

Achieving High Performance in Internal Audit

Fifth Edition

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voice of the profession

Protiviti and the Institute of Internal Auditors – Australia (IIA-Australia) have continued their comprehensive research program into developments and trends in the internal audit profession in Australia. Now in its fifth year, the 2013 edition surveyed Chief Audit Executives (CAEs) from organisations across the listed, unlisted, government and not for profit sectors.

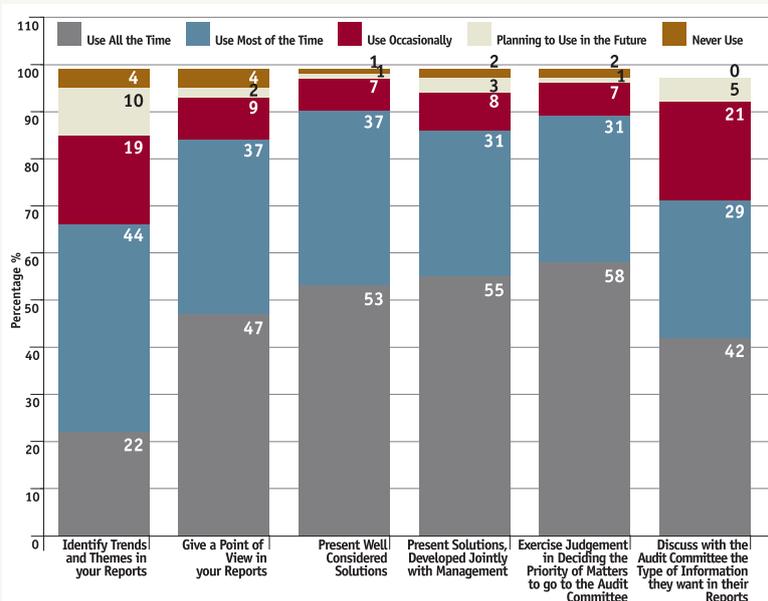
In 2012, we conducted qualitative research with Audit Committee members*. Several major themes were raised and were included as questions in the current survey to CAEs. Responses to these questions are outlined below.

This report is a summary of the findings presented at SOPAC® 2013. The full report of Achieving High Performance in Internal Audit *Fifth Edition* is available on our websites: www.iaa.org.au and www.protiviti.com.au.

