The Internal Audit Ambition Model

Overview and Application Guide

IIA
The Institute of
Internal Auditors
Netherlands

NBA LIO

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Title

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To receive a soft copy of the model,
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Content

Foreword

There is an ever-increasing broader recognition of the added value of the Internal Audit Function (IAF), also in the application of good governance. The latest Dutch Corporate Governance Code noticeably increased the Boards' responsibilities for monitoring the IAF. As a result the Chief Audit Executive's communication with the Board may need expansion and improvement. Today furthermore supervisors, especially in the financial sector, demand that internal audit functions demonstrate the quality of the services provided.

Chief Audit Executives (CAEs), members of IIA Netherlands and the Royal Netherlands Institute of Chartered Accountants (NBA) indicated that for these and other reasons they needed a tool that integrates an ambition model with an assessment of compliance with the IIA Standards. Many indicated that they believe that their audit services should go beyond compliance. Their ambition levels are higher than just conformance with the regulations.

To meet the needs of several stakeholders a task force developed the Internal Audit Ambition Model (IA AM). This model is an excellent tool for self-reflection, internal validation of compliance with the Standards, setting the ambition levels for the IAF, and communicating with the Board and the Audit Committee in particular. When CAEs are willing to share data with each other the IA AM can also be used as a benchmarking tool.

This publication describes the components of the tool and how it can be used. You are more than welcome to use this model to your advantage. Our aim is to substantively enhance the practice of internal auditing profession and to challenge colleagues around the world to continue on their way to further professionalization.

The IA AM can be applied to three different objectives:
1. For CAE's: Dare to express your ambitions and check if you comply with the IPPF standards. The IA AM supports the development of a clear roadmap to realize your ambitions and it is an easy tool to compare your ambitions and achievements with your peers.
2. For Board members: The IA AM supports the CAE's dialogue with the Board as well as the Audit Committee by providing the relevant themes and topics.
3. For Professional bodies: Use the IA AM as a benchmark tool to gain insight into the current state and ambition levels of IAFs within industries or within in your country.

We encourage you to provide us with feedback, so we can continuously enhance the quality of the model. Only your feedback will enable us to regularly further develop and improve the model.

Finally, we wish to express our gratitude to the task force for devoting countless hours of their precious time to develop this outstanding Internal Audit Ambition model.

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Introduction

In a globally connected world, there is a growing need for Internal Audit Functions (IAFs) that deliver added value to their organizations. Stakeholders expect more from their IAFs. They want IAFs to provide assurance that controls are working properly, to give advice on changes and operational issues and to anticipate and provide insights on risks to the organization. In the Dutch context, this recognition of the added value of IAFs is also reflected in the Corporate Governance Code which sees an important role for the IAF supporting the organisation's efforts to create long term value.

This publication and the internal audit ambition model (IA AM) itself are the results of the efforts of a joint task force established by the IIA Netherlands and NBA LIO (Membership group for internal and government auditors at the Royal Netherlands Institute of Chartered Accountants). Enthusiastic internal auditors developed the IA AM which deals with the broad spectrum of the proactive design, set up and further development of the IAF.

The taskforce ensured alignment of the model with the IIA's International Professional Practices Framework (IPPF), and included references to recent publications of IIA Global, the Internal Audit Foundation, IIA Netherlands and the IFAC Code of Ethics. Additional input was gathered from good practices developed by a variety of internal audit professionals. Also a link to the International Standard on Auditing (ISA) 610, Using the Work of Internal Auditors was included. The model has been validated with CAEs, the Committee Professional Practices (CPP) and Committee on Quality of the IIA Netherlands during the various stages of its development.

To align the name of this new model with the intended use of the model, we named it the "Internal Audit Ambition Model (IA AM)". This IA AM is intended for self-assessment, formulating the role, scope and ambition level of the IAF in consultation with the Executive and Supervisory Board. It is also a tool for capacity building and increasing awareness of the IAF and the internal auditing profession in general among our stakeholders.

The IA AM includes a spider web dashboard that enables high level communication with the Board and other stakeholders on the current status of the IAF in comparison with mandatory guidance and with its ambitions.

Its primary users are expected to be internal audit professionals together with the profession's stakeholders. In line with the principle based nature of internal auditing, this model is not intended to be prescriptive in terms of how a process should be carried out. More important is that the user assesses whether the internal audit activity is organized to realize its ambition level. It should align with the ambition of the organization.

Just as the world around us changes at exponential speed, the internal audit profession needs to adapt to these changes, if we wish to provide continuously relevant insights, assurance and advice. The IA AM is therefore a living document that needs regular updates. Today's ambitions are different from tomorrow's.

After the introduction of the IA AM in mid-2016 in the Netherlands users were enthusiastic and provided us with useful comments for further improvement. The dialogue started and our goal was achieved with IA AM 1.0. The fact that in the meantime, auditors from 20 different countries had also read our booklet and contacted us in order to receive the model, was an unexpected succes.

In 2017 the first benchmark results gave initial insights into the current state and ambitions levels of the IAF's in the Netherlands. As a result our association developed a introductory training for CAE's new to their role. By sharing experiences and good practices we support them getting up to standard with the IPPF.

We kept a backlog of the feedback and invited the members to help with the further development. In the autumn of 2017 knowledge groups were formed to discuss the various themes with each other in order to come up with concrete suggestions. The output of each group was subsequently challenged again in a plenary session and reviewed by the CPP. In IA AM version 2.0 much attention is paid to refining the logical structure of level 1 to 5. There was also a great need for more examples, added as "good practices". In addition, specific topics have been added or updated based on developments in the field as well as a brief definition list.

With the launch of the IA AM 2.0 at the ECIIA conference in Madrid on October 4th, 2018 we have reached a new milestone. We want to share our experiences with the members of IIA Global. The IA AM was a game changer for our professional association in the Netherlands. Several IAFs used the model as a strategy and team building activity. By examining the current state of their IAF by discussing scoping and ambitions the teams experienced a more shared vision of the future of their IAF. Some CAEs have already discussed the output with the Audit Committee.

