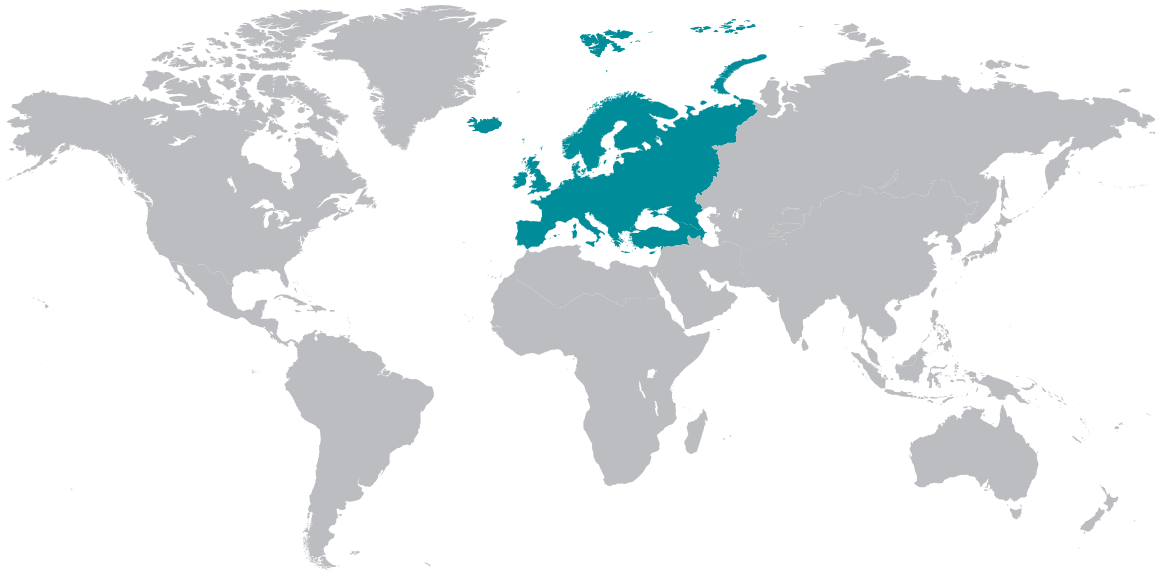


Regional Reflections: Europe

GLOBAL
PERSPECTIVE



Fast Fact



Executive Summary

Regional Reflections: Europe is a customized research report that provides a European perspective on the findings from CBOK 2015, the largest ongoing study of internal audit professionals in the world. Building on the 10 imperatives for internal audit that were presented at The IIA's 2015 International Conference, this report highlights unique concerns for Europe and provides insights from several internal audit leaders in the region. In addition, an appendix at the end of this report gives key demographics about survey respondents from Europe.

The importance of internal audit aligning to business objectives has emerged as a key area for improvement for the profession worldwide. Internal auditors in Europe are well placed to meet those challenges by getting closer to the board to anticipate the business's needs and inform them of key risks and emerging issues. But too few work closely with stakeholders and are in danger of creating a gap between their own expectations and those of their customers.

Better communication is key, as is aligning auditing objectives with the significant data analysis skills that auditors possess. But perhaps more important is ensuring that auditors have the right skills and competencies, such as good knowledge of their businesses and risk management assurance to serve their organizations both today and in the future.

Section 1: Play a Leading Role

1. Anticipate the Needs of Stakeholders.

In a fast-changing business world, internal auditors need to anticipate the needs of their stakeholders to serve them well. Almost 8 out of 10 auditors in Europe say they follow the Three Lines of Defense Model at some level, which enables them to provide objective assurance to their stakeholders (Q63, $n = 2,418$). However, they could do better in formally measuring internal audit's performance against stakeholder expectations, since only 28% say they do so (Q90, $n = 779$).

Xavier Bedoret, CAE at Engie, Paris, France, commented, “As well as informal discussions with the chief executive officer and chief finance officer, we spend almost two months a year interviewing and surveying managers at all levels of the business to help us design the audit plan. Each month, we issue a one-page summary of the audit engagements that we have completed to give managers the opportunity to comment on our work and ask for an extension of the audit work, where needed. Also, from a selection of ten audit engagements each month, we ask for feedback in the form of a rating of the audit work. Finally, we produce a dashboard of our key performance indicators that measures the audit work of each auditor in the group, which we update quarterly.”

2. Develop Forward-Looking Risk Management Practices.

Among CAEs in Europe, more than half say internal audit is fully/almost fully aligned with their organizations’ strategic plans, with a slightly higher percentage in Eastern Europe (63%) compared to Western Europe (55%) (see exhibit 1). Alignment with the strategic plan is a prerequisite for helping businesses develop forward-looking risk management practices. It also serves to make internal audit more proactive and future focused.

