Driving Success in a Changing World

10 Imperatives for Internal Audit

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About CBOK

SURVEY FACTS

Respondents	14,518
Countries	166
Languages	23

EMPLOYEE LEVELS*

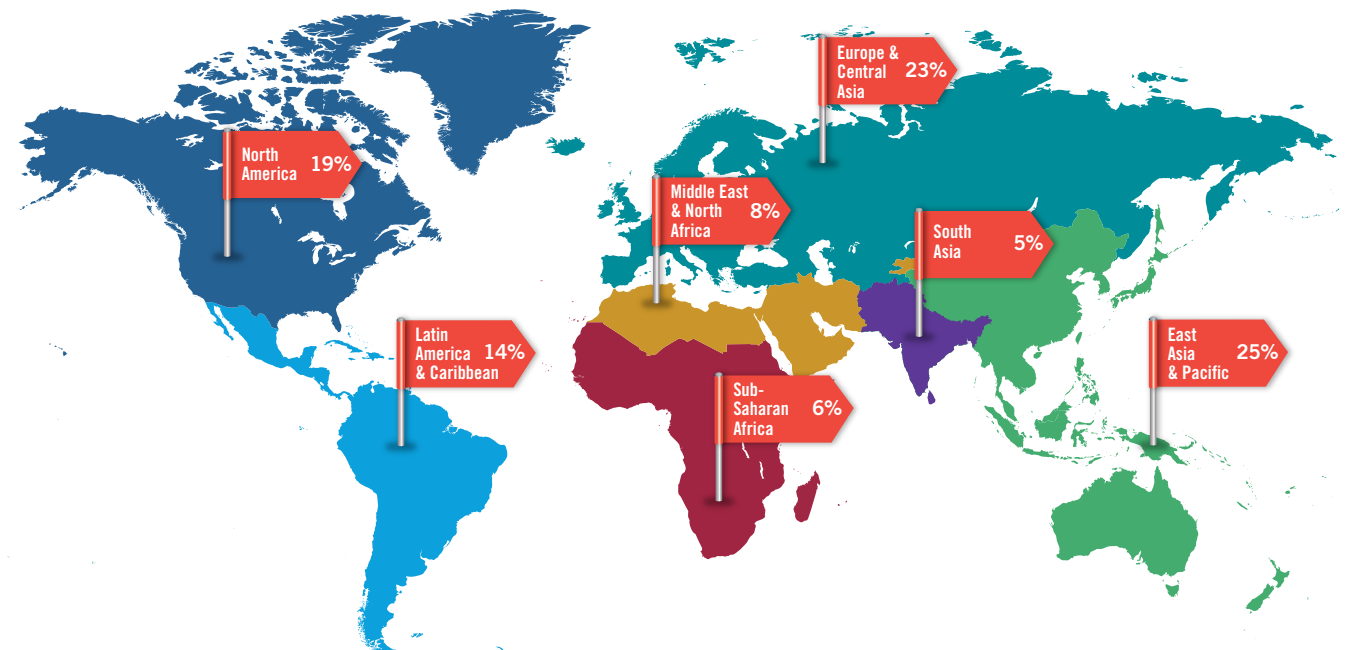|	
Chief audit executive (CAE)	26%
Director	13%
Manager	17%
Staff	44%

*Employee levels were obtained from 12,716 respondents.

The Global Internal Audit Common Body of Knowledge (CBOK) is the world's largest ongoing study of the internal audit profession, including studies of internal audit practitioners and their stakeholders. One of the key components of CBOK 2015 is the global practitioner survey, which provides a comprehensive look at the activities and characteristics of internal auditors worldwide. This project builds on two previous global surveys of internal audit practitioners conducted by The IIA Research Foundation in 2006 (9,366 responses) and 2010 (13,582 responses).

Beginning in July 2015, reports will be released on a monthly basis and can be downloaded free of charge thanks to the generous contributions and support from individuals, professional organizations, IIA chapters, and IIA institutes. More than 25 reports are planned and are categorized into eight knowledge tracks focused on the profession's emerging issues in areas that include the future of internal auditing, governance, global perspective, management, risk, standards, talent, and technology.

Visit the CBOK Resource Exchange at www.theiia.org/goto/CBOK to download the survey questions and the latest reports as they become available.

CBOK 2015 Practitioner Survey: **Participation from Global Regions**

North America **19%**

Europe & Central Asia **23%**

Middle East & North Africa **8%**

South Asia **5%**

Latin America & Caribbean **14%**

Sub-Saharan Africa **6%**

East Asia & Pacific **25%**

Note: Global regions are based on World Bank categories. Survey responses were collected from February 2, 2015, to April 1, 2015. The online survey link was distributed via institute email lists, IIA websites, newsletters, and social media. Partially completed surveys were included in analysis as long as the demographic questions were fully completed. In CBOK 2015 reports, specific questions are referenced as Q1, Q2, and so on.

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Governance

Management

Risk

**Standards &
Certifications**

Talent

Technology

Contents

Executive Summary

Change in the business world is accelerating as the effects of globalization, advances in technology, and revolutions in geopolitical landscapes reach deeper into societies around the globe.

Larry Harrington, the 2015–2016 global chairman of the Board of Directors of The IIA, has partnered with award-winning business writer Arthur Piper to develop *Driving Success in a Changing World: 10 Imperatives for Internal Audit*, which gives practitioners a fresh perspective on how to navigate today's challenges. The 10 imperatives will help practitioners discover areas where they can grow professionally and add more value to their organizations.

This report is supported by insights derived from the CBOK 2015 Global Internal Audit Practitioner Survey, the largest survey of internal auditors in the world. In addition, the authors conducted interviews with internal audit leaders from global regions.

In this report, you will discover how respondents from the global regions answered questions such as:

- How do you measure the effectiveness of your performance?
- Is your internal audit department aligned to your organization's strategic plan?
- How frequently do you update your audit plan?
- Have you ever felt pressure to suppress or modify a valid audit finding or report? If so, from whom?
- How much time does your internal audit department spend on cybersecurity and social media risks?
- Are you practicing continuous auditing?
- What kinds of training do you provide for your staff?

You will also learn about trends in the profession such as:

- What percentage of respondents intend to stay in the internal audit profession over the next five years
- How the ratio of male to female practitioners is changing dramatically
- How The IIA's *International Standards for the Professional Practice of Internal Auditing* (*Standards*) usage has increased in the last five years
- What skills CAEs want to add to their internal audit departments

Driving Success in a Changing World is the first in a one-year series of reports based on the CBOK 2015 practitioner survey, which will be released starting July 2015. CBOK reports are available free to the public at www.theiia.org/goto/CBOK.
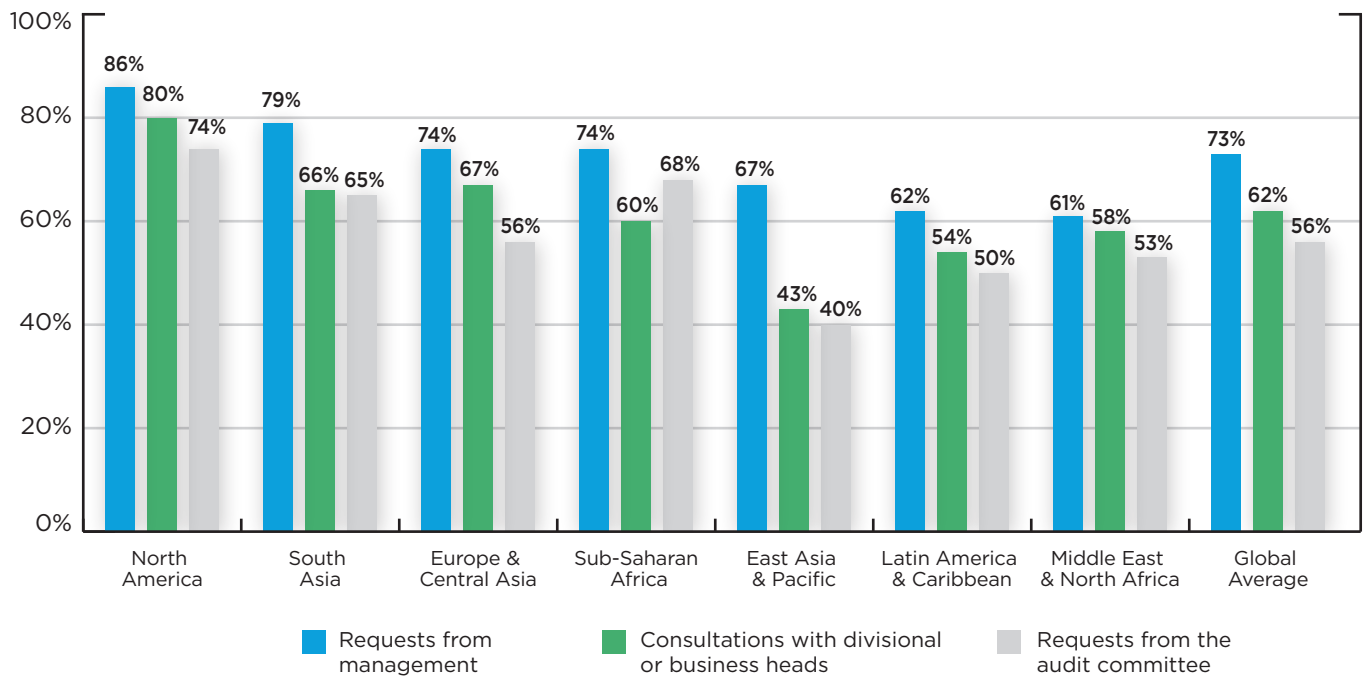
1 Anticipate the Needs of Stakeholders

To play a leading role in the success of their organizations, internal auditors need to anticipate the requirements of their stakeholders. In today's dynamic risk landscape, that is no easy task. The board, management, control functions, and internal and external assurance providers have a broad range of constantly shifting, often competing, and sometimes poorly communicated needs that internal auditors should fundamentally understand and serve.

