Achieving High Performance in Internal Audit

Seventh Edition
Executive Summary

For the past seven years, the Institute of Internal Auditors – Australia and Protiviti have conducted surveys of the internal audit profession and audit committee members, to identify and benchmark trends and developments in the internal audit profession.

Key themes emerging from this year’s research include:

- The reach of internal audit functions, and the investment in the functions, is growing in a time of general budget constraint across the economy. This shows that organisations are increasingly seeing the value that internal audit can provide.

- Strong awareness that assurance mapping and the 3-lines of defence model are important strategies to achieve comprehensive and integrated assurance coverage. However the implementation of these are still relatively immature.

- In 2015, boards and audit committees are the primary drivers of major changes to internal audit functions as the risk climate intensifies, signalling that internal audit has improved its engagement with the board.

- Data analytics is becoming a significant tool for improving internal audit effectiveness. However this again, needs to be backed by stronger implementation skills from the internal audit function.

- Internal auditors have an opportunity to improve the assurance they provide in the context of ‘overall opinions’ on the state of organisation’s controls. There is an appetite for this amongst Boards and Executives, but internal audit functions appear hesitant to deliver such opinions.

- There is continued widespread lack of compliance with the requirement for external quality assessments for internal audit functions. This is despite Audit Committees noting the value they see in the these assessments.

- Internal audit needs to continue developing higher-order skills in areas such as leadership, business acumen, constructive partnering, tapping into ‘cutting edge’ international experience and innovative reporting to tackle current and future challenges.
Partnering

Nearly half (49 per cent) of organisations now have a Chief Risk Officer (CRO) who in most cases, works closely with the internal auditor. It is encouraging that internal auditors are forming positive partnerships with other key members of the organisation to give boards and executives the support they need.

It is apparent that the role of the CRO is evolving and varies greatly between organisations. The survey found that of the organisations with a CRO, their main responsibilities included:

- developing and overseeing the risk framework
- facilitating risk analysis and reporting
- advising on risk responses and risk acceptability.

Only a minority of CROs are involved in coordinating the assurance framework (27 per cent) or the annual assurance plans (20 per cent) with a number of respondents indicating the role was still being defined. In contrast, the role of internal audit appears to be far more consistent and delineated. Given the relative maturity of the function, the opportunity exists for internal audit to take the lead in shaping its partnership with the risk function.

While there has been an improvement in awareness of the 3-lines of defence model and assurance mapping as tools to drive effective of internal audit and risk management, these practices are not yet sufficiently widespread or well implemented.

Only 31 per cent of organisations have a mature 3-lines of defence capability. Given that model is well regarded and in some sectors mandated, this suggests a key area for development.

Similarly, only 43 percent of organisations have an assurance mapping process in place. In the 2014 survey, boards and audit committees indicated that they saw assurance mapping as a valuable tool for understanding the organisation’s total risk picture and whether existing assurance providers were adequately covering key risks. It is therefore positive that of the organisations that do not have such a process, 43 per cent are planning to conduct one in the next 12 months.

Assurance mapping is another fertile area for collaboration between internal audit and the CRO. The survey indicates that internal audit drives the process in 59 per cent of organisations. However, in 27 per cent of the organisations with a CRO, it is the CRO who coordinates the assurance framework.

It is appropriate for internal audit to take the lead given the activity’s assurance focus. As this is still a relatively new discipline, the profession needs to ensure it has the skills to develop and structure an assurance map that is accurate, comprehensive and practical for the board and management.

The survey also indicates that 46 percent of organisations for whom the COSO internal control framework was relevant said they were not addressing the requirements adequately. This is a significant gap in practice. Given internal audit’s internal control focus, the COSO framework could serve as an important tool to support the structuring of the assurance mapping process.

