THE IIA'S GLOBAL INTERNAL AUDIT SURVEY

Imperatives for Change:

The IIA's Global Internal
Audit Survey in Action

IIA The Institute of Internal Auditors
Research Foundation

Imperatives for Change:
The IIA's Global Internal Audit Survey in Action

Report V

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Disclosure

Dedication

William G. Bishop III, CIA, served as president of The Institute of Internal Auditors from September 1992 until his untimely death in March 2004. With a motto of "I'm proud to be an internal auditor," he strived to make internal auditing a truly global profession. Bill Bishop advocated quality research for the enhancement of the stature and practice of internal auditing. To help enhance the future of this profession, it is vital for the profession to document the evolution of the profession worldwide.

Table of Contents

Acknowledgments

The 21st century presents unprecedented growth opportunities for the internal audit profession. Advances in technology, the confluence of the Information and the Internet Age, and the sheer speed and expansion of communications capabilities have significantly accelerated the pace of globalization. Governance, risk, controls, and compliance processes within organizations have undergone significant change to manage the increasing complexity and sophistication of global business operations. All of these developments offer a huge opportunity for internal audit functions, whether in-sourced, co-sourced, or outsourced, including the potential to add even greater value to their respective organizations.

To ensure that a body of knowledge is systematically built up, developments in practice in a dynamically changing environment must be carefully monitored and continually analyzed to reveal critically important insights. Key lessons learned from the experience of the profession must constitute part of the historical record and be transmitted to current and future generations of internal audit professionals for optimal outcomes. Not only must we strive to secure a robust portrayal of the current state of the profession, but encourage practice-relevant research to inform and push the boundaries of practice.

We are fortunate that under the auspices of the William G. Bishop III, CIA, Memorial Fund, administered by The IIA Research Foundation, it is possible to undertake large-scale studies of the global internal audit profession. We sincerely appreciate Mary Bishop's passion and commitment to further the internal audit profession while honoring Bill Bishop's legacy. The inaugural Common Body of Knowledge (CBOK) survey under William Taylor's leadership occurred in 2006; this is the second iteration. Based on the responses from The IIA's Global Internal Audit Survey from 2006 and now in 2010, it is possible to compare results and perform high-level trending.

Five reports cover the full spectrum of a wide range of the survey questions (carefully designed to allow for comparison between the 2006 and 2010 survey data). These reports cover topical content from characteristics of an internal audit activity to implications for charting the future trajectory of the profession. The cooperation and sharing among the five report-writing teams representing the Americas, Asia, Europe, and the Middle East have made this project a truly global and collaborative effort.

We hope that this collection of reports describing the expected influence of major themes about, and developments in, the profession as extracted from the survey will provide a comprehensive snapshot of the profession globally, offer helpful insights and actionable intelligence, and point the way forward to maintaining the profession's continued relevance and value-added contributions.

For a large global project such as The IIA's Global Internal Audit Survey, the list of individuals to thank is quite extensive. First of all, our special thanks go to IIA Research Foundation Trustee Marjorie Maguire-Krupp who was involved at the inception of the CBOK study in the fall of 2008, and soon thereafter, retired former IIA President David Richards who, along with Michelle Scott, provided the initial leadership to this significant project.

About the Authors

Richard J. Anderson, **CPA, CFSA**, has a diverse background in the financial and professional services industries. He is a retired PricewaterhouseCoopers LLP partner, where he served as a managing partner in the Internal Audit Services practice. Before joining PricewaterhouseCoopers, Anderson headed two internal audit functions, including serving as global head of internal audit and credit review for a major U.S. bank. He writes and lectures on risk management and internal audit topics at DePaul University in Chicago, Illinois (United States). His articles have appeared in numerous publications, including *Internal Auditor, Financial Executive, Journal of Business Strategy, Internal Auditing, Director's Monthly,* and the *Journal of Accountancy*. He is also a member of The IIA Research Foundation's Board of Trustees.

J. Christopher Svare specializes in the development of clear, concise communications intended to inform and persuade key stakeholders and target publics. Since launching Partners in Communication in 1992, Svare has worked with more than 100 organizations, including a broad scope of industry leaders in professional services and consulting. From 2000 to 2008, he partnered with Richard J. Anderson, Richard F. Chambers, and other subject-matter experts from PricewaterhouseCoopers LLP on a wide range of thought leadership that included Internal Audit 2012, a major study examining the future of internal auditing, as well as an annual series of State of the Internal Audit Profession reports. He and Anderson also developed "10 Risk Management Imperatives for Internal Auditing" and "Navigating Competing Internal Audit Priorities" for The IIA's Audit Executive Center.

Foreword

The IIA's Global Internal Audit Survey: A Component of the CBOK Study

The 2010 IIA Global Internal Audit Survey is the most comprehensive study ever to capture the current perspectives and opinions from a large cross-section of practicing internal auditors, internal audit service providers, and academics about the nature and scope of assurance and consulting activities on the profession's status worldwide. This initiative is part of an ongoing global research program funded by The Institute of Internal Auditors Research Foundation (IIARF) through the William G. Bishop III, CIA, Memorial Fund to broaden the understanding of how internal auditing is practiced throughout the world.

A comprehensive database was developed, including more than 13,500 useable responses from respondents in more than 107 countries. The five reports derived from analysis of the survey responses provide useful information to internal audit practitioners, chief audit executives (CAEs), academics, and others to enhance the decision-making process involving staffing, training, career development, compliance with The IIA's *International Standards for the Professional Practice of Internal Auditing* (*Standards*), competencies, and the emerging roles of the internal audit activity.

☐ ***Characteristics of an Internal Audit Activity (Report I)*** examines the characteristics of the internal audit activity, including demographics, staffing levels, and reporting relationships.

☐ ***Core Competencies for Today's Internal Auditor (Report II)*** identifies and discusses the most important competencies for internal auditors. It also addresses the adequacy, use, and compliance with The IIA's *Standards*.

☐ ***Measuring Internal Auditing's Value (Report III)*** focuses on measuring the value of internal auditing to the organization.

☐ ***What's Next for Internal Auditing? (Report IV)*** provides forward-looking insight identifying perceived changes in the roles of the internal audit activity over the next five years.

☐ ***Imperatives for Change: The IIA's Global Internal Audit Survey in Action (Report V)*** contains conclusions, observations, and recommendations for the internal audit activity to anticipate and match organizations' fast-changing needs to strategically position the profession for the long term.

The 2010 survey builds upon the baseline established in prior Common Body of Knowledge (CBOK) studies (i.e., 2006), allowing for comparison, analysis, and trends as well as a baseline for comparison when The IIA's Global Internal Audit Survey is repeated in the future.

PRIOR IIA CBOK Studies

The IIA has sponsored five prior CBOK studies. The table on the following page compares the number of participating countries and usable questionnaire responses used in each CBOK study. While CBOK studies I through IV were offered only in English, the 2006 and 2010 surveys were available in 17 and 22 languages, respectively.

CBOK's Number of Respondents and Countries Over the Years

CBOK Number	Year	Number of Countries	Number of Usable Responses
I	1972	1	75
II	1985	2	340
III	1991	2	1,163
IV	1999	21	136
V	2006	91	9,366
VI	2010	107	13,582

The 2010 IIA Global Internal Audit Survey — Benefits to the Profession

Maximizing the internal audit function is imperative to meet the challenges of today's business environment. Globalization and the rapid pace of change have in many ways altered the critical skill framework necessary for success at various levels of the internal audit function. Internal auditing's value will be measured by its ability to drive positive change and improvement. It is imperative for internal auditing to examine current trends within the profession and thus be able to make recommendations for changes within the internal audit activity. This should help internal auditing to:

- ☐ Deliver the greatest value to its organization.
- ☐ Anticipate and meet organizations' needs.
- ☐ Strategically position the profession for the long term.

Research Teams

The following researchers, selected from the responses to the Request for Proposal, were involved in writing the reports and worked closely with Mohammad J. Abdolmohammadi (Bentley University, United States) who provided general data analysis from the 2006 and 2010 survey databases as well as additional analysis based on researchers' request.

Report I

Yass Alkafaji, Munir A. Majdalawieh, Ashraf Khallaf (American University of Sharjah, United Arab Emirates) and Shakir Hussain (University of Birmingham, United Kingdom).

Report II

James A. Bailey (Utah Valley University, United States).

Report III

Jiin-Feng Chen and Wan-Ying Lin (National Chengchi University, Taiwan, Republic of China).

Report IV

Georges M. Selim and Robert Melville (Cass Business School, United Kingdom), Gerrit Sarens (Université Catholique de Louvain, Belgium), and Marco Allegrini and Giuseppe D'Onza (University of Pisa, Italy).

Report V

Richard J. Anderson (De Paul University, United States) and J. Christopher Svare (Partners in Communication, United States).

Introduction

The 10 Imperatives for Change, written primarily for chief audit executives (CAEs), represent the fifth in a series of five reports being published by The Institute of Internal Auditors Research Foundation (IIARF) to highlight the findings of The IIA's 2010 Global Internal Audit Survey. This report, which builds off of the detailed findings found in the first four reports, presents a series of overarching topics under the heading "Imperatives" for the internal audit profession. Each imperative is accompanied by recommended action steps for CAE consideration. CAEs are encouraged to think about how these 10 imperatives and recommended action steps apply to their particular activities, recognizing that levels of maturity and sophistication vary significantly among internal audit activities around the world depending on size, location, culture, and other key factors.

Emphasize Risk Management and Governance

At a time when risk management is viewed as a top concern by directors, senior management, and regulators alike, internal auditors need to move beyond their traditional focus on internal controls and assurance and show they can adapt more readily to a fast-changing economic environment. As the 10 imperatives collectively suggest, internal auditors need to sharpen their focus on risk management and governance processes, which are projected to become the cornerstones of the internal audit profession, and conduct a more responsive and flexible risk-based audit plan.