Internal auditors must improve communication channels to better anticipate stakeholder expectations, particularly during the audit planning and approval processes. They must demonstrate how and why their audit plans meet the key risks the business faces in pursuing its strategy. Failure to do so often leads to a dangerous expectations gap between internal auditors and stakeholders.

Globally, while 3 out of 4 departments (73%) say they incorporate requests from management into their audit plans, just 2 out of 3 (62%) consult with divisional or business heads, and fewer (56%) consult with audit committees. In North America, there are much higher levels of consultation across all of these categories (see **exhibit 1**).

Exhibit 1 Resources Used to Establish an Audit Plan

Legend:
- Requests from management
- Consultations with divisional or business heads
- Requests from the audit committee

Data (Requests from management / Consultations with divisional or business heads / Requests from the audit committee):
- North America: 86% / 80% / 74%
- South Asia: 79% / 66% / 65%
- Europe & Central Asia: 74% / 67% / 56%
- Sub-Saharan Africa: 74% / 60% / 68%
- East Asia & Pacific: 67% / 43% / 40%
- Latin America & Caribbean: 62% / 54% / 50%
- Middle East & North Africa: 61% / 58% / 53%
- Global Average: 73% / 62% / 56%

Note: Q48: What resources do you use to establish your audit plan? (Choose all that apply.) CAEs only. *n* = 3,013.

Fewer CAEs (32%) compare audit outcomes against the specific expectations set and agreed with stakeholders, except in South Asia, where close to half (46%) say they do so (see **exhibit 2**).

Exhibit 2 **Performance Measured Against Stakeholder Expectations**
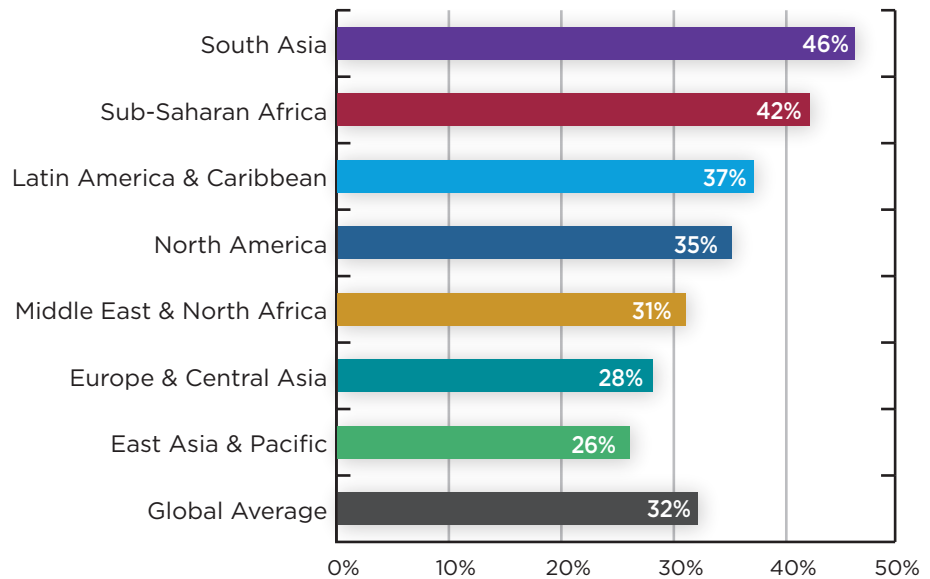
Note: Q90: What specific measures does your organization use to evaluate the performance of its internal audit activity? (Choose all that apply.) CAEs only. *n* = 2,605.

Three Lines of Defense

The Three Lines of Defense model of corporate governance is endorsed by The IIA and provides the following structure for assigning and managing risk management and control responsibilities:

First Line of Defense: Operational management, which owns and manages risk and control

Second Line of Defense: Risk management and compliance functions, which define risk policies and support management
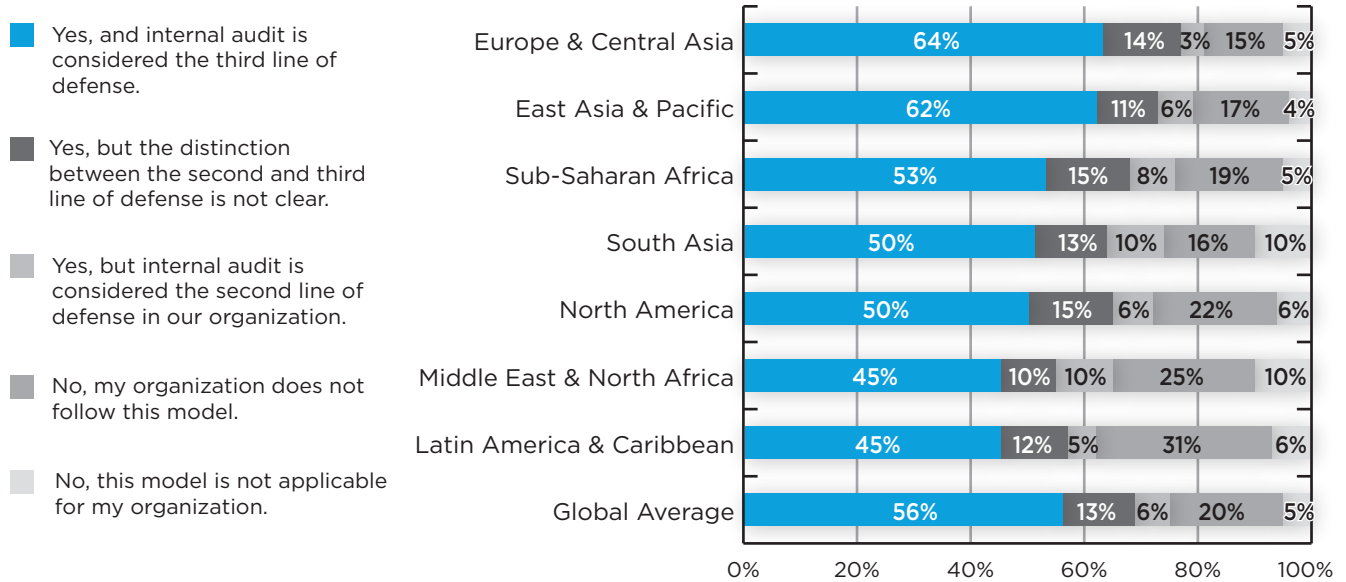
Third Line of Defense: Internal audit, which provides independent and objective assurance to both management and the organization on how well the system works and meets the strategic needs of the organization

Among survey respondents who were familiar with the Three Lines of Defense model, between 62% and 81% indicate that internal audit uses the model in their organizations (see the combined total of the "yes" responses in **exhibit 3**). However, there is a lack of familiarity with the model in certain regions, particularly South Asia, North America, and Middle East & North Africa, indicating opportunities for further education (see **exhibit 4**).
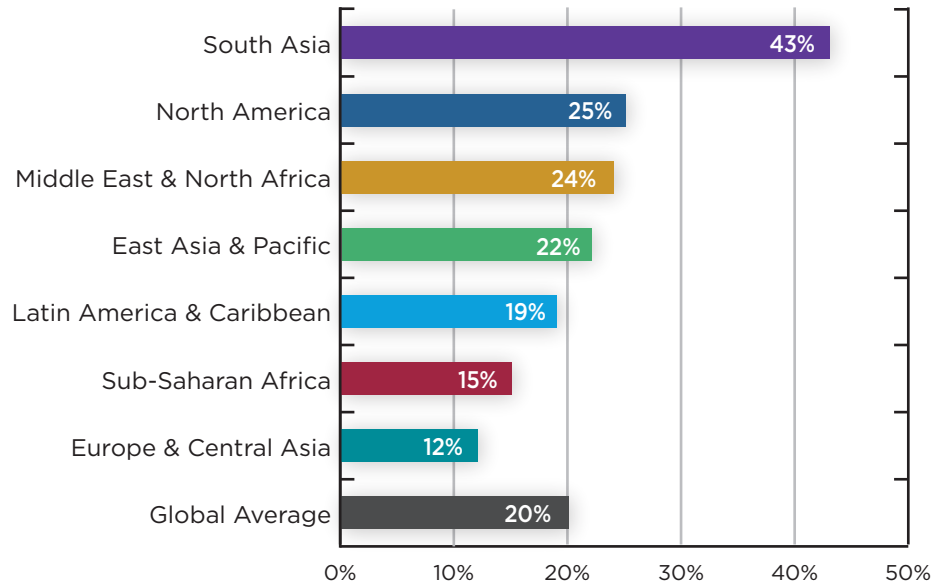
Source: IIA Position Paper, The Three Lines of Defense in Effective Risk Management and Control, January 2013, pages 3–5.