“Those internal auditors who are not yet aligned need to ask for a seat at meetings where the strategic plan is being discussed,” says Polona Pergar Guzaj, principal at the Internal Audit Consultancy 4E and president of IIA–Slovenia. “They will have a better chance of getting

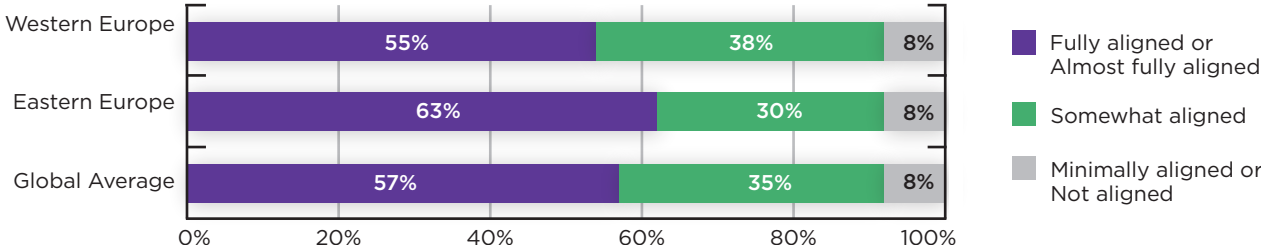
that seat if their work is relevant to the business’s key risks because that is extremely useful to the organization.”

3. Continually Advise the Board and Audit Committee.

Regular contact with the board and audit committee is essential if CAEs are to help keep them informed in a timely way on major and emerging risks and issues. Formal channels for doing so do not always provide internal auditors with ideal conditions for playing this role. For example, less than half (46%) of CAEs in Europe say their primary functional reporting line is to their audit committees, compared with a 54% global average (Q74, n = 2,599). This lower percentage indicates that in many European countries, establishing an audit committee within an organization is a recent development. However, 7 out of 10 CAEs in the region say they meet with the audit committee without the presence of executive management at least once a year (Q78c, n = 537), and CAEs often have good informal relationships with the audit committee, which can be more useful to both parties.

Frank Bertisch, head of group internal audit at the travel company Kuoni Group Holdings, Zurich, Switzerland, commented, “Too many CAEs only provide risk information to the board at the same time as they present the annual audit plan, but they really need to communicate more regularly.” He says CAEs tend to hide behind their reports, so it is crucial for them to talk to the audit committee chair to explain the issues and emerging risks identified in written audit reports.

Exhibit 1 Audit Aligned to Strategic Plan



Note: Q57: To what extent do you believe your internal audit department is aligned with the strategic plan of your organization? CAEs only. n = 792 for Europe. n = 2,756 for global average.

4. Be Courageous.

If they are to deliver value to their organizations, internal auditors must have the courage to stick by their findings and follow the requirements of The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* in case of pressure. That can be difficult, and many experience pressure from CEOs, management and others to alter valid audit findings.

In Europe, 29% of CAEs say they have been asked to modify or suppress legitimate audit findings at least once during their careers (Q77, $n = 774$). About 4 out of 10 say such demands come from the CEO (see **exhibit 2**). In Europe, about 1 out of 5 say such pressure comes from the board of directors, compared with 12% who say so globally. Governance structures are still evolving in Europe with more organizations adopting audit committees, so the situation may improve.

Section 2: Beat the Expectations Gap

5. Support the Business's Objectives.

Internal auditors can close the expectations gap between themselves and key stakeholders by better aligning their work to the business's strategic objectives and risks. It is positive to see that strategic business risks are among the

top five risk priorities in Europe (and globally) for 2015 (see **exhibit 3**). At the same time, internal audit leaders need to be sure the audit department is well-informed about the organization's industry and the economic factors affecting it.

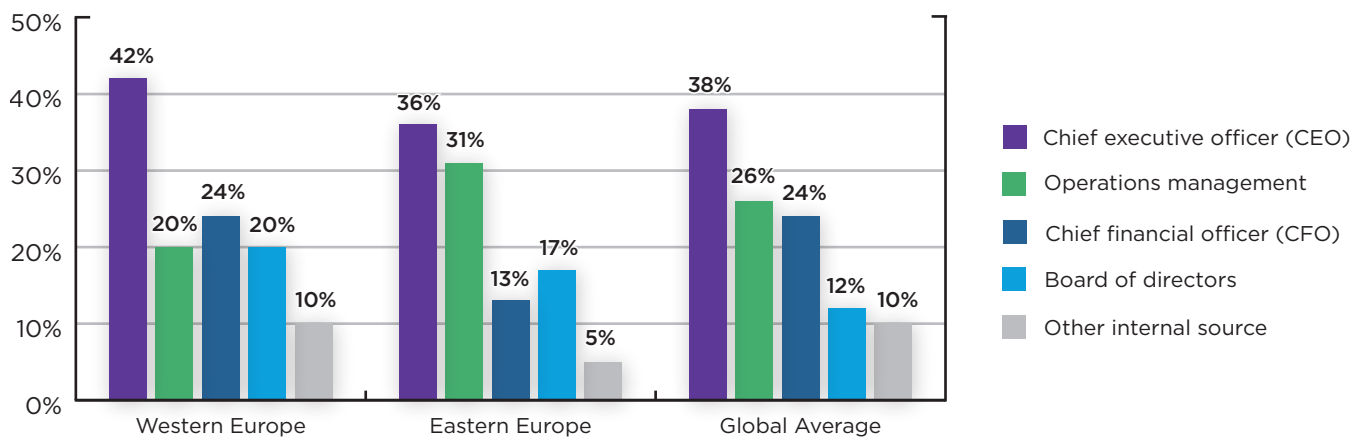
6. Identify, Monitor, and Deal with Emerging Technology Risks.