Address Key Stakeholder Priorities

CAEs also need to focus on a host of top stakeholder priorities — from developing a strategic vision for internal auditing to focusing on how internal auditing is creating value. They need to do all they can to strengthen audit committee communications and relationships. And they need to view compliance with The IIA's *International Standards for the Professional Practice of Internal Auditing* (*Standards*) as mandatory, not optional.

Optimize Internal Audit Resources

Although accounting and auditing will continue to remain core skills within the profession, internal auditors will need to find broader skills and competencies, both internally and externally, to address emerging issues and changing stakeholder expectations more effectively. To achieve high degrees of success, CAEs will need to acquire and develop top talent, enhance training for members of their internal audit activities, and take advantage of the expanding ranks of service providers, who now comprise a quarter of the respondents to The IIA's 2010 Global Internal Audit Survey.

Leverage Technology Effectively

To operate in today's increasingly complex world of technology and to audit more efficiently and effectively, internal audit activities will need to enhance their use of automated technology and tools. To do so, internal auditors will need to step up their use of audit technology and automated tools, acquire or develop new skills and expertise, and revamp traditional testing and documentation processes.

These new technologies also offer benefits in related processes such as risk assessment and continuous monitoring.

The 10 Imperatives for Change

Group I: Emphasize Risk Management and Governance

1. Sharpen Your Focus on Risk Management and Governance

2. Conduct a More Responsive and Flexible Risk-based Audit Plan

Group II: Address Key Stakeholder Priorities

3. Develop a Strategic Vision for Internal Auditing

4. Focus, Monitor, and Report on Internal Auditing's Value

5. Strengthen Audit Committee Communications and Relationships

6. View Compliance with The IIA's *International Standards for the Professional Practice of Internal Auditing* as Mandatory, Not Optional

Group III: Optimize Internal Audit Resources

7. Acquire and Develop Top Talent

8. Enhance Training for Internal Audit Activities

9. Take Advantage of Expanding Service Provider Membership

Group IV: Leverage Technology Effectively

10. Step up Your Use of Audit Technology and Tools

Appendix

Template for Audit Committee Discussions

Imperative 1
Sharpen Your Focus on Risk Management and Governance

Over the next five years, internal audit activities will need to broaden the scope of their internal audit coverage and resourcing beyond control processes (their traditional area of focus and expertise) to include risk management and governance processes. In doing so, they will need to develop and expand their coverage of corporate governance and enterprise risk management (ERM) as well as risks and processes related to corporate strategy and performance, ethics, and social and sustainability audit issues.

A number of converging factors are driving the heightened focus on risk management and governance:

☐ **The scope, frequency, and complexity of major risk events are increasing**, often creating the need for individual organizations to respond accordingly (see sidebar: Risk Connections Raise Global Concerns on page 5). A recent joint survey by the American Institute of Certified Public Accountants (AICPA) and the UK-based Chartered Institute of Management Accountants noted that respondents overwhelmingly perceive the volume and complexity of risks to be notably greater than five years ago.

☐ **Internal audit activities have stepped up their coverage of credit, market, and liquidity risks** as well as their investigations of fraud and other financial irregularities in response to serious control breakdowns in the financial services sector that contributed to the global economic recession.

☐ **Audit committees and boards of directors are rethinking risk oversight**, recognizing the potential threat of strategic risks and governance concerns to organizational viability. They are also increasingly requesting assistance from internal auditing in these areas.

☐ The IIA's *International Standards for the Professional Practice of Internal Auditing* (*Standards*) now requires internal auditors to evaluate governance and risk management capabilities in addition to control functions.

Survey Results Support New Focus

Given the collective impact of such factors, it is no wonder that key internal audit stakeholders believe their internal audit activities should increase their focus on risk management and governance. To this point, 94.1 percent of the respondents to The IIA's recently completed stakeholder expectations survey,[1]

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[1] The Stakeholders' Expectations and Perceptions Survey, which focuses on the value of internal auditing from the perspective of key internal audit stakeholders, was undertaken as a component of the 2010 CBOK survey. A pilot effort limited to the United States, this project represents the first time that The IIA has gathered data directly from the key stakeholders of internal auditing. A report on the study, which includes a survey as well as personal interviews, will be released in the first quarter of 2011 as well. The survey portion of the study, although limited in scope, does provide a number of findings relevant to topics covered in The IIA's Global Internal Audit Survey.

conducted in late 2010, either "agree" or "strongly agree" that it is important for internal audit activities to focus on ERM. Moreover, 89.2 percent of respondents favor a similar focus on corporate governance.

This change in focus is also clearly reflected by the results of The IIA's 2010 Global Internal Audit Survey. For starters, nearly 80 percent of survey respondents foresee an increase in their risk management activities. In addition, when asked to predict several areas where internal auditors would be spending more of their professional time over the next five years, 23 percent of respondents projected corporate governance reviews, 20.4 percent selected audits of ERM processes, 19.9 percent chose reviews addressing the linkage between strategy and company performance, 19.3 percent projected ethics audits, 18.8 percent selected migration to International Financial Reporting Standards (IFRS), and 18.6 percent chose social and sustainability audits.

Projections of Internal Audit Focus over the Next Five Years
(respondents could select multiple answers)

Internal Audit Activity	Percentage	Rank
Corporate governance reviews	23.0%	1
Audits of ERM processes	20.4%	2
Reviews addressing linkage of strategy and company performance (e.g., balanced scorecard)	19.9%	3
Ethics audits	19.3%	4
Migration to IFRS	18.8%	5
Social and sustainability audits	18.6%	6

It is also clear that 2010 Global Internal Audit Survey respondents believe that they must first create awareness of the importance of risk management and governance through training and education to get organizational support for their enhanced risk management and governance initiatives. In time, practitioners expect that activities focused on risk management and governance processes will become the most important cornerstones of their profession, if they have not already done so.

Consider the Impact of Changing Focus on Staff Size, Mix, and Structure

The shifting emphasis and potential expansion of audit coverage will require new skills and expertise for internal audit activities as well as potentially larger staff sizes to facilitate the desired shift in focus. (See Imperative 7 below for further discussions on acquiring talent and skills.) Survey results demonstrate a strong correlation between plans to increase staff size and to make risk management and governance a higher priority. Respondents who expect the size of their internal audit activities to increase over the next five years also expect to see a corresponding increase in their risk management and governance activities.

A more intense focus on risk management and governance will also affect the types of capabilities needed within the internal audit activity and a rebalancing of staff time devoted to other internal audit priorities. Ideally, CAEs will achieve strong synergies between their governance and internal control activities and minimize the potential downsides associated with reduced efforts in some traditional areas due to the increased focus on corporate governance reviews and audits of ERM processes. In addition, internal auditing's projected increase in the use of technology and tools (as described later in Imperative 10) also can enhance the efficiency and effectiveness of more traditional areas of audit testing.

Survey results also suggest the need for CAEs to educate their staffs on the importance of an expanded focus on risk management and governance. A significantly higher percentage of CAEs projected an increase in their risk management activities than did other staff members; the same was true for governance. The key message for CAEs: If the day-to-day focus of your staff has been on financial processes, regulatory compliance, and operational auditing, members of your staff may not appreciate the need for internal auditing to place a higher priority on risk management and governance. In such cases, take steps to raise staff awareness of this need. Finally, keep in mind the fact that internal audit groups in Western Europe, North America, and Australia will — because of the relative maturity of their internal audit activities — likely lead the shift from a controls focus to one placing greater priority on risk management and governance issues.

Risk Connections Raise Global Concerns

According to *Global Risks 2010*, a World Economic Forum report, the increasing levels of interconnection among risks point to the need for a more integrated and systemic approach to risk management by public and private sectors alike. The biggest risks facing the world today may be from what the report characterizes as *creeping risks* such as global population growth and aging that have broad implications in terms of resource consumption, health care, and fiscal policy, and whose impact can be significantly underestimated because they occur over an extended period of time.

Other risks listed on the Forum's 2010 Global Risks Landscape include fiscal crisis and the social and political implications of high unemployment, underinvestment in infrastructure, chronic diseases, transnational crime and corruption, biodiversity loss, cyber-vulnerability, and geopolitical risks. The Global Risks Landscape, which plots major risks on a grid in terms of their likelihood and severity, provides a framework for decision makers to look at risks in an integrated manner and the impetus to manage systemic risks more effectively.

Imperative 1 — Key Action Steps for CAEs

☐ Assess the maturity of your organization's risk management and governance processes and current internal audit coverage of these areas:

○ Help your organization develop plans to enhance these activities and move to a higher desired state of maturity for these processes.

- Develop an appropriate strategic role for internal auditing to provide new or enhanced coverage of risk management and governance:

  - Project how this role would help enhance the maturity of the organization's risk management and governance processes.

  - Tailor this strategic role to your organization, taking into account factors such as industry, culture, geographical scope, regulatory environment, ownership of risks, and maturity of business processes.

  - Take an incremental, step-by-step approach; do not try to do too much at once.

  - Consider both assurance and consulting roles for internal auditing, taking into account the current and desired state of maturity for the activity.

  - Use relevant IIA publications such as:
    - The Role of Internal Auditing in Enterprise-wide Risk Management (IIA position paper).
    - 10 Risk Management Imperatives for Internal Auditing, a whitepaper published by The IIA's Audit Executive Center.

  - Review The IIA's *Standards* pertaining to risk management and governance; take steps to ensure compliance with the *Standards*.

- Consider the possible need to educate the audit committee on relevant topics:

  - Risk management in general and the current state of risk management within the organization.

  - The organization's governance processes.

  - The desire to achieve an appropriate balance between the testing of internal controls and the need to expand the focus of internal auditing to include governance and risk management.