Let's take a next step in a broad professional dialogue amongst auditors by sharing experiences and good practices. Be the game changer. Use the IA AM!

A model developed by members for members.

The model is free of charge. To receive a soft copy please send us an email: **ambition@iia.nl**

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1 The IA AM

1.1 What is the aim of the IA AM

The IA AM provides levels of ambition and concrete good practices that can serve as guidance for the CAE wanting more than just meeting professional standards. The IA AM helps CAEs formulate strategic objectives, evaluate the current IAF and define a road map to achieve the stated objectives. The IA AM can support the Audit Committee and/or Supervisory Board determine which aspects to take into account when assessing the internal audit mandate and ambition level.

The IA AM provides a tool that an organization can use as:

- A communication vehicle – a basis for communicating what is meant by effective internal auditing, how it serves an organization and its stakeholders, and for advocating the importance of internal auditing to decision makers.

  Determine the internal audit requirements according to the nature, complexity, and associated risks of its operations.

- A framework for assessment – a selfassessment framework for assessing the capabilities of an IA activity against professional internal audit standards and good practices.

- A road map for improvement – It helps u you to identify the potential gaps and development areas in your audit department.
  Create a roadmap for further improvement and professionalization of the IAF.

1.2 The structure of the IA AM

The IA AM consists of the following three columns which are explained below:
1. Themes: Six themes are identified for an IA activity.
2. Subthemes and topics: To further detail and clarify the specific aspects that should be addressed by the IAF in order to progress to a next ambition level, the six themes have been divided into eleven subthemes and thirty-eight topics. For an overview see 1.2.4.
3. Essential activities: The activities, that must be performed, are defined as essential activities for each of the topics.

In addition the levels illustrate the stages through which an IAF can evolve as it defines, implements, measures, controls and improves its processes and pratrices to meet its ambitions.

The outcome of the IA AM questionnaire results in a spider web (dashboard) that enables high level communication with the executive and supervisory board and other stakeholders.

1.2.1 Themes
The following six themes are identified for an IA activity:
- Services and Role of Internal Auditing
- Professional Practices
- Performance Management and Accountability
- People Management
- Organizational Relationships
- Governance Structures.

The first four themes – Services and Role of Internal Auditing, Professional Practices, Performance Management, Accountability and People Management – relate primarily to the management and practices of the IA activity itself. The last two themes – Organizational Relationships and Governance Structures – also include the IA activity's relationship with the organization that it supports and the internal and external environments.

A high-level description of the six themes is presented below.

Services and Role of Internal Auditing

Based on the IPPF of the IIA, the mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. To achieve this mission internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operation. It helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

However, the means by which this role is accomplished or the services provided varies among different environments. The services provided are typically based on the organization's needs and the IAF's authority, scope, and capacity.
Services include the provision of assurance and consulting activities and can consist of audits of transactions, compliance, systems, processes, operations, performance/value-for-money, information and related technology, and financial statements and systems.

Professional Practices

Professional practices reflect the full set of policies, processes, and practices that enables the IAF to be performed effectively and with proficiency and due professional care.
It refers to the capacity of the IAF to align itself with the organization's priorities and risk management strategies and contribute to continuous improvement of the IA activity and the organization. It includes the development and maintenance of a quality assurance and improvement program that covers all aspects of the internal audit activity.

Performance Management and Accountability

Performance management and accountability refers to the information needed to manage, conduct, and control the operations of the IA activity and account for its performance and results. It refers to the objectives and budget of the Internal Audit Function Plan and alignment of this plan with the company's strategy. The reporting element includes the performance measures, based on audience and management of relevant information systems and financial and non-financial (operational and program) performance information.

People Management

People management is the process of creating a working environment that enables people to perform to the best of their abilities. People management is the system that begins when a job is defined as needed.
People management also relates to building effective teams to guide improvement and progress with a training and development plan. Furthermore people management refers to coordinating long-term workforce development activities to meet future business needs of the IA activity.
Additionally, specific attention has been paid to team dynamics regarding a professional skepticism. It refers to discussing ethical dilemmas and organizing professional feedback.

Organizational Relationships

Organizational relationships refers to the organizational structure and internal management and relationships within the IA activity itself. It also refers to its relationships with other units in the organization. It

includes the CAE's relationships with senior management and as part of the management team as well as the ability to advise and influence top-level management and develop effective and ongoing relationships. This element refers to the organization's internal relationships and internal environment, and how these relationships may impact on key stakeholders and others outside the organization, including the public. It also refers to the IA activity's relationships with other review groups, including the external or legislative auditor.

Governance Structures

Governance structures generally refers to the combination of processes and structures implemented by the executive board and/or a supervising body or an audit committee to inform, direct, manage, and monitor the organization's activities toward the achievement of its objectives. Governance structures include the administrative and functional reporting relationships of the IA activity. It includes the CAE's reporting relationship to the executive and supervisory board and how the IA activity fits within the organization's structure and governance regime. It includes the means by which the independence and objectivity of the IA activity is assured; for example, through its formal mandate, legislated authority, and/or oversight mechanism such as an audit committee. It also refers to the policies and processes established to provide the necessary authority, support, and resources for the IA activity to carry out its duties and contribute to its effectiveness and independence

1.2.2 Ambition levels

The IA AM is a framework for strengthening or enhancing the IAF through evolutionary steps. Each of these steps have been organized into five progressive ambition levels. Improvements in processes and practices at each stage provide the foundation on which to progress to the next ambition level. Hence, it is a "building block" approach to establishing effective internal auditing in an organization. A fundamental premise underlying the IA AM is that a process or practice cannot be improved, before it is a stable process.

