

Challenges in Government Auditing

THE IIA RESEARCH FOUNDATION

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1. COMMON CHALLENGES

In February 2004, The Institute of Internal Auditors Research Foundation conducted a survey with the goal of assessing the unique challenges facing auditors in the public sector. Invitations were sent to 4,100 government auditors in North America. Input was also sought through The Institute of Internal Auditors' Web site. The survey drew 917 responses, most of which were from audit management or senior auditors with more than five years of auditing experience. Approximately 80 percent of participants were from the United States.

Auditors from a wide cross-section of city, county, state, federal, and other government audit functions were asked to rank each of 23 potential challenges affecting government auditors as being severe, high, moderate, or minor challenges, or as not being a challenge.¹ The participants were also asked to list the most unique challenges they faced as government auditors, whether or not these challenges were included on the list of 23 commonly cited challenges.

Among the major findings stemming from the survey were the following:

- **Government auditors face numerous significant challenges.** On average, more than a quarter of participants rated the 23 individual challenges listed in the survey as being either "high" or "severe" challenges. Half of respondents rated "Adequate audit staffing" and "Adequate compensation for auditors" as being either severe or high challenges. Half of all federal government auditors also ranked "Ability to report audit results promptly" as either a severe or high challenge.
- **The most important step that government agencies can take to reduce the number of severe challenges facing auditors is to ensure that an independent audit committee is in place.** Some types of audit challenges were more than twice as likely to be rated "severe" if an audit committee was not in place. At nonfederal organizations, auditors reported severe challenges 71 percent more often when they did not report to or have a relationship with an audit committee. Despite the strong relationship between reported audit challenges and the absence of an audit committee, about half of survey respondents indicated that their organization did not have an audit committee.
- **Accounting education is important, but a blend of skills is necessary to assure that the audit function can perform its duties efficiently and effectively.** On average, respondents from organizations where the entire staff held accounting degrees reported one-third fewer severe audit challenges than respondents from organizations where less than a quarter of the staff held accounting degrees; however, participants from organizations employing a balanced mix of degreed accountants and those with other backgrounds reported even fewer severe challenges. Auditors from organizations employing only degreed accountants reported a higher level of severe challenges with

¹ For additional demographic information, see Appendix A.

"adequate audit staffing" than any other group. They also reported a higher number of severe problems with their ability to contract for functional expertise in audits.

- **Government auditors face many common challenges, but individuals engaged in different types of government auditing report somewhat different challenges.** While all groups indicated that adequate audit staffing was one of their most significant challenges, auditors from very small auditing functions were the most likely to report severe challenges with staffing. Federal government auditors were the most likely of any group to note challenges with the ability to report audit results promptly. State government auditors most often reported challenges regarding adequate compensation for auditors. Less experienced auditors were more concerned than other auditors about finding adequate resources to meet continuing education requirements, and intermediate/senior auditors were most likely to report severe challenges with the ability to report audit results promptly. Because of the autonomy granted to U.S. federal government inspectors general, these audit executives did not report the severe problems with political pressures and obtaining the support of officials that seem to plague some other government audit executives.

In order to estimate the total impact of each challenge, a ranking system was established in which issues not perceived as a challenge received no points; minor challenges one point; moderate challenges two points; high challenges three points; and severe challenges four points. The average score for all challenges was 1.8. None of the listed challenges received an average score of less than one point from federal, state, county, city, or other government auditors.

Tables I and II on the following pages show average scores for auditors working in various types and sizes of government audit functions.²

² For additional information about survey responses from federal and nonfederal government auditors, see also Appendix B.

**TABLE I: PERCEIVED CHALLENGES
(BY TYPE OF GOVERNMENT AUDIT FUNCTION)**

	ALL	CITY	COUNTY	STATE	FEDERAL	OTHER
1. Adequate audit staffing	2.4	2.4	2.2	2.5	2.4	2.4
2. Adequate compensation for auditors	2.3	2.3	2.2	2.6	2.1	2.3
3. Ability to report audit results promptly	2.2	2.2	2.2	2.0	2.4	2.1
4. Adequate technology resources	2.0	2.2	2.0	2.1	1.9	1.9
5. Ability to measure performance of the audit organization	2.0	2.0	2.2	1.9	2.1	2.0
6. Ability to benchmark with other organizations	2.0	1.9	2.1	2.0	2.0	2.0
7. Promoting effective governance model	2.0	2.1	2.0	1.9	1.9	2.0
8. Ability to contract for functional expertise in audits	1.9	1.8	2.0	1.9	1.9	1.9
9. Ability to design annual audit plans on the basis of risk	1.9	1.9	2.0	1.8	2.0	1.9
10. Adequate resources to meet continuing education requirements	1.9	1.9	1.8	2.0	1.8	1.8
11. Integrating and coordinating audit/evaluation/investigative work	1.8	1.8	1.8	1.7	1.9	1.8
12. Obtaining the support of senior government managers/executives	1.8	1.8	1.8	1.7	1.9	1.6
13. Ability to provide non-audit (consulting) services	1.7	1.8	1.8	1.6	1.8	1.6
14. Maintaining independence	1.7	1.7	1.8	1.6	1.7	1.6
15. Communicating mission and organizational value to senior government officials/ board/elected officials	1.7	1.7	1.7	1.6	1.7	1.6
16. Cooperation of audited activity officials during the audit	1.7	1.7	1.6	1.6	1.7	1.6
17. Political pressures during the reporting process	1.6	1.7	1.8	1.7	1.6	1.4
18. Promoting organizational ethics	1.6	1.8	1.7	1.5	1.6	1.5
19. Media exposure for audit results	1.5	1.7	1.8	1.4	1.6	1.4
20. Requirements to make audit results public	1.5	1.6	1.7	1.4	1.5	1.4
21. Obtaining the support of elected officials	1.4	1.5	1.8	1.5	1.3	1.2
22. Political pressures during the audit process	1.4	1.4	1.7	1.5	1.4	1.2
23. Access to records during audits	1.3	1.3	1.4	1.2	1.5	1.2

