



What value performance measures?

One of the most frequently asked questions among internal auditors is that of how they measure performance. There seems to be this desperate need to demonstrate to themselves and the outside world that they truly add value. However, I believe that there is a huge confusion in internal audit minds between adding value and being able to demonstrate acceptable or strong performance.

To my mind, value added is something that must be determined by, or at the very least in conjunction with, the customer. However the way that this is measured by many internal auditors is through customer satisfaction surveys. These do not work in terms of allowing measurement of value unless some key value criteria have been set up in the first place. It's all about expectations and managing these; but to be able to do this you need to understand what the customer expects and needs in the first place.

One of the best internal audit functions I know actually sits down with their customer 'up front' and develops some form of 'value scorecard'. This scorecard clearly sets out what the customer expects internal audit to do for them, from the basic level of a standard audit through to areas such as process improvement etc, and sets criteria for how this might be measured. At the end of each audit, the team sit down with the customer and determines how well they have achieved the delivery of this value.

Although this may not be quantifiable, in my view it gives a better measure of adding value than many other attempted approaches.

Measuring performance is really something that is, and should be, internal to the internal audit department but may well be shared with others. For example, most functions will have key performance indicators and there is no reason why internal audit should be any different. Some typical examples of these indicators may be things such as percentage achievement of plan and report turnaround time. However, for these to be in any way effective, internal audit need to have set targets and to have some real control over the outcomes. Therefore, I would suggest that a commonly used method such as percentage of recommendations implemented is not one that internal audit can directly control, although they should be able to strongly influence.

In summary then, I believe there is a key distinction between measuring the value that is added to the organisation by internal audit and measuring the operational performance of the internal audit team. They are both important but, I believe, very different.

As a final point, I think the time has come to develop some meaningful measures for adding value and measuring performance. If you have any thoughts on this please email them to: technical@iia.org.uk.