  - The longer-term strategy for the internal audit activity and the need to increase internal auditing's focus on risk management and governance.

- Consider a possible role for internal auditing relative to social and sustainability initiatives affecting your organization.

- Review and assess the organization's top risks and key performance indicators (KPIs) associated with the organization's core business strategy (or strategies); incorporate appropriate coverage of this strategy (or these strategies) into the internal audit plan.

- Ensure that the internal audit charter reflects the role and responsibilities of internal auditing relative to the organization's risk management and governance processes.

- Consider staffing and budgetary needs associated with the desired shift in focus to risk management and governance; take into account necessary mix of staff, organizational structure, and skill sets.

IIA *Standards* Related to Risk Management and Governance

2100 – Nature of Work

The internal audit activity must evaluate and contribute to the improvement of governance, risk management, and control processes using a systematic and disciplined approach.

2110 – Governance

The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;

- Ensuring effective organizational performance management and accountability;

- Communicating risk and control information to appropriate areas of the organization; and

- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

2120 – Risk Management

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

Imperative 2
Conduct a More Responsive and Flexible Risk-based Audit Plan

The 2010 Global Internal Audit Survey results point to the need to enhance the risk assessment process associated with developing the annual internal audit plan, which the *Standards* requires to be risk-based. According to Standard 2010.A1, the internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually, with input from both senior management and the board. Of note, 72.3 percent of respondents conduct an internal audit risk assessment as part of their audit planning activity.

To be most effective, audit plans need to employ risk-based methodologies wherever possible and build in sufficient flexibility to address the organization's changing risk profile. According to survey results, 21.9 percent of respondents reported using a risk-based methodology to establish their audit plan; a number of them suggested ample room for improvement. On the plus side, smaller organizations, in particular, projected higher-than-average increases in the employment of risk-based audit planning.

In the survey — which focused on many of the most important competencies, knowledge areas, and audit tools or techniques related to risk-based auditing — respondents ranked risk-based audit planning as the most important audit tool or technique. Moreover, survey results indicate that the five most important technical skills are all key elements of risk-based auditing. They include understanding business; risk analysis and control assessment techniques; identifying types of controls; governance, risk, and control tools and techniques; and business process analysis. In addition, analytical review and statistical sampling are important audit tools and techniques for risk-based auditing.

Given the speed with which major risk events can materialize, and their virtually unlimited nature, leading internal audit activities revisit their risk assessments and audit plans more frequently than once a year, with quarterly updates becoming more prevalent. The idea that an internal audit activity can update its audit plan only once a year and still remain timely, responsive, and effective needs to be challenged strongly. In the 2010 Global Internal Audit Survey, more than 60 percent of respondents indicated that they only update their audit plans once a year; roughly a third report updating their plans more frequently. The results are comparable to the 2006 survey.

In The IIA's Stakeholders' Expectations and Perceptions Survey, more than 90 percent of respondents either "agree" or "strongly agree" that internal audit activities should focus on emerging issues. As the results of that survey indicate, stakeholders support the need for a more risk-based and responsive audit effort, one requiring additional internal audit time and resources to accomplish. In addition, stakeholders indicated that to develop a more responsive risk-based audit plan, an internal audit activity may need to reallocate resources from audit efforts focusing on lower-risk areas.

Imperative 2 — Key Action Steps for CAEs

- ☐ Assess the maturity of your risk assessment process and develop plans to extend its application across the enterprise.

- ☐ Develop processes within internal auditing to identify and report on emerging risks:

  - ○ Make the identification of emerging issues a key performance responsibility of your direct reports.
  - ○ Coordinate with the organization's other risk and control units to share information and views on emerging issues.
  - ○ Identify and use external sources of relevant data, knowledge, and business issues to assist in the identification of external emerging issues.

- ☐ Assess your process for making periodic updates and revisions to your annual audit plan; develop steps to enable internal auditing to move faster and make more frequent changes to the audit plan as the organization's risks change.

- ☐ Talk to your key stakeholders (executive management and the audit committee) about the need to make more frequent updates to the audit plan; seek agreement on an appropriate balance between the need for internal auditing to "complete the annual plan" and their desire for internal auditing to make changes in response to emerging and changing risks:

  - ○ Consider implementation of a "rolling" audit plan; for example, a plan that is rolled forward to cover the next six months.

- ☐ Conduct regular, frank discussions with both senior management and the audit committee about the nature, scope, and severity of the organization's risk profile.

- ☐ Develop or refine your audit reporting to demonstrate a more direct link between changes to the organization's risk profile and associated changes to the audit plan.

IIA *Standards* Related to Risk-based Audit Plans

2010 – Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization's goals.

Interpretation:

The chief audit executive is responsible for developing a risk-based plan. The chief audit executive takes into account the organization's risk management framework, including using risk appetite levels set by management for the different activities or parts of the organization. If a framework does not exist, the chief audit executive uses his/her own judgment of risks after consultation with senior management and the board.

2010.A1 – The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

Imperative 3
Develop a Strategic Vision for Internal Auditing

The stage is set for the continuing evolution of internal auditing, a relatively young profession characterized by varying levels of maturity around the world. To achieve their strategic objectives, internal audit activities need to develop clear road maps to help address stakeholder expectations and navigate a host of unknowns in the risk, regulatory, and business arenas. This is especially true today with internal auditing facing a multitude of challenges and changes in both the profession and the global economic environment. While most internal audit activities have charters, as required by The IIA's *Standards*, fewer have mission statements and strategies.

At this point, only 57 percent of the 2010 Global Internal Audit Survey respondents report having a mission statement for internal auditing and only 51 percent indicate that they have an internal audit strategy in place. As a profession, that leaves plenty of room for improvement. An internal audit activity needs a clear mission statement as well as a supporting strategic plan to establish priorities, budget effectively, and achieve its core objectives. For example, survey results provide CAEs

Alignment of Key Internal Audit Governance Documents

The governance structure of an internal audit activity typically will include a charter and mission statement along with a vision statement and a strategic plan. To clarify the purpose and relationship of these core governance documents, a short summary of each is outlined below.

Internal Audit Charter: The internal audit charter, a requirement of IIA Standard 1000: Purpose, Authority, and Responsibility, is the primary governing document for an internal audit function. It defines the purpose, authority, and responsibility of the internal audit activity and must be periodically reviewed and approved by senior management and the board. It should also include internal auditing's current mission statement. Keep in mind the need for the charter to reflect actual internal audit activities as opposed to mere legalistic wording.

Internal Audit Mission Statement: The mission statement is a high-level narrative describing the current overall mission of the organization's internal audit activities. In addition to reflecting the core activities of internal auditing, such as providing assurance and consulting activities, the mission statement should convey the unique expectations of the organization's key stakeholders, in particular those of the audit committee/board and senior management.

Internal Audit Vision Statement: The vision statement is a succinct, forward-looking narrative that provides a high-level strategic direction for internal auditing. It typically describes activities that internal auditing aspires to provide as opposed to activities that it currently offers.

Internal Audit Strategic Plan: The strategic plan is a forward-looking document that lays out the action steps needed to achieve and implement the internal audit vision. A strategic plan will typically cover areas such as technology, human resources, and working practices. (See Internal Audit Strategy Gap Analysis on page xx for additional topics.) Since strategic plans can require more than one year to implement, they are often supported by annual tactical plans.

with several areas of future focus and direction that should receive careful review and consideration. A well-conducted strategic planning exercise will allow the CAE to develop his or her mission and consider various approaches and strategies for achieving that mission. This process is virtually identical to the processes typically undertaken by most businesses to understand their customers and develop products and strategies to address customer needs while pursuing internal business objectives. Internal audit activities need to operate in the same manner.

To deal appropriately in a demanding operating environment, it is vital that the CAE, in concert with both the audit committee and senior management, achieve agreement on the specific areas of focus for the internal audit activity. It is also imperative for the CAE to determine the specific expectations of his or her chief stakeholders and to develop strategies and tactics to address these expectations. Moreover, it is critical to monitor stakeholder feedback in an ongoing, systematic manner and to update internal audit plans as needed to address changing expectations.

Finally, a clear mission and strategy for internal auditing can add value by providing members of the internal audit activity with a solid understanding of its future direction and focus. To effect desired change, it is imperative that the staff have a clear understanding of the internal audit mission and supporting strategy.

Imperative 3 — Key Action Steps for CAEs

- ☐ Review internal auditing's mission and goals, taking into account key stakeholder expectations.

- ☐ Develop a vision for internal auditing covering a two-to-four-year time frame that includes key areas of focus to drive the future mission.

- ☐ Conduct a gap analysis to compare your current capabilities and processes with those needed to achieve your vision (see example below).

- ☐ Develop strategies and tactics to address perceived gaps:

  - ○ Use IIA knowledge resources to identify possible tactics and developing practices.

- ☐ Identify KPIs to assess progress against key goals and suggest areas for corrective measures.

- ☐ Develop a comprehensive strategic plan to achieve your vision that includes key milestones and target dates:

  - ○ Share this strategic plan with your key stakeholders, address their concerns, and get their buy-in and validation.
  - ○ Seek appropriate funding and resources to pursue agreed-upon objectives.
  - ○ Develop appropriate measures to monitor plan achievement, including periodic reporting.
  - ○ Develop a communications plan to educate staff and management on future strategies and expected benefits.

IIA *Standards* Related to Strategic Vision

2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Internal Audit Strategy Gap Analysis (Example of Planning Tool)

This planning grid is a simple and concise tool to help CAEs develop a comprehensive internal audit strategy and convey its key elements to staff and key stakeholders. Core internal audit processes are listed on the vertical column. For each of the core processes, you would indicate the current state of your process, your desired vision, and the key actions and time frame needed to achieve this vision. A more detailed project plan would support this summary analysis.

