



Relationships and Risk

Insights from Stakeholders in North America

A CBOK Stakeholder Report

Douglas Anderson, CIA, CRMA

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Risk & Business Consulting.
Internal Audit.



CBOK

The Global Internal Audit
Common Body of Knowledge

STAKEHOLDER STUDY FACTS

Survey participants	1,124
Interview participants	100+
IIA institute partners	23
Languages	13

STAKEHOLDER POSITIONS REPRESENTED

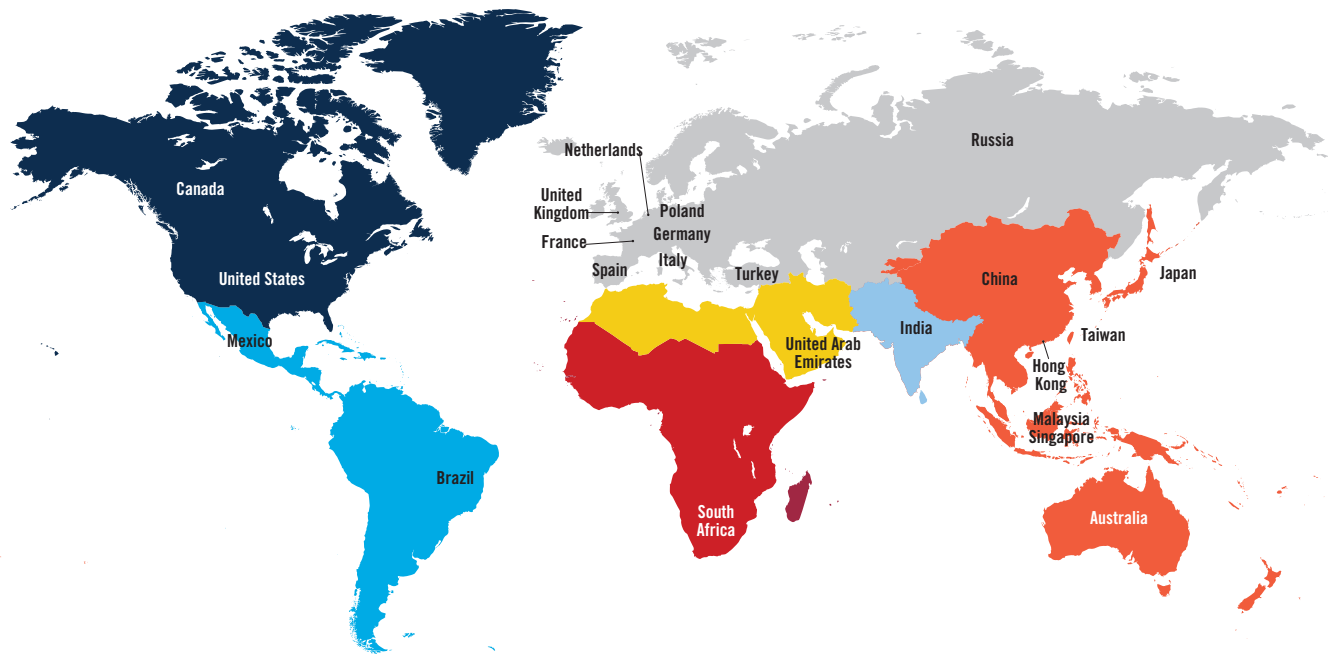
Board/audit committee chair
Board/audit committee member
Chief executive officer (CEO)
Chief financial officer (CFO)
Chief information officer (CIO)
Chief risk officer (CRO)
Chief compliance officer (CCO)
Chief operating officer (COO)
Chief legal officer (CLO)

About CBOK

The Global Internal Audit Common Body of Knowledge (CBOK) is the world's largest ongoing study of the internal audit profession. The current CBOK study has two major components: practitioner and stakeholder. The practitioner study encompasses reports that explore a variety of internal audit practices. To complement this information, the stakeholder study seeks out perspectives from stakeholders about internal audit performance. Surveys, interviews, and data analysis for the stakeholder project were conducted by Protiviti in partnership with IIA institutes around the world. Stakeholder reports focus on identifying leading practices that can improve internal audit effectiveness.

CBOK reports are available free of charge thanks to generous contributions and support from individuals, organizations, IIA chapters, and IIA institutes worldwide. Practitioner and stakeholder reports are available for download at the CBOK Resource Exchange (www.theiia.org/goto/CBOK). Stakeholder reports are also available at the Protiviti website (www.protiviti.com).