Each ambition level describes the characteristics and capabilities of an IA activity at that level, for all the themes and topics. As either the size or complexity of an organization or the risks associated with its operations increases, so does the need for more sophisticated internal audit capabilities. The model attempts to match the nature and complexity of an organization with the internal audit capabilities needed to support it. In other words, if the organization requires a greater degree of sophistication in internal audit practices, the IA activity will typically be at a higher ambition level. The internal audit ambition level is often tied to the governance structure of the organization within which it is situated.

The ambition levels in the model provide a road map for continuous improvement within the IA activity. However, an IA activity may choose to remain at level 3 and still represent good practice for that IA activity in that particular organization and environment.

The five ambition levels of the IA AM are:
1. Initial
2. Infrastructure
3. Integrated
4. Managed
5. Optimizing.

Below a high-level description of the ambition levels is given. Generally spoken at Level 3 the IAF functions according to the IPPF Standards.

Level 1 - Initial

At the **Initial** level, internal auditing is ad hoc or unstructured, few processes are defined, and practices are performed inconsistently. Isolated single audits and/or reviews of documents and transactions could be performed. The '3 lines of defense' are not established and no consulting services

are provided by the IAF. Auditing is likely limited to transaction auditing; that is to say, examining the regularity and accuracy of individual economic transactions, or some basic compliance auditing. The infrastructure for the IA activity has not been established and the auditors are likely part of a larger organizational unit.

At this level, internal auditing must rely on the individual efforts or personal skills of the auditors conducting the audits and their personal objectivity. There are no professional practices established other than those provided by professional associations.

Level 2 – Infrastructure

At the **Infrastructure** level, the primary objective is to instill a process discipline into the IAF that ensures that basic internal audit practices and processes are performed on a regular and repeatable basis. Management has processes in place to advise on and deal with audit or other ad hoc consulting requests. To do so, the IA activity is initiating the development of its management and administrative infrastructures. An audit charter establishing the purpose, authority, and responsibility of the IA activity and its reporting relationship (administrative and functional) within the organization is developed. Organizational policies are being established that provide for the IA activity's full access to the organization's information, assets, and people to conduct its work.

At the Infrastructure Level, the IAF primarily conducts traditional compliance auditing, or in other words, audits of conformity and adherence of a particular area, process, or system to policies, plans, procedures, laws, regulations, contracts, or other requirements. These could include financial audits as well as system or process-approach audits that assess whether an appropriate internal control framework is in place and operating. Soft controls are included in the annual plan but no structured approach is included in the audit methodology yet.

The IA activity has started to identify and recruit people with the necessary competencies and relevant skills to carry out the work. However, to some extent, there continues to be reliance on individual people and their personal skills and competencies. Emphasis is placed on individuals taking responsibility for their own professional development to ensure that they continuously maintain and enhance their professional capabilities.

A professional practices and processes framework is being developed which includes documented policies, processes, and procedures to encourage consistent application of internal audit guidance and practices across the IA activity. However, all relevant internal audit policies, processes, and practices may not have been institutionalized, and the IA activity may fall short of meeting some major conditions. For example, the IA activity may not have sufficient organizational independence, and may not have fully implemented a quality assurance and improvement program (which includes ongoing internal monitoring as well as periodic internal and external quality assessments).

The management effort of the IA activity is primarily focused on its own operations and relationships, such as organizational structure, budget preparation and monitoring, annual planning, providing the necessary audit tools and technology, and performing audits. Interactions with organizational managers are focused on carrying out the business of the IA activity.

In this respect, the IA activity develops its periodic (annual or multiyear) plans for which audits and/or other services will be provided, based on management's priorities through consultations with management and/or other stakeholders.

The IA activity has been allocated its own operating budget. It prepares a periodic business plan for delivering the services of the IA activity, including administrative and support services.

At Level 2, there will be some significant opportunities for improving the effectiveness of the IA activity, and as such, it will only partially conform to the Standards.

Level 3 – Integrated

At this **integrated** level all relevant 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 IAF. The IAF focuses on its capacity, its organizational independence, and the personal objectivity of its auditors.

The IAF is positioned as an independent assurance provider as the third line of defense in the three lines of defense model. This is formalized in the approved Internal Audit Charter. The IAF will coordinate the different (internal and/or external) consulting and assurance services to prevent overlap and drive efficiencies. This also allows the IAF to present a total overview to senior management and the executive board.

A key aspect of Level 3 is the changing role of internal auditing. The role evolves from performing only traditional internal audit services to integrating as a team player. Internal auditing is evolving to a "value-added" activity that helps an organization manage its risks and take advantage of opportunities to improve. The IAF also pays attention to other topics including strategy and soft controls. Internal audit services have become more varied to support the needs of the organization's management. The use of data analytics is organized, expertise is available in the IAF or can be easily acquired and tooling is available to analyzing data. When applicable consulting services are also undertaken by the IA activity to provide guidance and advice to management.

Also the governance structure of the IA activity has evolved significantly. There is a direct reporting line to the AC or a similar committee to assure the independence of the IA activity, broaden the activity's scope of input and influence, and help to strengthen the organization's accountability.

Other key process areas at this level focus on the IA activity's capacity to monitor and assess the effectiveness of its operations. It will have planning and reporting mechanisms to ensure that resources are allocated appropriately to meet objectives and operations are performed efficiently and effectively.

The necessary information, including both financial and non-financial information, will be received and used to manage the IA activity's day-to-day operations, support decision-making, and demonstrate accountability.

There is a training and development plan for each individual to guide improvement and progress through the competency framework. Auditors are encouraged to be involved in professional associations and criteria for effective teamwork behaviors and practices are incorporated into the staff competency framework.

As said, when the IAF functions at this level, the standards as formulated in the IPPF are adhered to and the external auditor should be able to rely on its work, according to the requirements formulated in ISA 610. The external auditor will have periodic meetings with the IAF and include the findings of the IAF in the risk analysis.