Internal Audit Activity – Strategy Gap Analysis

Core Internal Audit Processes	Current State	Future Vision	Key Actions	Time Frame to Implement
Mission statement				
Human resources				
Risk assessment				
Audit plan and scope				
Working practices				
Reporting				
Technology				
Performance monitoring				
IIA *Standards* compliance				

Core Internal Audit Processes for Internal Auditing — This list can be tailored as needed to add or subtract processes. For example, some internal auditors may want to break out specific working practices in more detail or add other processes such as fraud investigations.

Current State — Short summary of the key actions and attributes of current internal audit processes for each item.

Future Vision — A concise description of your future vision for a process. In technology, for example, the vision might include having data mining practices and tools operating in each part of the internal audit activity, including properly trained staff.

Key Actions — Summary of high-level actions needed to achieve the future vision that is ideally supported by a separate, more detailed project plan.

Implementation Time Frame — Projected time frame to complete basic analysis.

Other information such as projected costs or prioritization of activities can be added as needed.

Imperative 4
Focus, Monitor, and Report on Internal Auditing's Value

In the world of internal auditing, perceptions matter. The value of an internal audit activity is directly related to its *perceived contributions* to the organization, with such contributions being a proxy for value provided. This is one of the most important insights to be gained from the 2010 Global Internal Audit Survey.

However, not all perceptions have equal weight. Those of top management and the audit committee — the chief stakeholders of an internal audit activity — matter most. Knowing this, one would think that every major aspect of a primary internal audit activity would be stakeholder-driven, with strategies and tactics clearly based on a set of internal audit priorities established by the CAE that align clearly with audit committee and senior management expectations. In practice, however, this stakeholder-driven approach for managing an internal audit activity and measuring the value provided by internal auditing appears to be more the exception than the rule.

Where Internal Auditors Believe They Add Value

Most respondents believe that their internal audit activities add value to their organizations through their independence and objectivity. They also believe they add strong value in the area of controls. In addition, more than 70 percent agree that compliance with The IIA's *Standards* is a key factor in adding value to the organization's overall governance processes. At the same time, however, survey respondents are less confident that they are making similar levels of contribution in the key areas of risk management and governance.

In terms of assessing the value of internal auditing's contributions, survey results indicate that most measures of internal audit value focus on more tactical activities performed by internal auditing as opposed to stakeholder-driven activities that address the expectations of the audit committee and senior management. According to survey results, the most common method used to measure internal audit value today is percentage of audit plan completed, a methodology employed by 13.7 percent of respondents. Although this measure is obviously important, it could be viewed as more of an *expected* result as opposed to a strong, value-adding activity. Stakeholder and client surveys, one of the best ways to assess value delivered, are only used by 20 percent of respondents.

Survey results also point toward future evolution in performance measurement. While the top five methods used today will continue to be important in the future, the balanced scorecard method is expected to gain in importance over the next five years. This projection suggests that CAEs will increasingly broaden their performance measures, including tracking progress against specific stakeholder expectations. The balanced scorecard approach to measurement can be applied to additional types of measures while CAEs continue to employ more traditional measures of performance.

In addition, CAEs who are either currently executing a strategic plan or planning to implement one should consider how best to measure performance related to the plan. During plan implementation, performance measures should address the status of implementation. Following implementation, performance measures should target the anticipated benefits of the strategic planning activities.

Promoting the Value of Internal Auditing is Rated the Top Incremental Competency for CAEs

The ability to promote the internal audit activity was the top-ranked competency for CAEs in both the 2006 and 2010 surveys, making it a critical ongoing competency for internal audit leaders. It stands to reason that the ability to promote the value of internal auditing within the organization could well have a direct impact on the resources allocated to the activity. For CAEs to promote the value of internal auditing effectively, and thus achieve success in their most important incremental core competency, they need to first understand how their internal audit activities add value. That means determining how senior management and the audit committee perceive internal audit value and then defining the value that these primary stakeholders expect internal auditing to deliver. In addition, CAEs should seek input from key managers throughout the organization on how the internal audit activity can help them add value to their areas of responsibility and to the organization as a whole. Finally, CAEs need to employ stakeholder-driven techniques such as interviews, surveys, and balanced scorecards to measure the value provided by internal auditing.

One final note: The failure to define internal audit value from a stakeholder perspective likely reflects insufficient communications and interactions with the audit committee and executive management.

Top Six Methods for Measuring Internal Auditing's Value

Method	% of Usage by 2010 Global Internal Audit Survey Respondents
Assessment by percentage of audit plan complete	13.7%
Acceptance and implementation of recommendations	11.8%
Assessment by survey or feedback from the board, audit committee, and/or senior management	10.8%
Assessment by customer/auditee surveys from audited departments	9.1%
Assurance of sound risk management and internal control	8.3%
Reliance by external auditors on the internal audit activity	8.3%

Imperative 4 — Key Action Steps for CAEs

☐ Through interviews or surveys, determine key stakeholder (executive management and the audit committee) perceptions of internal auditing and define the value they expect internal auditing to provide:

- ○ Analyze their perceptions and develop approaches for internal auditing to address perceived weaknesses.
- ○ Develop specific statements describing how internal auditing either currently delivers or will deliver expected value.
- ○ Revalidate these value statements with your key stakeholders.

☐ Develop specific performance measures to facilitate monitoring and measurement of internal audit activities designed to meet stakeholder-driven value expectations:

- ○ Consider the use of a tailored balanced scorecard.
- ○ Do not base performance measures only on tactical activities performed by internal auditing.

☐ Develop a communications program to inform members of the internal audit staff about the activity's stakeholder-driven approach to delivering value and how value will be measured.

☐ Develop an ongoing communications plan targeting key stakeholders to convey the value being delivered by internal auditing.

- ○ Periodically assess stakeholder perceptions of internal auditing's performance and value.

IIA *Standards* Related to Internal Auditing's Value

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards *and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*

2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

Interpretation:

The internal audit activity is effectively managed when:

☐ *The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;*

☐ *The internal audit activity conforms with the Definition of Internal Auditing and the* Standards*; and*

☐ *The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the* Standards*.*

The internal audit activity adds value to the organization (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes.

Imperative 5
Strengthen Audit Committee Communications and Relationships

Two critical topics converge in this imperative — communications and relationships with the audit committee. While each is important individually, in combination they point to one of the most critical imperatives for internal auditing today and in the future.

Gaining and maintaining audit committee support is essential to CAE success. On the one hand, the audit committee needs a clear, periodic, and concise update on the internal audit activity, including both recommendations and challenges from the CAE. On the other hand, the audit committee is the CAE's best ally and must work through the audit committee chair to persuade management to provide internal auditing with the budget and resources the activity needs to achieve the internal audit plan.

Top-rated Communication Skills Identified in the Survey

When asked to select their most important competencies, respondents to the 2010 Global Internal Audit Survey rated communication skills as the top core competency for all professional ranks:

- 85.3 percent rated communication skills (defined as including *oral*, *written,* and *presentation* abilities as well as report writing) as "very important," which is the highest ranking possible.

- When asked to rank the importance of key behavioral skills, 85.2 percent of survey respondents rated communication (defined in this instance as sending clear messages and listening effectively) as "very important."

- 67.1 percent of respondents ranked the ability to promote the value of internal auditing — the top-ranked competency for CAEs in both the 2006 and 2010 surveys — as "very important."

As the survey results indicate, the ability to communicate effectively is highly prized by all levels of internal auditing and is a critical success factor for CAEs. IIA Standard 2060 requires the CAE to report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. This reporting challenge includes addressing significant risk exposures and control issues as well as fraud risks and governance concerns. Moreover, Standard 2020 requires a CAE to discuss the internal audit activity's plans and resource requirements with senior management and the board and to gain approval for planned activities.

Communicating with the audit committee and audit committee chair has assumed a much higher level of importance given the degree of audit committee concern over risk management and a challenging economic environment. On the plus side, about 74 percent of the 2010 respondents indicate that they meet or talk with the audit committee or audit committee chair outside of regularly scheduled meetings compared with 63 percent in 2006. The results suggest an improvement in the relationship between the audit committee and internal auditors in 2010 compared to 2006. Despite this positive trend,

however, a significant number of survey respondents are not communicating regularly with the audit committee chair or taking part in executive sessions with the audit committee. In fact, 25.9 percent indicated that they do not interact with the audit committee chair outside of regular audit committee meetings and 40.4 percent do not have private executive sessions with the audit committee. If internal auditing is to serve as a trusted advisor to the audit committee and audit committee chair, CAEs must be communicating with their chief stakeholders frequently and informally. For CAEs who already communicate regularly with the audit committee and the audit committee chair, the challenge is to increase both the frequency and content level of those communications.

Stakeholder Survey Results Reinforce the Need for Strong Audit Committee Connections

The results of The IIA's stakeholder expectations survey reinforce the need for CAEs to develop strong relationships with the audit committee, a process that includes taking an active role in the education of audit committee members and communicating important information to them:

☐ 96.2 percent of respondents believe it is either "important" or "highly important" for internal auditing to serve as an advisor to the audit committee.

☐ 93.5 percent of respondents believe it is either "important" or "highly important" for internal auditing to serve as the "eyes and ears" of the audit committee.

☐ 91.3 percent of respondents "agree" or "strongly agree" that internal auditing should be actively involved in audit committee training.

To be effective, a CAE needs clear direction from the audit committee, a process that involves comprehensive yet detailed discussions with the committee about internal auditing's priorities and the committee's expectations of the internal audit activity. As one would expect, budgets and resources will be one of the primary focal points of these conversations. The audit committee needs to know what it can expect from the internal audit activity if internal audit resources are cut, held constant, or increased. A point to consider: 34.2 percent of respondents to the 2010 stakeholder survey did not believe that their particular internal audit activity was getting the funding and support needed to be effective.

