Internal Audit Ambition Model

Table of Contents

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. In the proposed revision of the Dutch Corporate Governance Code, the IAF is given a more prominent position with its 'own' principle.

This broader recognition is not only reflected in the revision proposals of the Corporate Governance Monitoring Committee (Commissie Van Manen), but also in the explicit rules in the financial sector, e.g. Solvency II for insurers, Basel III for banks and the extension of the number of public-interest organizations (OOBs). Consequently, there is a growing need for the demonstrable establishing of a professional IAF.

A group of internal auditors expressed the wish to develop an ambition model that provides insight into how an IAF can grow into complying with the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA) and/or the professional standards of the Royal Netherlands Institute of Chartered Accountants (NBA) and the Dutch professional association for IT auditors (NOREA).

In a joint effort, a number of enthusiastic members of IIA Netherlands and the NBA Members Group of Internal and Government Auditors (LIO) created the Internal Audit Ambition Model (IA AM) that deals with the broad spectrum of the proactive design, setup and further development of the IAF. The model contains relevant best practices and recommendations from recent publications.

With this, the IA AM can become an excellent communication and benchmarking instrument for further spreading and increased recognition of the internal audit profession. The application of the model can be approached from two angles:

1. The IA AM supports Chief Audit Executives (CAEs) in formulating – in consultation with the *Management Board* – the tasks and desired level of ambition for the IAF. The tasks and responsibilities within the different lines of defense will be taken into account. The model also offers guidance for regularly evaluating the IAF and, on the other hand, for achieving the agreed development goals.

2. The IA AM and this guide serve as an information source for the Audit Committee of the Supervisory Board. It is a useful aid for promoting the independence and the performance of IAFs and for reinforcing the desired ambition level of the IAF.

You are more than welcome to use this model to your advantage. Our aim is to substantively enhance the internal audit profession and to challenge that group to continue on its way of professionalization. The IA AM offers the opportunity to lift the veil and perform a baseline measurement: where are we currently with our IAFs and what are our goals as a professional group?

We call on all CAEs in the Netherlands to download the model and complete it as a self-assessment exercise. To receive the model, please send an email to **ambition@iia.nl**. We will send you the download link.

The IIA and NBA-LIO are going to organize roundtable discussions in the future and perform benchmarks to evaluate your experiences with the model. We therefore ask all IAFs using this model as a self-assessment tool to provide feedback and share their experiences with us. Only your feedback will enable us to regularly update the model and, where necessary, further develop and improve it.

John Bendermacher RA CIA
Chair IIA Netherlands

Jos Motzheim RA CIA CRMA
Chair NBA-LIO

Introduction

This report reflects the efforts of the Institute of Internal Auditors (IIA) Netherlands and the Members Group of Internal and Government Auditors (LIO) at the Royal Netherlands Institute of Chartered Accountants (NBA) to make an internal audit ambition model (IA AM) with a Dutch view on ambition levels for IAFs.

In the Netherlands there is a growing need for the development of an ambition model that 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).

As the Internal Audit Capabilities Model for the Public Sector (IA-CM) was already a proven methodology which 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, we used this model as a starting point.

However, the IIA and LIO felt a Dutch application of the IA-CM was needed to align it with the current state of internal auditing in the Netherlands. First, the IA-CM was published in 2009 and the internal audit profession and the world it operates in has developed significantly. Second, the IA-CM had been developed for the public sector specifically and a broader scope was desired for the Netherlands also given the fact that most Dutch companies have two-tier boards. Furthermore, both the CQA and the Dutch CAEs felt the need to link the existing IA-CM with the IPPF and the standard of the Dutch Chartered Accountants NV COS 610[1].

Our work consisted of validating the guidelines from the IA-CM with a broad group of CAEs, matching the guidelines with the IPPF, NBA standards and updating the IA-CM based on the recent publications of IIA Global, the IIA Research Foundation (IIARF) and IIA Netherlands and the IFAC Code of Ethics (which is the basis for the codes of ethics of the IIA and NBA). Additional input was gathered from best practices developed by a variety of internal audit professionals.