While IT risk is among the top five risk priorities in Europe, there are some areas where audit activity for IT seems unexpectedly low. In particular, 1 out of 4 internal auditors say that they have no audit activity related to employees' use of social media, and 1 out of 5 have no activity related to use of mobile devices (Q92, $n = 2,305$). This is true both for Europe and globally.

Many internal auditors feel that they do not fully understand social media risks and are not ready to audit them, says Bertisch. In his organization, internal audit has teamed up with the risk management function to better understand the different risks associated with social media.

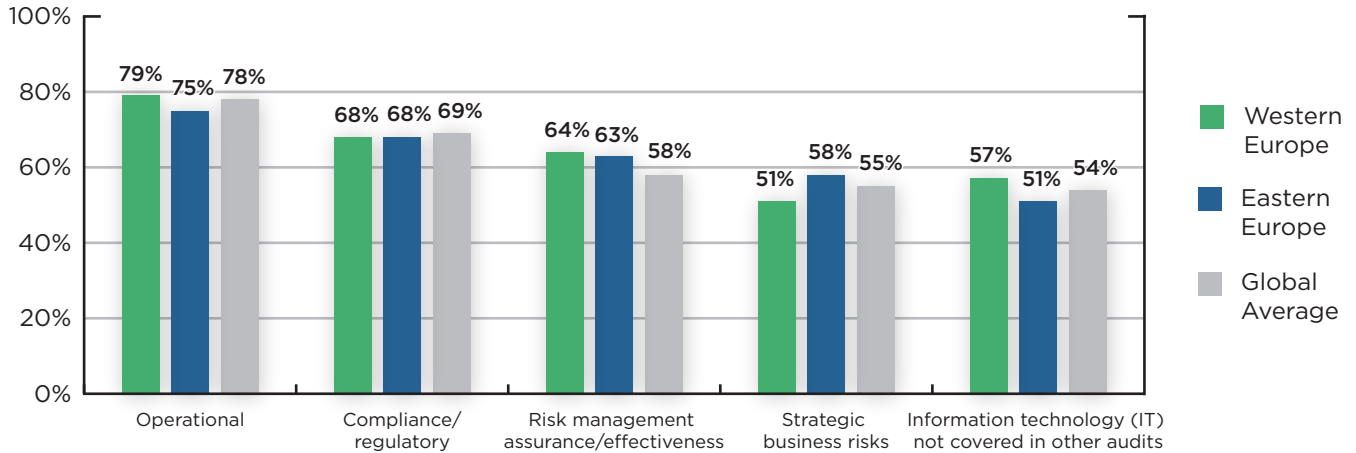
"I believe that we need more education in this area, and we need to work with other parts of the business to better understand such risks," he says. "If internal auditors do not understand the specific risks, then there is no way they can audit them effectively."

Exhibit 2 Source of Pressure to Modify Findings for CAEs



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.) $n = 221$ for Europe. $n = 757$ for global average.

Exhibit 3 Top-Priority Risks for Internal Audit Departments



Note: Q66: Please identify the top five risks on which your internal audit department is focusing the greatest level of attention in 2015. CAEs only. *n* = 798 for Europe. *n* = 2,742 for global average.

7. Enhance Audit Findings Through Greater Use of Data Analytics.

European audit departments use an extensive range of software tools in their audits with, for example, one of the best records globally for using automated tools for remediation follow-up, with 60% saying they had moderate or extensive activity in this area, compared to a global average of 52% (Q95, *n* = 9,953).

Internal auditors in Europe are less likely than the global average to use data analytics for business improvement (28%, compared to the global average of 32%) (Q96, *n* = 9,961). In general, internal auditors need to use more of their skills in data analysis and data mining for the benefit of the business’s operational and strategic objectives, but internal auditors will need to create new processes to do this effectively.

“When you are asking auditors to do data analytics, you are asking them to plunge into massive volumes of data,” says Bedoret. He advises auditors looking to use such tools to begin with the audit execution phase. He is creating a dedicated three-person team to work at the service of the rest of his audit team to bring the audit process together with analytic tools. “We train all auditors in data analytics so they know when its use is appropriate, when to call the cell, and, increasingly, to do it themselves,” he says.