Level 4 – Managed

At this **managed** level, the IA activity functions as an integral part of the organization's governance and risk management. The CAE is positioned to both formally and informally advise on strategic issues and influences the executive board, and audit committee and/or supervisory board. The IAF audit

engagements cover the process of strategy formulation or drivers of the realization of the organizational strategy.

This relationship facilitates the organization's understanding and appreciation of the vision, leadership, and foresight of the CAE and the contribution of the IA activity. The CAE uses the IA AM when communicating with the executive board and supervisory board about the services and planning of the IA activity.

In Level 4, relevant internal and external providers of assurance and advisory services for the organization are assessed by the IAF.

The CAE continues to maintain and develop effective relationships with management and key stakeholders, including the independent oversight body, to ensure that their needs and expectations are aligned with the services of the IAF, and that the visibility and contribution of the IAF is evident.

The words and actions of senior management, the oversight body, and all key stakeholders demonstrate full acceptance for and support of the IAF. The IAF has regular contact with the external accountant and possible other assurance providers to share plans, and encourage complementarity of the work. The audit committee will actively involve the IAF in the evaluation of the external accountant.

The IA activity has integrated its use of quantitative and qualitative data and information to help it achieve its strategic objectives and continuously improve its performance. The IA activity functions as a well-managed business unit and has a longer term vision and plan in line with the organization's direction.

Use of an Audit Management System is part of Level 4. This is used for the (annual) audit planning, performing the audit, monitoring realization of the audit plan, review of working papers, and reporting audit results. The

monitoring results can be used for continuous improvement of audit.

In developing its periodic audit and services plan, the IA activity aligns, as appropriate, its engagements with the organization's management of risks. It takes into consideration the organization's enterprise risk-management strategies and practices.

The organization and the IAF integrate the development of the organization's managers by providing mutual training and exchanging experiences of the IAF with operational management and vice versa.

The internal audit services and role are also expanding significantly at this level. Besides giving opinions on the effectiveness of the operations the IAF is now conducting sufficient work to assess also the efficiency of processes supported by for example data analysis and process mining. Soft controls and a tailored model of soft controls are part of the audit vision and a part of every audit and work program.

The IA activity has coordinated its audit services to be sufficiently comprehensive so that it can provide reasonable assurance at a corporate level that these processes are adequate and functioning as intended to meet the organization's objectives.

Level 5 – Optimizing
At Level 5 – **Optimizing**, the focus is on learning for continuous improvement to enhance capability. An IA activity at Level 5 is characterized as a learning organization with continuous process improvements and innovations. It monitors the changing external environment and uses information from inside and outside the organization to refine its approaches to assessing governance, risk management, and control. The IAF will perform the required oversight on activities in the 1st and 2nd Line of defense. The collaboration with the external accountant entails, as a

good practice combining findings in a joint management letter, strong reliance on work of IAF and sharing access to audit files.

By providing advice on emerging trends and organization-wide issues, the IAF contributes to organizational learning and improvement and encourages the development of innovative business practices and processes to help the organization achieve its strategic business objectives.

The IAF's governance structure is fully developed. The IAF is not a discretionary policy of management. It has uncompromising independence, power, and authority to determine the scope of internal auditing, perform its work, and communicate its results. It has the stability and independence to focus on future directions and continuous improvement for both the IAF and the organization.

The IAF Innovates the audit process and audit reports by continuously evaluating all aspects of efficiency and effectiveness of the IA activity. Soft controls are an auditobject in the audit plan and working programs. Soft controls are periodically mapped in a structured way and assessed for effectiveness in conjunction with the hard controls.

The IAF has top-level professional and specialized skills and has sufficiently developed its leadership capacity to provide foresight and serve as a catalyst to achieve positive change in the organization. It also supports and facilitates its leaders to become key leaders in relevant professional bodies - as thought leaders to influence the growth and evolution of the profession and apply forward-thinking innovative practices in the organization.

The IAF understands the organization's strategic directions and emerging issues and risks. It evolves its business requirements, workforce development needs (including resources and skill sets), risk assessment strategies, and processes to meet the organization's potential future needs.

At this level, the IAF is conducting sufficient work to be able to give an opinion on the overall adequacy and effectiveness of the organization's governance, risk management and control processes.

1.2.3 IA AM overview by ambition level

Theme	Subtheme	1 - Initial	2 - Infrastructure	3 - Integrated
Services and Role of Internal Auditing	Assurance services	**Ad hoc services:** Isolated single audits or reviews of documents and transactions for accuracy and compliance.	**Compliance auditing:** Carry out an audit of conformity and adherence of a particular area, process, or system to policies, plans, procedures, laws, regulations, contracts, or other requirements that govern the conduct of the area, process, or system subject to audit.	**Assess and report on the effectiveness of activities or programs. Or conduct engagements on governance, risk management and internal control of the audit object:** 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.valuate and improve the effectiveness of risk management, control, and governance processes.
	Consulting services	**No consulting services** Internal audit function does not provide consulting services.	**Consulting as part of assurance services** Internal audit function provides consulting services as part of their assurance services.	**Consulting services** Analyze a situation and/or provide guidance and advice to management. Consulting services add value without the internal auditor assuming management responsibility. Consulting services are those that are directed toward facilitation rather than assurance and include training, systems development reviews, performance and control self-assessment, counseling, and advice.
Professional Practices	Audit plan	**Ad hoc planning** Internal audit activities are performed on an ad hoc basis.	**Audit plan based on management/stakeholder priorities** Develop periodic (annual or multiyear) plans for which audits and/or other services will be provided, based on consultations with management and/or other stakeholders.	**Risk-based audit plans** Systematically assess risks and focus the priorities of the IA activity's periodic audit and services plan on risk exposures throughout the organization.
	Quality Assurance	**Limited audit processes** No specific professional practices established other than those provided by professional associations.	**Professional practices and processes framework** Facilitate the performance of audit engagements in accordance with the values (for example independence, objectivity, proficiency and due professional care) envisaged in the internal audit charter and the Definition of Internal Auditing, the Code of Ethics, and the Standards. The professional practices and processes framework includes the policies, processes, and procedures that will guide the IA activity in managing its operations; developing its internal audit work program; and in planning, performing, and reporting on the results of internal audits.	**Quality Management framework** Establish and maintain processes to continuously monitor, assess, and improve the effectiveness of the IA activity. Processes include ongoing internal monitoring of the performance of the IA activity as well as periodic internal and external quality assessments.
Performance Management and Accountability	Internal Audit Function Plan	**Ad hoc Internal Audit Function Plan**	**Establish annual IAF department plan and budget for executing the annual audit plan.**	**IAF department plan is aligned with the company's plan**
	Reporting	**Unstructured reporting** No structured performance measures in place.	**Internal audit management reports** Use information to manage the IA activity's day-to-day operations, support decision making, and demonstrate accountability.	**Performance measures** Develop meaningful indicators and measures (in addition to time and cost data) that enable the IA activity to measure and report on its performance and routinely monitor its progress against targets. This is to ensure that results are achieved as economically and efficiently as possible. These will be primarily input and process measures, with some output or qualitative outcome measures.