Another troubling statistic from the stakeholder expectations study deals with the organizational positioning of the internal audit activity. Although nearly two-thirds (65.6 percent) of the respondents view their CAE as a member of senior management, more than a third (34.4 percent) do not. It is difficult for a CAE to serve as a strategic advisor to the audit committee and senior management, or to serve as the "eyes and ears" of the audit committee, if he or she is positioned at too low a level within the organization to participate in or be aware of significant issues and strategic initiatives. CAEs who believe they lack sufficient organizational stature to be effective need to discuss their positioning within the organization with both the audit committee and senior management. Failure to do so could jeopardize the internal audit mission.

A Closing Caveat

The ability to promote the internal audit activity was the top-ranked competency for CAEs in both the 2006 and 2010 surveys. Obviously, communication has much to do with the success or failure of this promotional role. CAEs who fail to define internal audit value from a stakeholder perspective have likely failed to communicate and interact effectively with the audit committee and executive management.

Imperative 5 — Key Action Steps for CAEs

☐ Look for ways to enhance your relationship and stature with the audit committee:

    ○ Critically assess the quality, frequency, and content of interactions with the audit committee chair and take steps to improve these interactions, if necessary.

    ○ Meet with the audit committee chair to determine audit committee expectations of internal auditing, including the anticipated "value" to be delivered by internal auditing to senior management and the audit committee as well as the organization as a whole.

    ○ Advise the audit committee on best practices for audit committees and corporate governance, including audit committee oversight of and interaction with internal auditing.

☐ Ensure that the internal audit charter reflects audit committee expectations of internal auditing.

☐ Ensure that you have frank and candid discussions with executive management and the audit committee on the adequacy of funding and support for the internal audit activities.

☐ Develop an annual training program for audit committee members:

    ○ Discuss with the audit committee chair possible topics where the CAE can assist the audit committee with educational or advisory activities.

    ○ Identify external training opportunities where the CAE can participate with the audit committee members or chair.

☐ Develop a communications program to inform members of the internal audit staff about the activity's stakeholder-driven approach to delivering value and how value will be measured.

☐ Develop an ongoing communications plan targeting key stakeholders to convey the value being delivered by internal auditing:

    ○ Support the value proposition with an appropriate balanced scorecard of internal audit activities.

IIA *Standards* Related to Communications

1111 – Direct Interaction With the Board

The chief audit executive must communicate and interact directly with the board.

2060 – Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the board.

Interpretation:

The frequency and content of reporting are determined in discussion with senior management and the board and depend on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management or the board.

2020 – Communication and Approval

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.

Imperative 6
View Compliance with The IIA's *International Standards for the Professional Practice of Internal Auditing* as Mandatory, Not Optional

For any profession, compliance with applicable professional standards is expected. For IIA members and certified internal auditors (CIAs), compliance with the *Standards* is mandatory, not optional. Yet according to CAEs taking part in the 2010 Global Internal Audit Survey, only 46.3 percent of their organizations were in full compliance with the *Standards* in 2010 compared with 59.9 percent in 2006.

This significant decline in compliance has occurred despite two key facts:

☐ First, more than 70 percent of the respondents to the 2010 Global Internal Audit Survey either "agree" or "strongly agree" that compliance with the *Standards* is a key factor in the ability of an internal audit activity to add value to the governance process.

☐ Second, 89.5 percent of the respondents to The IIA's 2010 stakeholder expectations survey indicated that adherence to the *Standards* increases their confidence in the internal audit profession activities.

With nine in 10 internal audit stakeholders expressing strong support for compliance with the *Standards*, it is surprising that such a high percentage of internal audit activities fail to give their whole-hearted support to compliance. The findings of the 2010 stakeholder expectations survey appear to be at odds with at least two of the reasons cited by CAEs for noncompliance: "Not perceived as adding value by mgt/board" and "Compliance not supported by mgt/board." These apparent contradictions may indicate the need for further discussions among the CAE, senior management, and the board about the *Standards* and its mandatory nature as well as stakeholder expectations in general.

Another concern is the low level of compliance with Standard 1300: Quality Assurance and Improvement Program. Compliance with Standard 1300 improved slightly from 2006 to 2010, as 38.4 percent indicated full compliance in 2010 compared to 32.8 percent in 2006. However, it continues to be the standard with the lowest level of full compliance, a strong indicator that quality and continuous improvement are not being given sufficiently high priority by CAEs.

The IIA's *Standards*: Why It Exists

According to The IIA, the *Standards* has a fourfold purpose:

1. Delineate basic principles that represent the practice of internal auditing.

2. Provide a framework for performing and promoting a broad range of value-added internal auditing.

3. Establish the basis for the evaluation of internal audit performance.

4. Foster improved organizational processes and operations.

Other reasons cited by CAEs for noncompliance with the *Standards* include high costs, excessive time demands, and lack of appropriateness for small organizations. Despite these obstacles, the role of the CAE includes overcoming challenges and bringing an internal audit activity into full compliance. By adopting this mindset, compliance with the *Standards* becomes a positive reflection on the professionalism of the internal audit activity as opposed to an act of noncompliance requiring explanation.

Full compliance with the *Standards* helps enhance the standing of both the internal audit profession and individual internal audit activities. Anything short of full compliance erodes the ability of internal auditors to gain the full respect and support of their key stakeholders and to be viewed as true professionals by these stakeholders. An organization would not accept failure on the part of its external auditor to comply with their professional standards; likewise, compliance with internal audit standards deserves the same high level of respect.

A thorough discussion of the *Standards* — what it entails and what full compliance means to an organization — is a must topic for CAEs to address with the audit committee and senior management. Above all, it is critical for internal auditing and the audit committee to be of one mind on the issue of compliance with the *Standards*. With the revised *Standards* taking effect in 2011, now is an opportune time for CAEs to review the *Standards* (including recent revisions) and assess the degree to which the internal audit activity is in compliance. CAEs need to critically examine their operations and commit themselves and their organizations to achieving full compliance with The IIA's *Standards* and Code of Ethics.

Imperative 6 — Key Action Steps for CAEs

- ☐ Critically assess your strategies and performance relative to the *Standards* and Code of Ethics:

  - ○ Develop an action plan to become fully compliant with the *Standards* and Code of Ethics.

- ☐ Ensure that internal audit policies and practices reflect the mandatory nature of the *Standards*.

- ☐ Conduct an in-depth briefing with the audit committee and executive management to educate your key stakeholders on the *Standards* and the degree to which your internal audit activity is in compliance; in particular, discuss how the *Standards* relates to quality and compliance efforts.

- ☐ Ensure that the internal audit charter reflects the *Standards* appropriately.

- ☐ Conduct appropriate continuing education on the *Standards* with the internal audit activity:

  - ○ Ensure that staff members understand the *Standards* and Code of Ethics from both a technical and professional perspective.
  - ○ Establish appropriate targets for the internal audit activity with regard to professional certifications.

☐ Ensure that the audit committee receives regular reports on internal auditing's continuous improvement program and quality targets.

IIA *Standards* Related to *Standards* Compliance

1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter

The mandatory nature of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. The chief audit executive should discuss the Definition of Internal Auditing, the Code of Ethics, and the *Standards* with senior management and the board.

1300 – Quality Assurance and Improvement Program

The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

Interpretation:

A quality assurance and improvement program is designed to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards *and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.*

1310 – Requirements of the Quality Assurance and Improvement Program

The quality assurance and improvement program must include both internal and external assessments.

1320 – Reporting on the Quality Assurance and Improvement Program

The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board.

1322 – Disclosure of Nonconformance

When nonconformance with the Definition of Internal Auditing, the Code of Ethics, or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the nonconformance and the impact to senior management and the board.

Imperative 7
Acquire and Develop Top Talent

Roughly half of the organizations responding to the 2010 Global Internal Audit Survey expect to recruit more staff during the next five years, with 42 percent projecting that they will maintain current staff levels.

According to survey results, two types of skills are in greatest demand:

☐ **Understanding business** — the top technical skill for management and CAEs and the third most important technical skill for an internal audit activity — ranked as the most important overall technical skill in both the 2006 and 2010 surveys.

☐ **Risk analysis and control assessment techniques** ranked second, a reflection of the types of risks described in *Global Risks 2010*, a World Economic Forum report (see box on page 5).

2010 Ratings of Technical Skills by Perceived Importance

	Total
Understanding business	72.8%
Risk analysis and control assessment techniques	72.1%
Identifying types of controls	68.4%
Governance, risk, and control tools and techniques	62.0%
Business process analysis	59.4%
Data collection and analysis tools and techniques	56.0%
Operational and management research skills	53.3%
Problem-solving tools and techniques	52.7%

Aside from retaining key staff and broadening skill sets, one of the primary challenges for internal audit activities today is to increase the general and specific levels of business knowledge among their staff. Internal auditors need a broader base of business knowledge to understand risks adequately. They also need to keep up to date with industry and regulatory changes and be attuned to The IIA's *Standards* and Practice Advisories.

To address their talent challenges in the years ahead, CAEs need to anticipate new activities that will require different or expanded skill sets. In particular, they will need to find more people schooled in risk analysis and governance, risk and control assessments, and data collection and analysis to expand their coverage of risk and governance issues and conduct more risk-based audits. Competition for these skill sets will be intense.

How do CAEs typically find new staff members? For 52 percent of the organizations taking part in the 2010 survey, the most effective way to recruit new staff is through internal transfer from within the parent organization. Employment agencies rank second as a source of new employees, followed by referrals from professional associations. Direct recruitment from universities came in last as a recruiting source, suggesting that CAEs place a premium on experience when it comes to staff additions.

Of note, nearly half the respondents do not recruit internal audit staff from within their parent organizations. That could be a mistake from two perspectives:

☐ First, employees already working within the organization would appear to be a great source of personnel with in-depth knowledge of the business and its risks. Ready access to a large pool of quality candidates from within the parent organization has led many internal audit activities to pursue formal or informal rotational programs within their functions.