To align the name of this new model with the intended use of the model, we renamed this new model the "IA AM". This IA AM is intended for self-assessment, formulating the role, scope and ambition level of the IAF in consultation with the Supervisory Board. It is also a tool for capacity building and increasing awareness of the IAF and the internal audit profession in general among our stakeholders. 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 his internal audit activity is organized to realize their ambition level.

As an ambition model the IA AM is not a static document and needs to be reviewed on a regular basis. Just as the world around us changes at exponential speed, we as an internal audit profession need to adapt to these changes. The ambitions of today are not the same as we will have tomorrow if we want to provide continuous insight, assurance and advice.

Therefore, this is the start of a broad professional dialogue amongst auditors with the ambition to improve this model over the next few years. We would like internal auditors to use this tool and share their experiences and assessments for national benchmark research in order to gain insight in the current level of quality and in the ambition level of IAFs.

The model is written in English, an international language, to stimulate the use by IAFs that work internationally or work with non-Dutch board members.

A model developed by members for members.

Els Heesakkers
Joko Tenthof van Noorden
Maureen Vermeij - de Vries
Marieta Vermulm

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[1] Original title: International Standard on Auditing (ISA) 610, *Using the Work of Internal Auditors*

1. Overview

1. Introduction

The overview provides a high-level summary of the ambition model. The background of the project and methodology as conducted by the task force is included below.

1.1 Background

In September 2014 the Committee Professional Practices (CPP) of IIA Netherlands recommended developing an ambition model that could be used as an 'add on' to the regular accreditation activities of the CQA for Internal Audit Functions (IAFs).

After giving a 'generally complies' opinion, the quality assessors were frequently asked by the CAEs how the IAF compared to other IAFs and what best practices they 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.

1.2. Activities

A task force was created at the end of 2014 under the CPP 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.

The task force decided to use the Internal Audit Capabilities Model for the Public Sector (IA-CM) as a starting point. The background (purpose, scope and approach) of the IA-CM can be found in their overview of the IA-CM and Application Guide[2]. Our main considerations on using this model were: First, the IA-CM has been internationally validated and is a proven model. Second, its guidelines are sufficiently general to be applied to both the private and public sector. And third, the maturity levels are in line with generally accepted models as the Capability Maturity Model Integration (CMMI).

Next the taskforce developed a model-based questionnaire. This questionnaire was based on the IA-CM, which could be used by the CAE as a self-assessment tool, which could be validated by the CQA as part of their regular external assessments. Also a link was added between the IA-CM and the following standards:

- International Standards for the Professional Practice of Internal Auditing (Standards)
- Dutch Auditing Standards NV COS 610 (Original title: International Standard on Auditing (ISA) 610, Using the Work of Internal Auditors)

After intensive discussion of the Dutch application of the IA-CM with the CQA, a first version of the Dutch IA AM was introduced at the CAE Forum on June 30, 2015.

This presentation resulted in a pilot of 15 different IAFs who tested the final draft, which was executed in the second half of 2015. During this period further input was gathered from the CQA as well as the universities of Amsterdam and Rotterdam.

Based on the feedback the task force decided that an update of the existing IA-CM was necessary. For example, the use of data analysis and the concept of soft controls auditing were not part of the IA AM. Furthermore, the IA-CM had been developed for the public sector specifically and a broader scope was desired for the Netherlands given the fact most Dutch companies have two-tier boards. Overall we concluded that some 'higher' levels were not ambitious enough, given the current requirements for IAFs in the Dutch context.

The task force used the input from the pilots and research conducted between 2009 and 2016 to prepare a second draft of the IA AM. This second draft has been discussed and validated with sounding boards from three reference groups, CAEs, the CQA and contributors from two Dutch universities. This second round of feedback resulted in the current version of the IA AM. This final version was approved by the CPP on May 18, 2016.

