Increase the percentage of certified staff	Percentage of staff with auditing certifications (CIA, CISA, CGAP)	10%	21%	23%
	Percentage of staff with accounting certifications (CPA, CA)	37%	39%	40%
Achieve greater links to professional bodies	Percentage of staff with professional memberships	70%	91%	100%
Grow years of auditing experience	Average years of auditing experience – overall	9 years	11.5 years	12 years
	Average years of auditing experience – senior leaders	18 years	19 years	20 years
	Average years of auditing experience – supervisors	13.5 years	14 years	14 years
	Average years of auditing experience – other auditors	5 years	6.5 years	7 years
Grow high-potential talent	Percentage of staff placed from a graduate recruitment program	7%	18%	18%
Ancillary Outcomes				
Alter gender imbalance	Percentage of staff who are women	27%	42%	40%
	Percentage of women in leadership roles	23%	50%	47%
How the Audit Function Team is Shaped – Three-Year Trend				
Stalwarts				40%
	Original team members		31%	
	Original team members who had spent time away on secondment		9%	
Additions				60%
	Recruited from outside the entity		30%	
	Recruited from other areas of the entity		9%	
	Sourced from Graduate Program		18%	
	Returned from overseas secondment		3%	
Total				100%

A detail-level profile provides an opportunity to showcase expertise across the audit function by summarizing at a high level the business background (capturing the skills, public sector knowledge, and experience throughout their career), time and current position at the organization, years of specific auditing experience (both internal and external audit), the qualifications (both undergraduate and postgraduate), and professional certifications (auditing and others). A partially populated detail-level profile is provided in Table 6: Sample Detail-level Competency Profile.

Table 6: Sample Detail-level Competency Profile

SAMPLE DETAIL-LEVEL COMPETENCY PROFILE					
Level/Name	Prior Business Experience	Years at Your Entity	Auditing experience	Qualifications	Certifications
CAE					
George	25 years in public sector, previously 10 years in finance sector working in London, New York, and Sydney.	7 years	19 years, including 12 years internal auditing and 7 years in external auditing, with 10 years in senior audit management roles	BS Business M Accounting	CIA, CISA, CGAP, CFSA, CFE
Audit Leadership					
Ringo	Early 6-year career in marketing drumming up new business; 1 year as acting CFO in energy sector; then transitioned to internal auditing.	17 years	Financial and operational auditing for 22 years, with senior managerial roles for 8 years	BS Accounting	CIA, CGAP
John	10 years in business support areas for information systems before transitioning to IT audit.	3 years	IT auditing for 16 years	BS IT MS IT	CISA
Audit Supervisors					
Paul	Spent 8 years with major accounting firm before transitioning to internal audit in the public sector.	5 years	15 years internal auditing, specializing in business improvement and assurance frameworks	BA MBA	CIA, CGAP
Auditors					
Information for each staff auditor should be filled out in a similar manner.					
Overall Summary		Average of 8 years	Average of 18 years	100%	100%

Step 12 – BOC Endorses and Monitors the Strategic Competency Plan

For a BOC to fulfill its typical charter requirements with respect to the competency, performance, and contribution of the audit function, its members need to review and challenge the analysis, narrative, and conclusions contained in the CAE's strategic competency plan. Once the BOC is satisfied that the strategic competency plan is congruent with their vision, direction, and expectations, it should formally endorse the plan.

Steps should then be taken for the BOC to monitor the implementation of the strategic competency plan, with the CAE required to produce periodic (i.e., semi-annual) updates against the agreed targets and KPIs.

See Appendices A and B for practical IA-CP applications.

Appendix A

City of Austin, Texas (United States): Strategic Competency Plan Process

Background

The City of Austin, Texas, chartered in 1839, has a council-manager form of government with a mayor and six council members. The mayor and council members are elected at-large for three-year staggered terms with a maximum of two consecutive terms. The city manager, appointed by the city council, is responsible for managing all city employees and the administration of city affairs with the exception of the city auditor, city clerk, municipal court, and municipal court judge.