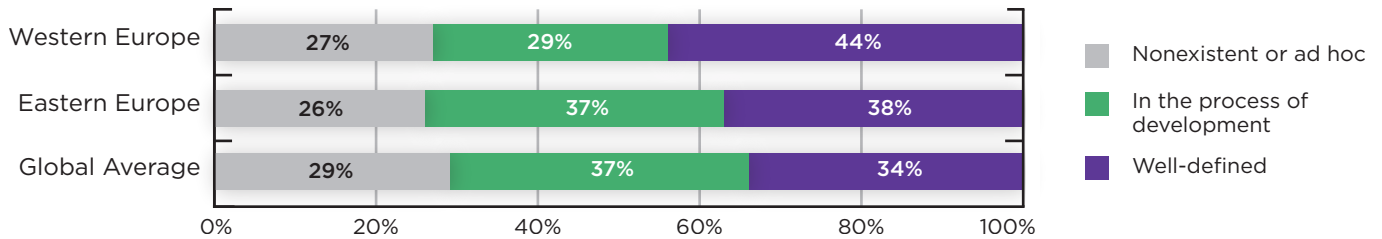
8. Go Beyond The IIA’s Standards.

Europe has the second highest use of The IIA’s *Standards* in the world—60% of CAEs in Europe say they use all of the *Standards* (compared to the global average of 54%). Only 8% in Europe say they do not use the *Standards*. Smaller internal audit departments struggle more with *Standards* use, with full use at 5 out of 10 for the smallest departments (staff of 1 to 3 people), compared to 9 out of 10 for the largest (staff of 50 or more). (Results are from Q98, *n* = 758.)

“As an auditor, you cannot ask someone to be in compliance with their requirements, if you are not in conformance with your own professional *Standards*,” says Pergar. “It’s certainly harder for small departments, but no less important. I love the fact that IIA *Standards* are principles based, so CAEs can adapt them to the size and complexity of their shops.”

Compared with global averages, Europe has more well-defined quality assurance and improvement programs than the global average (see the purple bars in **exhibit 4**), suggesting that many departments are well placed to go beyond the *Standards* in their work. However, the level of nonexistent or ad hoc programs in Europe is similar to the global average, which means some departments have minimal involvement in the quality assurance and improvement program (QAIP).

Exhibit 4 Maturity Level of the Quality Assurance and Improvement Program



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 for global average. n = 804 for Europe.

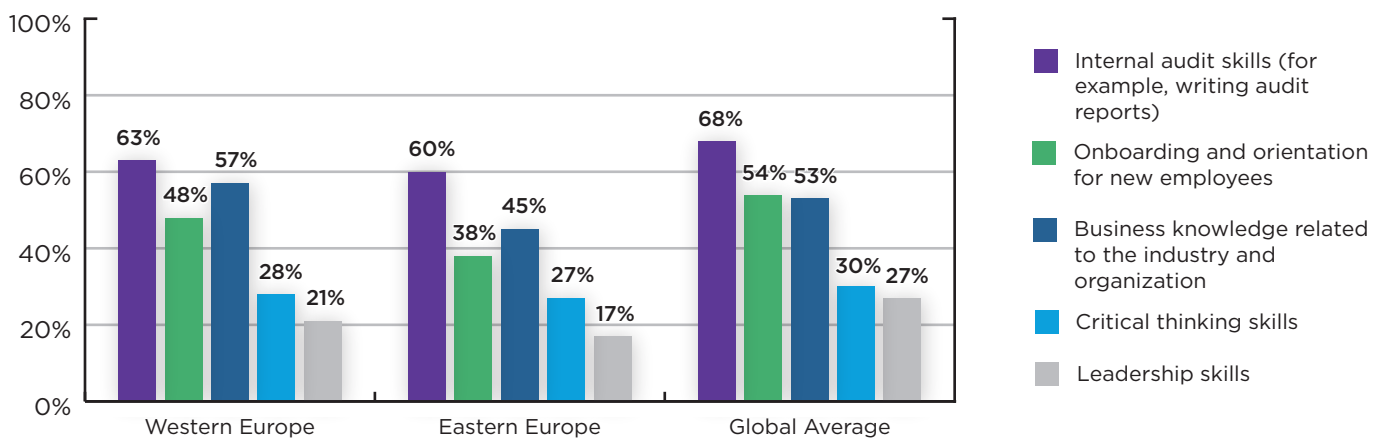
Section 3: Invest in Excellence

9. Invest in Yourself.

On average, less than half (47%) of European audit departments have well-structured and properly documented training programs in place. Internal auditors who are not properly supported by their organizations need to invest in their own development, especially in gaining IIA certifications. This may be particularly important in small audit shops where only 4 out of 10 have well-formalized training programs, compared to 8 out of 10 where internal audit staff numbered more than 50 (Q45, n = 796).