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[2] Internal Audit Capability Model IA-CM for the Public Sector Overview

2. The IA AM

2.1 What is the IA AM

The IA AM is a self assessment tool that provides levels of ambition and concrete best practices that can serve as guidelines 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 help the Audit Committee and/or Supervisory Board determine which aspects to take into account when assessing the internal audit mandate and ambition level. As such the IA AM shows the steps in progressing from a level of internal auditing typical of a less established organization to the strong, effective, internal audit capabilities generally associated with a more mature and complex organization.

In other words, the IA AM is:
• **A communication vehicle** - a basis for communicating what is meant by effective internal auditing and how it serves an organization and its stakeholders, and for advocating the importance of internal auditing to decision makers.
• **A framework for assessment** - a framework for asses- sing the capabilities of an IA activity against professional internal audit standards and best practices, as a self- assessment.
• **A roadmap for orderly improvement** - a roadmap for further improvement and professionalization of the IAF.

The IA AM provides a tool that an organization can use to:
• Determine its internal audit requirements according to the nature, complexity, and associated risks of its operations.
• Assess its existing internal audit capabilities against the requirements.
• Identify any significant gaps between those requirements and its existing internal audit capabilities and work toward developing the appropriate level of internal audit capability.

2.2 The structure of the IA AM

The IA AM consists of the following four building blocks, which will be explained below:
1. Themes: Six themes are identified for an IA activity.
2. Ambition levels: The IA AM illustrates the stages through which an IAF can evolve as it defines, implements, measures, controls and improves its processes and practices.
3. Subthemes and topics: To further detail and clarify the specific steps which can be taken by the IAF to progress to a next ambition level, the six themes have been divided into eleven subthemes and thirty-nine topics. For an overview see 2.2.3.
4. Essential activities: The activities that must be performed are defined for each of the thirty-nine topics. These are called 'essential activities' in the IA AM.

2.2.1 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 and Culture.
• Governance Structures.

The first four themes - Services and Role of Internal Auditing, People Management, Professional Practices, and Performance Management and Accountability - relate primarily to the management and practices of the IA activity itself. The last two themes - Organizational Relationships and Culture 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 on the next page.

To receive the model, please send an email to: **ambition@iia.nl**.

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[3]. To achieve this mission, internal auditing is 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[4].

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/advisory 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.

The broadest audit focus "considers the organization's governance activities, which can help the organization achieve its objectives and priority goals and improve its governance framework, including its ethical code. The narrowest audit focus involves testing individual transactions for errors or for compliance with contract terms, policies, regulations, or laws. The auditors' scope of work can vary between these extremes and includes activities such as reviewing internal controls, processes, and systems to identify systemic weaknesses and propose operational improvements." The services can be performed by the IA activity itself, co-sourced with external service providers, or outsourced.

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 identification and communication of sufficient and relevant information to enable people to perform their assigned responsibilities. This element includes the development 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. The professional development and workforce planning in level 1 is based on an ad hoc basis. The output is dependent on the skills of the specific individual auditors. Further professionalization teaches us that people management also relates to building effective teams to guide improvement and progress with a training and development plan. And coordinate 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 and Culture

Organizational relationships and culture 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 culture and environment, and how these relationships and organizational culture 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 board of directors and/or a supervising body (for example 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 governing body 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.

[3] https://na.theiia.org/standards-guidance/Pages/Mission-of-Internal-Audit.aspx
[4] https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx

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.

2.2.2 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. 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 any level and still represent a best practice at that level 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 introduced.

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. Auditing is likely limited to transaction auditing; that is to say, examining the regularity and accuracy of individual econom-ic 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. 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.

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 the relevant internal audit policies, processes, and practices may not have been institutionalized, and the IA activity may fall short of meeting some major objectives. 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.