Exhibit 3 **Usage of the Three Lines of Defense Model**

- ■ Yes, and internal audit is considered the third line of defense.
- ■ Yes, but the distinction between the second and third line of defense is not clear.
- ■ Yes, but internal audit is considered the second line of defense in our organization.
- ■ No, my organization does not follow this model.
- ■ No, this model is not applicable for my organization.

Region					
Europe & Central Asia	64%	14%	3%	15%	5%
East Asia & Pacific	62%	11%	6%	17%	4%
Sub-Saharan Africa	53%	15%	8%	19%	5%
South Asia	50%	13%	10%	16%	10%
North America	50%	15%	6%	22%	6%
Middle East & North Africa	45%	10%	10%	25%	10%
Latin America & Caribbean	45%	12%	5%	31%	6%
Global Average	56%	13%	6%	20%	5%

Note: Q63: Does your organization follow the three lines of defense model as articulated by The IIA? *n* = 11,255. Those who responded "I am not familiar with this model" were excluded from these calculations. Due to rounding, some region totals may not equal 100%.

Exhibit 4 **Respondents Not Familiar with the Three Lines of Defense Model**

Region	Percentage
South Asia	43%
North America	25%
Middle East & North Africa	24%
East Asia & Pacific	22%
Latin America & Caribbean	19%
Sub-Saharan Africa	15%
Europe & Central Asia	12%
Global Average	20%

Note: Q63: Does your organization follow the three lines of defense model as articulated by The IIA? This exhibit shows respondents who chose the option "I am not familiar with this model." *n* = 11,255.

2 Develop Forward-Looking Risk Management Practices

> ❝*While executive managers understand what is important to their departments individually, internal audit should have the overarching view of things and understand corporately what the big risks are to the entire organization.*❞

—Theresa Grafenstine,
Inspector General,
U.S. House of
Representatives,
Washington, DC

Internal auditors must understand how the complex web of risks arising from geopolitical events, environmental change, and rapid advances in technology impacts their businesses. They must assess the likely impact of possible future events—including their second- and third-order consequences—on their organizations' strategies and operations.

Looking forward, CAEs say that the risks on which executive management will focus the greatest attention in 2015 are:

Operational	72%
Strategic business risks	70%
Compliance/regulatory	62%

Source: Q65.

While executive managers can grasp the importance of such risks for their departments, they may fail to see how those risks impact the organization as a whole.

On average, just over 1 out of 3 respondents say their annual audit plan is updated three or more times a year as risks change (see **exhibit 5**). Although internal auditors are in a position to understand strategic risks to their organizations, on average, only about half of survey respondents (57%) say their departments are either fully or mostly aligned with the strategic plan of their business (see **exhibit 6**).

Exhibit 5 **Audit Plan Updated Three or More Times Per Year**
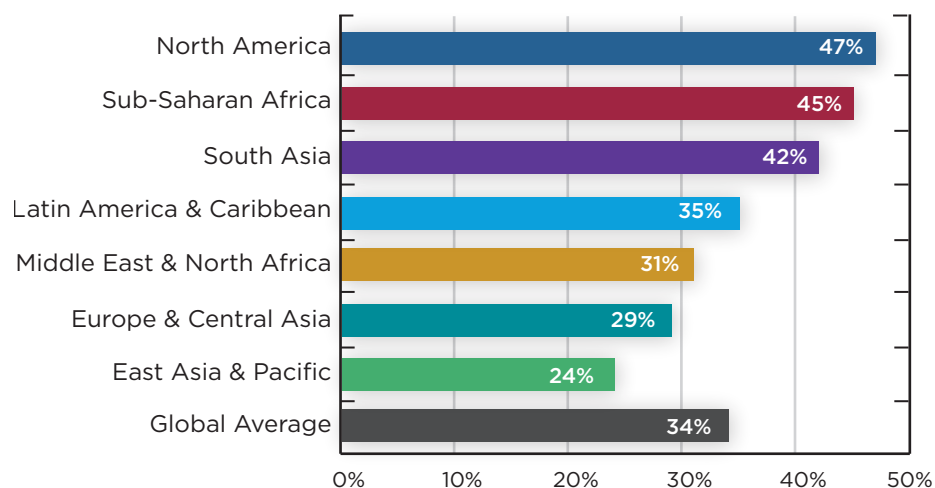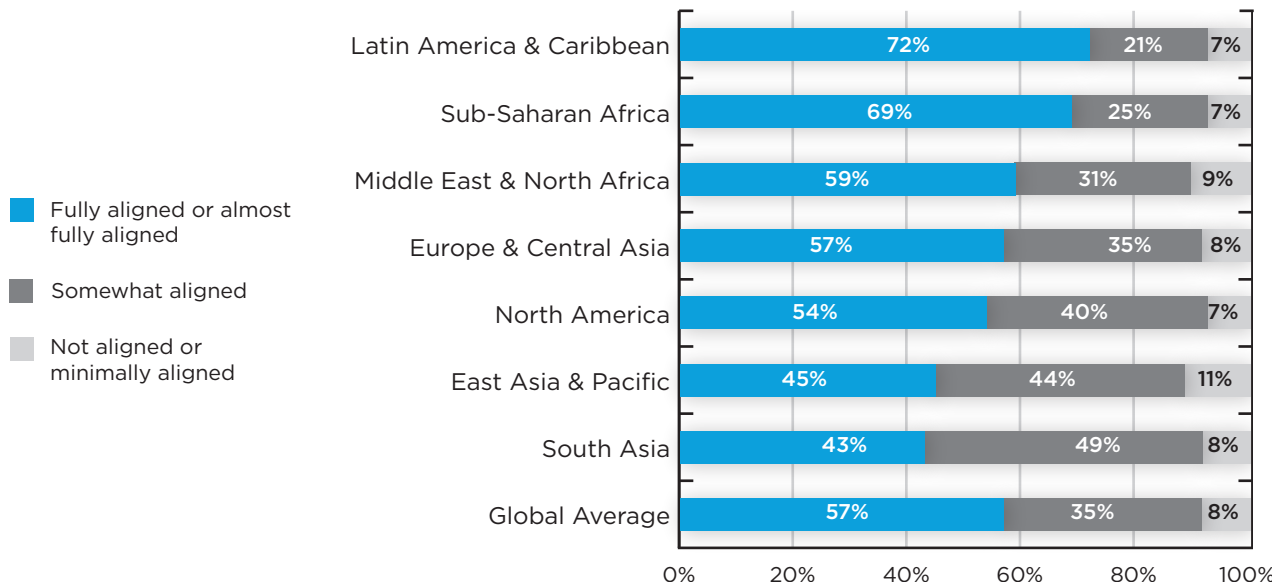

Note: Q38: How would you describe the development of the audit plan at your organization? Exhibit shows respondents who chose option 3, "updated three or more times a year as risks change," or option 4, "comprises a highly flexible plan matched to the organization's changing risk profile." CAEs only. *n* = 3,014.

"The annual audit plan should be based on the organization's strategic plan. Internal auditors should prioritize their engagements and reassess and update their plans regularly," says Simon Nyazenga, formerly group director internal audit, Rift Valley Corporation, Harare, Zimbabwe.

Assuring the board that the organization is able to deal with fast-moving emerging risks requires an understanding of the strategic, business, legal, and compliance risks of the organization; in-depth knowledge of the business; and high levels of competence in technology tools. One challenge for internal audit departments will be to ensure they have the skill sets to meet the demand for their services in these areas.

Exhibit 6 **Internal Audit Aligned to Strategic Plan**

Region	Fully aligned or almost fully aligned	Somewhat aligned	Not aligned or minimally aligned
Latin America & Caribbean	72%	21%	7%
Sub-Saharan Africa	69%	25%	7%
Middle East & North Africa	59%	31%	9%
Europe & Central Asia	57%	35%	8%
North America	54%	40%	7%
East Asia & Pacific	45%	44%	11%
South Asia	43%	49%	8%
Global Average	57%	35%	8%

Note: Q57: To what extent do you believe your internal audit department is aligned with the strategic plan of your organization? CAEs only. *n* = 2,717.

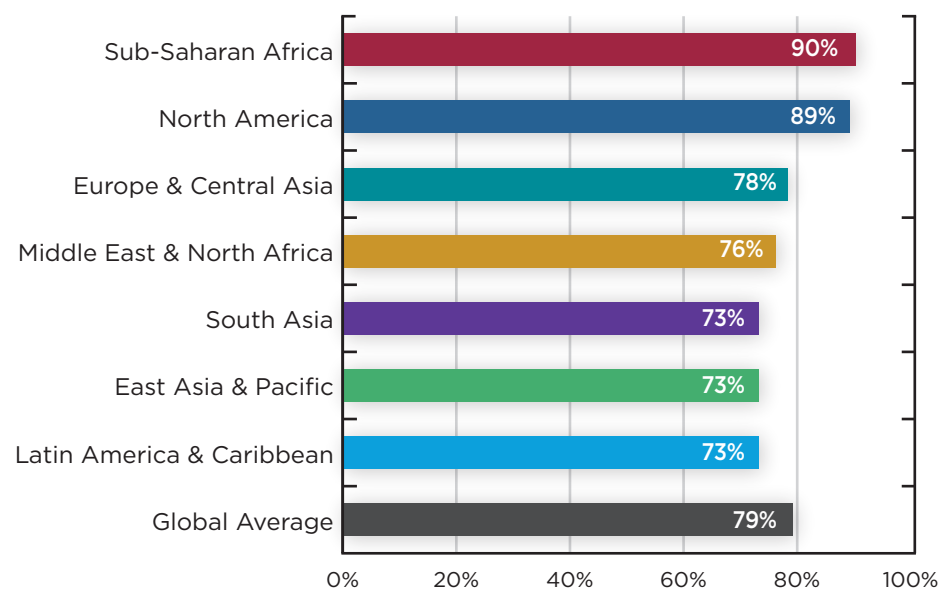# 3 Continually Advise the Board and Audit Committee

Advising the audit committee of the constantly changing compliance, regulatory, and risk environment is of great value to organizations because it helps them keep abreast of global developments. The widespread adoption of audit committees across the globe provides internal audit with a conduit to be the leading source of information to the board on emerging risks, risk management, internal audit, and The IIA's *Standards* (see **exhibit 7**).