☐ Second, 50 percent of the respondents to The IIA's 2010 stakeholder expectations survey either "disagree" or "strongly disagree" that internal auditing develops top talent for the parent organization. Although the key stakeholders of internal auditing may not necessarily look to their internal audit activities to develop talent, the results of the stakeholder expectations survey suggest that internal audit activities may not be viewed as top-tier performers within their organizations.

Imperative 7 — Key Action Steps for CAEs

☐ Consider the broad talent needs of the organization and how internal auditing fits into the organization's overall human resources strategy, especially as a grooming ground for talent.

☐ Develop a succession plan for internal audit management that identifies backup candidates for key positions within the activity.

☐ Conduct an internal audit skills inventory to identify current strengths and weaknesses and project the levels and types of talent needed over the next two to four years.

☐ Develop specific plans to either acquire staff with strong business knowledge or train existing staff to achieve desired knowledge levels.

☐ Consider establishing a formal rotation program within your organization to capitalize on business-unit talent and expertise.

☐ Identify needed skill sets that would be unrealistic to house within internal auditing but that can be borrowed from other departments within the parent organization or sourced from third parties.

☐ Consider new ways to acquire nontraditional talent such as a formal or informal rotational program within your parent organization.

- Consider additional sources such as:

  - Recruiting college interns (students working part-time or in the summer), a common practice among larger North American organizations.
  - Secondments (individuals temporarily transferred to another assignment).

- Consider offering hiring incentives, a popular technique in the United States, Canada, and Western Europe. In 2010, more than half the respondents to the survey indicated that they do not offer incentives in the hiring process for new internal auditors. For those that do, the most common form of incentive is tuition reimbursement, followed by transportation allowance and reimbursement of relocation expenses.

- Develop specific techniques to motivate, train, and retain key staff.

IIA *Standards* Related to Acquiring and Developing Talent

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.

Imperative 8
Enhance Training for Internal Audit Activities

According to the 2010 Global Internal Audit Survey, three types of technical skills stand out as being the most important to internal auditors:

- ☐ Those that help build a better understanding of the business.
- ☐ Those that facilitate risk analysis and control.
- ☐ Those associated with governance, risk, and control tools and techniques.

As discussed in Imperative 7, internal auditors need to develop an in-depth understanding of the businesses they serve. They need a broad base of business knowledge to identify and understand risk and control issues. And they need to keep up to date with industry and regulatory changes affecting their parent organizations. Collectively, these needs are reflected in the selection of *understanding business* — the top technical skill for management and CAEs and the third most important technical skill for the internal audit activity — as the most important overall technical skill in both the 2006 and 2010 surveys. The growing need to understand the business is closely linked to changes previously noted in this report with regard to internal audit activities increasing their focus on risk management and governance. It also reflects the increasing importance of governmental regulations and their impact on all industries, not just those viewed traditionally as being highly regulated.

The changing nature of internal audit procedures and the extent to which they are being increasingly automated are also spurring the need to provide internal auditors with specialized training in data collection and analysis, operational research, and new audit tools and technologies — the basics behind efforts to increase both the efficiency and effectiveness of internal auditing. In addition, given the increasingly broad focus and expanded coverage of internal auditing today, practitioners need to enhance their skills outside of accounting and auditing in areas such as communications, team-building, interpersonal dynamics, information technology, and governance.

Keeping up to date with industry and regulatory changes and professional standards was the third most important competency for CAES in both the 2006 and 2010 surveys and it was the fourth highest ranked competency for internal audit staff and management, moving up from the lower one-third of competencies in 2006. Moreover, keeping up to date is now considered highly important by all three professional levels of internal auditing, not just CAEs, reflecting the ongoing need for internal audit practitioners to assess changes in professional standards and industry regulations and update their knowledge accordingly. ERM was the fifth ranked knowledge competency in 2010, a clear indicator that internal auditors recognize that they need to be familiar with ERM concepts and practices to apply risk analysis and control assessment techniques and conduct risk-based audits.

To assess levels of training around the world, respondents to the 2010 survey were asked to disclose whether they received at least 40 hours of formal training per year — The IIA's minimum acceptable level of training for practicing CIAs. Of those who answered this question, 76 percent indicated that they did receive at least 40 hours of formal training per year, while 24 percent answered to the contrary. This finding reflects a clear need for many organizations to expand and enhance training for

both CIAs and internal auditors as a whole. Of note, only 30.3 percent of the 2010 survey respondents reported having a CIA designation. To increase professionalism within the field of internal auditing, and to enhance the credentials of individual internal audit activities, there is a growing need among practitioners to increase the number of CIAs and the number of students pursuing the CIA designation.

Imperative 8 — Key Action Steps for CAEs

☐ Assess the types of skills and competences required by the business and develop training plans to address these needs.

☐ Consider the skills needed to achieve internal auditing's mission and meet your stakeholders' expectations.

☐ Conduct an inventory of the skills needed to execute your longer-term strategy or vision:

   ○ Develop plans to acquire the skills you will need over the next two to four years.

☐ Assess the skills and competencies of current staff members:

   ○ Develop an inventory of current skills and competencies.
   ○ Compare your skills and competency inventory with your projected needs.
   ○ Develop tailored training plans and objectives designed to equip existing staff members to fill organizational needs over the next two to four years.

☐ Assess how best to keep your staff up to date with your line (or lines) of business as well as regulatory and industry issues affecting your organization.

☐ Develop plans to develop or acquire the technical skills required to implement and achieve your technology objectives.

☐ If your strategic planning includes developing talent for the organization, assess the types of skills and competences required by the business to ensure that your training plans will provide for needed skills.

☐ Review your human resource polices related to promotion and advancement and ensure that your required technical and interpersonal competences are clearly delineated:

   ○ Consider requirements for professional certifications for advancement to higher levels.
   ○ Consider other requirements, such as an advanced degree, for staff who do not expect to be career auditors.

IIA *Standards* Related to Training

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1230 – Continuing Professional Development

Internal auditors must enhance their knowledge, skills, and other competencies through continuing professional development.

Imperative 9
Take Advantage of Expanding Service Provider Membership

The 2010 Global Internal Audit Survey results clearly reflect the changing dynamics of the internal audit profession, with 25.7 percent of respondents indicating that they work for professional firms that provide internal audit services or for outside service providers, a sharp increase from the 11 percent service-provider respondents recorded in 2006. What's more, 43.3 percent of the 2010 survey respondents reported being involved in a third-party outsourcing or co-sourcing arrangement to augment their skills capabilities and 25.5 percent planned to increase their co-sourcing or outsourcing budget.

Although some CAEs might be troubled by these statistics, the rapid growth in service-provider membership offers a key benefit to CAEs. With such a large group of qualified internal audit professionals now practicing their profession as service-provider employees, CAEs have a large, knowledgeable source of talent to consider when assessing their resource needs.

The service-provider staffing and resource option presents CAEs with an alternative source of support to address their specific needs. Moreover, the growing complexity of the business environment and the increasingly global scope of many internal audit activities make it difficult for internal audit activities to have all of the skills and staffing levels they need to address all of their day-to-day business challenges in-house. In addition, the fast pace of emerging risks has created an environment where CAEs are increasingly reluctant to "go it alone" without the specialized skills required to assess, monitor, and audit some of the new and emerging risks facing their organizations. To this point, the ability for CAEs to tap the extensive networks of third-party resources available today for needed skill sets and competencies gives them a deep source of support. In effect, this broad service-provider resource pool provides them with a flexible "capacity multiplier" to augment their staffing needs.

In addition, and equally important, many CAEs routinely turn to the ranks of service providers when looking for qualified candidates for permanent positions. On an individual basis, this trend demonstrates both the broadening and growth of the internal audit profession and offers another avenue of possible career direction and growth for internal audit professionals.

Imperative 9 — Key Action Steps for CAEs

□ Taking into account your skills inventory, risk assessment, and talent strategies, determine the skill sets and staffing levels you might need to seek from third-party service providers.

□ Develop a flexible component to your staffing plans and inform your key stakeholders and audit staff about the component's key elements.

□ Develop the infrastructure (processes and practices) needed to budget for and hire third-party staff resources.

☐ Identify multiple third parties who could supplement your staff in a co-sourcing or outsourcing arrangement and develop appropriate relationships with them to facilitate a streamlined flow of needed resources.

☐ Discuss with your staff your strategy for flexible support and the expected benefits.

IIA *Standards* Related to Service Providers

1210 – Proficiency

Internal auditors must possess the knowledge, skills, and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills, and other competencies needed to perform its responsibilities.

Interpretation:

Knowledge, skills, and other competencies is a collective term that refers to the professional proficiency required of internal auditors to effectively carry out their professional responsibilities. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organizations.

1210.A1 – The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

1210.A2 – Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

1210.A3 – Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

1210.C1 – The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

Imperative 10
Step Up Your Use of Audit Technology and Tools

The continued growth in the complexity and sophistication of technology has created both challenges and opportunities for internal auditors. The challenge stems from auditing in an environment where controls and business processes are embedded within systems that are both integrated and, in many cases, enterprisewide. Rather than conducting separate "operational" and "IT" audits, auditors today are more likely to look for ways to conduct integrated and automated testing across entire populations that are more efficient as well as more effective than traditional manual testing.

To capitalize on such opportunities, internal auditors will need to step up their use of audit technology and automated tools, which can both streamline audit testing procedures and enhance working practices within internal auditing. Investments in more specialized audit tools and techniques — such as computer-assisted audit techniques (CAATs) and continuous/real-time auditing — appear to offer potentially significant benefits to internal auditors. Thus technology has become a key enabler in a broad scope of internal audit activities ranging from improving risk assessments to conducting a more flexible audit plan.