4 - Managed	5 - Optimizing
Assurance on governance, risk management and control: The IA activity has coordinated its audit services to be sufficiently comprehensive that it can provide reasonable assurance at a corporate level that these processes are adequate and functioning as intended to meet the organization's objectives.	**Overall assurance on governance, risk management and control:** Conduct sufficient work to provide an opinion on the overall adequacy and effectiveness of the organization's governance, risk management, and control processes.
Consulting services on governance, risk management, and control Conduct sufficient work to advise on the adequacy and effectiveness of the organization's governance, risk management, and control processes.	**Internal auditing recognized as key agent of change** Sufficiently develop the professional and leadership capacity of the IA activity to provide foresight and serve as a catalyst to achieve positive change on the overall adequacy and effectiveness of the organization's governance, risk management, and control.
Audit plan leverages organization's management of risk Link the IA activity's periodic audit and services plan with the organization's enterprise risk management strategies and practices. Enterprise risk management strategies and practices refers to formal and documented processes put in place by the organization to identify risks, and manage those risks within its risk appetite, thus providing reasonable assurance that the organization's objectives will be achieved.	**Strategic Internal audit planning** Understand the organization's strategic directions and emerging issues and risks. Anticipate future needs by changing the IA activity's skill sets and audit services.
Continuous Improvement in professional practices Integrate the performance data, global leading practices, and feedback received from ongoing quality assurance and improvement program processes to continuously strengthen and develop the IA activity's capacity to deliver world-class internal auditing. This includes efforts for audit innovation, data analysis and audit automation/audit management systems.	**Continuous Improvement in professional practices for audit innovation** Initiate research capabilities on audit innovation or data analysis and audit automation/audit management systems.
IAF department plan for the year is based on the longer-term strategic plan for the IAF	IAF longer-term strategic plan is aligned with the company's strategy
Integration of qualitative and quantitative performance measures Enable the IA activity to use information on performance to measure and monitor fluctuations that affect its results. The activity has balanced its use of quantitative and qualitative data to help it measuring the achievement of its strategic objectives.	**Overall reporting of Internal audit effectiveness** Report on the effectiveness of the IA activity for selected parties to demonstrate transparency and accountability to the organization's stakeholders and auditee management, and identify the contribution and impact made by the IA activity with the resources provided.

Theme	Subtheme	1 - Initial	2 - Infrastructure	3 - Integrated
People Management	Professional Development	**Ad hoc professional development** No development objectives set.	**Individual professional development** Ensure that internal auditors continuously maintain and enhance their professional capabilities.	**Professionally qualified staff and team building** • Staff the IA activity with professionally qualified staff and retain the individuals who have demonstrated at least a minimum level of competence. • Develop staff members' capacity to function effectively in a team environment, beginning with focus on the individual project team. Because many audits cover scopes that require the concerted effort of a team of auditors to conduct, and because the skills needed to conduct an audit are not necessarily the same skills to work effectively in a group environment, additional team competencies are required.
	HR Planning	**Ad hoc HR planning** Outputs are dependent upon the skills of specific individuals holding the position.	**Skilled people identified and recruited** Identify and attract people with the necessary competencies and relevant skills to carry out the work of the IA activity. Appropriately qualified and recruited internal auditors are more likely to provide credibility to internal audit results.	**Workforce coordination** Coordinate the development of the periodic audit and services plan to the human resource levels authorized to the IA activity. Because resources are often limited the IA activity needs to use appropriate methods to set priorities of planned projects and services to limit its commitments to a "doable" quantity and type of projects and services.
Organizational Relationships and Culture	Organizational Relationships	**No structured (internal) communication** Absence of IA activity infrastructure.	**Managing within the IA activity** Focus the management effort of the IA activity on its own operations and relationships within the activity itself, such as organizational structure, people management, budget preparation and monitoring, annual planning, providing the necessary audit tools and technology and performing audits. Interactions with organizational managers are focused on carrying out the business of the IA activity.	**Integral component of management team** Participate in the organization's management activities in some form as a member of the management team. Although the CAE does not carry out management's responsibilities, the CAE is included in communications and forums of the management team, and as an observer, is able to maintain a channel of communication with senior management. **Coordination with other review groups** Share information and coordinate activities with other internal and external providers of assurance and advisory services to ensure appropriate organizational coverage and minimize duplication of effort.
Governance Structures	Management and oversight of the IA activity	**No separate IAF** Auditors are likely part of a larger organizational unit. No specific reporting relationships are established.	**Reporting relationships established** Establish formal reporting relationships (administrative and functional) for the IA activity. The functional reporting line to the executive board for the IA activity is the ultimate source of its independence and authority.	**CAE reports to top-level authority** • Strengthen the CAE's independence by establishing a direct functional reporting relationship to the audit committee and/or supervisory board and a direct administrative reporting relationship to either the executive board. • Establish a mechanism/process within the organization to provide oversight and advice, and review the results of the IA activity to strengthen its independence and ensure appropriate action is taken. Involvement of a variety of managers in the decisions related to the IA activity helps to extend the activity's support and scope beyond a single individual. • Establish a robust and transparent funding process that ensures adequate resources to allow the IA activity to discharge its obligations. Budgetary controls and considerations imposed by administrative reporting lines should not impede the ability of the internal audit activity to accomplish its mission.
	Access and awareness	**Limited access** No specific arrangements are made for data access.	**Full access to the organization's Information, assets, and people specified in the charter** Provide the authority for the IA activity to obtain access to all the information, assets, and people that it requires to carry out its duties.	**The senior management supports the internal audit mandate** The authority of the IA activity is visibly and proactively supported by the AC.