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Level 3 - Integrated
At this level all the 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.

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. When applicable, advisory 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 ARC 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 economically. 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.

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 NVCOS 610.

Level 4 - Managed
At this 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 Board of Directors and governing bodies (ARC and/or Supervisory Board). 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 IAF is a critical part of the organization's governance structure. 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 are evident. The words and actions of senior management, the oversight body, and all key stakeholders demonstrate full acceptance and support of the IAF.

The IA activity has balanced and 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.

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 pursue a strategy together that integrates the development of the organization's managers with the training and experiences of the IAF and vice versa. For example, a training and development program could be put in place in the IAF that provides high-potential employees with broad exposure to business activities, corporate culture, the control environment and risk management practices, leading to managerial positions throughout the organization.

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. At this level specific strategic risk audits are performed as well as audits on the effectiveness of soft controls. 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 innovation. 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. 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. Its independence, power, and authority are fully actualized (for example, through legislation, formal mandate, statutory policy, and/or independent oversight body). 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 is a critical part of the organization's governance structure. 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 are evident. The words and actions of senior management, the oversight body, and all key stakeholders demonstrate full acceptance and support of the IAF.

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.

2.2.3 IA AM overview 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.	**Performance auditing** Assess and report on the effectiveness of activities or programs; or conduct engagements on governance, risk management, and control. Performance auditing covers the full spectrum of operating and business processes, the associated management controls, and the results achieved.
	Advisory services	**No advisory services** Internal audit function does not provide advisory services.	**Advice as part of assurance services** Internal audit function provides advice as part of their assurance services.	**Advisory services** Analyze a situation and/or provide guidance and advice to management. Advisory services add value without the internal auditor assuming management responsibility. Advisory 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 Business Plan	**Ad hoc IAF business planning** Ad hoc and unstructured business plan for IA activity.	**Internal audit activity's department plan aligned with the audit plan and IPPF** Establish annual department plan for delivering the services of the IA activity, including administrative and support services, and the expected results. Use its own operating budget to plan the services of the IA activity.	**Internal audit activity's department plan is aligned with company's risk profile (going concern)** Take the company's risk profile into account when setting the objectives and results to be achieved by the IA activity itself.
	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
Performance auditing on a continuous basis Perform audit-related activities, such as control and risk assessments, on a continuous basis. Continuous auditing and reporting refers to the real-time or near real-time capability for (financial) information to be checked and shared. Technology plays a key role in continuous audit activities, such as the use of process mining. **Performance auditing on efficiency** Assess and report on the efficiency and economy of operations of activities or programs; or conduct engagements on governance, risk management, and control.	**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. The IA activity has coordinated its audit services to be sufficiently comprehensive that it can provide reasonable assurance at corporate level that these processes are adequate and functioning as intended to meet the organization's objectives.
Overall advisory services on governance, risk management, and control Conduct sufficient work to advise on the overall 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 in the organization on 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 refer 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.
Internal audit activity's department plan is aligned with company's changing objectives and risk appetite Take the company's objectives and risk appetite into account when setting the objectives and results to be achieved by the IA activity itself.	**Internal audit activity's department plan is aligned with company's strategy** Take the company's strategic direction into account when setting the objectives and results to be achieved by the IA activity itself.
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 measure 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 a 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 and Culture	**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** 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 Board of Directors for the IA activity is the ultimate source of its independence and authority.	**CAE reports to top-level authority (ARC)** • Strengthen the CAE's independence by establishing a direct functional reporting relationship to the governing body and a direct administrative reporting relationship to either the CEO or governing body. • 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 Audit Committee supports the internal audit mandate** The authority of the IA activity is visibly and proactively supported by the ARC.

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 than their "auditor" or "manager" role within their own 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, management, and audit committee needs and expectations. **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 in the organization.
CAE has access to the supervisory board (or full board in case of a one-tier board) • The CAE reports to the audit committee and has access to the chairman of the supervisory board if necessary. • The CAE is involved in determining the ARC 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 ARC is actively involved in evaluating the IAF.	**Not defined** No additional essential activities defined yet.
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.