"The chief audit executive is in the ideal position to inform and advise the board of key risks because he or she understands both the business and the risks and has the ability to tie them together," says Theresa Grafenstine, inspector general, U.S. House of Representatives, Washington, DC.

Responses from the 2015 practitioner survey indicate that a high percentage of CAEs have an active relationship with their audit committees. Among organizations that have audit committees, on average, 7 out of 10 say they report functionally to the audit committee, although there are wide regional variations (see **exhibit 8**). In addition, about 75% of CAEs say they meet at least once per year

Exhibit 7 Audit Committee in Organization

Region	Percentage
Sub-Saharan Africa	90%
North America	89%
Europe & Central Asia	78%
Middle East & North Africa	76%
South Asia	73%
East Asia & Pacific	73%
Latin America & Caribbean	73%
Global Average	79%

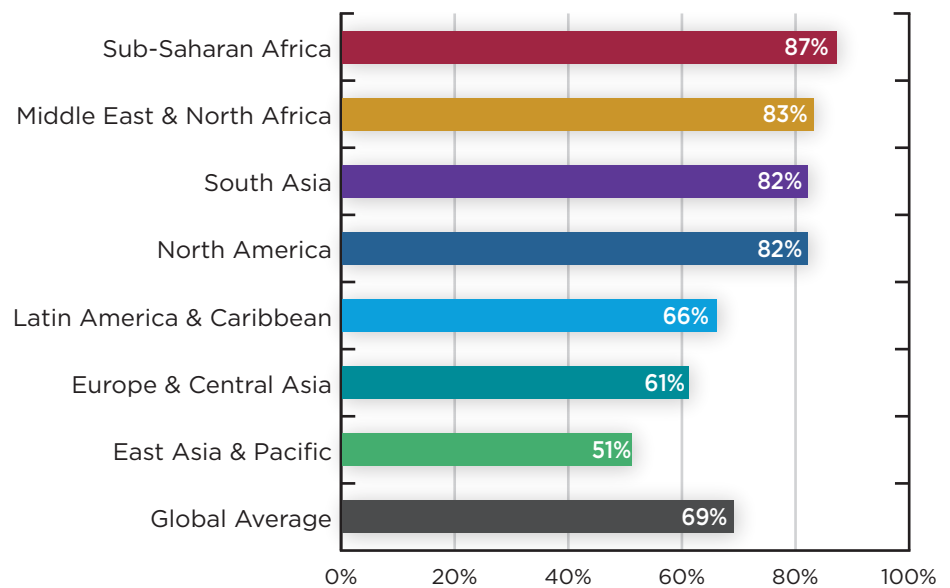*Note:* Q78: Is there an audit committee or equivalent in your organization? *n* = 11,085.

with the audit committee in executive sessions with no member of management present (Q78c).

In addition to these formal communication channels, which are critical, working behind the scenes as an advisor to audit committees and other stakeholders is a highly effective way of both understanding their needs and helping to keep the board up to speed.

"You need credibility if you want people to come to you for advice and information," says Nicola Rimmer, director in Barclay's Internal Audit, London, UK, and past president of The IIA–UK & Ireland. She says internal auditors build credibility by developing good business awareness, adopting a pragmatic approach to their work, and being able to speak to people about what really matters to them without turning every inquiry into an audit request. With hard work, internal auditors can encourage the board, senior management, and other stakeholders to accept that internal audit is capable of operating at the right level of seniority to provide such advice.
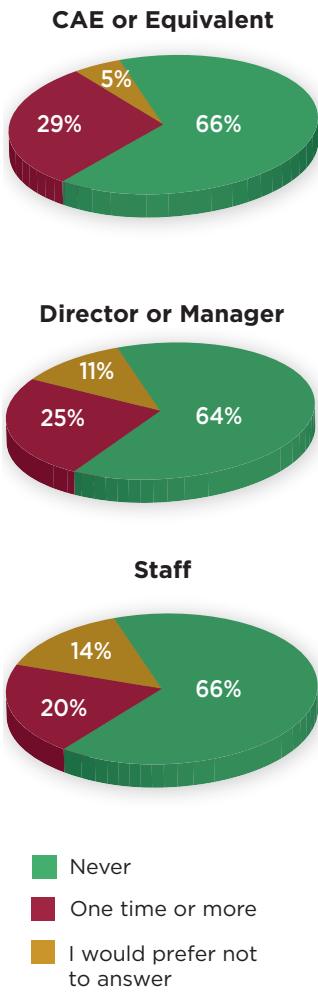
Exhibit 8 **CAEs Who Report Functionally to Their Audit Committees**

Region	%
Sub-Saharan Africa	87%
Middle East & North Africa	83%
South Asia	82%
North America	82%
Latin America & Caribbean	66%
Europe & Central Asia	61%
East Asia & Pacific	51%
Global Average	69%

Note: Q74: What is the primary functional reporting line for the chief audit executive (CAE) or equivalent in your organization? The survey stated that "functional reporting refers to oversight of the responsibilities of the internal audit function, including approval of the internal audit charter, the audit plan, evaluation of the CAE, compensation for the CAE." Only responses from CAEs at organizations with audit committees are reported. *n* = 1,952.

4 Be Courageous

CAE or Equivalent

5%
29%
66%

Director or Manager

11%
25%
64%

Staff

14%
20%
66%

- Never
- One time or more
- I would prefer not to answer

Note: Q77: During your internal audit career, have you experienced a situation where you were directed to suppress, or significantly modify, a valid internal audit finding or report? *n* = 10,823.

Internal auditors must have the courage to tell stakeholders the truth, whether they want to hear it or not. This is easier said than done, but it is essential if internal audit is to gain credibility across the organization.

Among all employee levels, about 3 out of 10 internal audit practitioners say they had undue pressure put on them to suppress or modify their findings. Depending on employee level, between 5% and 14% of all respondents say they "prefer not to answer" the question, suggesting the issue is potentially under-reported (see **exhibit 9**).

Survey respondents indicated that the pressure came from a variety of sources, depending on the respondent's employee level. CAEs felt the most pressure from the CEO, operations management, and the chief financial officer (CFO). However, directors, managers, and staff were most likely to report that the pressure came from within the internal audit department, perhaps showing how pressure is transferred from the CAE down to lower employee levels (see **exhibit 10**).

Rimmer comments that high levels of pressure from management to alter audit reports could mean that adverse audit findings affect the client's pay and bonus. "You need a culture within the organization that encourages and rewards people to be proactive in finding issues and bringing them to light," she says. She advises two ratings: one focused on

the control environment and the other assessing management's control approach to see whether they are proactively identifying and addressing issues. Reports then clearly show where management is proactive (even if management is still on a journey of improvement), which lessens the risk of pressure to alter audit reports.

Ideally, internal audit can avoid unnecessary conflict by inviting collaboration for problem solving. Robert Kella, senior vice president of internal audit for Emirates Group, Dubai, United Arab Emirates, says his internal audit department has moved away from making audit recommendations to working with management on securing agreed actions. That has allowed his department to focus the debate more on how best to improve the business's response to managing risk. It also gives his team confidence that the issues they raise during fieldwork are taken seriously by the executive team.

Nevertheless, internal audit needs to be prepared to handle conflict. "Management has to know that if there is a disagreement, you will act on your responsibility for escalating the issue to the next level by actually doing it—the business has to know the audit function has teeth," says Kella. In order for internal auditors to make the tough decisions, it is crucial for them to gain the support of the audit committee and executive management.

Exhibit 10 Top 5 Sources of Pressure to Modify a Finding or Report

CAE or Equivalent		Director or Manager		Staff	
Chief executive officer (CEO)	38%	Internal audit department	34%	Internal audit department	44%
Operations management	26%	Operations management	26%	Operations management	21%
Chief financial officer (CFO)	24%	Chief executive officer (CEO)	24%	Chief executive officer (CEO)	15%
Board of directors	12%	Chief financial officer (CFO)	18%	I prefer not to answer	15%
Other internal source	10%	Other internal source	16%	Other internal source	14%

Note: Q77b: What was the source of the pressure when you were directed to suppress, or significantly modify, a valid internal audit finding or report? (Choose all that apply.) Question only answered by respondents who previously indicated they had felt pressure to modify a finding or report. *n* = 2,547.

THE PRESSURES OF BEING AN INTERNAL AUDITOR

A recent project by The IIA Research Foundation took an in-depth look at organizational pressures felt by internal auditors. Authors Patricia Miller and Larry Rittenberg, who spent decades in the internal audit profession, identified the 10 best practices for CAEs to manage political pressure. Their insights are available in *The Politics of Internal Auditing*.