4 - Managed	5 - Optimizing
IA activity supports professional bodies and contributes to management development • Provide leadership and professional development opportunities for the internal audit staff by supporting their involvement and participation in professional bodies. • Integrate the development of the organization's managers with the training and experiences of the IA activity and vice versa. • The organization and the IA activity encourage people to contribute to a good understanding of governance, risk management, and controls throughout the organization.	Leadership involvement with professional bodies • Facilitate and support top leaders of the IA activity becoming key leaders within relevant professional bodies. In addition to making contributions to the profession through their volunteer work, the CAE and other internal auditors will become thought leaders and influence the growth and evolution of the profession. • Participating in the administration and/or leadership of professional bodies helps auditors learn and practice higher-level people skills, since their roles vis-à-vis their colleagues require different ways of interacting then their "auditor" or "manager" role within their organization.
Workforce planning Coordinate workforce activities to achieve current business needs of the IA activity. Workforce planning involves developing a workforce plan that sets out the resources, skills, training, and tools required to conduct the audits that have been identified (or are proposed) in the periodic audit and services plan.	**Workforce projection** Coordinate long-term workforce development activities to meet future business needs of the IA activity. Workforce projection involves developing a strategic workforce plan that sets out the IA activity's objectives for competency development and workforce activities, in conjunction with the organization's projected strategic needs, and developing plans to guide workforce development activities for the IA activity.
CAE advises and influences top-level management Facilitate the organization's understanding and appreciation of the vision, leadership, and foresight of the CAE, and develop a professional relationship with top-level management while maintaining independent and objective.	Effective and ongoing (external) relationships Use strong relationship management skills of the CAE for maintaining appropriate visibility and alignment with key stakeholders, senior management and needs and expectations. Internal auditing recognized as a key agent of change Develop sufficient the professional and leadership capacity of the IA activity to provide foresight and serve as a catalyst to achieve positive change in the organization.
CAE has access to the AC and supervisory board (or full board in case of a one-tier board). • The CAE reports to AC and has access to the full supervisory board if necessary. • The CAE is involved in determining the AC agenda. • Align the charter of the oversight body with that of the IA activity to reinforce the critical relationship between the oversight body and the IA activity. • The AC is actively involved in evaluating the IAF.	Allowing the IAF to perform the required oversight on activities without any restrictions, safeguards or involvement of external assurance providers. Please fill in when applicable for your company. Describe the good practice the internal audit department uses to achieve this level.
Key meetings The CAE can attend key business meetings (board, supervisory board) on request.	**CAE participation** The CAE has a standing invitation and takes part in top-level authority business meetings.

1.2.4 Subthemes and topics

An overview of the six themes, 11 subthemes and 38 topics is included in the below.

| Theme	Sub theme	Topic
Services and Role of Internal Auditing	Assurance services	Role and authority Data Analytics Governance and Risk Management Strategy Soft Controls
	Consulting services	Scope Consulting procedures
Professional Practices	Audit plan	Audit universe and scope Periodicity of evaluating the plan Prioritization and approval of the plan Follow-up monitoring
	Quality assurance	Compliance with IPPF and other (professional) standards Audit procedures Performing the audit – Planning Performing the audit – Fieldwork Communicating audit results Quality management reviews
Performance Management and Accountability	Internal Audit Function Plan	Objectives Budget
	Reporting	Measures Audience Process
People Management	Professional development	Staff training (target budget) Team development Professional associations Performance cycle and remuneration policy
	HR Planning	Resource allocation (including co-sourcing or outsourcing) Resource planning Recruitment
Organizational Relationships	Organizational Relationships	Communication on IAF's activities IAF's collaborations IAF's collaborations: external auditor
Governance Structures	Management and oversight of the IA activity	Reporting line Funding of the audit department Oversight of the audit activity 3 Lines of defense
	Access and awareness	Access to information, assets and people Awareness of the IA activity

2 The IA AM: reporting and design choices.

The IA AM consists of a dashboard and 6 separate questionnaires for each of the 6 themes.

2.1 Dashboard

The IA AM tool includes a dashboard that enables high level communication with the executive and supervisory board and other stakeholders. It gives a visual overview of the results of the IA AM questionnaire compared to the desired ambition level which is set by the CAE based on input of for example its audit committee. In the spider web the blue line shows the level achieved. The orange dotted line is the desired ambition level which is set by the CAE/IAF. Based on experience, level 3 should give you an indication on compliance with the IPPF standards, but of course, a final assessment as to whether an IAF generally complies with the IPPF is to be determined via an External Quality Review done by the professional body in your country.