To pursue and fully realize such benefits, however, many internal auditing groups will need to change how they operate. Data mining and other technology-enabled auditing techniques may require some internal audit activities to acquire new technologies and skill sets. What's more, a continuous monitoring approach to the auditing process can also require a major revamping of more traditional, manually oriented audit procedures. In fact, the evolution of internal audit testing will require a level of knowledge of information systems, technology, and data skills not typically found in many internal audit activities today, points raised earlier in the discussions on talent and training.

Fortunately, the results of the 2010 Global Internal Audit Survey indicate that internal auditors are taking significant steps to reap these benefits. Although 21 percent of survey respondents reported that they were not using technology-based tools in any of their internal audit work, nearly half (47.5 percent) are employing data mining, nearly half (46.9 percent) are using CAATs, and nearly a third (30.9 percent) are using continuous auditing. The popularity and use of continuous/real-time auditing has been growing and is expected to become a popular auditing technique.

Looking ahead five years, respondents expect to see significant increases in the use of CAATs, electronic workpapers, continuous/real-time auditing, data mining, and risk-based audit planning. Larger organizations expect higher than average increases for CAATs, continuous auditing, and data mining, while smaller organizations expect to see higher than average increases for risk-based audit planning, which incorporates the principles of risk management into internal audit work. The top five responses clearly support the drive to improve internal audit efficiency.

**Audit Tools and Techniques Predicted to Be
Used More During the Next Five Years**

#	Audit Tools and Techniques	Projected Increase (%)
1	Computer-assisted audit techniques (CAATs)	62.9%
2	Electronic workpapers	55.2%
3	Continuous/real-time auditing	53.8%
4	Data mining	52.3%
5	Risk-based audit planning	51.7%

Imperative 10 — Key Action Steps for CAEs

☐ Conduct a critical assessment of the current use of technology by the internal audit activity.

☐ Conduct an inventory of your technology tools and create a grid linking the tools with the internal audit activities they support.

☐ Develop plans and strategies for internal auditing to leverage the potential of technology and keep pace with technological advancements.

☐ Establish close ties with the in-house IT function to ensure you are pursuing complementary strategies and taking advantage of available technological resources and protocols; this is particularly useful in enterprisewide technology environments.

☐ Develop a long-term technology strategy that addresses:

   ○ Core internal audit processes.
   ○ The need for automated support of data mining and analysis, continuous monitoring, and other technology-based activities.
   ○ Technology-related skill sets, reflecting the findings of a skills inventory pointing out any gaps in required skill sets.
   ○ Budget requirements to achieve technology-related goals.
   ○ The anticipated benefits of technology investments and activities.
   ○ How to measure the effectiveness of technology investments, processes, and activities.

☐ Develop a comprehensive training program to support both current and long-term technology use.

IIA *Standards* Related to Use of Technology

1220.A2 – Leveraging Technology Resources

In exercising due professional care, internal auditors must consider the use of technology-based audit and other data analysis techniques.

Appendix
Template for Audit Committee Discussions

The results of the 2010 Global Internal Audit Survey, which are highlighted in a series of five reports published by The IIARF, address a number of topics of potentially strong interest to the audit committee, including the five key topics outlined below. These topics, together with the 10 Imperatives for Change outlined in this document, can provide a CAE with a useful template for addressing the current and future direction of the internal audit profession with the audit committee and for charting a future path for the internal audit activity.

Depending on the current state of the internal audit activity, the CAE may cover all or selected aspects of these suggested topics. In addition, the CAE may decide to pursue some of these topics in-depth with individual committee members. As a next step, consider reviewing these topics with your audit committee chair and working with him or her to determine how best to explore them with the audit committee as a whole.

The Audit Committee's Perceptions and Expectations of Internal Auditing

The 2010 Global Internal Audit Study points to the importance of understanding the audit committee's perceptions and expectations of internal auditing. Perceptions are noted as being a proxy for the determination of value that an internal audit activity is delivering to its parent organization. Accordingly, these perceptions and expectations need to be clearly articulated, not just implied.

To gain needed input on audit committee perceptions and expectations regarding the internal audit function, consider the following discussion points:

- ☐ What specific internal audit activities does the CAE believe add value to the organization?

- ☐ What are the specific expectations of the audit committee for internal auditing?

- ☐ What are the key performance indicators (KPIs) for the internal audit activity from the audit committee's perspective? Propose development of a balanced scorecard with KPIs to address key stakeholder expectations.

- ☐ Does internal auditing meet audit committee expectations for the function? Does the audit committee believe that internal auditing adds value to the parent organization? Does the audit committee believe management views internal auditing with the same level of value? Seek specific examples to all questions.

- ☐ Does the internal audit charter specifically address the areas of internal audit activities where members of the audit committee believe the internal audit activity is adding value?

The Evolving Role of Internal Auditing

According to the 2010 Global Internal Audit Survey, over the next five years there will be a continuing evolution in the role of internal auditing, particularly with regard to projected increases in internal audit activities directed at the organization's risk management and governance processes. The pace and timing of this evolution will vary from one organization to another depending on the organization's degree of focus and maturity in these two areas. To facilitate this evolution, the CAE has the opportunity to help educate the audit committee about these topics and work with it to help define the ideal roles for the internal audit activity to play in the areas of risk management and governance.

Following is a starter list of risk management and governance topics to explore with the audit committee:

☐ The trends identified in the 2010 Global Internal Audit Survey related to the evolving role of internal audit in risk management, governance, and related areas.

Director Liability: A Key Concern

In dealing with the audit committee and their expectations, keep in mind the fact that members of the committee tend to be acutely aware of the personal and legal liability they bear in serving as a director and audit committee member. Accordingly, the CAE should ensure that internal audit activities align with and support the ability of committee members to execute their responsibilities as stipulated in the audit committee charter.

☐ The current role and focus of internal auditing within the parent organization.

☐ The expectations of senior management and potential consistencies or conflicts with the expectations of the audit committee.

☐ Alternative ways that the role of internal auditing could change within the organization (a range of options for consideration).

☐ A conceptual framework for the projected role of internal auditing in the areas of risk management and governance that the audit committee would support.

Skills and Staffing of the Internal Audit Function

As the role of internal auditing evolves, so do the skill sets required to achieve functional objectives. Appropriate skills and staffing become the critical factor in the evolution of the internal audit activity.

Although staffing considerations are often part of a CAE's annual budget discussions with the audit committee, the topic may require a more in-depth analysis and discussion. If so, it is incumbent on the CAE to explore skills and staffing issues with the audit committee in detail. Some topics to address in such a meeting include:

☐ A profile of the current skills inventory.

☐ An analysis of the skills required to achieve future success.

□ Audit committee expectations with regard to skills and staffing issues.

□ Expectations from senior management and/or the audit committee related to internal auditing serving as a source of talent for the organization in addition to performing its other roles.

□ Options and alternatives for acquiring or developing needed skill sets, including the potential impacts on size, structure, staffing model, and budget.

Trends in Internal Audit Tools and Techniques

A number of core internal audit operations are potentially impacted by the 2010 Global Internal Audit Survey findings. For example, internal auditors are expected to step up their use of technology and automated tools, continuous risk-based auditing, and data mining. The CAE needs to discuss these trends with the audit committee and describe their potential impact on their internal audit activity. Some potential discussion topics include:

□ A technology strategy for internal auditing to take advantage of new technology and tools.

□ Staffing, training, and budgetary impacts of an enhanced technology strategy.

□ The trends, benefits, and related costs of additional technology and automated tools.

□ Alternative approaches to pursuing a more flexible audit plan.

□ The projected investment and benefits of continuous auditing and data mining solutions as well as other new auditing tools and approaches.

The Evolution of the Internal Audit Profession

The internal audit profession and The IIA's *Standards* continue to grow in importance and acceptance. However, audit committee members may be unaware of the extent to which the profession has expanded globally and the significance of the continued refinement of the *Standards*. Given that most internal audit activities use the *Standards* to one degree or another, it is important to help the audit committee put these trends into perspective. In particular, audit committees should be informed about:

□ The expanding demographics and stature of the profession.

□ The growing acceptance and importance of the *Standards*, including recent updates to and the mandatory nature of the *Standards*.

□ The internal audit function's use of and compliance with the *Standards*.

□ How internal auditing monitors and reports on compliance with the *Standards*.

□ Internal auditing's program for continuous quality improvement.

A Final Note

Keep in mind the fact that the ultimate authority for an organization lies with the board of directors. It is the responsibility of the audit committee to relay internal audit findings and observations to the board as a whole in an effective manner. The CAE can assist the audit committee in this process by assisting the audit committee chair with appropriate minutes and summary reports that would be appropriate for the full board. In addition, if the board has a separate risk or governance committee, it may be necessary for a CAE to work with it in addition to the audit committee. Even if that is the case, however, the audit committee relationship will always remain primary for the CAE.

The IIA's Global Internal Audit Survey — Questions

The entire IIA Global Internal Audit Survey, including question and answer options and glossary, may be downloaded from The IIARF's website (www.theiia.org/research). The following table provides an overview of the questions and groups that answered the specific questions. In addition, the table indicates in which report the survey data were (mostly) used.