The city provides a full range of services including financial administration, public safety, transportation, aviation, planning and development, sustainability, health and human services, public recreation and culture, library, urban growth management, electric, water, wastewater, watershed protection, public works, convention, and animal services.

Office of the City Auditor

The Office of the City Auditor (OCA) seeks to assist the Austin City Council, citizens, and city management in establishing accountability and transparency. The dynamic city of Austin, Texas, is growing and has navigated through recent economic challenges, emerging relatively unscathed.

Nonetheless, the city faces many challenges and opportunities in the years ahead. The global financial crisis and lingering concerns about the stability of global financial systems continue to have serious impacts in both the private and public sectors. In today's environment, especially with rapid changes in the cyber world, the challenge is that issues not currently present could become threats in a short amount of time.

The OCA has an audit staff made up of full- and part-time auditors and administrative staff.

Competency Process

OCA recognizes that today's auditor must possess the needed knowledge, skills, and abilities (KSAs) or competencies to obtain key insights related to their audit environment, including threats and opportunities that are present, evolving, or on the horizon.

To address this competency issue, Austin's OCA conducts a self-analysis to determine critical resource availability. The city's strategic planning efforts provide the basis for OCA's planning efforts — seeking to align the plan with the ideals and direction captured in the City's Imagine Austin Comprehensive Plan.
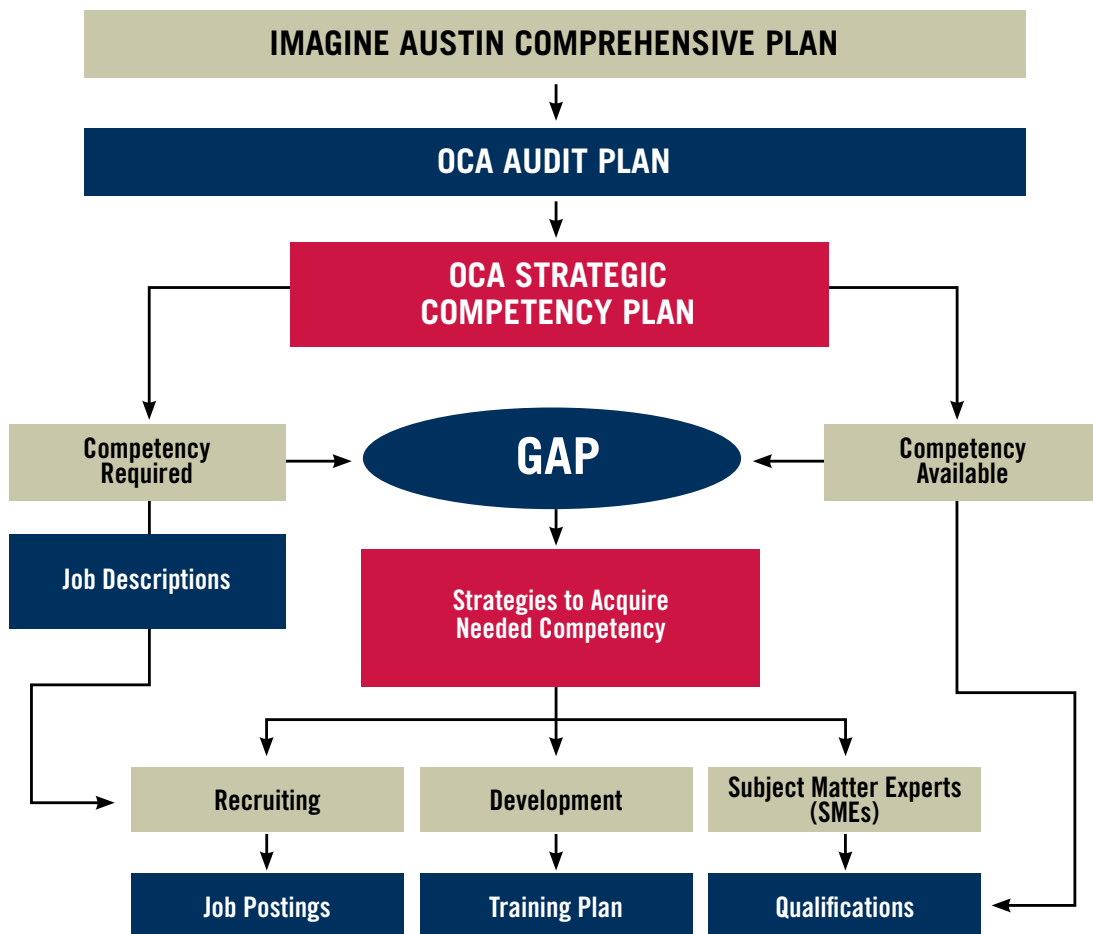
Flowing from that plan, a strategic competency plan is developed by identifying the competencies that are required and available. Where gaps are identified, strategies are employed to obtain that competency through recruiting efforts, developing current staff, or hiring subject matter experts (SMEs).