CBOK 2015 Stakeholder Study: Participation from 23 IIA Institutes



Note: Twenty-three institutes partnered with The IIA Research Foundation and Protiviti to distribute surveys and interview questionnaires to stakeholders in their region from July 2015 to February 2016. Partially completed surveys were included in analysis as long as demographic questions were complete. Questions in CBOK reports are referenced as Q1, Q2, and so on. The colors on the map show the seven global regions (based on World Bank categories) used for CBOK studies.

Introduction

The profession of internal auditing has been making great advancements in performance, positioning, and perception. The CBOK 2015 stakeholder study confirms these advancements but also highlights opportunities for internal audit to push even harder, moving to the next higher level of value for organizations. This report focuses on providing initial findings specifically from North America. While there is much to be explored in the survey responses, at a high level, a clear picture emerges regarding the importance of risk and relationships. Specifically, in the eyes of stakeholders:

- Internal audit does many things well that could be considered foundational elements of the assurance work of internal auditing.
- There are opportunities for internal audit to add value to their organizations by spending more time focusing on risk identification and management in addition to assurance work.
- Internal audit should focus more on strategic risks, but exactly what the stakeholders mean by that is less than clear or consistent.
- Increased demands on internal audit will require chief audit executives (CAEs) to prioritize competing demands. Managing these conflicts requires strong relationship and communication skills.

A brief discussion is provided for each of these topics. Future CBOK stakeholder reports will delve deeper into the feedback from internal audit stakeholders and the implications.

1. Stakeholders Give Internal Audit High Marks on Foundational Elements

The history of internal auditing depicts a profession progressing from checking disbursement packages for completeness, to counting boxes in a warehouse, to auditing controls over financial reporting, to focusing on controls over operations, to engaging in risk management, to being driven by strategic risks of an organization. Through this progression, there are foundational elements of the profession that internal audit stakeholders rate very highly.

More than 80% of stakeholder survey respondents agree or strongly agree that internal auditors:

- Assess areas or topics that are significant
- Keep up to date with changes in the business
- Sufficiently communicate audit plans¹

In addition, stakeholders focus on the foundational elements of how internal auditors perform their work. When asked how stakeholders evaluate the performance of internal auditors, the top three criteria (all supported by more than 70% of survey respondents) are:

- Quality of audit work/reliable results
- Usefulness of recommendations made
- Timely communication of risks²

Although the scope of internal audit changes over time, the elements of knowing the business, focusing on risk, and generating a quality product are constant. Stakeholders see internal auditors as proficient in handling these foundational elements.

¹ Q18: Please provide a response to each of the following statements according to the following scale: Strongly Agree, Agree, Disagree, Strongly Disagree, Don't Know. North American stakeholders only. *n* = 478.

² Q24: What factors do you, as a stakeholder, consider when you assess and measure the performance of internal audit? (Please select all that apply.) North American stakeholders only. *n* = 460.

2. Is Internal Audit Expected to Move Beyond the Basics?

Assurance is the basic focus of most internal audit functions. When asked during the interviews whether internal auditors should give more attention to assurance or advisory services, many stakeholders indicate they assume assurance is done—and done well. As one audit committee chair stated, “Assurance is essential and consulting is nice to have...” However, advisory services are not viewed as an afterthought. When asked which is a higher priority for internal audit, another audit committee chair stated, “Both, really.”

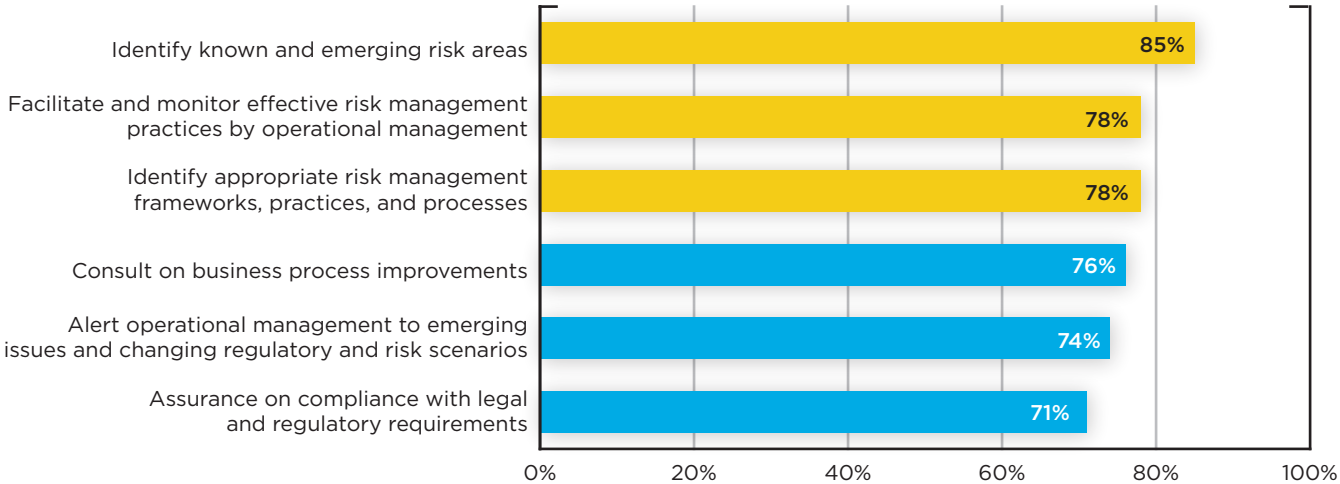
Many respondents note that they see value in advisory services. What should this non-assurance work cover? The clear answer from the survey is “risk” (see **exhibit 1**). The top three areas chosen by respondents were:

- Identifying known/emerging risk areas
- Facilitating/monitoring risk management
- Identifying appropriate risk management frameworks

Stakeholders were also asked which areas internal audit adds the most value beyond assurance. Similarly, they gave “assisting in risk management” the highest score.³

³ Q15: Most organizations today are seeking added value from internal audit by asking for more than a written audit report. On a scale of 1 to 10, where “1” indicates “no value” and “10” indicates “great value,” how much value does internal audit deliver by fulfilling the following roles as part of, or in addition to, providing assurance? North American stakeholders only. *n* = 462.

Exhibit 1 Areas—Beyond Assurance—That Should Be in Scope for Internal Audit



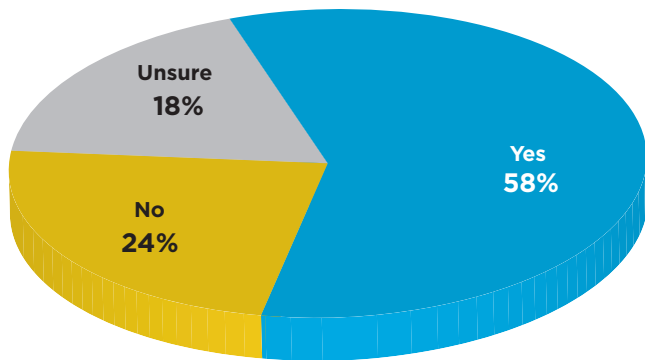
Note: Q10 to Q13 combined: Which of the following areas should, beyond assurance, be in scope for internal audit? (Choose all that apply.) North American stakeholders only. *n* = 433.

3. What About Focusing on Strategic Risks?

Risk is a broad term that can cover a wide scope of activity. Stakeholders say they want internal audit to add value by being engaged in risk-related activities, but which risks does this include? When asked specifically about strategic risks, more than half say they want internal audit to be more active in assessing and evaluating strategic risks, with only 1 in 4 disagreeing (see **exhibit 2**). As one CEO stated during an interview, “We need to better define how we link internal audit objectives to the achievement of strategic objectives.”

One interesting takeaway from the survey: a slightly smaller portion of board/audit committee members appear to support internal auditors increasing their attention to strategic risks (50%), compared to executive management (62%).

Exhibit 2 Do You Believe Internal Audit Should Be More Active with Assessing Strategic Risk?



Note: Q16: Do you believe internal audit should have a more active role in connection with assessing and evaluating the organization’s strategic risks? (For example: plans for global expansion, new products, new distribution channels.) North American stakeholders only. *n* = 468.

Stakeholders were also asked to choose the best avenues that internal audit could use to improve its role in responding to the organization’s strategic risks. The top two answers, agreed upon by 7 out of 10 respondents, are:

- Internal audit focusing on strategic risks as well as operational, financial, and compliance risks during audit projects
- Internal audit periodically evaluating and communicating key risks to the board and executive management⁴

Another interesting note is stakeholders have a low level of interest in two potential areas where internal audit can engage with strategic risks: only 27% of respondents believe providing advice on new products/initiatives should be in scope for internal audit, and just 44% think internal audit should be consulted with regard to new systems/technologies.⁵ Internal auditors have some work to do to understand what strategic risk means to stakeholders and to demonstrate to stakeholders why internal audit engagement in nontraditional areas could deliver great value to the organization.

⁴ Q17: Please designate which of the following are avenues for internal audit to improve its role in assessing/responding to strategic risks facing your organization. (Please select all that apply.) North American stakeholders only. *n* = 301.

⁵ Q10-13 combined: Internal audit’s customary role involves providing objective assurance regarding the adequacy of risk mitigation and control systems. In addition to assurance, there are areas in which internal audit may be involved. Which of the following areas should, beyond assurance, be in scope for internal audit? (Please select all that apply.) North American stakeholders only. *n* = 433.