10 Best Practices for CAEs to Manage Organizational Pressure

1. Look for good governance and a knowledgeable board to support internal audit activities.
2. Use executive support to mitigate issues with other organizational relationships.
3. Know whether your employer's values are a good fit with your values.
4. Build credibility for internal audit by raising the right issues, being fair, building a strong team, focusing on facts, and playing on the same team as management.
5. Build strong relationships by doing more than attending quarterly meetings; become a more visible leader.
6. Plan ahead; talk with executives and your board about what you will do when political issues arise.
7. Have a decision framework to determine which issues you will pursue even if you will face resistance.
8. Develop a strong internal audit charter to diffuse resistance to the role and mandate of internal audit.
9. Begin positive communication before audits are conducted; continue communication in order to defuse future conflicts.
10. Learn from experience; consider what worked and what could have been handled better.

Source: Patricia K. Miller and Larry E. Rittenberg, *The Politics of Internal Auditing* (Altamonte Springs, Florida: The IIA Research Foundation, 2015), pages 103–111.

5 Support the Business's Objectives

You can better support the business's objectives by developing key performance indicators such as:

Customer Measures: A list of areas where value is added per audit, customer satisfaction ratings, and number of key customer meetings

Financial Measures: Documentation of cost savings, improved efficiencies, or other monetary benefits related to organizational objectives

Quality Measures: Quality assessment reviews, benchmarking using the Global Audit Information Network® (GAIN®)

Staff Growth Measures: Certifications earned, hours of training per year, development of training planning using The IIA's Career Map

Internal auditors can close the expectations gap between themselves and key stakeholders by better aligning their work to the business's strategic objectives. Such alignment facilitates risk-based auditing and better anticipation of stakeholder needs.

A little more than half of respondents (57%) to the CBOK practitioner survey say the internal audit department is either fully aligned or almost fully aligned with the strategic plan of their business (see **exhibit 6**). This means that nearly half of respondents are not confident that they are aligned with organizational strategy and will likely struggle to demonstrate the value they add to their organizations.

"Thoroughly understanding your client's business objectives and identifying and managing the key risks facing such objectives are the two most powerful basic elements with which internal audit can help customers achieve their goals," says Gabriel Benavides Ramirez, director of internal control and anti-corruption auditing, General Audit Office of Mexico City, Mexico.

Ramirez recommends, "For each area of the strategic plan, specific performance measures should be identified, which indicate the overall change in direction as defined by the plan." In addition to tracking these indicators against the desired outcomes of the business, he adds, the audit department can use them to incentivize employees through their training programs and compensation packages.

Internal audit leaders need to do more to educate their teams about the organizations in which they operate. Individual auditors can act to acquire industry-specific certifications to enhance their understanding of the business and to help build personal credibility with management.

CAEs need to ensure that the way they measure their department's performance does not deepen the expectations gap. Only about half (51%) say they use surveys of audit clients to measure how well they perform, with fewer than 1 out of 3 (29%) surveying key stakeholders (Q91).

# 6 Identify, Monitor, and Deal with Emerging Technology Risks

Technology risks are extremely difficult to manage because they are constantly evolving. Internal auditors need to respond proactively by helping organizations identify, monitor, and deal with such emerging IT risks and advising their boards on how best to do so.

IT risk is among the top five risks on which internal auditors are focusing the greatest level of attention in 2015, according to survey respondents (Q66). However, a notable percentage of organizations, the extent of internal audit activity on some critical, nonroutine IT issues is surprisingly low. Globally, almost 1 out of 5 respondents (17%) say they spend no time auditing their organization's cybersecurity systems, and, likewise, more than 1 out of 4 (27%) say they spend no time on social media audits (see **exhibit 11**).

Most respondents say that audit activity in cybersecurity and social media will increase over the next 2 to 3 years—74% and 54%, respectively (Q94).

Exhibit 11 Internal Audit Activity Related to Cybersecurity and Social Media
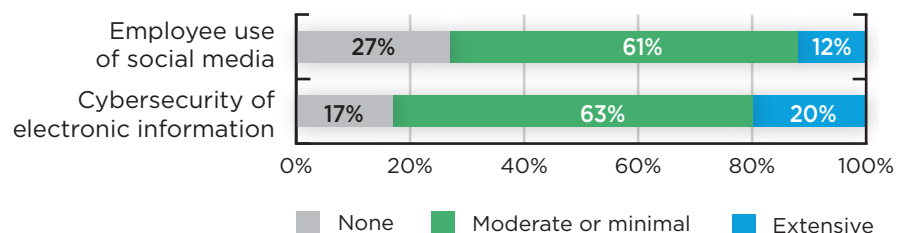
Note: Q92: For information technology (IT) security in particular, what is the extent of the activity for your internal audit department related to the following areas: employee use of social media, cybersecurity of electronic information. *n* = 9,941 for cybersecurity; *n* = 9,747 for social media.

7 Enhance Audit Findings Through Greater Use of Data Analytics

Internal auditors must continue to improve their data analysis skills and techniques to enhance audit findings. In addition to being able to analyze complete data sets (rather than samples), such technologies enable auditors to improve efficiency and audit data-rich areas in more sophisticated ways.

About half of survey respondents say they use data mining or data analytics in fraud identification (49%), to investigate issues raised through risk or control monitoring (47%), and to test entire data populations (47%), with little variation among global regions (Q96). This suggests that a much broader adoption of these techniques is needed.

Additionally, internal auditors give themselves high proficiency ratings for the "use of data analysis to reach meaningful conclusions." Globally, about half (55%) consider themselves to be "advanced" or "expert," with higher percentages in Latin America & Caribbean (69%) and Europe & Central Asia (68%) (Q86).

"If you have regular communication with your clients and talk about sharing data analysis skills, they are often very happy to learn those skills from me,"

says Kwang Ho Sung, vice president and head of internal audit at a major South Korean bank. Such knowledge transfer can empower stakeholders to better achieve their objectives in managing their own risks and controls and allow internal audit resources to focus on the bigger risk picture, he adds.

Continuous or real-time auditing technology is being leveraged by internal audit departments. Globally, a little less than half of respondents (44%) report moderate or extensive activity for continuous/real-time auditing (Q95). To help internal audit move forward into continuous auditing, Kella says that internal audit should develop separate, but related, plans for audit processes and analytics. He recently allocated about 60% of his analytics resource to support the group's audit plan and allocated the remaining 40% to develop continuous monitoring platforms with a select group of like-minded business units. Kella says this shares the development costs, helps train management to use the analytics suite, and moves the audit department into a more independent, continuous monitoring role.

8 Go Beyond The IIA's *Standards*

The IIA's *Standards* provides internal auditors with guidance that enables them to successfully perform internal audit activities for the organizations they serve.

Usage of the *Standards* overall appears to be increasing globally, according to CAEs who responded to the CBOK practitioner surveys in 2010 and 2015. In 2015, 54% of CAEs indicated that they used "all of the *Standards*," compared to 46% in 2010 (an 8% increase). At the same time, the percentage of respondents who said that they did not use the *Standards* at all dropped to 11% in 2015 compared to 14% in 2010 (see **exhibit 12**).
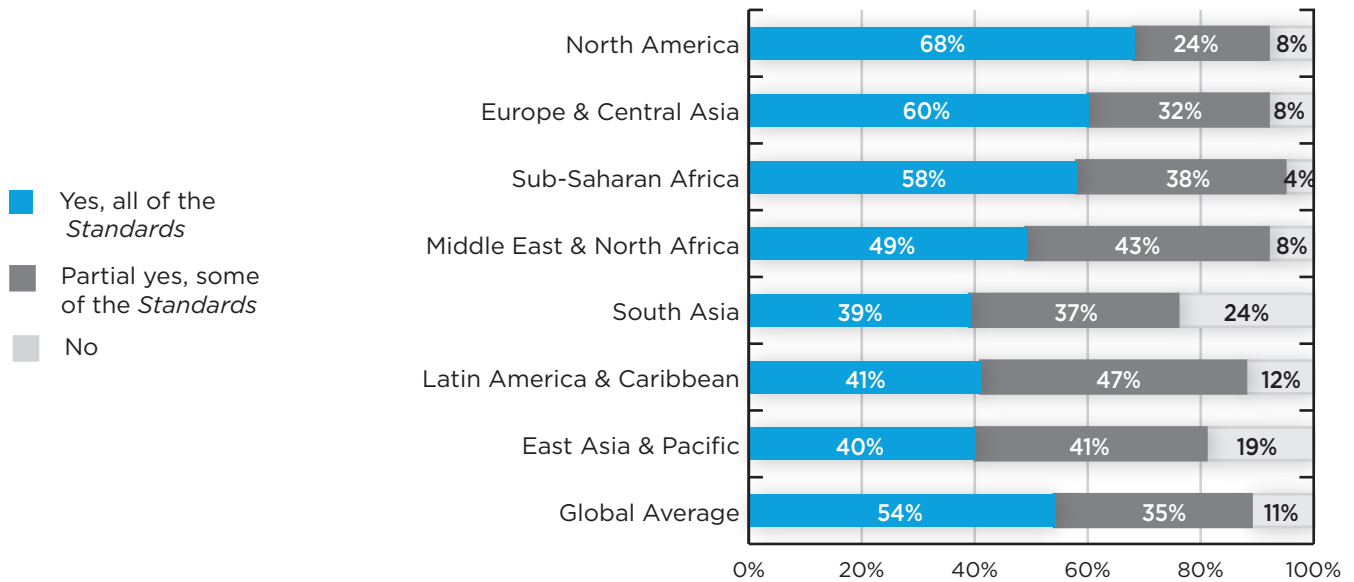
Standards usage varies a great deal between regions, with a high of 68% in North America and a low of 40% in East Asia & Pacific for use of all the *Standards*. When responses for full use and partial use of the *Standards* are combined, the region with the highest percentage was Sub-Saharan Africa (96%), and the lowest was South Asia (76%) (see **exhibit 13**).