These identified competency "need" areas drive changes to job descriptions and postings, determine individual and office wide training plans, and dictate specifications in the requests for qualifications for SMEs who can provide the competencies needed to complete specialized, critical, or time-sensitive projects (see Figure 1: Flowchart – OCA Strategic Competency Plan). This plan is multifaceted in that competency is viewed from three perspectives — the auditing profession as a whole, the audit entity, and the individual auditor.

The OCA Strategic Competency Plan identifies six areas of key competency and details the objective, focus, and implementation strategy to achieve improvement in each area. This competency plan will provide the opportunity to enhance the capacity of each auditor and, therefore, OCA to provide insightful audits and services to stakeholders as they are needed.

The training and developmental initiatives identified in the plan focus on strengthening existing competencies through core training and developing skills specific to city systems and functions. Continuous improvement of core audit skills will always be a key part of the action plan. The goal is for staff to achieve a thorough understanding of COSO's *Internal Control–Integrated Framework*. In addition, OCA seeks to develop SME skills through specialized training, as well as through the recruiting and hiring process.

Figure 1: Flowchart – OCA Strategic Competency

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│        IMAGINE AUSTIN COMPREHENSIVE PLAN          │
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│                 OCA AUDIT PLAN                     │
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              ┌──────────────────────┐
              │    OCA STRATEGIC      │
              │   COMPETENCY PLAN     │
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 │  Competency  │────▶│ GAP │◀────│  Competency  │
 │   Required   │     └─────┘     │  Available   │
 └──────────────┘        │        └──────────────┘
 ┌──────────────┐ ┌────────────────┐
 │     Job      │ │  Strategies to │
 │ Descriptions │ │ Acquire Needed │
 └──────────────┘ │   Competency   │
                  └────────────────┘
        ┌────────────┼────────────┐
 ┌────────────┐ ┌────────────┐ ┌──────────────────┐
 │ Recruiting │ │Development │ │ Subject Matter   │
 │            │ │            │ │ Experts (SMEs)   │
 └────────────┘ └────────────┘ └──────────────────┘
 ┌────────────┐ ┌────────────┐ ┌──────────────────┐
 │Job Postings│ │Training Plan│ │  Qualifications  │
 └────────────┘ └────────────┘ └──────────────────┘
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The city auditor ensures that the organizational structure, developmental initiatives, and programs are congruent with what is required to effectively and efficiently achieve planned objectives. To effectively and efficiently achieve the goals of the audit plan, highly qualified resources are required as illustrated in Table 7: OCA Strategic Competency Plan.