- 1 Initial
- 2 Infrastructure
- 3 Integrated
- 4 Managed
- 5 Optimized
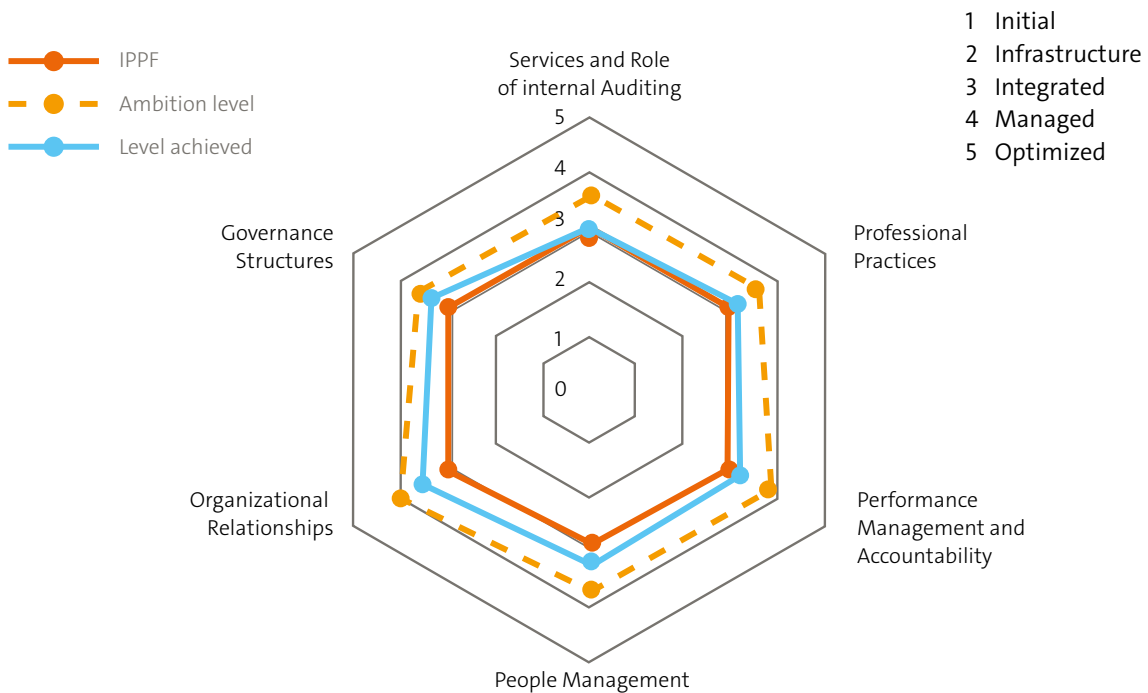
Internal Audit Ambition Model benchmark 2017

The dashboard above reflects the results of the 2017 benchmark and gives an initial insight into the current state and ambition levels of the IAFs in the Netherlands, in this demanding environment. Given the relatively small number of benchmark participants, it was too early to conclude that the results were statistically representative of the internal audit profession in the Netherlands. However, during the discussion of the results in the CAE Forum, this initial insight was acknowledged.

2.2 Questionnaire

For each of the 6 themes 'essential activities' per level have been defined. For each of the 'essential activities' the CAE is requested to rate to what extent the IAF performs these activities. Based on the individual scores, the IA AM determines the ambition level achieved by the IAF. The output of the model is an equally weighted average of the scores and ambition levels given.

2.2.1 Showstoppers

As a starting point all topics have an equal weight. However two showstoppers related to the IPPF Standards have been defined. These are 'essential activities' which need to be performed to reach a next ambition level. When at a certain point an ambition level is not achieved, the questionnaire for that specific element is completed.

These showstoppers are the following:
• Audit charter (Services and Role of IA - Assurance services, ambition level 3) – Based on the IPPF the IAF needs to reflect in the internal audit charter the direct functional reporting relationship of the CAE to the governing body and the direct reporting relationship to either the CEO or the governing body. The CAE needs to review and update the charter on a regular basis and obtain senior management and/or board approval. The audit charter needs to include the nature of the assurance services provided to the organization and be revised annually.
• Audit universe and scope (Professional Practices - Audit plan, ambition level 3) - The audit universe should be risk- based. Systematically assess risks and focus the priorities of the IA activity's periodic audit and services plan on risk exposures throughout the organization.

2.2.2 Consulting services

According to the definition, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. Consulting services are defined as advisory and related client service activities and are generally performed at the specific request of an engagement client. This definition explicitly includes consulting activity in the IAF. However, the IA AM acknowledges that the services and roles of the IAF are dependent on the organization in which it operates. In the Dutch context, most IAFs are assigned to perform assurances services, for example because the consulting services are performed elsewhere in the organization. Therefore, it is possible in the IA AM that the section related to Consulting services is set at not applicable (n.a.). If the CAE chooses to do so, the score of Consulting services is not included in the score and ambition level.

2.3 Applying and interpreting the IA AM

The following section provides some principles, factors, and issues to consider when applying and interpreting the IA AM.

2.3.1 Principles in applying the IA AM
• Professional judgment is needed to apply and interpret the IA AM.
• A process or practice cannot be improved before it is a stable process.
• The IA AM is an ambition model. If, for example together with the Audit Committee the ambition level is set at level 3, the IAF may choose to stay at this level.
• The IA AM is intended primarily as a self-assessment exercise for continiuos inspiration and improvement.

2.3.2 External and organizational factors

The model recognizes how the external regulatory environment and the organization itself may impact on the capability of the IA activity. Within the organization, it is important to understand the influence of corporate governance, organizational culture, internal control systems, human resource capacities, and the demand and need for the IAF. In addition, other organizational factors such as size, nature, complexity, and risks of operations must be considered when assessing whether and how a particular theme is implemented and institutionalized.

In using the IA AM, it is important to determine "what makes sense" and is reasonable considering the organization and environment. For example, IAFs in smaller organizations may be able to be easier implement a particular theme without the bureaucratic infrastructure of larger organizations.

2.3.3 The IA AM and a Quality Assurance and Improvement Program

The primary purpose of the IA AM is as a self-assessment and development tool for IAFs to determine the level of internal audit capability appropriate and optimum to their organization and environment. It describes an evolutionary path for organization to follow in developing effective internal auditing to meet its governance needs, taking into consideration the nature, complexity, and associated risks of the organization's operations.