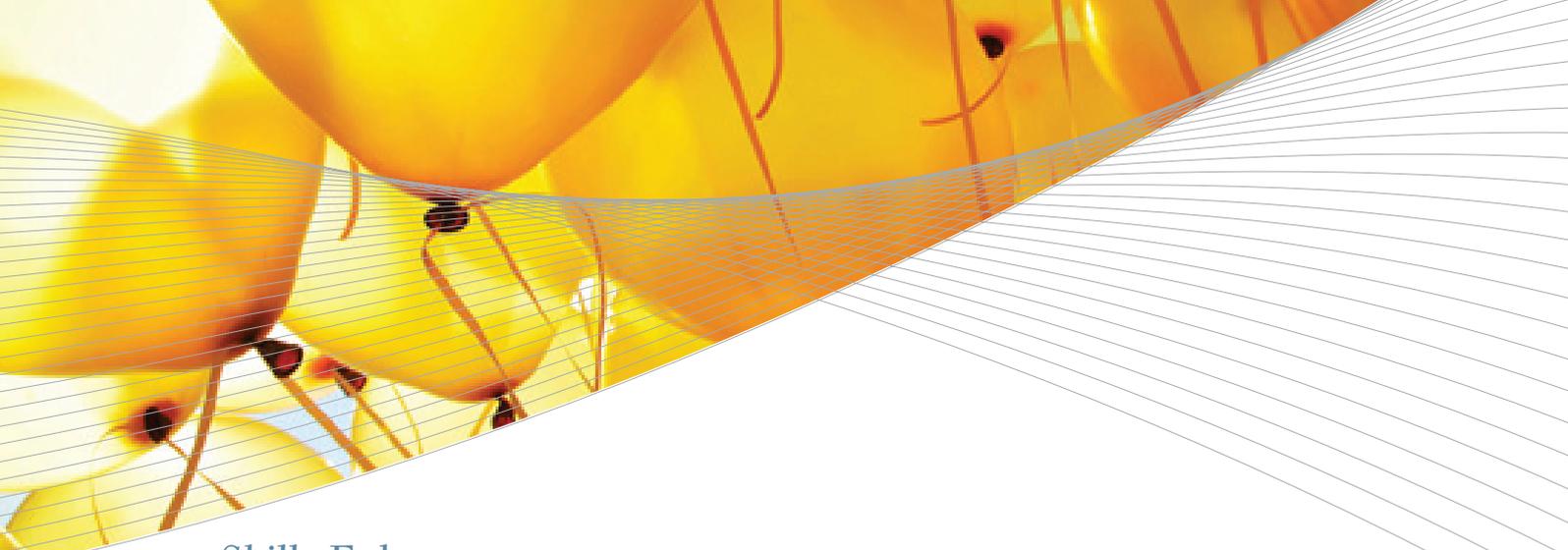
Audit Committee Reports

Audit Committee members challenged CAEs to enhance the quality of reporting to the Audit Committee. However, CAEs appear satisfied with the status quo from past years. One third of respondents still indicate they are not currently identifying trends or themes in reports. Similarly, over one quarter are yet to discuss with the Audit Committee the type of information they want.

Audit Committee Reporting



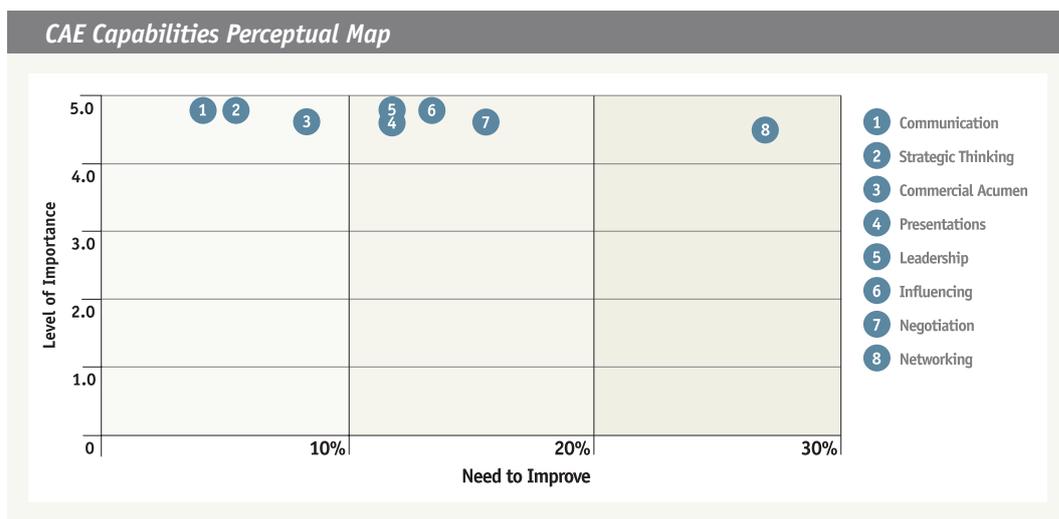
*Achieving High Performance in Internal Audit, Fourth Edition, 2012



Skills Enhancement

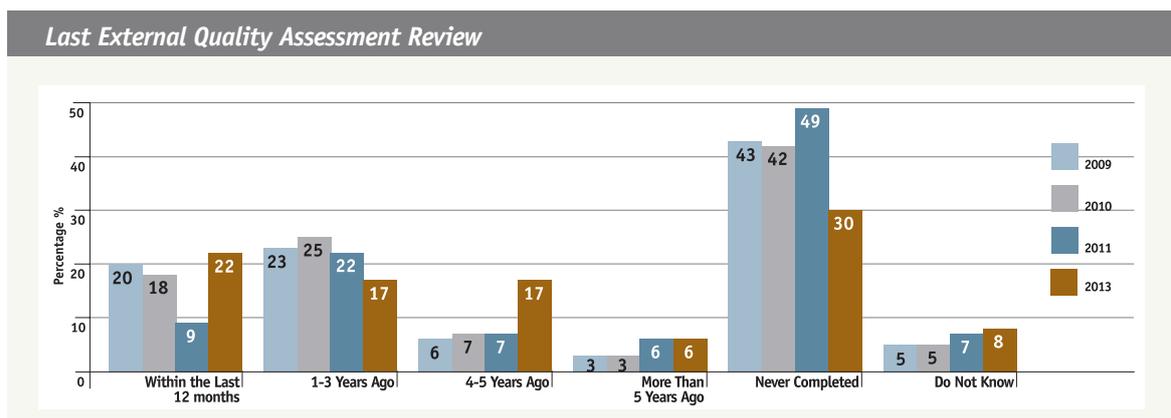
Audit Committee members consider there are several areas where competency can be improved. Again CAEs do not agree. The survey asked CAEs to rate the level of importance and their competency in skills depicted in the perceptual map below. CAEs rated all of these areas as important but very few (15% or less) felt they needed to improve their skills in these areas, with the exception of networking.