Table 7: OCA Strategic Competency Plan

	KEY COMPETENCY AREAS					
	Core	Construction	Cybersecurity	Financial	Regulatory Matters	Sustainability
OBJECTIVES						
To ensure that OCA staff possesses the knowledge, skills, and other competencies needed to perform responsibilities as required by U.S. Generally Accepted Government Auditing Standards (GAGAS).	√	√	√	√	√	√
To increase audit capability to address specific risk areas.		√	√	√	√	√
COMPETENCY FOCUS						
Audit methodologies (including root cause analysis, internal controls, and data analysis).	√	√	√	√	√	√
Evidence standards.	√					
Communications (including interviewing and report writing).	√					
Project management.	√					
Develop audit capabilities that comply with applicable GAGAS standards and address operational and strategic risks. Also, as appropriate, IPPF and AICPA standards.	√	√	√	√	√	√
Strengthen staff insight of critical risk areas and understanding of key city systems.		√	√	√	√	√
IMPLEMENTATION STRATEGY						
Require supervisory staff and above to hold relevant audit certification.	√					
Provide cost-effective core audit competency training.	√	√	√	√	√	√
Identify OCA staff to develop insights into critical risk areas and key city systems.		√	√	√	√	√
Provide cost-effective baseline and advanced training in critical risk areas and city priorities.		√	√	√	√	√
Encourage CISA certification.			√			

Appendix B

Table 8: Australian Government Central Agency Strategic Competency Plan Process

STEPS	ACTIONS TAKEN
Step 1 – Assess the balance of skills within the board.	• Experienced and capable board leadership was in place. • The board determined that an experienced professional CAE was needed if they were to deliver the audit function vision. • In particular, the board was seeking someone to provide strong professional leadership to a large audit function that had teams spread across four states.
Step 2 – Assess the organization's needs.	• The BOC (in this case the audit committee) was apprised of better practice guidance published by the auditor general of Australia on *Public Sector Audit Committees: Having the Right People is the Key.* • The contribution of the audit function was benchmarked against leading practices, and opportunities for strengthening existing arrangements were determined. • Based on an IA-CM assessment, the internal audit function was operating below expectations, close to Level 2 (Infrastructure). • The requirements of the audit function to deliver at a basic level were established, and the audit committee further agreed with the CEO on the aspiration to create an internal audit function that was of a "world-class" level.
Step 3 – Identify desired IA-CM level and scope of responsibility and authority.	• By aligning the "world-class" vision to the IA-CM, the audit committee determined that it would need to establish strategies to move the audit function through Level 3 (Integrated) to Level 4 (Managed), and ultimately toward Level 5 (Optimized). • Based on risk-based assurance mapping, the audit committee determined that the coverage of the audit function needed to be broadened to cover emerging technology and business-specific risk areas, and recognized that this would require different auditing skills.
Step 4 – Select qualified BOC.	• It is a legislative requirement at the federal (national) level in Australia to maintain an audit committee. • The audit committee had been well established and was functioning at a high standard, with a highly competent and experienced membership. • The audit committee contained a multidisciplinary skill set with a mix of financial, technology, legal, business-specific, and public sector skills.
Step 5 – Develop BOC charter.	• The audit committee charter was reviewed and amended to align to the Model Charter produced by the auditor general of Australia in *Public Sector Audit Committees: Having the Right People is the Key.*
Step 6 – Identify and recruit a qualified CAE.	• An updated position description for the CAE was established in consultation with the audit committee and CEO. A rigorous merit-based recruitment process was undertaken to secure an experienced career audit executive as CAE.
Step 7 – Develop internal audit charter.	• The internal audit charter was reviewed and amended to align to the Model Charter produced by the auditor general of Australia in the guidance, *Public Sector Internal Audit: An investment in Assurance and Business Improvement.* • The internal audit charter provided for various types of internal audits, including performance, assurance, and consulting engagements.