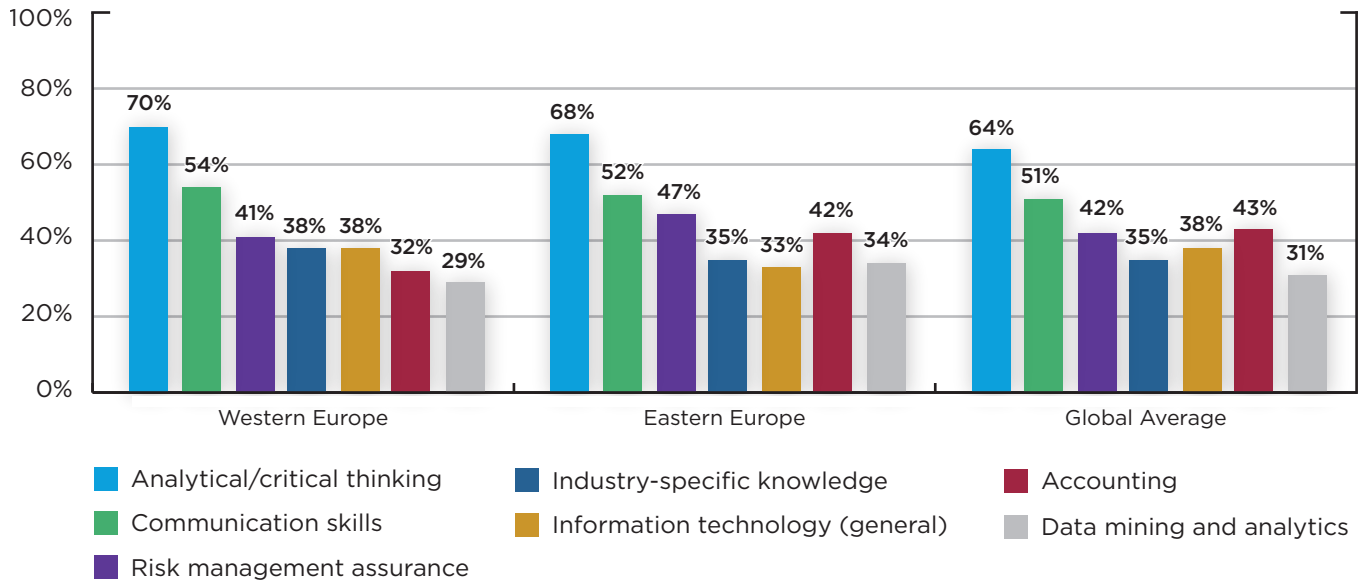
Critical thinking skills and leadership skills feature in few internal audit training programs, although they may be available elsewhere in the organization (see exhibit 5). Seven out of 10 organizations say they are building skills in analytical/critical thinking. (see exhibit 6). Internal auditors investing in their own careers could benefit from focusing on those areas, or in building their knowledge of the business and skills in risk management assurance. The IIA’s Career Map can help those in their early and middle years progress by identifying suggested areas of improvement (www.theiia.org/Membership/CareerMap).

Exhibit 5 Internal Audit Training Program Components



Note: Q46: What is included in the training program for internal audit? (Choose all that apply.) CAEs only. n = 875 for Europe. n = 3,099 for global average.

Exhibit 6 Skills Being Recruited for Internal Audit Departments



Note: Q30: What skills are you recruiting or building the most in your internal audit department? (Choose up to five.) CAEs only. n = 927 for Europe. n = 3,288 for global average.

10. Recruit, Motivate, and Retain Great Team Members.

The profile of internal audit is changing in Europe. There are more women than men (54% to 46%) in the under 30 age range (Q4, n = 221). While accounting is the most common academic background globally, those from Europe are more likely to have education in business/business management (43%) or economics (43%) (see exhibit 7).

CAEs are adapting their recruitment, motivation, and retention strategies to attract and develop the people and skills that they need today and will need tomorrow.

Exhibit 7 Academic Background of Internal Auditors

Major or Field of Study	Europe	Global Average
Business/business management	43%	35%
Economics	43%	22%
Accounting	40%	57%
Finance	39%	31%
Auditing (internal)	33%	43%
Auditing (external)	21%	23%

Note: Q5a: What were your academic major(s) or your most significant fields of study? (Choose all that apply.) n = 3,243 for Europe. n = 12,462 for global average.

Conclusion

European internal auditors are well placed to provide quality assurance on the fast-changing risks their organizations face. About 8 out of 10 follow the Three Lines of Defense Model of corporate governance, and about 6 out of 10 use all of The IIA's *Standards*. In addition, about 6 out of 10 are mostly or fully aligned with their organizations' strategic objectives.

But too few communicate effectively enough with stakeholders, especially in agreeing on formal measures for assessing internal audit's performance (only 3 out of 10). That must be rectified to avoid misaligning stakeholder expectations of internal audit with the function's activities. Finally, all internal auditors need to continue to invest in their skills and competencies to ensure they are ready for the challenges of today and tomorrow.

For more global perspectives about the 10 imperatives, please download *Driving Success in a Changing World: 10 Imperatives for Internal Audit* by Larry Harrington and Arthur Piper at the CBOOK Resource Exchange (www.theiia.org/goto/CBOOK).

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.

About the Author

Arthur Piper, PhD, is an award-winning writer and editor with more than 20 years' experience specializing in internal auditing, risk management, corporate governance, and emerging technologies. He has been managing director of the editorial services company, Smith de Wint, since 1996. He has been Associate Research Fellow at the University of Nottingham (UK) in the Department of Culture, Film, and Media since 2006, and specializes in the critical understanding of emerging technologies.