Exhibit 12 **Increase in Use of IIA *Standards* (from 2010 to 2015)**
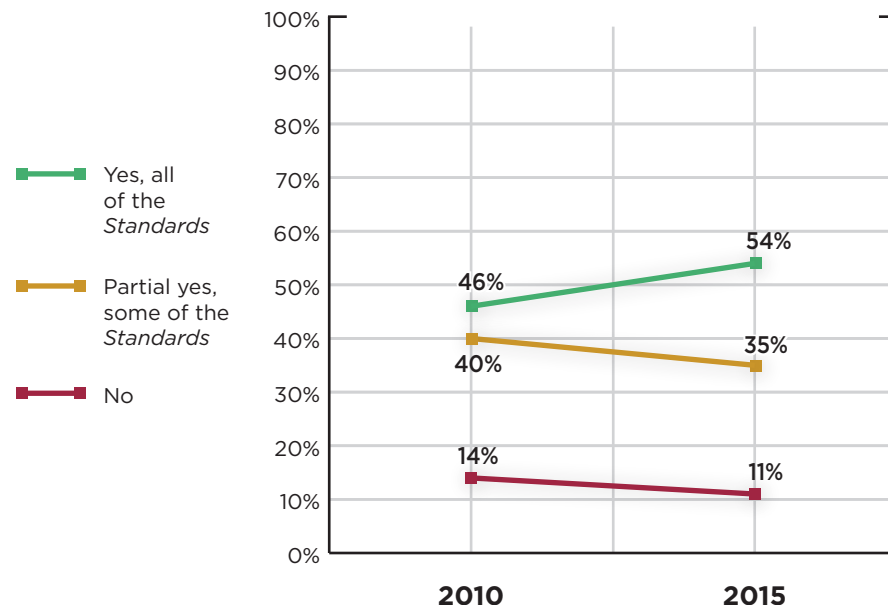
Note: Q98: Does your organization use the *International Standards for the Professional Practice of Internal Auditing* (*Standards*)? Only CAE responses were included in this exhibit. This data represents a comparison between the CBOK practitioner surveys from 2010 and 2015. *n* = 2,975 for 2010; *n* = 2,478 for 2015.

Exhibit 13 Use of IIA _Standards_

Legend:
- ■ Yes, all of the _Standards_ (blue)
- ■ Partial yes, some of the _Standards_ (dark gray)
- □ No (light gray)

Region	Yes, all	Partial yes	No
North America	68%	24%	8%
Europe & Central Asia	60%	32%	8%
Sub-Saharan Africa	58%	38%	4%
Middle East & North Africa	49%	43%	8%
South Asia	39%	37%	24%
Latin America & Caribbean	41%	47%	12%
East Asia & Pacific	40%	41%	19%
Global Average	54%	35%	11%

Note: Q98: Does your organization use the _International Standards for the Professional Practice of Internal Auditing_ (_Standards_)? Only CAE responses were included in this exhibit. Due to rounding, some totals may not equal 100%. _n_ = 2,478.

"The chief audit executive can use the _Standards_ to inform the board of its responsibilities and to paint a holistic picture of the business and the risks it is facing," says Ramirez. "The board can be confident in internal audit's objective insights into the business because the _Standards_ provides a specialized and systematic approach to providing such assurance."

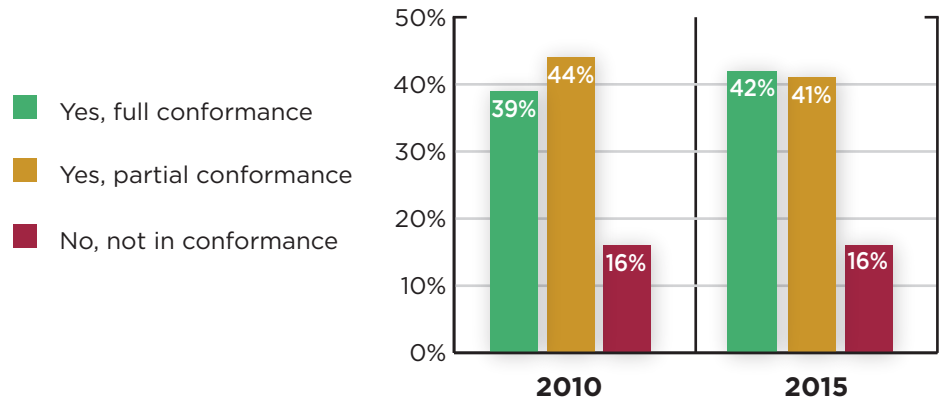**Quality Assurance and Improvement Program (Standard 1300)**

Standard 1300 states, "The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity." Internal auditors need to implement quality assurance measures to assess whether they are meeting stakeholder expectations and close the performance expectations gap.

Historically, Standard 1300 has had the lowest levels of conformance out of all the _Standards_. From 2010 to 2015, CAEs who indicate full conformance with Standard 1300 increased only slightly, from 39% to 42% (see **exhibit 14**).
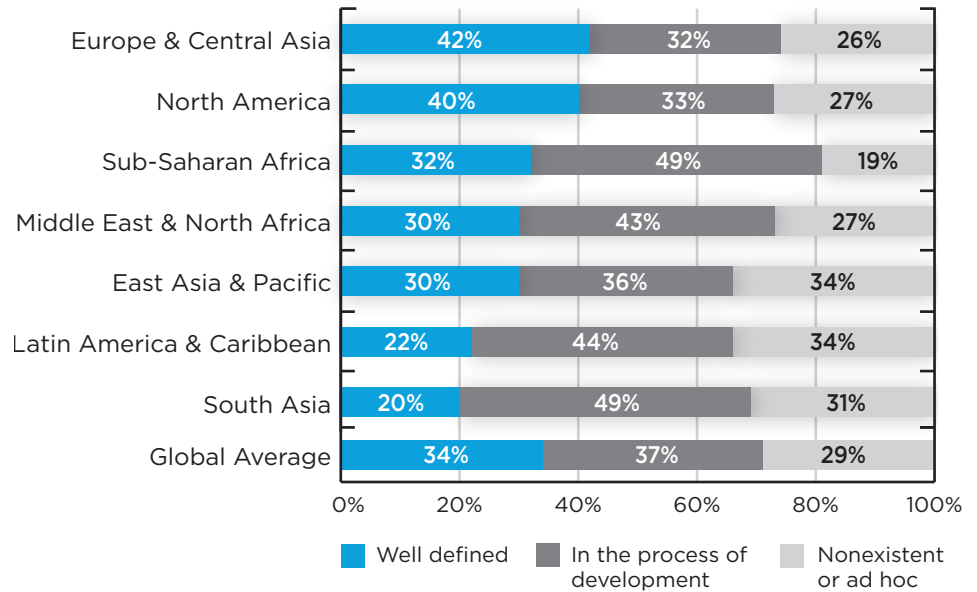
Only 1 out of 3 CAEs feel that their quality processes are well defined (see **exhibit 15**). However, among respondents who are using the _Standards_, about 7 out of 10 say that they have periodic or ongoing internal assessments as required in Standard 1311 (Q100).

Exhibit 14 Conformance to Standard 1300: Quality Assurance and Improvement Program (Change from 2010 to 2015)

Legend:
- Yes, full conformance
- Yes, partial conformance
- No, not in conformance

	Yes, full conformance	Yes, partial conformance	No, not in conformance
2010	39%	44%	16%
2015	42%	41%	16%

Note: Q99: Is your organization in conformance with the *Standards*? Topic: Standard 1300: Quality Assurance and Improvement Program. Only CAE responses from those who use all or part of the *Standards* were included in this exhibit. This data represents a comparison between the CBOK practitioner surveys from 2010 and 2015. Due to rounding, some totals may not equal 100%. *n* = 2,167 for 2010; *n* = 2,217 for 2015.

Exhibit 15 Maturity Level of the Quality Assurance and Improvement Program

	Well defined	In the process of development	Nonexistent or ad hoc
Europe & Central Asia	42%	32%	26%
North America	40%	33%	27%
Sub-Saharan Africa	32%	49%	19%
Middle East & North Africa	30%	43%	27%
East Asia & Pacific	30%	36%	34%
Latin America & Caribbean	22%	44%	34%
South Asia	20%	49%	31%
Global Average	34%	37%	29%

Note: Q47: How developed is the quality assurance and improvement program (QAIP) at your organization? CAEs only. "Well defined" included those who answered "well defined, including external quality review" or "well defined, including external quality review and a formal link to continuous improvement and staff training activities." *n* = 2,833.

BUILDING ON THE *STANDARDS* TO DELIVER HIGH VALUE

1. Use IIA *Standards* as the framework for quality assessment.

   a. Inform the audit committee about the value of the *Standards*, in particular those covering quality, to demonstrate internal audit's professionalism and commitment to quality.

   b. Establish a robust quality assurance and improvement program as required by the *Standards*.

   c. Perform an annual self-assessment to ensure conformance to the *Standards* and have an external quality review conducted at least every five years.

   d. Inform the audit committee on the results of the external review and quality program to provide them a basis for understanding the quality of the internal audit activities and where they need to be improved.

   e. Ensure that the audit team is certified and oblige the internal audit staff to be certified if they hold certain levels of responsibility.