4. How Can Internal Audit Best Manage the Competing Demands?

Internal auditors cannot do everything stakeholders expect of them. There are limited resources, potential conflicts to independence, and overlap with other functions' responsibilities.

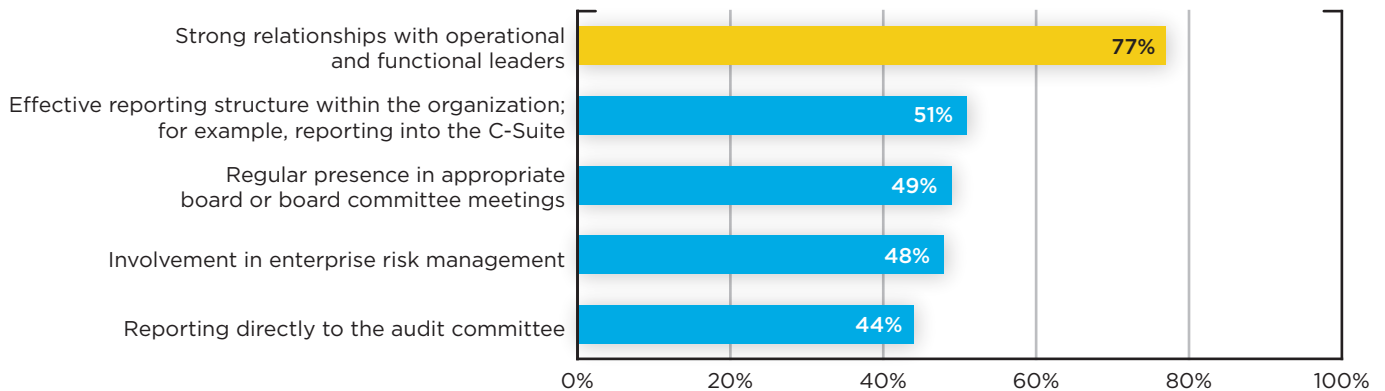
As discussed earlier, stakeholders expect internal audit to address assurance but have an appetite for more advisory activities. All too quickly, CAEs will find themselves having to decide what they can and cannot accomplish, and then face the dilemma of reconciling that decision with stakeholders.

The survey asked stakeholders about the best way for internal auditors to prioritize among the competing demands they face. By far, the most popular option, supported by 77% of respondents, is for the CAE to build strong relationships with management (see **exhibit 3**).

By extension, one would also expect strong relationships with board members to have a similar appeal. Less supported are the importance of administrative and functional reporting structures and involvement in risk management. A reporting structure alone does not resolve competing demands. Rather, interpersonal skills and relationships are critical, stakeholders suggest.

In addition, and not surprisingly, internal audit's stakeholders rarely speak with one voice. In other words, executive management and the audit committee/board often have different opinions about what areas need internal audit's focus. The professionalism of the CAE is a key factor for navigating this challenge. As one audit committee chair stated, "Business maturity is important. The CAE must be strong, realizing there are competing interests between the audit committee/board and management."

Exhibit 3 Best Strategies for Prioritizing Competing Demands for Internal Audit



Note: Q9: What have you found to be the three most effective strategies for a chief audit executive to employ in order to prioritize and address competing demands in the organization? (Please mark the three that apply.) North American stakeholders only. n = 556.

Conclusion

While future CBOK stakeholder reports will provide in-depth analysis and evaluation of the study results, CAEs would do well to consider these key takeaways to meet and surpass the needs and expectations of their stakeholders:

- **Preserve the foundational elements**, because stakeholders believe internal auditors do these well. Do not give stakeholders any reason to conclude otherwise.
- **Explore adding more advisory work**, because stakeholders are requesting this. However, do not slight the importance of assurance work.
- **Focus on risk activities**—risk identification and management—when performing advisory services.
- **Demonstrate that you understand strategic risks in all audit work**. Educate stakeholders on how you can and should give attention to nontraditional strategic risks.
- **Build your soft skills**. Communication and relationship building are what you need to set priorities when there are competing expectations.

About the Author

Doug Anderson, CIA, CRMA, is managing director, CAE solutions, at The IIA. Previously, he was an executive in residence and assistant professor of accounting and finance at Saginaw Valley State University in Michigan. Doug was employed by The Dow Chemical Company for 22 years, departing in 2013. His roles at Dow included 16 years in internal audit (nine years as CAE), global finance director in corporate controllers, and finance leader for the global Dow latex business. He also spent 10 years with PricewaterhouseCoopers. Doug held a variety of volunteer positions with The IIA over the last 20 years before joining the organization in his current role.

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The IIARF may be contacted at 247 Maitland Avenue, Altamonte Springs, Florida 32701-4201, USA.

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