In addition to setting ambition levels the model also includes a tool that allows the CAE to self-assess conformance with mandatory and strongly recommend guidance as defined in International Professional Practices Framework (IPPF). This self-reflection can serve as a starting point for the mandatory external assessment of the Quality Assurance and Improvement program of the IAF. Although a clear mapping has been made to each of the IPPF standards and relevant ISA standards, no premature conclusions should be drawn from the scores from the model. An average score of 2,9 or even lower does not mean that the IAF does not generally complies with the IPPF; the IA AM is broader and also contains topics which are not directly linked to an IPPF standard. Vice versa, having as score of 3 does not mean that the IAF automatically generally complies with the IPPF. Professional judgement and a good understanding of the IPPF and ISA standards are necessary to evaluate the results in this context.

The IA AM is underpinned by the mandatory guidance (mission, definition of internal auditing, Code of ethics and the Standards) included in the IIA's IPPF and the criteria given in the ISA 610. It is highly recommended to use the IA AM as a self assessment tool as stated by Standard 1311 Internal Assessments. And apply the model getting up to standard with the IPPF by sharing experiences and good practices.

2.3.4 Internal Audit Ambition Model benchmark 2017

In 2017 an initial benchmark based on the IA AM was conducted among members of the IIA Netherlands and the NBA LIO. This provides insight into the state and ambition levels of the IAFs in the Netherlands in the demanding environment of internal audit in 2017. These insights and key takeaways support the next step that was taken in a broad professional dialogue amongst auditors. And getting up to standard with the IPPF by sharing experiences and best practices. We are planning to do this again in 2019.

To get the publication "State of Internal Audit in the Netherlands: Internal Audit Ambition Model benchmark 2017" and further information on the Internal Audit Ambition Model please go to the website of the IIA Netherlands: www.iia.nl/vaktechniek/ambition-model

Abbreviations

CAE: Chief Audit Executives
CEO: Chief Executive Officer
CMMI: Capability Maturity Model Integration
CQA: Committee Quality Assessments
CPP: Committee Professional Practices
IA: Internal Audit
IA AM: Internal Audit Ambition Model
IA-CM: Internal Audit Capabilities Model for the Public Sector
IAF: Internal Audit Function
IIA: Institute of Internal Auditors
IPPF: International Professional Practices Framework
ISA: International Standard on Auditing
LIO: Membership Group for Internal and Government Auditors
NBA: The Netherlands Institute of Chartered Accountants

Acknowledgments

Appendix: Creation of the IA AM

1.1   Background

In the Netherlands there was a growing need for the development of an ambition model which helps CAEs and the Committee of Quality Assessors (CQA) in identifying specific improvement and ambition opportunities in addition to complying with the International Professional Practices Framework (IPPF).

Following an external quality assessment CAEs frequently asked the assessors how their IAFs compared to other IAFs and which good practices they had identified in the market which the CAE could use to further improve the IAF processes. These questions could be answered in general terms, but a specific reference framework was lacking.

As the Internal Audit Capabilities Model for the Public Sector (IA-CM) 2009 was already a proven methodology we used this model as a starting point. It illustrates the levels and stages through which an internal audit (IA) activity can evolve as it defines, implements, measures, controls, and improves its processes and practices.

1.2.   Activities

A task force was created by the end of 2014 to develop an ambition model. Its first task was to investigate whether maturity models for the internal audit profession already existed and if so, to what extent they could be used in a Dutch context.

A first pilot version of the Dutch IA AM was introduced and discussed at the CAE Forum in June 2015. This presentation resulted in a pilot with 15 IAFs testing the final draft.

The task force used the input from the pilots and research conducted between 2009 and 2016 to prepare a new model called the IA AM. This draft model has been discussed and validated with sounding boards from three reference groups, CAEs, the CQA and contributors from the University of Amsterdam and the Erasmus University of Rotterdam. In June 2016 the IA AM was introduced as a self-assessment tool. Next the tool was extended into a communication and benchmarking instrument for increasing the recognition of the internal audit profession.

In addition to setting ambition levels the model also includes a tool that allows the CAE to self-assess conformance with mandatory and strongly recommend guidance as defined in International Professional Practices Framework (IPPF). This self-reflection can serve as a starting point for the mandatory external assessment of the Quality Assurance and Improvement program of the IAF. A clear mapping has been made to each of the IPPF standards. Therefore, it is encouraged to use the IA AM as a self-assessment tool as envisaged by Standard 1311: Internal Assessments. And apply the model getting up to standard with the IPPF by sharing experiences and good practices.

The IA AM tool includes a spider web diagram that enables high level communication with the executive and supervisory board and other stakeholders on the current status of the IAF in comparison with mandatory guidance and with its ambitions.

In 2017, the Internal Audit Ambition Model benchmark was performed to reflect the state of Internal Audit in the Netherlands. These insights and key takeaways supported a next step that was taken in a broad professional dialogue amongst auditors.

As the IA AM is a dynamic model on theme's and topics, in 2018 the next step was taken to complete the IA AM version 2.0. After a broad professional dialogue and feedback from the knowledge groups, this resulted in the current version of the IA AM. In IA AM version 2.0 much attention is paid to refining

the logical structure of level 1 to 5. There was also a great need for more examples, added as "good practices". In addition, specific topics have been added or updated based on developments in the field. Finally, as well as a brief definition list.

With the launch of the IA AM 2.0 at the ECIIA in Madrid October 4th, 2018 we have reached a new milestone. We want to share our experiences with the members of IIA Global. The IA AM was a game changer for our professional association in the Netherlands.

We encourage you to provide us with feedback, so we can continuously enhance the quality of the model. Only your feedback will enable us to regularly further develop and improve the model. Please send an email to **ambition@iia.nl** to receive the tool or to provide feedback.