2. Go beyond the *Standards* to identify and deliver specific high-value activities for your organization.

   a. Discuss with the audit committee and executive management their views and expectations for what they would consider a high-value internal audit activity.

   b. Agree with the audit committee and executive management on a set of specific activities that internal audit would focus on to meet those expectations for quality and value.

   c. Periodically report to the audit committee and executive management on internal audit's performance relative to the specific expectations of the audit committee and executive management.

9 Invest in Yourself

There has never been a better time to be an internal auditor. The skills shortage in the profession has triggered fierce competition for the best-qualified auditors. You can reap the full rewards by investing in your own development.

That being said, internal auditors cannot simply rely on employers for their training, especially in smaller internal audit departments. In the smallest internal audit departments, almost 7 out of 10 CAEs say their training programs were not developed or done so on an ad hoc basis (see **exhibit 16**).

Exhibit 16 **Training Program Maturity Compared to Employees in Internal Audit Departments**
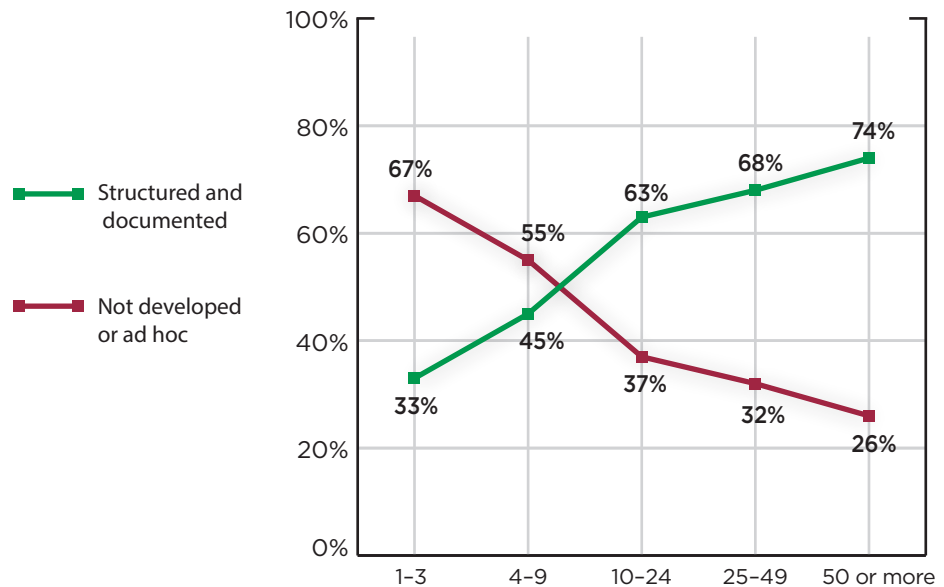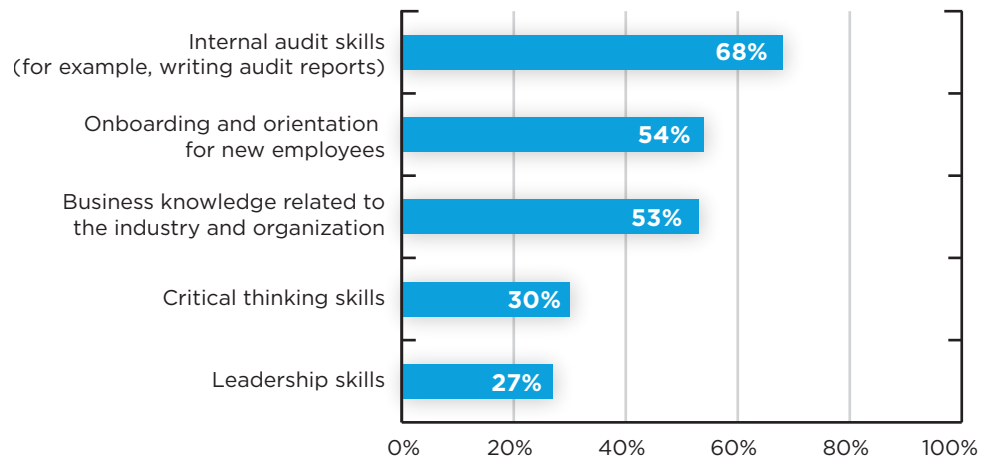

Note: Q45: What is the level of formalization for the training program for internal audit at your organization? Compared to Q24: Approximately how many full-time equivalent employees make up your internal audit department? CAEs only. *n* = 2,820.

Those who provide training programs usually include internal audit skills (68%) but are less likely to include orientation for new employees (54%) and other business critical skills, such as knowledge of the business (53%), critical thinking (30%), or leadership (27%) (see **exhibit 17**).

It is especially critical for internal auditors to have sufficient knowledge about the business so that they can understand the significance of their audit findings and contribute value to their organizations. The best way to do that is to understand the skills, knowledge, and attitudes that contribute most to the businesses in which they work, perhaps by spending some time working on the operational side of the organization.

Exhibit 17 **Elements Included in Training Programs for Internal Audit**

Internal audit skills (for example, writing audit reports)	68%
Onboarding and orientation for new employees	54%
Business knowledge related to the industry and organization	53%
Critical thinking skills	30%
Leadership skills	27%

Note: Q46: What is included in the training program for internal audit? (Choose all that apply.) CAEs only. *n* = 3,099.

Exhibit 18 **Hours of Internal Audit Training Per Year**

More than 40 hours 33%
Less than 40 hours 39%
Exactly 40 hours 28%
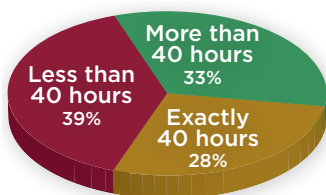
Note: Q14: How many hours of formal training related to internal audit do you receive per year? *n* = 13,106.

About 4 out of 10 say that they receive less than 40 hours of training per year, which is below the required level to maintain many IIA certifications. About 3 out of 10 report exactly 40 hours of training per year, and another 3 out of 10 exceed 40 hours (see **exhibit 18**).

"Forty hours is okay if you are comfortable with mediocrity, but to be successful, you have to put in the extra time," says Grafenstine. "In my organization, if people invest in themselves and get additional certifications, it raises the professionalism of the internal audit group and we reward that with hard dollars."

10 Recruit, Motivate, and Retain Great Team Members

Internal audit departments need to cast their nets wider to attract, retain, and motivate team members who are able to understand and anticipate the rapidly changing business environment. This is crucial if internal auditors are to better understand the businesses and functions of the organizations they serve.

In general, survey respondents studied accounting, auditing, and/or finance-related topics in college (Q5a). The most common areas of study were:

Accounting	57%
Auditing (internal)	42%
Finance	32%
Business management	27%
Auditing (external)	23%
Economics	22%

This relatively narrow focus threatens to restrict the skills available to CAEs and could ultimately blindside the profession. Today, CAEs say they are particularly seeking to increase skills in critical thinking (64%) and communication (52%) in their departments (see **exhibit 19**). A top priority should also be industry-specific knowledge and general IT skills, with an emphasis on the link between what employees learn and its relevance to the objectives and needs of their organizations.

Exhibit 19 **Top Skills CAEs Seek for Staff**

Analytical/critical thinking	64%
Communication skills	52%
Accounting	43%
Risk management assurance	42%
Information technology (general)	38%
Industry-specific knowledge	35%
Data mining and analytics	31%
Business acumen	27%
Fraud auditing	23%
Finance	22%
Forensics and investigations	15%
Cybersecurity and privacy	14%
Legal knowledge	12%
Quality controls (Six Sigma; ISO)	7%
Other	4%

Note: Q30: What skills are you recruiting or building the most in your internal audit department? (Choose up to five.) CAEs only. *n* = 3,304.
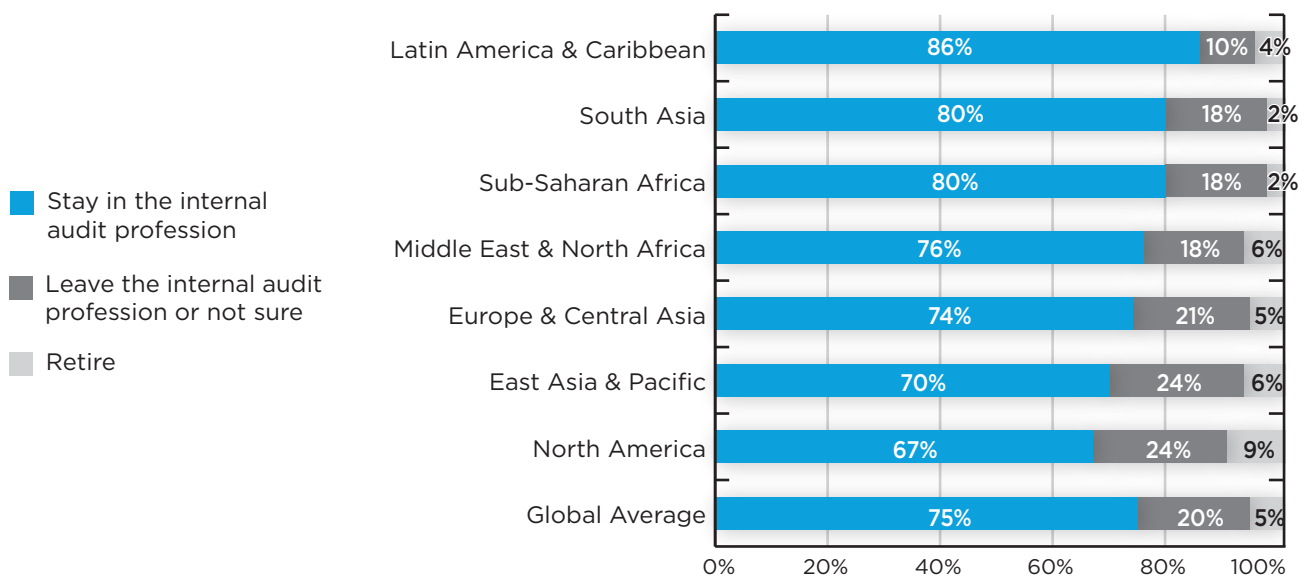
The mix of skills in a department is also important. "Historically, most performance management and development work has been isolated between a manager and an individual," says Kella. "We still have that, but we've also introduced talent maps for each of our experience levels within the department. This process is refreshed by taking a twice-a-year look at the department's talent, looking at the projects we have in the pipeline, and matching those to the kind of on-the-job experience, training, and developmental experience that we're targeting for the individual."

