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Annual internal audit coverage plans

Chartered Institute of Internal Auditors

Preparing an annual programme of work, often described as the internal audit plan, has always been a challenge. Demand for assurance and consulting services usually exceeds available budgets or resources. This means choices have to be made that will determine the impact internal audit has upon the organisation and the way stakeholders perceive the value of internal audit.

The list of audit engagements that make up the annual internal audit plan also needs to be consistent with and help to deliver the aims and objectives set out within internal audit's longer-term strategy.

Annual planning would be easier if the scope of internal audit had identifiable and definitive boundaries but that is rarely the case. The definition of internal auditing gives us an open ended and broad remit 'designed to add value and improve an organisation's operations'.

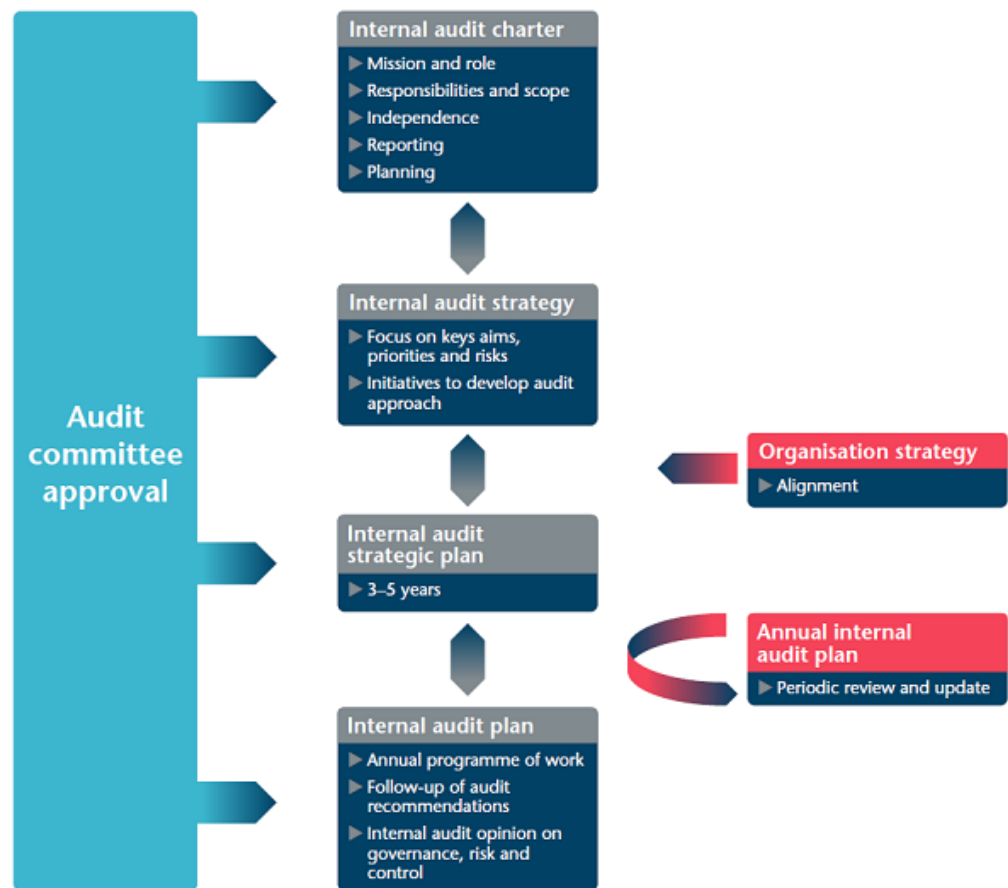
Furthermore, for those internal audit activities that are required to provide an annual opinion upon the state of governance, risk management and control, the question arises - what is sufficient annual coverage to enable internal audit to give such an overall annual opinion?

Internal audit planning framework
Internal audit plan considerations
Review the things that matter - high priority objectives and risks
Coordination and reliance
Resource and competencies
Draft internal audit plan
Challenge and review
Communication
Delivery
Performance
Conclusion

Internal audit planning framework

Internal audit planning is not an isolated or standalone activity. There is a necessary link or flow from the internal audit charter, to the internal audit strategy and then the internal audit strategic plan and finally the annual internal audit plan. A top-down relationship between the remit of internal audit, its key priorities and plans is therefore an important route to the end product of an overall annual opinion.

The diagram below illustrates the relationships between the components. It also means all four of these components should be reviewed regularly, updated if necessary and then approved by the audit committee to specifically retain alignment and value.



Operational units, departments and subsidiaries within organisations often prepare a business plan or strategic plan to set out how they will contribute to the achievement of the organisation's key aims and objectives. Internal audit should do the same thing by setting out a forward-looking strategic plan that highlights key priorities, initiatives and risks over a period somewhere between three to five years aligned to the organisational strategy. IA Global has produced a practice guide with examples entitled '[Developing the Internal Audit Strategic Plan](#)' explaining how to prepare an internal audit strategic plan. In addition [Preparing an internal audit strategy: Top tips](#) is also available on the CIIA website.