About the Project Team

CBOOK Development Team

CBOOK Co-Chairs: Dick Anderson (United States)
and Jean Coroller (France)

Practitioner Survey Subcommittee Chair:
Michael Parkinson (Australia)

IIARF Vice President: Bonnie Ulmer

Primary Data Analyst: Dr. Po-ju Chen

Content Developer: Deborah Poulalion

Project Managers: Selma Kuurstra and Kayla Manning

Senior Editor: Lee Ann Campbell

Report Review Committee

Béatrice Ki-Zerbo (France)

Denis Neukomm (Switzerland)

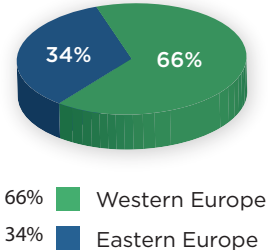
Acknowledgments

The content development of this report was supported by the European Confederation of Institutes of Internal Auditing (ECIIA).

Appendix A

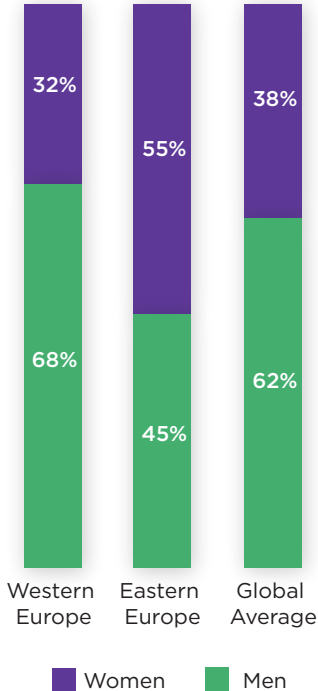
Internal Audit in Europe

Exhibit A1 Geographic Distribution of European Respondents



Note: Q6: In which region are you based or primarily work? *n* = 3,326.

Exhibit A2 Ratio of Men to Women



Note: Q4: What is your gender? *n* = 3,290 for Europe. *n* = 12,579 for global average.

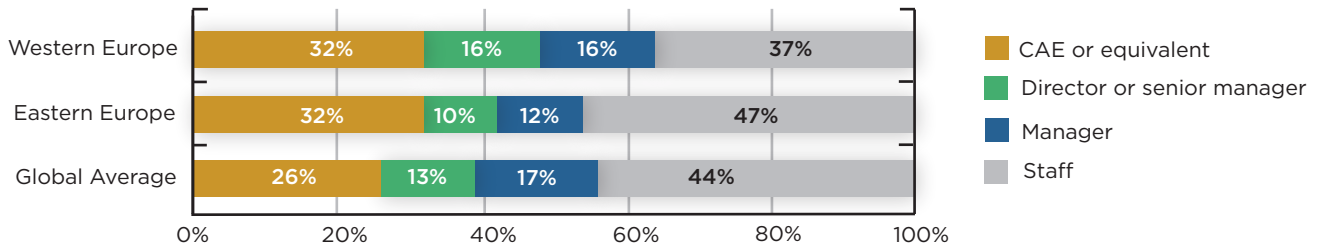
Exhibit A3 Responses Per Country from Europe

Western Europe		Eastern Europe	
Spain	476	Turkey	223
Switzerland	334	Poland	121
France	291	Serbia	76
Germany	218	Czech Republic	65
Greece	204	Russia	65
Italy	164	Slovenia	65
United Kingdom	95	Latvia	63
Sweden	79	Estonia	60
Austria	59	Romania	60
Denmark	53	Bulgaria	54
Norway	38	Croatia	53
Belgium	33	Ukraine	53
Luxembourg	33	Bosnia	33
Finland	31	Lithuania	32
Portugal	26	Albania	30
Netherlands	19	Macedonia	28
Cyprus	16	Hungary	16
Ireland	7	Montenegro	12
Iceland	6	Slovakia	5
Liechtenstein	4	Belarus	4
Andorra	2	Moldova	2
Western Europe Total	2,188	Armenia	12
		Azerbaijan	5
		Georgia	1
		Eastern Europe Total	1,138

Note: Q6: In which region are you based or primarily work?