2.2.4 Subthemes and topics

An overview of the six themes, 11 subthemes and 39 topics is included in the below.

| Theme	Sub theme	Topic
Services and Role of Internal Auditing	Assurance services	Role and authority Governance and Risk Management Strategy Soft Controls
	Advisory services	Scope
Professional Practices	Audit plan	Audit universe and scope Periodicity of evaluating the plan Prioritization and approval of the plan Resource planning Follow up monitoring
	Quality Assurance	Compliance with IPPF Audit procedures Performing the audit – Planning Performing the audit – Fieldwork Communicating audit results Performing the audit: Data analysis Quality Management reviews Advisory Services
Performance Management and Accountability	Internal Audit Business Plan	Scope Resourcing Budget Approval
	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) Recruitment
Organizational Relationships and Culture	Organizational Relationships and Culture	Communication on IAF's activities IAF's collaborations
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

3. The IA AM questionnaire

The IA AM questionnaire developed by the taskforce consists of a dashboard and six separate questionnaires for each of the six themes.

3.1 Dashboard
The dashboard 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. When the IAF functions at ambition level 3, the IPPF standards should be generally complied with and external auditors should be able to rely on its work (as defined in NV COS 610). Of course, final assessment if an IAF complies with the IPPF or with NV COS 610 is the CQA or external auditor's responsibility.
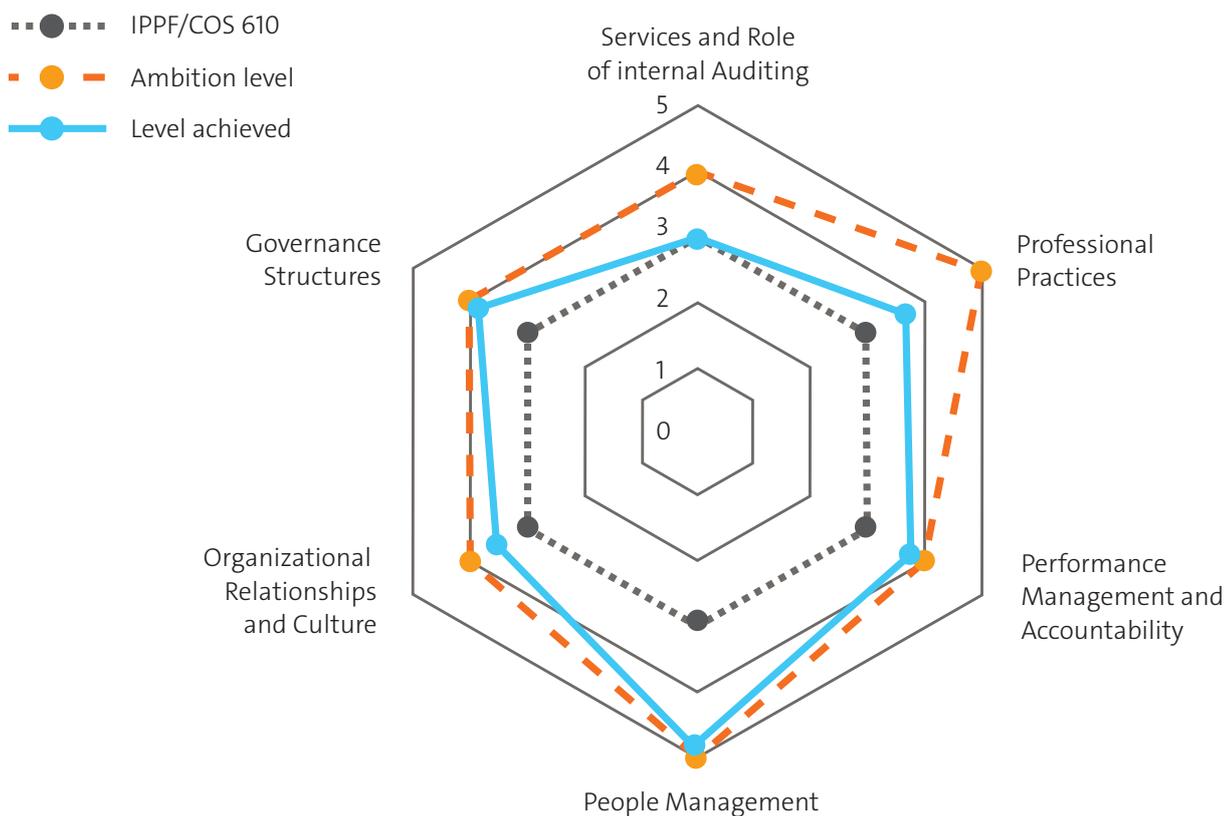
3.2 Questionnaire
For each of the six themes, 'essential activities' per level have been defined. For each of the 'essential activities', the CAE is requested to rate to what extent the IAF performs these activities. Based on the individual scores, the IA AM determines the ambition level achieved by the IAF. The output of the model is an equally weighted average of the scores and ambition levels given