Whilst an annual opinion may be required, the plan does not necessarily have to be annual. This depends on the maturity and growth of the organisation and monthly or even quarterly internal audit plans may be more suitable. Regardless of the frequency of the internal audit plan, the steps are similar.

Internal audit plan considerations

Each organisation should agree an annual internal audit plan that suits its specific and unique requirements.

No formula exists that can be applied to determine the minimum level of coverage. Individual factors within each organisation will determine priorities including:

- the risk profile and risk appetite;
- the structure and geographical spread of the organisation;
- the internal auditor's experience of the organisation and the sector more generally to identify other areas of risk which may warrant attention;
- the prevailing legal and regulatory regime, for example, in some sectors such as financial services a number of audits might be scheduled specifically to address legal or regulatory requirements some of which may have been requested by the regulator;
- stakeholder requirements;
- ad hoc areas that do not feature as a high or medium risk but where the organisation would benefit from an internal audit review;
- to provide assurance to the audit committee and external auditors regarding operation of the key financial and management information systems; and
- the work of other assurance activities eg 1st and 2nd lines of defence.

It may also be beneficial for the organisation to consider establishing an **audit universe** which could inform the audit plan.

Review the things that matter - high priority objectives and risks

Most internal auditors are under pressure to provide more value to the organisation with the same or less resources. To make an impact the internal audit plan needs to focus upon the most important objectives, which invariably means the most significant or highest priority risks.

During the planning process look at the severity of the risks. The challenge is that management may be most interested in the 'risks that keep you awake at night' but the problem could equally be that there are high impact, high likelihood risks that management have assumed are being mitigated but are becoming complacent about.

Where the organisation does not have a risk management processes internal auditors are advised to develop their own to determine priorities, but either way discussions with audit committee members and senior executives will help to confirm choices and determine specific needs.

There is no set way of presenting the internal audit plan, but it makes sense to explicitly link the high impact risks to the audit engagements and to explain why the subject areas have been chosen and the focus that will be applied. (An example of a possible approach is provided here). There is also merit in providing an explanation for areas not included in the plan that perhaps the audit committee might have expected to see present.

It is also worth considering placing the list of potential audit engagements in order of importance and aligned to the key risks and available resources, so that audit committee members and senior executives can see those risks where due to limited resource no assurance can be provided. This may allow a discussion about resource levels.

In addition, good practice typically involves scheduling a quarterly or six-monthly review of the internal audit plan with the audit committee to enable discussions of emerging or changing risks making adjustments to ensure the plan remains relevant. However, to make this work effectively and establish some safeguards there is a need to define in advance and make explicit the criteria that will justify a change to the plan and explain what will happen to cancelled or deferred assignments in subsequent internal audit plans based upon the materiality and/or changing nature of the risk.

The audit planning process should reflect upon the extent to which risks to the achievement of key objectives and major changes and emerging risks are reflected in the overall risk assessment of the organisation and - linked to this - the extent to which internal audit is involved in the major changes and developments taking place across the organisation.

The full extent of internal audit's involvement in **project management reviews** and the delivery of key business objectives will depend upon the number and relative importance of projects to the organisation and how they fit into the overall landscape of risk. Major initiatives may be something of a rarity, whilst other organisations may be entirely project based and have multiple projects running simultaneously.

Coordination and reliance

It is not always necessary for internal audit to directly audit processes and activities to gain assurance about them. There may be other services or departments in the organisation who perform an assurance role, quite often referred to as the 2nd line of defence in the **three lines of defence model**. By working together and being able to rely upon this assurance internal audit can cover more ground in the annual internal audit plan. However, there are some pre-requisites to making this work, which we have set out in previous guidance entitled **Coordination of assurance services**.

Resources and competencies

The Standards (**1210**) clearly specify that in providing internal audit services, 'Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities'. It goes on to say that the internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

Perhaps with the exception of larger functions, it is unlikely that most internal audit activities will have sufficient resources with the necessary **competencies** to cover an expanding range of subject areas. However, it is very important that this does not result in blind spots in the audit plan or the risk of providing a false assurance due to the lack of skills and experience in an area. As a result, it is increasingly common to see parts of the internal audit plan delivered through the use of external partners using a co-sourcing arrangement or through consultants who have specific expertise in a subject area.

A further option is to use internal expertise to support an audit engagement, sometimes referred to as a guest auditor arrangement. This could include but is not exclusive to IT, treasury, project assurance and legal/regulatory compliance.

Draft internal audit plan

Taking into consideration the above elements, the key step forward is to draft the plan itself.