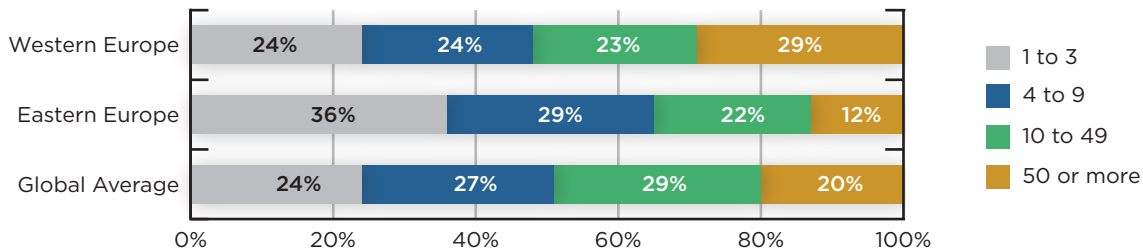
Internal Audit in Europe

Exhibit A4 Employee Levels



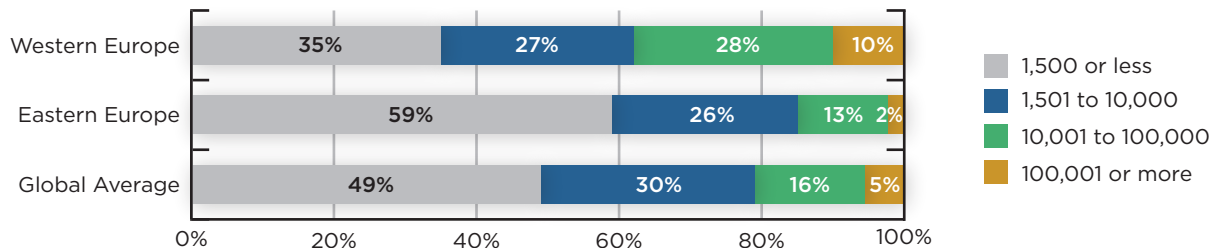
Note: Q9: What is your position as an internal auditor in the organization? *n* = 2,969 for Europe. *n* = 12,716 for global average.

Exhibit A5 Number of Employees in the Internal Audit Department



Note: Q24: Approximately how many full-time equivalent employees make up your internal audit department? Due to rounding, some totals may not equal 100%. *n* = 2,094 for Europe. *n* = 11,761 for global average.

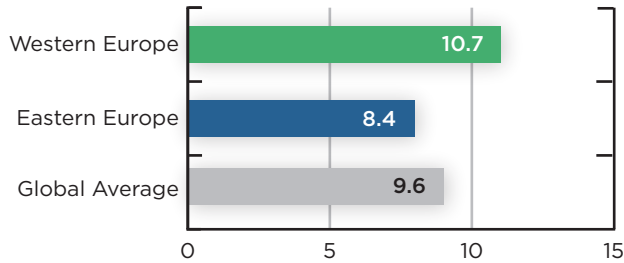
Exhibit A6 Number of Employees in the Organization



Note: Q19: For the entire organization in which you work, what was the approximate total number of fulltime equivalent employees as of the end of the last fiscal year? *n* = 3,047 for Europe. *n* = 13,014 for global average.

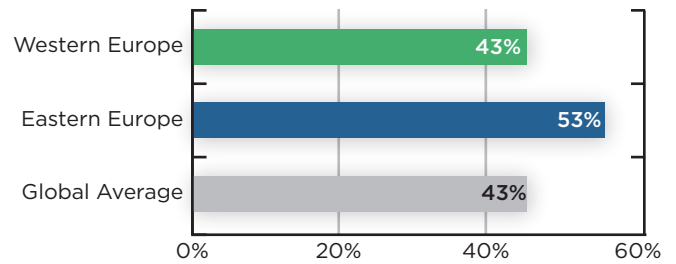
Internal Audit in Europe

Exhibit A7 Years of Internal Audit Experience



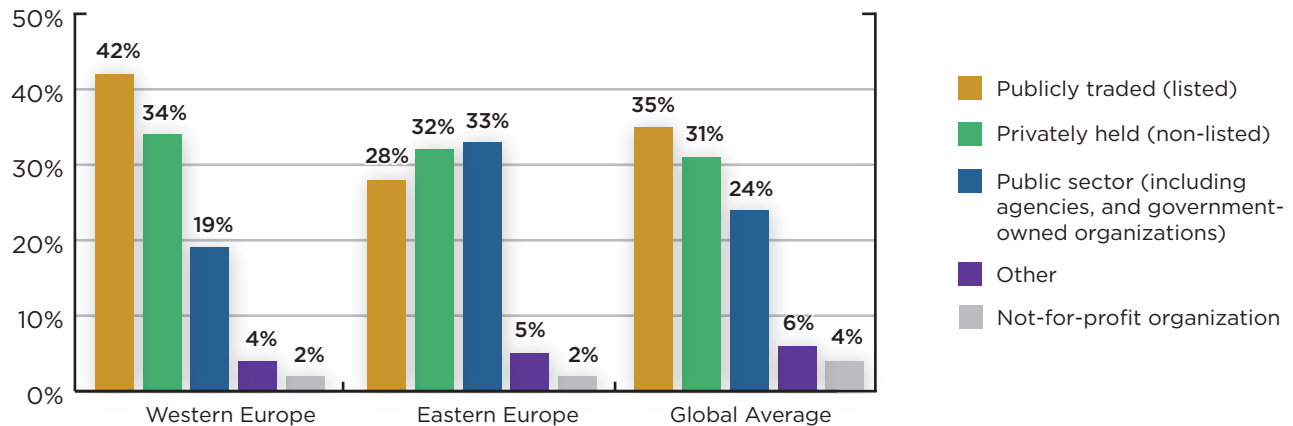
Note: Q10: Approximately how many years of professional experience do you have as an internal auditor? *n* = 3,071 for Europe. *n* = 13,138 for global average.