For motivation and retention of team members, many organizations offer bonuses. Sixty-seven percent of respondents say they have the opportunity to receive a bonus (Q34, n = 11,792). These payments are tied most commonly to personal performance (78%) or company performance (74%) (Q34a).

Over the next five years, about 3 out of 4 (75%) survey respondents say they intend to stay in internal auditing (see **exhibit 20**). It might become a feature of the new reality that internal audit executives may not be able to recruit and develop all the skills they need at any one time in-house. Co-sourcing is likely to continue to play a significant part in meeting the skills needed. One final trend to mention regarding staffing is the significant change between the ratio of men to women, as shown in **exhibit 21** and **exhibit 22** on the following page.

Exhibit 20 **Career Plans Related to Internal Audit in the Next Five Years**

Legend:
- Stay in the internal audit profession (blue)
- Leave the internal audit profession or not sure (dark gray)
- Retire (light gray)

| Region	Stay	Leave/Not sure	Retire
Latin America & Caribbean	86%	10%	4%
South Asia	80%	18%	2%
Sub-Saharan Africa	80%	18%	2%
Middle East & North Africa	76%	18%	6%
Europe & Central Asia	74%	21%	5%
East Asia & Pacific	70%	24%	6%
North America	67%	24%	9%
Global Average	75%	20%	5%

Note: Q36: In the next five years, what are your career plans related to internal auditing? n = 12,380.

## CHANGING RATIO OF MEN TO WOMEN

Survey responses indicate the internal audit profession of the future will likely be more evenly balanced between men and women (in most regions). For survey respondents aged 19 to 29, the ratio is almost equal (55% male, 45% female), compared to 83% male and 17% female for those 60 years or older (see **exhibit 21** and **exhibit 22**).

Exhibit 21 **Proportion of Men to Women Compared by Age**
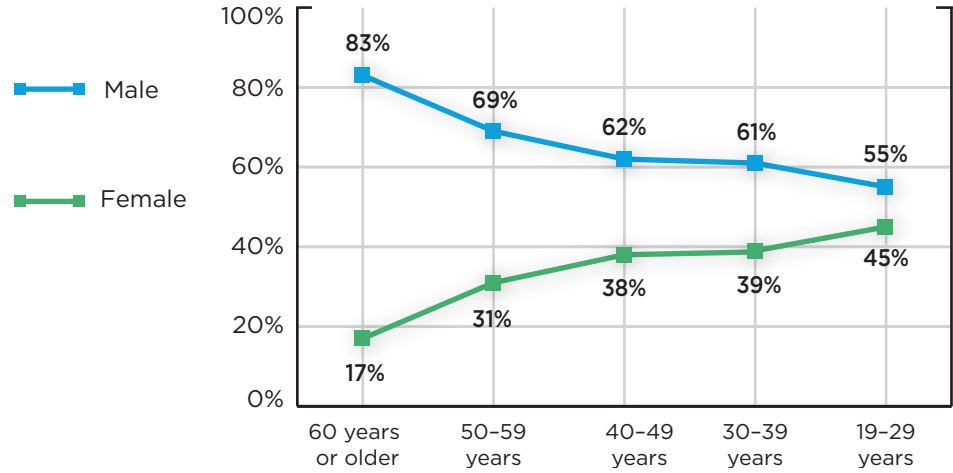
Note: Q4: What is your gender? Compared to Q3: What is your age? *n* = 12,744.

Exhibit 22 **Proportion of Men to Women Compared by Global Region**
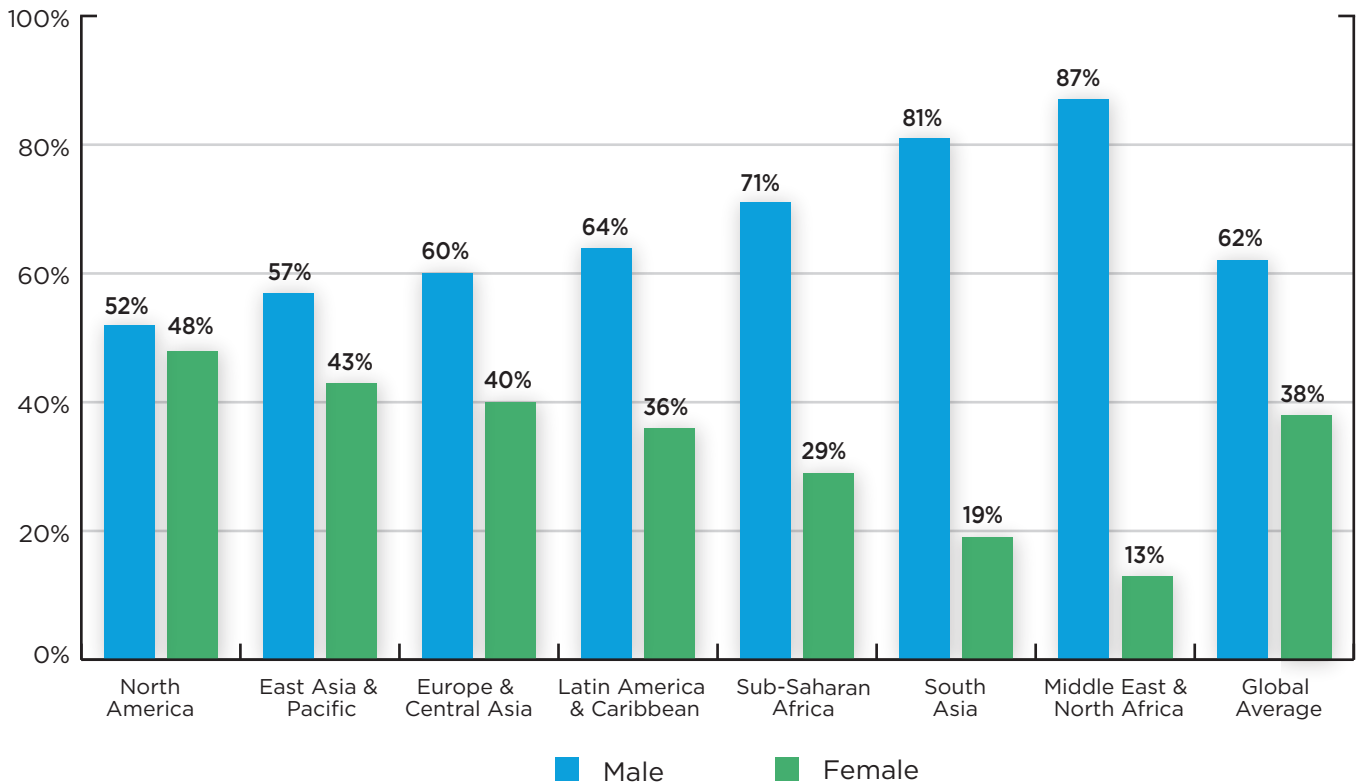
Note: Q4: What is your gender? *n* = 14,158.

Conclusion

Internal auditors who invest in themselves to meet the challenges ahead will benefit both professionally and personally in ways that would have been unthinkable in the profession even 10 years ago.

The emerging risk landscape presents internal auditors with unprecedented opportunities. Internal auditors are ideally positioned to play a leading role in the success of their organizations with their unique understanding of business goals and strategic objectives, and their ability to see the impact of risks across the entire enterprise. In addition, internal audit insight can be an engine for innovation and business improvement.

The 10 imperatives for internal audit can help practitioners at every level challenge themselves to grow professionally and increase their value in the business market.

10 IMPERATIVES FOR INTERNAL AUDIT

Play a Leading Role

1. Anticipate the needs of stakeholders.
2. Develop forward-looking risk management practices.
3. Continually advise the board and audit committee.
4. Be courageous.

Beat the Expectations Gap

5. Support the business's objectives.
6. Identify, monitor, and deal with emerging technology risks.
7. Enhance audit findings through greater use of data analytics.
8. Go beyond The IIA's *Standards*.

Invest in Excellence

9. Invest in yourself.
10. Recruit, motivate, and retain great team members.

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