The 2013 survey reveals there is a disconnect between what Audit Chairs want and what skills CAEs believe they need to enhance their function. Audit Chairs want their CAE to be strategic, commercial and a leader whereas CAEs believe they need to improve their networking skills. This shows there is an expectation gap that CAEs need to address as a matter of priority.



Quality

The Standards require an external assessment of the internal audit function at least every five years with internal quality processes to be performed on an ongoing basis. It is pleasing to see that 56% of organisations have conducted an external assessment within the last five years, an increase of 18% from 2011 results. Hopefully, this will continue to trend upwards as more and more organisations recognise that a robust internal audit function is central to effective assurance and risk mitigation practices.



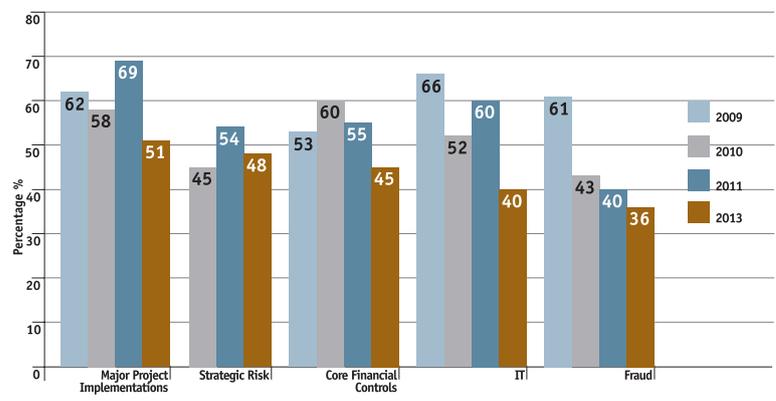
Challenges and Trends

Major project implementations was again nominated by over half (51%) of CAEs as the highest emerging priority in the next three years. The top five priorities are:

- Major project implementations (51%)
- Strategic risk (48%)
- Core financial controls (45%)
- IT (40%)
- Fraud (36%)

It is not surprising to see that major projects have declined since 2011 from 69% to 51% reflecting the more challenging recent economic environment with less investment for capital projects over the last couple of years. Other priority areas identified by CAEs that fell below the top five include continuous control monitoring, cost controls and risk management attestation – all at 35%. Mergers, acquisitions or divestments are emerging as higher priorities for CAEs than in previous years.

2013 Priorities for Next 3 Years

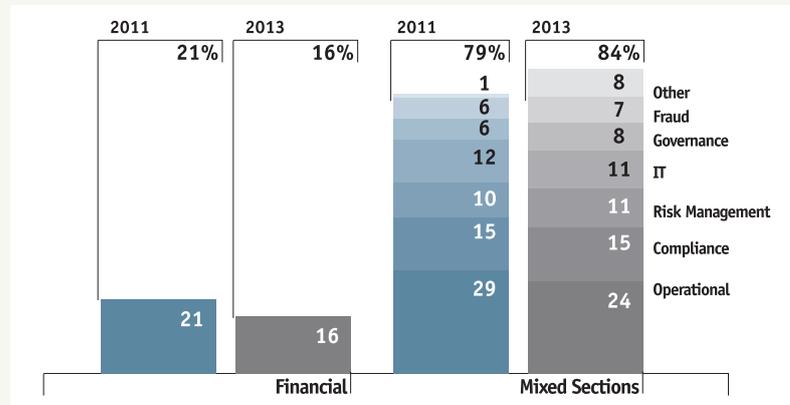


Note: Multiple responses add to more than 100%.