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
Personal/Background Information							
1a	How long have you been a member of The IIA?	X	X	X	X	X	I & V
1b	Please select your local IIA.	X	X	X	X	X	I & V
1c	Please select the location in which you primarily practice professionally.	X	X	X	X	X	I & V
2a	Your age.	X	X	X	X	X	I & V
2b	Your gender.	X	X	X	X	X	I & V
3	Your highest level of formal education (not certification) completed.	X	X	X	X	X	I & V
4	Your academic major(s).	X	X	X	X	X	I & V
5a	Do you work for a professional firm that provides internal audit services?	X	X	X	X	X	I & V
5b	Your position in the organization.	X	X	X	X	X	I & V
6	Your professional certification(s) (please mark all that apply).	X	X	X	X	X	I & V
7	Specify your professional experience (please mark all that apply).	X	X	X	X	X	I & V
8	How many total years have you been the CAE or equivalent at your current organization and previous organizations you have worked for?	X					I
9	Where do you administratively report (direct line) in your organization?	X					I & V
10	Do you receive at least 40 hours of formal training per year?	X	X	X	X		I & V

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
Your Organization							
11	The type of organization for which you currently work.	X	X	X	X		I
12	The broad industry classification of the organization for which you work or provide internal audit services.	X	X	X	X		I
13a	Size of the entire organization for which you work as of December 31, 2009, or the end of the last fiscal year (total employees).	X	X	X	X		I & V
13b	Total assets in U.S. dollars.	X	X	X	X		I & V
13c	Total revenue or budget if government or not-for-profit in U.S. dollars.	X	X	X	X		I & V
14	Is your organization (local, regional, international)?	X	X	X	X		I & V
Internal Audit Activity							
15	How long has your organization's internal audit activity been in place?	X			X		I, III, & V
16	Which of the following exist in your organization (e.g., corporate governance code; internal audit charter)?	X			X		I, III, & V
17a	Who is involved in appointing the chief audit executive (CAE) or equivalent?	X					I & III
17b	Who is involved in appointing the internal audit service provider?	X	X				I & III
18	Who contributes to the evaluation of your performance?	X					I & III
19	Is there an audit committee or equivalent in your organization?	X					I, III, & V
20a	Number of formal audit committee meetings held in the last fiscal year.	X					I & III
20b	Number of audit committee meetings you were invited to attend (entirely or in part) during the last fiscal year.	X					I & III
20c	Do you meet or talk with the audit committee/chairman in addition to regularly scheduled meetings?	X					I & III
20d	Do you meet with the audit committee/oversight committee/chairman in private executive sessions during regularly scheduled meetings?	X					I & III

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
21a	Do you believe that you have appropriate access to the audit committee?	X	X				I & III
21b	Do you prepare a written report on overall internal control for use by the audit committee or senior management? Do you prepare a written report on overall internal control for use by the audit committee or senior management? How often do you provide a report?	X	X				I & III
21c	Does your organization provide a report on internal control in its annual report?	X	X				I & III
21d	Which of the following are included in the annual report item on internal control?	X	X				I & III
21e	Who signs the report on internal controls?	X	X				I & III
22	How does your organization measure the performance of the internal audit activity?	X					I, III, & V
23a	How frequently do you update the audit plan?	X					I & III
23b	How do you establish your audit plan?	X					I, III, & V
24a	What is your IT/ICT audit strategy?	X					I, III, & V
24b	What is the nature of your internal audit activity's technology strategy?	X					I, III, & V
25a	What is the number of organizations to which you (as an individual) currently provide internal audit services?		X				I & III
25b	Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit.	X					I, III, & V
Staffing							
26a	Is your organization offering any special incentives to hire/retain internal audit professionals?	X					I & III
26b	What sources does your organization use to recruit audit staff?	X					I & III
26c	Does your organization use college interns/undergraduate placements?	X					I, III, & V
26d	What is your primary reason for employing college interns/undergraduate placements?	X					I, III, & V

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
27	What methods do you use to make up for staff vacancies?	X					I & III
28	What methods is your organization employing to compensate for missing skill sets?	X					I & III
29	What percentage of your internal audit activities is currently co-sourced/outsourced?	X					I & III
30a	How do you anticipate that your budget for co-sourced/outsourced activities will change in the next five years?	X					I & III
30b	How do you anticipate that your permanent staff levels will change in the next five years?	X					I, III, & V
31	What method of staff evaluation do you use?	X					I & III
Internal Audit Standards							
32	Does your organization use the *Standards*? If you are a service provider, do you use the *Standards* for internal audits of your clients?	X	X				II, III, & V
33	If your internal audit activity follows any of the *Standards*, please indicate if the guidance provided by these standards is adequate for your internal audit activity and if you believe your organization complies with the *Standards*.	X	X				II, III, & V
33a	Do you believe that the guidance provided by the *Standards* is adequate for internal auditing?					X	II, III, & V
34	Your organization is in compliance.	X					II, III, & V
35	What are the reasons for not using the *Standards* in whole or in part?	X	X				II, III, & V
36	Does your internal audit activity have a quality assessment and improvement program in place in accordance with Standard 1300?	X					II, III, & V
37a	When was your internal audit activity last subject to a formal external quality assessment in accordance with Standard 1312?	X					II, III, & V
37b	Why has such a review not been undertaken?	X					II, III, & V

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
37c	As a provider of internal audit services, are your internal audit processes subjected to external quality assessments as specified in Standard 1312?		X				II, III, & V
38	For your internal audit activity, which of the following is part of your internal audit quality assessment and improvement program?	X					II, III, & V
Audit Activities							
39	Please indicate whether your internal audit activity performs (or is anticipated to perform) the following:	X	X	X	X		I, III, & V
40a	Do you usually provide a form of opinion of the audit subject area in individual internal audit reports?	X	X	X	X		I & III
40b	Do you usually provide an overall rating (such as satisfactory/ unsatisfactory) of the audit subject area in individual internal audit reports?	X	X	X	X		I & III
40c	Have you ever been subject to coercion (extreme pressure) to change a rating or assessment or to withdraw a finding in an internal audit report?	X	X	X	X		I & III
41	After the release of an audit report in the organization, who has the primary responsibility for reporting findings to senior management?	X	X	X	X		I & III
42	After the release of an audit report with findings that need corrective action, who has the primary responsibility to monitor that corrective action has been taken?	X	X	X	X		I & III
Tools, Skills, and Competencies							
43a	Indicate the extent the internal audit activity uses or plans to use the following audit tools or techniques on a typical audit engagement.	X	X	X	X		II, III, & V
43b	What other tools and techniques are you currently using or planning to use (indicate if proprietary)?	X	X	X	X		II, III, & V
44	Please mark the five most important of the following behavioral skills for each professional staff level to perform their work.	X	X			X	II, III, & V
44a	Please indicate the importance of the following behavioral skills for you to perform your work at your position in the organization			X	X		II, III, & V
45	Please mark the five most important of the following technical skills for each level of professional staff to perform their work.	X	X			X	II, III, & V

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
45a	Please indicate the importance of the following technical skills for you to perform your work at your position in the organization.			X	X		II, III, & V
46	Please mark the five most important of the following competencies for each level of professional rank to perform their work.	X	X			X	II, III, & V
46a	Please indicate the importance of the following competencies for you to perform your work at your position in the organization.			X	X		II, III, & V
46b	How important are the following areas of knowledge for satisfactory performance of your job in your position in the organization?			X	X		II, III, & V
46c	Are there other areas of knowledge that you consider essential?			X	X		II, III, & V
Emerging Issues							
47	Do you perceive likely changes in the following roles of the internal audit activity over the next five years?	X	X	X	X	X	IV & V
48	Please indicate if the following statements apply to your organization now, in the next five years, or will not apply in the foreseeable future.	X	X	X	X		IV & V

The IIA's Global Internal Audit Survey — Glossary

This glossary was made available to respondents when they participated in the survey.

Add Value

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

Audit Risk

The risk of reaching invalid audit conclusions and/or providing faulty advice based on the audit work conducted.

Auditee

The subsidiary, business unit, department, group, or other established subdivision of an organization that is the subject of an assurance engagement.

Board

A board is an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report.

Business Process

The set of connected activities linked with each other for the purpose of achieving one or more business objectives.

Chief Audit Executive

Chief audit executive is a senior position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. In the case where internal audit activities are obtained from external service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results. The term also includes titles such as general auditor, head of internal audit, chief internal auditor, and inspector general.

Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services.

The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

Control

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

Customer

The subsidiary, business unit, department, group, individual, or other established subdivision of an organization that is the subject of a consulting engagement.

Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

Enterprise Risk Management — See Risk Management

External Auditor

A registered public accounting firm, hired by the organization's board or executive management, to perform a financial statement audit providing assurance for which the firm issues a written attestation report that expresses an opinion about whether the financial statements are fairly presented in accordance with applicable Generally Accepted Accounting Principles.

Framework

A body of guiding principles that form a template against which organizations can evaluate a multitude of business practices. These principles are comprised of various concepts, values, assumptions, and practices intended to provide a yardstick against which an organization can assess or evaluate a particular structure, process, or environment or a group of practices or procedures.

Fraud

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations

to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.

Governance

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

Independence

The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

Internal Audit Activity

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

Internal Audit Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

Internal Control

A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- ☐ Effectiveness and efficiency of operations.
- ☐ Reliability of financial reporting.
- ☐ Compliance with applicable laws and regulations.

International Professional Practices Framework

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories — (1) mandatory and (2) strongly recommended.

IT/ICT

Information technology/information communication technology.

Monitoring

A process that assesses the presence and functioning of governance, risk management, and control over time.

Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to others.

Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

Risk Assessment

The identification and analysis (typically in terms of impact and likelihood) of relevant risks to the achievement of an organization's objectives, forming a basis for determining how the risks should be managed.

Risk Management

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

Service Provider

A person or firm, outside of the organization, who provides assurance and/or consulting services to an organization.

Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

Strategy

Refers to how management plans to achieve the organization's objectives.

Technology-based Audit Techniques

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

The IIA Research Foundation Sponsor Recognition

The vision of The IIA Research Foundation is to understand, shape, and advance the global profession of internal auditing by initiating and sponsoring intelligence gathering, innovative research, and knowledge-sharing in a timely manner. As a separate, tax-exempt organization, The Foundation does not receive funding from IIA membership dues but depends on contributions from individuals and organizations, and from IIA chapters and institutes, to move our programs forward. We also would not be able to function without our valuable volunteers. To that end, we thank the following:

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