STEPS	ACTIONS TAKEN
Step 8 – CAE develops a strategic competency plan.	• The CAE developed a contemporary, risk-based program called the Forward Work Program covering the ensuing 12 months, which was accompanied by a menu of audits for the following two years. • In addition to the proposed coverage for three years (above), an allowance of 20 percent of time was provided to accommodate emerging risk areas, new business, and management-initiated requests (at the discretion of the CAE in consultation with the audit committee). • A strategic competency plan was formulated based on the approved Forward Work Program. The plan articulated the skills that would be required to tackle the proposed audits over the ensuing three years.
Step 9 – CAE identifies existing competencies.	• The CAE developed a skills matrix that identified the current skills available throughout the audit function and those available through existing contracts with third-party specialist suppliers. • The skills matrix contained a blend of current competencies that were business specific, together with those required for professional auditing.
Step 10 – CAE identifies competency gaps.	Based on the competency analysis, the CAE identified competency gaps at four distinct levels. • There were flaws in the current staffing competency to complete the existing Forward Work Program. The CAE established a professional development plan to specify the holistic and individual training needs over the ensuing three years, and the CAE arranged for tailored training courses to be conducted. As an example, the first phase of the professional development plan recognized that auditing staff did not have strong all-around communication skills (e.g., interviewing, presentation, listening and body language, and report writing skills. They also did not have a consistent appreciation of soft skills, and their knowledge of professional auditing standards was fragmented). • The staffing composition was substantially of an accounting nature, whereas the Forward Work Program required a multidisciplinary skill set. The job redesign undertaken by the CAE produced updated position descriptions to use in a targeted recruitment program. • A small percentage of staff held auditing-specific certifications (e.g. Certified Internal Auditor, Certified Government Auditing Professional, Certified Information Systems Auditor, and Certified Fraud Examiner). The CAE aspired to at least double the percentage of auditing certifications over the ensuing three years and then appropriate mechanisms and incentives were put in place to achieve this goal. • While 15 percent of the financial budget was available to secure specialist providers (when it was not financially prudent to retain the competencies in-house), the contract panel was not broad enough to cover future needs. A new contract panel was established.
Step 11 – BOC reviews audit function competency profile.	• As the CAE rebuilt the audit function, it was appropriate to showcase the talent available through a profile of staff competencies. This was an important step in lifting the confidence that the audit committee had in the audit function's overall competency. The profile was produced semi-annually initially (during the rebuilding phase) and annually (once stability of staffing was achieved). • The profile delivered to the audit committee contained three sections — the leadership team, the team leaders and supervisors, and the auditing cohort. The profile provided a foundation for high-level discussions on succession planning arrangements. • Based on the profile, the CAE was able to demonstrate staffing trends, including years of auditing experience, percentage of staff qualified, and percentage of staff with auditing certifications.

STEPS	ACTIONS TAKEN
Step 12 – BOC endorses and monitors strategic competency plan (SCP).	• The CAE discussed the SCP and related plans at the audit committee meeting and articulated how these would collectively enable achievement of the vision, internal audit charter requirements, and the Forward Work Program. The audit committee endorsed the planning suite. • The balanced scorecard reporting approach adopted by the CAE captured key targets and key performance indicator (KPI) measures associated with the planning suite, including the professional development plan, multidisciplinary skill set, auditing certifications, and third-party services. The audit committee monitored the trends in the balanced scorecard report on a quarterly basis.
Outcome	An external quality assessment review — completed on this audit function within five years after the CAE was recruited and implemented the planning suite — confirmed the successes achieved. Notably: • The audit activities were recognized as being consistent with world-class auditing in most areas, thus achieving the vision that had been agreed with the CEO and audit committee. • Most elements of the IA-CM were rated at an optimized level, with two elements rated as managed and bordering on optimized. • Professional auditing standards were consistently applied across all sites. • The key stakeholders, including the audit committee and CEO, recognized the transformation and rated the audit function as providing "value for money."

Appendix C

Resources

Related IIA Guidance

Code of Ethics Competency is a Principle and a Rule of Conduct

- Principle – Internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit activities.