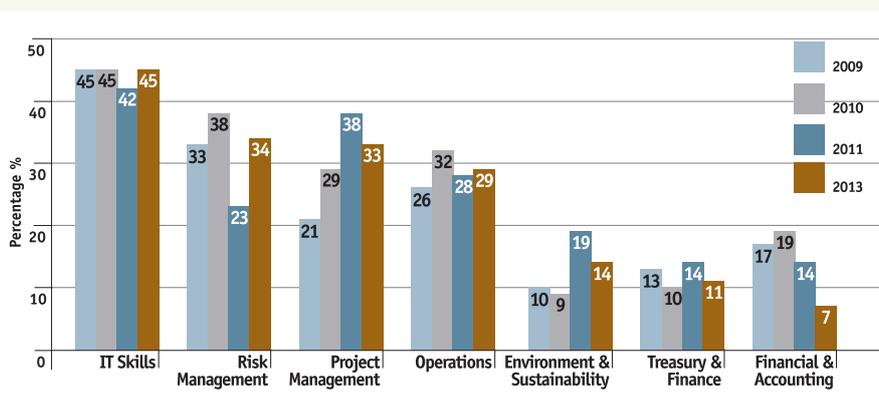
Internal Audit Resources

Audit functions continue to spend the majority of their time on non-financial matters (84%) – an increase from 79% in 2011. A reduction in financial audits may suggest the internal audit is focussing on business operations more broadly than previous years suggesting that internal auditors require more diverse and sophisticated business skills. Not surprisingly, this is also reflected in demand for education and training in a broader range of skills.

Internal Audit Function Proportions



Very High or High Unfilled Internal Audit Team Demand



CAEs continue to report an urgent skills shortage in the area of IT audit. This is a concern given that IT has been identified as a major priority over the next three years. Risk and Project management also report unfilled demand in these key areas. Internal Audit departments continue to source skills through co-sourcing arrangements, guest auditors or other contracts because they do not have the skills on staff to meet these critical needs.

Value

There is a significant difference in how internal auditors perceive the value they are delivering to management versus the Audit Committee. According to CAEs, Audit Committees place a significantly greater value on internal audit services compared to management.

It is interesting to note that level of overall value perceived (significant and moderate) has decreased considerably from 2011. But this is not supported by stakeholder surveys. Explanations for the perceived differences could be that either management does not fully appreciate the extent of value that internal audit provides or that the audit plan and projects are focussed more toward assurance to the Audit Committee rather than direct value to management.

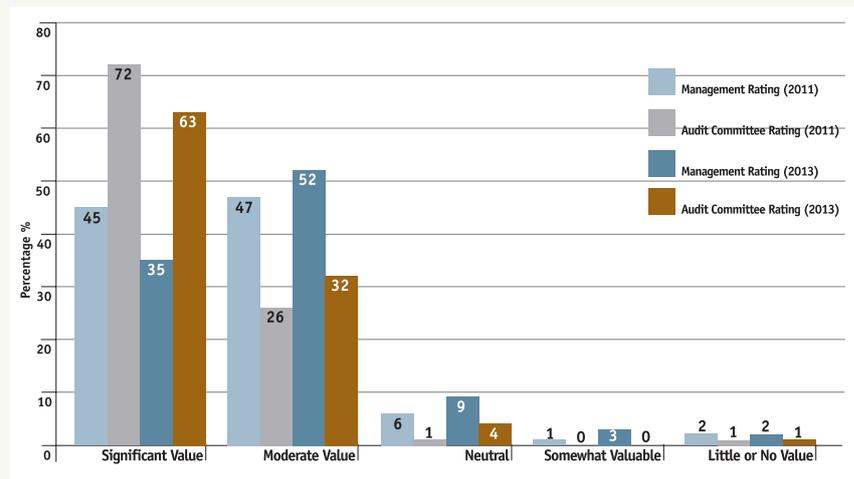
The Audit Committee on the other hand heavily relies on the internal audit function for the assurance they provide over risk management, control and governance processes. The 2012 survey* revealed that Audit Chairs don't want their CAE to 'just raise problems'. Chairs want and encourage their CAE 'to come up with solutions and recommendations to improve business performance'.

The 2013 survey suggests that CAEs are less confident in their relationship with management and the responsibility is on CAEs to earn the respect of management. Just as CAEs have earned the respect of the Audit Chair, they now have to earn the respect of management. Previous surveys have shown the CAEs that have earned the respect of management are also less likely to experience interference from management.