Several areas worth further attention include:

- Name of the audit – is it concise? At the same time is it clear what the audit will cover and the objective(s)? Has it been discussed with the organisation's management to ensure all risks and other relevant issues have been identified?
- Resource for the audit – does the internal resource have the necessary skills to undertake the work, is there an element of training, if so will this require additional supervision? Alternatively, will the work be undertaken by external provision and availability of this resource? How many audit days have been allocated to each area?
- Timing of the audit – is the audit planned to avoid the peak cycle of the area being audited? Are holiday arrangements considered, not only internal but also stakeholder and business contacts' annual leave?
- Value-add of the audit – will the audit provide insight, potential efficiencies as well as assurance?
- Contingency – is there some flexibility in the plan in order to accommodate any unforeseen audit needs eg consultancy audits, investigations etc.? How many 'man days' have been allowed for contingencies?
- Follow-up – have specific resources been included within the plan to provide assurance to the organisation and the audit committee that agreed audit recommendations have been actioned effectively and on a timely basis?
- Holidays, training and sickness – has the allocation of audit days available for undertaking audits been reduced to take account annual holiday entitlement and bank holidays, training courses and sickness leave?
- Planning, reporting and liaison – have audit days been included for attendance at audit committee meetings, regular contact with the organisation's management, liaison with external audit, quality control, internal and external quality assurance reviews?

Challenge and review

It is crucial that the audit plan should be challenged and reviewed before it is finalised. A scope change or cancellation of an audit at a later stage could cause unnecessary delay and impact on the internal audit activity's reputation. The items under challenge and review should include but not limited to, area of the audit, scope of the audit, timeline and logistic of the audit. Understanding of the business areas including its strategy and objectives and key stakeholders as well as their business cycle should help to determine the content of the audit plan. Involvement in the challenge and review should be sought from the following audience, thereby adding further value:

- Internally within the internal audit activity – any initial challenges around coverage, resourcing or even errors contained within the plan.
- Business stakeholders – to identify any further risks/areas of concern, the timing of the audit to reduce the likelihood of delays and avoid any peak times to minimise the impact to the business unit.
- Senior executives and audit committee members – to ensure that key current and emerging risks have been identified.

Further, [Standard 2020](#) Communication and Approval states:

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

Communication

When a draft audit plan is challenged, reviewed and finally signed off by the audit committee (in most organisations), it is often neglected until the commencement of specific audits. However, it should emphasise the importance of communication. No news is good news may not be suitable in this case as advance communication could enable all stakeholders – internal and external – to be well informed and offer the opportunities to highlight any changes should it happened after the lockdown of the audit plan. The approved audit plan should be communicated promptly to:

1. Senior management
2. Business areas
3. Stakeholders
4. Internal audit staff and managers

Key contacts within the internal audit activity should also be provided should any changes foreseen by the stakeholders need to be communicated.

Delivery

Dependent on the size of the activity the annual plan may be reduced to a shorter-term plan (1-3 months) comprising of a schedule of assignments to be completed, (including staffing, allocation of days, with planned start and finish dates); the responsibility for these may be delegated by the head of internal audit to senior staff, who will:

- Liaise with operational units/departments on forthcoming audits
- Allocate the work to staff
- Supervise the work, including quality assurance

A communication plan ([Performance Standard 2400 Communication Results](#)) for disseminating results at the draft and final reporting stages should be in place with the final report or a summary being provided to members of the audit committee.

Performance monitoring

To ensure that the internal audit annual plan produces the desired results, it is important to put in place a series of performance goals. These should be both qualitative and quantitative to enable management and the audit committee to monitor the function's performance. IIA Global has produced a practice guide with examples entitled '[Measuring Internal Audit Effectiveness and Efficiency](#)' and CIIA guidance, '[Internal audit performance measurement](#)' is also available.

Conclusion

Internal audit planning is as much an art as it is a science. Every organisation is different so there is no single approach, style of presentation or resource model that can be taken off the shelf and applied. However, some common ground exists that will help to provide a programme of work that is valuable to the organisation and will form the basis of an annual opinion:

- Focus attention upon the risk management process; its design, application and reporting mechanisms - review and report upon the organisation risk maturity level.
- Build the audit plan around high priority risks, key areas of change and the assurance needs of stakeholders.
- Where possible work with and rely upon other assurance providers.
- Work with external providers of assurance in a co-sourced arrangement to fill skills and knowledge gaps.
- Consider the importance of routine processes and activities (audit universe) but keep this in tune with key business risks and developments.
- Make key choices, including what is not being done, transparent to key stakeholders to engage stakeholders in questions of risk appetite and the need for assurance.
- Maintain prompt communication with all stakeholders, internally and externally.

Using these principles will ensure conformance to the Standards and provide the basis of an internal audit service that has impact and therefore value to the organisation.

Further reading

International Standards

1110.A1 Organisational independence
1210 Proficiency
2010 Planning
2020 Communication and approval
2050 Coordination and reliance
2120 Risk management
2400 Communicating results
2450 Overall opinions

Supplemental guidance

Developing the internal audit strategic plan
Measuring internal audit effectiveness and efficiency

Guidance

Audit universe
Preparing an internal audit strategy: Top tips
Risk based internal auditing
Projects
Governance of risk: Three lines of defence
Developing audit competencies
Internal audit performance measurement

Additional reading

Effective Internal Audit in the Financial Services Sector (FS Code)
UK Public Sector Internal Audit Standards