- Rule of Conduct – Internal auditors:

  › Shall engage only in those services for which they have the necessary knowledge, skills, and experience.

  › Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing.

  › Shall continually improve their proficiency and the effectiveness and quality of their services.

Global Public Sector Insight: Independent Audit Committees in Public Sector Organizations (The IIA, 2014).
https://global.theiia.org/standards-guidance/leading-practices/Pages/Independent-Audit-Committees-in-Public-Sector-Organizations.aspx

Global Public Sector Insight: Policy Setting for Public Sector Internal Auditing in the Absence of Government Legislation (The IIA, 2014).
https://global.theiia.org/standards-guidance/leading-practices/Pages/Policy-Setting-for-Public-Sector-Auditing-in-the-Absence-of-Government-Legislation.aspx

Global Strategic Planning Document 2012–2016, The IIA.
https://na.theiia.org/committees/Committee%20Documents/IIA_Strategic_Planning_Document.pdf

Internal Auditor Competency Framework, IIA–Australia, July 2010.
https://www.iia.org.au/sf_docs/default-source/learning-development/Internal_Audit_Competency_Framework.pdf?sfvrsn=0

Leading Practices: Transparency of the Internal Audit Report in the Public Sector (The IIA, 2012).
https://global.theiia.org/standards-guidance/leading-practices/Pages/Transparency-of-the-Internal-Audit-Report-in-the-Public-Sector.aspx

Position Paper, The Role of Internal Auditing in Resourcing the Internal Audit Activity (The IIA, 2009).
https://global.theiia.org/standards-guidance/Public%20Documents/PP%20The%20Role%20of%20Internal%20Auditing%20in%20Resourcing%20the%20Internal%20Audit%20Activity.pdf

Practice Advisory 1200-1: Proficiency and Due Professional Care.
https://global.theiia.org/standards-guidance/Member%20Documents/PA_1200-1.pdf

Practice Advisory 1210-1: Proficiency.
https://global.theiia.org/standards-guidance/Member%20Documents/PA_1210-1.pdf

Practice Advisory 1220-1: Due Professional Care.
https://global.theiia.org/standards-guidance/Member%20Documents/PA_1220-1.pdf

Practice Advisory 1230-1: Continuing Professional Development.
https://global.theiia.org/standards-guidance/Member%20Documents/PA_1230-1.pdf

Practice Guide: Chief Audit Executives Appointment, Performance, Evaluation, and Termination (The IIA,2010).
https://global.theiia.org/standards-guidance/recommended-guidance/practice-guides/Pages/CAESAppointment-Performance-Evaluation-and-Termination-Practice-Guide.aspx

Practice Guide: Developing the Internal Audit Strategic Plan (The IIA, 2012).
https://global.theiia.org/standards-guidance/recommended-guidance/practice-guides/Pages/Developing-the-Internal-Audit-Strategic-Plan-Practice-Guide.aspx

Supplemental Guidance: Implementing a New Internal Audit Function in the Public Sector (The IIA, 2012).
https://global.theiia.org/standards-guidance/leading-practices/Pages/Implementing-a-New-Internal-Audit-Function-in-the-Public-Sector.aspx

Supplemental Guidance: Value Proposition of Internal Auditing and the Internal Audit Capability Model (The IIA, 2012).
https://global.theiia.org/standards-guidance/leading-practices/Pages/Value-Proposition-of-Internal-Auditingand-the-Internal-Audit-Capability-Model.aspx

The IIA's Global Internal Audit Competency Framework.
https://global.theiia.org/about/about-internal-auditing/Pages/Competency-Framework.aspx

Research: The Institute of Internal Auditors Research Foundation (IIARF)

Insight: Delivering Value to Stakeholders

Internal Audit Capability Model (IA-CM) for the Public Sector.

Nine Elements Required for Internal Audit Effectiveness in the Public Sector.

The IIA's Global Internal Audit Survey: Core Competencies for Today's Internal Auditor

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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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