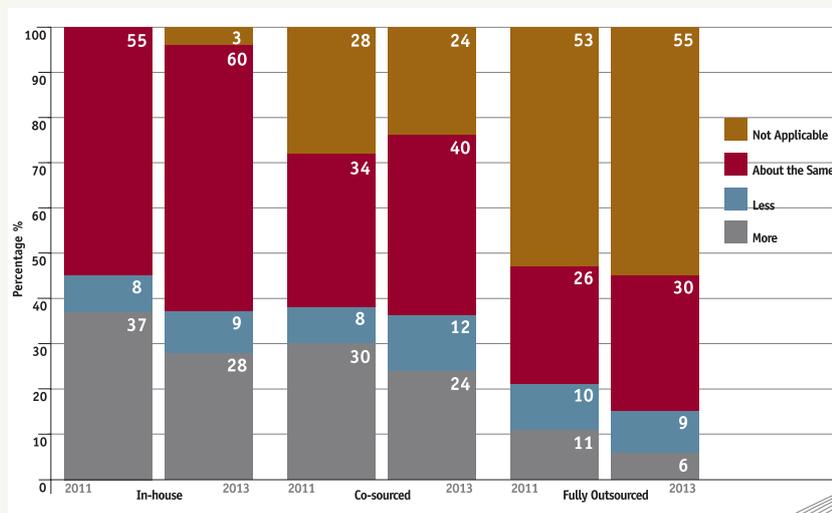
It is clear from both the 2012 and 2013 surveys that CAEs cannot be complacent when it comes to ensuring that the internal audit function is adding value to both the Audit Committee and to management. They need to meet needs and diverse expectations of both. If they don't, this trend may escalate in future surveys.

Organisations spent an average of \$1.3 million to maintain an in-house internal audit function – an increase from \$1.1 million in 2011. This is consistent with previous studies and equates to approximately 5-8 staff. The average spend on out-sourced internal audit was also consistent with previous years at approximately \$140,000 per annum. This indicates that out-sourcing is occurring for internal audit functions that require the equivalent of 1-5 staff.

Management and Audit Committee Value

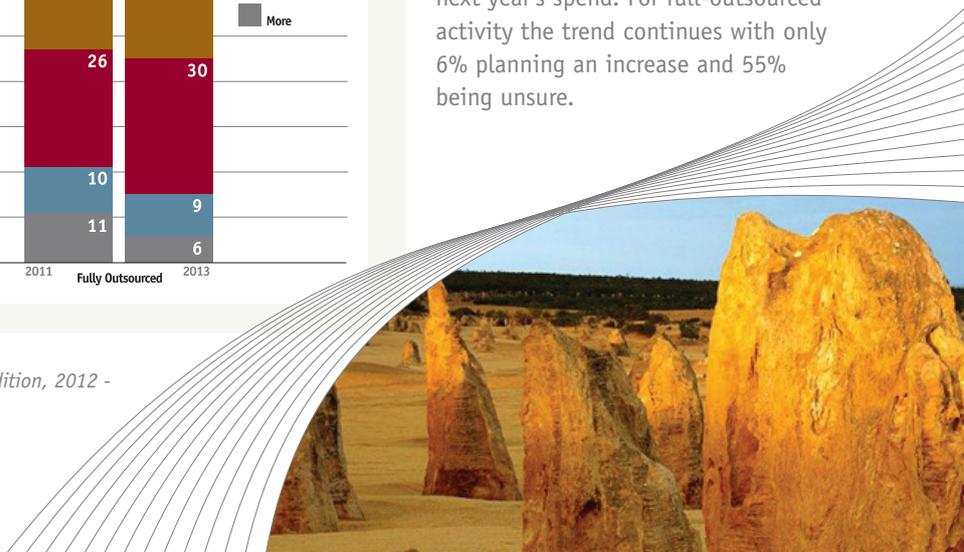


Internal Audit Expenditure in Next 12 Months



Budgets remain steady with 28% of organisations planning to increase spending on in-house activity (a decrease from 2011 from 37%) and 60% to spend about the same. For co-source activity it drops to 24% planning an increase and 40% are unsure about the direction of next year's spend. For full-outsourced activity the trend continues with only 6% planning an increase and 55% being unsure.

*Achieving High Performance in Internal Audit, Fourth Edition, 2012 - Insights from the Audit Committee Chair



Further information

The "Achieving High Performance in Internal Audit" study aims to capture developments and trends in the internal audit profession. The full report is available on our websites: www.iaa.org.au and www.protiviti.com.au.

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IIA-Australia's purpose is to support the profession and those who work in it for the public good. Our vision is to achieve genuine professional body status by 2020.

IIA 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, the IIA has chapters across the country. Globally, the IIA serves more than 160,000 members in internal auditing, governance and internal control, IT audit, education and security from more than 165 countries.



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