Exhibit A8 Respondents with Internal Audit Certifications



Note: Q12: Which professional certifications and/or qualifications do you have related to internal auditing? (Choose all that apply.) *n* = 3,068 for Europe. *n* = 13,142 for global average.

Exhibit A9 Organization Types



Note: Q15: What is the type of organization for which you currently work? *n* = 3,050 for Europe. *n* = 13,032 for global average.

About CBOK

SURVEY FACTS

Respondents	14,518*
Countries	166
Languages	23

EMPLOYEE LEVELS

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

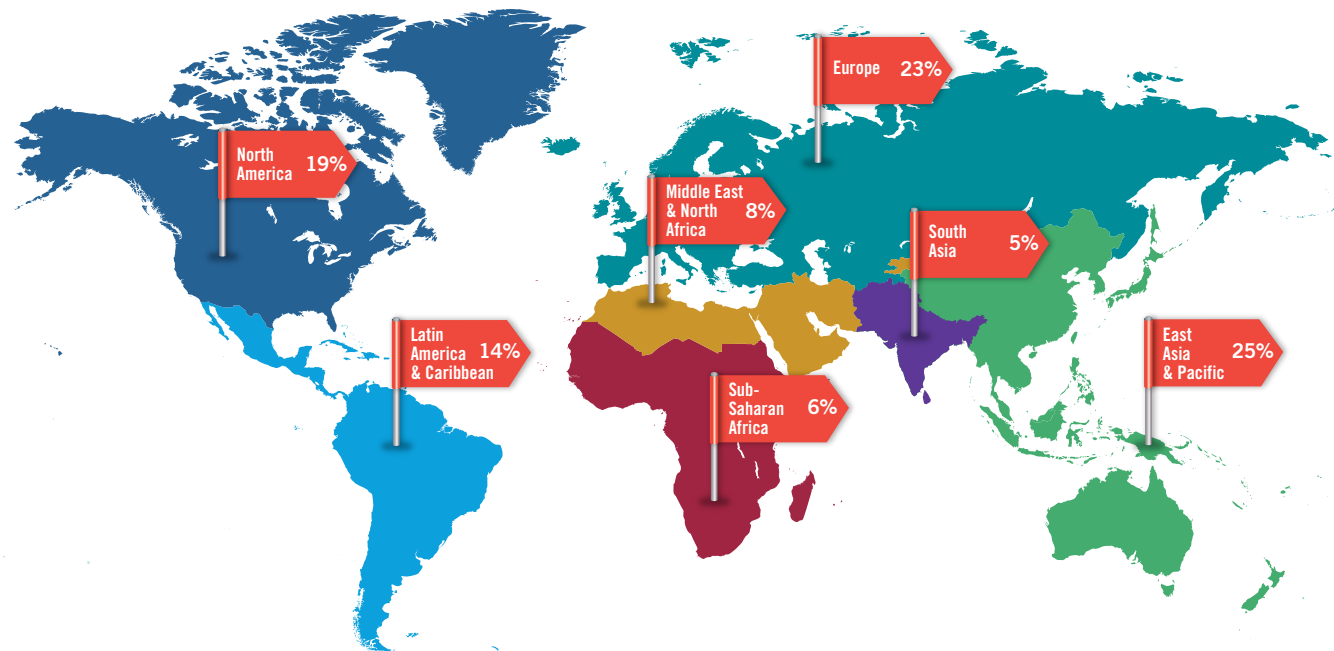
*Response rates vary per question.

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).

Reports will be released on a monthly basis through July 2016 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 in three formats: 1) core reports, which discuss broad topics, 2) closer looks, which dive deeper into key issues, and 3) fast facts, which focus on a specific region or idea. These reports will explore different aspects of eight knowledge tracks, including technology, risk, talent, and others.

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

CBOK 2015 Practitioner Survey: Participation from Global Regions



Note: Global regions are based on World Bank categories. For Europe, fewer than 1% of respondents were from Central Asia. 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. A complete list of survey questions can be downloaded from the CBOK Resource Exchange.



Your Donation Dollars at Work

CBOK reports are available free to the public thanks to generous contributions from individuals, organizations, IIA chapters, and IIA institutes around the world.

Donate To CBOK

[www.theiia.org/goto/
CBOK](http://www.theiia.org/goto/CBOK)

About The IIA Research Foundation

CBOK is administered through The IIA Research Foundation (IIARF), which has provided groundbreaking research for the internal audit profession for the past four decades. Through initiatives that explore current issues, emerging trends, and future needs, The IIARF has been a driving force behind the evolution and advancement of the profession.

Limit of Liability

The IIARF publishes this document for information and educational purposes only. IIARF does not provide legal or accounting advice and makes no warranty as to any legal or accounting results through its publication of this document. When legal or accounting issues arise, professional assistance should be sought and retained.

Contact Us

The Institute of Internal Auditors Global Headquarters
247 Maitland Avenue
Altamonte Springs, Florida 32701-4201, USA

Copyright © 2015 by The Institute of Internal Auditors Research Foundation (IIARF). All rights reserved. For permission to reproduce or quote, please contact research@theiia.org. ID# 2016-0590