3.2.1 Showstoppers
As a starting point all topics have an equal weight. However, based on input from both the pilot group and the CQA, showstoppers 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.

The showstoppers identified in the model 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 revise 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.

3.2.2 Advisory services

According to the definition of internal auditing, it is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. 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 it operates. And in the Dutch context, most IAFs are assigned to perform assurances services, for example because the advisory services are performed elsewhere in the organization. Therefore, it is possible in the IA AM that the section specifically related to Advisory Services is set at not applicable (n/a). If the CAE chooses to do so, the score of Advisory Services is not included in the score and ambition level.

3.3. Applying and interpreting the IA AM

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

3.3.1 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 continuous improvement.

3.3.2 Environmental 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 implement a particular theme without the bureaucratic infrastructure of larger organizations.

3.3.3 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 the 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.

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 NV COS 610. However, it does not specifically evaluate conformance therewith, but rather whether key processes are repeatable, sustainable, and institutionalized into the IA activity.

As part of the pilots performed for the IA AM in 2015, several of the IAFs had recently undergone an external quality assessment. The methodology and results of the assessments were compared to those of the IA AM validation sessions to determine similarities. In all cases, the overall results from both exercises appeared to be in line with each other, where the IA AM complemented the external quality assessment by having a broader scope. Therefore, it is possible to use the IA AM as a self-assessment tool as envisaged by Standard 1311: Internal Assessments.

Nevertheless, although a clear mapping has been made to each of the IPPF standards and relevant NBA standards, no premature conclusions should be drawn from the scores from the model. An average score of 2.9 does not mean that the IAF does not generally comply 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 NBA NVCOS standards are necessary to evaluate the results in this context.

Abbreviations

CAE: Chief Audit Executives
CEO: Chief Executive Officer
CMMI: Capability Maturity Model Integration
CPP: Commission Professional Practices
CQA: Committee of Quality Assessors
IA AM: Internal Audit Ambition Model
IA: Internal Audit
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: Members Group of Internal and Government Auditors
NBA: The Royal Netherlands Institute of Chartered Accountants
NV COS: Nadere voorschriften controle- en overige standaarden

Acknowledgments

IIA

The Netherlands

Burgemeester Stramanweg 102A
1101 AA Amsterdam
Postbus 22657
1100 DD Amsterdam

T   088 003 71 00
E   iia@iia.nl
I   www.iia.nl

Koninklijke Nederlandse
Beroepsorganisatie
van Accountants

NBA

Antonio Vivaldistraat 2-8
1083 HP Amsterdam
Postbus 7984
1008 AD Amsterdam

T   020 301 03 01
E   nba@nba.nl
I   www.nba.nl