The opportunity exists for internal audit to shape the relationship with the risk function in order to drive the best support in governance, risk and assurance.
Effectiveness and Quality

The survey reveals that the majority of organisations are committed to improving the effectiveness of their internal audit function. 78 per cent of organisations undertook initiatives in the past year to improve their audit functions. Of those, 16 per cent reported implementing major changes, while 62 per cent made incremental changes.

The top activities undertaken to improve internal audit effectiveness were:
- data analytics (67 per cent)
- assurance mapping (53 per cent)
- use of third party subject matter experts (50 per cent)
- building stronger linkages with other assurance providers (50 per cent).

Data analytics is a significant tool to support better audit evidence collection and analysis. Internal auditors should continue investing in data analytics tools and skills as this will be a growing focus area as organisations increase their data capabilities.

The increasing use of subject matter experts is a trend that reflects the increasing specialisation of internal audit. Technical or complex areas such as IT or treasury demand a high level of insight and capability that currently only a specialist can provide.

When asked about quality, the most common ways internal auditors gain assurance to meet the Institute of Internal Auditors’ (IIA) Professional Practice Standards are:
- self-assessment and attestation to the audit committee or management every one to two years (47 per cent)
- external quality assessments (43 per cent).

60 per cent of organisations had performed an external quality assessment (EQA) or self-assessment with independent validation within the last five years, as required by the IIA’s professional practice standards. However the remaining 40 per cent are not compliant, having either conducted the EQA more than 5 years ago, never completed one or unaware they had ever completed an EQA.

The 2014 survey indicated that audit committee members found EQAs to be valuable and enlightening particularly where outcomes and not just processes were assessed. In view of the value attached to EQAs by internal audit’s stakeholders and their importance as an accountability tool, the profession should strive to improve its use of EQAs and related tools.
Reporting and Measurement

The survey indicates that ratings are increasingly common in internal audit reporting. It is encouraging that 90 per cent rate each issue or exposure identified and 71 per cent give assurance ratings to each area under review. There is also an emerging trend (19 per cent) for ratings to be given on individual objectives within the audit scope.

In contrast, the provision of ‘overall opinions’ on the state of the organisation’s controls as a whole is less extensive. 46 per cent provide overall opinions while 49 per cent do not.

Given the 2014 survey indicated that audit committees view overall opinions as useful and important, this is a good opportunity for internal auditors to improve their reporting.

In 2015, the top techniques used by internal auditors to add value to their reporting were:

- presenting solutions developed jointly with management
- exercising judgement in deciding the priority of matters to go to the audit committee
- presenting solutions addressing the root cause of issues
- consulting with the audit committee on their information needs.

These techniques were identified as important by audit committees in the 2014 survey so it is pleasing to see them being addressed by the profession.

On the flipside, the least used reporting techniques were:

- use of trend data
- use of dashboards
- use of traffic light reporting
- presenting solutions that allow for greater agility.

Board are increasingly expecting information to be communicated in succinct visuals. For instance, in the 2014 survey, audit committees highlighted the use of dashboards as inadequate. Internal auditors should therefore continue to embrace techniques to convey key data through graphics where appropriate.

The most common methods used to measure the impact of internal audit activity on the organisation were business feedback (64 per cent) and tracking the outcomes of recommendations (60 per cent). It is encouraging that internal auditors are measuring outcomes and not just whether actions are taken.

How do you value-add your reporting?

- 85% Present solutions, developed jointly with management
- 82% Exercise judgement in deciding the priority of matters to go to the Audit Committee
- 78% Present solutions that get to the root cause of issues
- 77% Consult with the Audit Committee on their information needs
- 74% Give a point of view
- 71% Present solutions that allow for easier compliance and control
- 58% Identify themes and trends
- 53% Present solutions that reduce the cost of doing business, while also managing risk
- 47% Present solutions that allow for greater agility
- 47% Traffic lights
- 24% Dashboards
- 21% Trend data
Capabilities and Resourcing

Knowledge is ‘power’ for the internal audit profession. The survey found that resources and training provided by the Institute of Internal Auditors was the most important source for the latest internal audit techniques and business practices. Other important sources of knowledge were benchmarking with peers within their industry and region and tapping into advisory firms.