Average rankings based upon scores of 0 (not a challenge) to 4 (severe challenge)

**TABLE II: PERCEIVED CHALLENGES
(BY SIZE OF AUDIT STAFF)**

	ALL	1-3	3-10	10-100	OVER 100
1. Adequate audit staffing	2.42	2.62	2.36	2.39	2.37
2. Adequate compensation for auditors	2.32	2.16	2.37	2.36	2.32
3. Ability to report audit results promptly	2.16	1.80	2.03	2.40	2.39
4. Adequate technology resources	2.02	1.95	2.05	2.13	1.93
5. Ability to measure performance of the audit organization	2.02	1.90	2.03	2.08	2.01
6. Ability to benchmark with other organizations	1.98	2.01	1.98	1.97	1.98
7. Promoting effective governance model	1.95	1.93	1.99	2.03	1.81
8. Ability to contract for functional expertise in audits	1.92	2.03	1.91	1.91	1.85
9. Ability to design annual audit plans on the basis of risk	1.92	1.84	1.93	2.00	1.87
10. Adequate resources to meet continuing education requirements	1.87	1.72	1.75	2.06	1.95
11. Integrating and coordinating audit/evaluation/investigative work	1.79	1.65	1.70	1.90	1.89
12. Obtaining the support of senior government managers/executives	1.78	1.56	1.77	1.88	1.88
13. Ability to provide non-audit (consulting) services	1.71	1.61	1.68	1.75	1.80
14. Maintaining independence	1.67	1.67	1.72	1.61	1.66
15. Communicating mission and organizational value to senior government officials/ board/elected officials	1.66	1.64	1.66	1.74	1.61
16. Cooperation of audited activity officials during the audit	1.65	1.45	1.62	1.72	1.80
17. Political pressures during the reporting process	1.63	1.52	1.59	1.78	1.63
18. Promoting organizational ethics	1.58	1.58	1.60	1.61	1.53
19. Media exposure for audit results	1.54	1.46	1.52	1.65	1.48
20. Requirements to make audit results public	1.49	1.49	1.43	1.62	1.42
21. Obtaining the support of elected officials	1.43	1.16	1.40	1.53	1.57
22. Political pressures during the audit process	1.41	1.28	1.40	1.49	1.44
23. Access to records during audits	1.33	1.07	1.27	1.38	1.57

Average rankings based upon scores of 0 (not a challenge) to 4 (severe challenge)

2. THE MOST IMPORTANT STEP THAT GOVERNMENT AGENCIES CAN TAKE TO REDUCE THE NUMBER OF SEVERE CHALLENGES FACING AUDITORS IS TO ENSURE THAT AN INDEPENDENT AUDIT COMMITTEE IS IN PLACE

Survey participants who report to or have a relationship with an audit committee were significantly less likely to classify their audit challenges as "severe." Overall, government auditors classified 4.9 percent of listed challenges as "severe" at organizations that had an audit committee. Auditors without a relationship to an audit committee classified 7.1 percent of the challenges as "severe." At nonfederal organizations, auditors reported 71 percent more severe challenges when an audit committee was not in place.

Some challenges were more than twice as likely to be rated "severe" if an audit committee was not in place. "Political pressures during the audit process" was viewed as a severe challenge by 2.7% of auditors at government organizations with an audit committee and 6.7% of auditors without an audit committee — an increase of 144.6%. "Adequate audit staffing," "Adequate technology resources," and "Obtaining the support of senior government managers and executives" were also more than twice as likely to be considered severe challenges at government organizations without audit committees. In almost every category, nonfederal auditors reported fewer severe audit challenges when they reported to an audit committee. Of the 23 listed challenges, only "Ability to provide non-audit (consulting) services" and "Integrating and coordinating audit/evaluation/investigative work" were reported as being severe more often if an audit committee was in place.

