

STRATEGIC MANAGEMENT OF ORGANIZATIONS IN THE FOCUS OF INTERNAL AUDIT

Strategic management has a key role in the sustainable development of organisations. Internal audit, in its capacity of an evaluation activity designed to benefit the organization, is a valuable source of information regarding management performance, degree of strategic objectives achievement, threats to their achievement, risks involved, role of the control environment as well as appropriate control activities required for a successful strategy. Moreover, apart from assessing them with the aim to add value, internal audit provides recommendations, consultations and shares good practices on improving the possibilities for achieving organizational strategic objectives. It is therefore important the objectives of the internal audit to be synchronized with the goals of the organization.

For this purpose internal audit should elaborate an appropriate methodology – strategic and annual planning; planning and development of procedures for executing the various audit engagements.

The strategic priorities of the internal audit should be aligned with the priorities of the organization. In order internal audit to be useful and topical it is necessary the strategic plan of the internal audit activity to reflect this synergy between management and audit. An increasing number of internal audit units in Bulgaria, especially in the public sector, use risk-based approach in developing strategic plans.

The Strategic Plan covers a three-year period. Typical for the risk-based strategic plan, in the public sector organizations, is the identification of risk factors through an index for assessment and the determination of an evaluation scale. Thus, individual units are assessed and then classified into three groups – high-, medium- and low-risk. High-risk units are subject to audit every year, while medium and low-risk units will be audited once during the three-year period.

The strategic plan sets out the need from audit staff and effective work time fund for each auditor in the Internal Audit Unit.

The strategic plan is reviewed and updated annually subject to changes in the objectives, priorities and activities of the organization and based on risk assessment. An annual plan that identifies all audit engagements for the respective year is elaborated based on the strategic one. Each audit engagement is planned with risk assessment being used again as a starting point.

Unlike the annual risk assessment which determines risks that may affect the achievement of organization's objectives, the risk assessment of a specific audit engagement is directed towards risks that may affect the achievement of a particular process / activity.

In order to fulfill successfully its mission of supporting the achievement of organizational objectives by evaluating the processes of goal setting, risk management and control, internal audit must recognize and understand very well the activity which it assesses. Furthermore, it is very important to select and apply audit approaches, audit procedures and techniques which to assist optimally the attainment of reliable and useful information for forming a comprehensive assessment and for submitting appropriate recommendations. The ultimate goal is to use the results from the internal audit in managerial decision-making and better overall organizational management.

A useful approach for strategic management is the so-called strategic audit which is especially suitable for business management. The process of conducting a strategic audit can be summarised into the following stages: Resource Audit; Value Chain Analysis including analyses of Primary and Support Activities; Core Competence Analysis; Performance Analysis; Portfolio Analysis; and SWOT Analysis. The strategic audit can be performed as a consulting engagement or as an assurance engagement.

The consulting engagement is appropriate in the preparation and strategy formation phase, while the assurance engagement is suitable for evaluating the strategy implementation and its overall results. The strategic audit requires great competence of internal auditors. Carrying out a strategic audit requires knowledge in the field of management, marketing, finance and the respective business. Very often, this requires the use of interdisciplinary teams with diverse professionals. The usefulness of the strategic audit for the strategic management of the company is unquestionable.

The decision for its application is in any case made by considering the principle inherent for each control activity and audit, namely that expenses related to it should not exceed the benefits stemming out of it.

1. International Professional Practices Framework (IPPF) 2011; The Institute of Internal Auditors
2. Standards for internal audit in the public sector, approved by the Minister of Finance
3. <http://www.unwe.acad.bg/research/br5/t.trifonov.pdf>
4. <http://tutor2u.net>