Interestingly, the least used knowledge source was referring to peers from other countries. Less than 25 per cent of organisations resort to this resource. However, in an increasingly interconnected world where risk, economic and technology challenges inevitably reverberate in Australia, global relationships are and should be an important source of innovative ideas. There is scope for internal auditors to explore this further.

Building a strong internal audit team involves protecting corporate knowledge through appropriate staff retention measures. It is interesting that only 8 per cent of organisations reported being very concerned about staff retention. A far greater proportion – 42 per cent – said they were not at all concerned. This may reflect the fact that organisations have in recent years invested in recruiting the right people for the right roles and have focused on developing fulfilling career paths and work opportunities for audit staff. This is an encouraging development but remains an area for further progress.

In 2015, the skillsets that are most in demand are:
- IT
- risk management
- project management.

These three skill ‘gaps’ have remained largely at the ‘top of the list’ for the past five years. Internal auditors with these high-demand skills are likely to experience better career progression.

Organisations report that the top measures used to address skill gaps in their internal audit function are:
- using service providers (74 per cent)
- providing training (69 per cent)
- partnering with the business (42 per cent).

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Focus for 2015 and beyond

Organisations have either made or are expecting to make significant changes to their internal audit function. The greatest changes are to the structure of the function (54 per cent) and its scope of work (46 per cent).

The survey reveals that the top areas where internal audit’s scope expanded in the last 12 months were:
- assurance on the risk framework
- major projects
- risk management
- IT.

This is broadly consistent with the areas respondents expect to expand in the next 12 months. The focus on risk by internal audit reflects the strengthening of risk functions across organisations more broadly. As organisations increase their capacity to identify and manage risks, there is corresponding growth in the need to audit those risks.

Conversely, the top areas where internal audit’s scope has contracted in the past year are financial process audits and compliance audits. The decline in focus on these two areas is expected to continue in the next 12 months.

The overall picture is of internal audit increasing its focus in almost all areas. It is interesting that despite tightening economic and budgetary conditions, internal audit is continuing to grow its reach. This may suggest that functions are becoming more efficient and adept at doing ‘more with less’.

In addition, it is possible that audit committees are increasingly willing to invest in assurance because they are clearly seeing its value. Indeed, the changes in internal audit’s scope have been driven primarily by the board and audit committee (76 per cent) and only secondly by business needs (66 per cent). Proactive internal audit functions will seek to demonstrate their value by anticipating their stakeholders’ emerging needs.

Organisations reported that their top priorities for internal audit over the next three years were:
- cost controls/efficiency gains (54 per cent)
- IT (51 per cent)
- strategic risk (49 per cent)
- data analytics (43 per cent)
- major projects implementation (42 per cent).

Achieving good outcomes in these areas will require internal auditors to bring together a range of skills: strong business acumen, canvassing leading ideas from around the globe, forming solid partnerships with the risk function and management, and being innovative in the way they report. These capabilities are recurring themes in this survey and represent skillsets internal audit should develop further in order to be better positioned to tackle current and future challenges.

The Internal Audit profession continues to develop in its support of organisations. Flexibility, the ability to respond to changing needs, innovation and expansion in the quality of assurance reporting, and the delivery of new insights to the table are essential to continuing this trajectory.
Further information

The “Achieving High Performance in Internal Audit” study aims to capture developments and trends in the internal audit profession.


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IIA-Australia’s purpose is to support the profession and those who work in it for the public good.

IIA-Australia provides internal auditing practitioners, executive management, boards of directors and audit committees with standards, guidance and information on internal auditing best practices. Established in Australia in 1952, IIA-Australia has chapters across the country. Globally, the IIA serves more than 170,000 members. The IIA is recognised as the internal audit professions leader in certification, membership, learning and development, research, technical guidance, quality services, policy and advocacy throughout the world.

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