On average, federal government auditors reported about the same number of severe challenges whether or not an audit committee was in place; however, the types of challenges classified as "severe" were markedly different for federal auditors with and without audit committees. At organizations without audit committees, federal auditors reported 2½ times as many severe challenges with "Adequate technology resources," "Integrating and coordinating audit/evaluation/investigative work," and "Adequate resources to meet continuing education

! ACTION ITEMS FOR AUDIT EXECUTIVES

- *If your organization has no audit committee, consider recommending that an audit committee be established. Be prepared to supply information on the advantages and disadvantages of working with an audit committee and support the new committee by supplying benchmarking information, sample charters, and other [tools and resources](#).*
- *If your organization has an audit committee, consider forwarding information about audit challenges, the potential impact of these challenges, and the committee's role in addressing audit challenges. Depending upon the nature of your work environment, you may also wish to consider discussing these issues in a private session with senior management or the audit committee chair, or in an audit committee executive session (without the presence of management).*

TABLE III: PERCENT OF CHALLENGES CONSIDERED "SEVERE"

	WITH AUDIT COMMITTEE	NO AUDIT COMMITTEE	PERCENT INCREASE
All Nonfederal	4.5%	7.7%	71%
City	5.3%	7.5%	42%
Other Municipal	2.6%	13.0%	400%
County	3.6%	11.1%	208%
State	4.8%	6.9%	44%
Other	3.9%	4.9%	26%
Federal	6.0%	5.9%	-2%
All Participants	4.9%	7.1%	45%

Nonfederal government auditors were 71 percent more likely to classify audit challenges as "severe" if an audit committee was not in place.

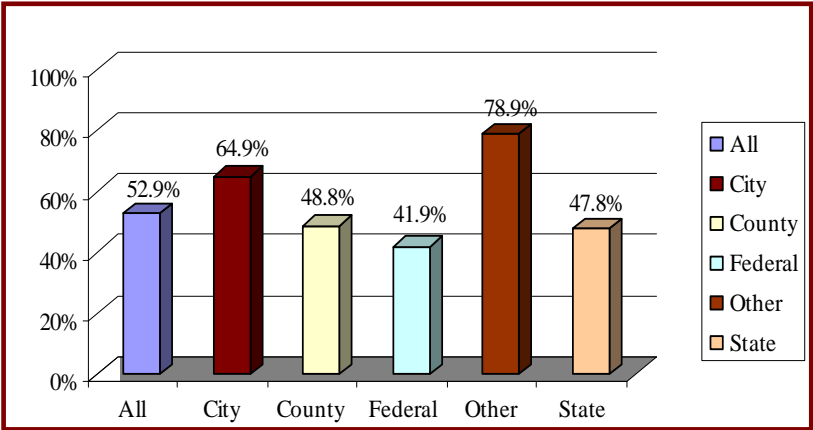
1980s, the U.S. National Association of Securities Dealers and American Stock Exchange also instituted audit committee requirements.

According to one recent study, tests provide evidence that internal audit departments reporting to an audit committee are perceived as more able to deter financial statement fraud and more likely to report detected fraud than internal audit departments that report to senior management.³ Yet, despite the strong relationship between reported audit challenges and the absence of an audit committee, about half of survey respondents indicated that an audit committee was not in place. Additional research may be warranted on the advantages and disadvantages of independent audit committees at government organizations.

requirements." On the other hand, those reporting to an audit committee reported more severe challenges with issues such as obtaining the support of elected officials and media exposure for audit results.

Outside of government circles, the fact that audit committees can have a beneficial effect on auditing has been widely accepted for years. Since 1940, the U.S. Securities and Exchange Commission has recognized that audit committees serve an important function in ensuring that financial reporting is accurate. In the 1970s, the New York Stock Exchange required boards of directors of listed companies to appoint an audit committee. In the

DOES YOUR GOVERNMENT AGENCY HAVE AN AUDIT COMMITTEE TO WHICH YOU REPORT OR HAVE A RELATIONSHIP?



Despite the strong relationship between reported audit challenges and the absence of an audit committee, about half of survey respondents indicated that an audit committee was not in place.

³ *Accounting Horizons*, "The Effects of Internal Audit Structure on Perceived Financial Statement Fraud Prevention," Kevin L. James, December 2003.

TABLE IV: CHALLENGES CLASSIFIED AS "SEVERE" BY NONFEDERAL GOVERNMENT AUDITORS

Nonfederal government auditors were significantly less likely to classify almost all types of audit challenges as "severe" when they reported to or had a relationship with an audit committee.

	WITH AUDIT COMMITTEE	NO AUDIT COMMITTEE	PERCENT INCREASE (DECREASE)
1. Political pressures during the audit process	2.2%	7.0%	223.1%
2. Ability to design annual audit plans on the basis of risk	2.4%	7.0%	186.1%
3. Obtaining the support of senior government managers/executives	3.2%	8.3%	156.7%
4. Cooperation of audited activity officials during the audit	1.9%	4.7%	150.5%
5. Promoting organizational ethics	3.2%	7.7%	138.1%
6. Adequate audit staffing	6.5%	15.3%	136.7%
7. Communicating mission and organizational value to senior government officials/board/elected officials	2.5%	5.5%	125.1%
8. Adequate technology resources	4.3%	9.0%	109.3%
9. Maintaining independence	5.4%	10.5%	95.4%
10. Ability to contract for functional expertise in audits	8.1%	14.8%	81.5%
11. Obtaining the support of elected officials	3.8%	6.4%	67.3%
12. Adequate resources to meet continuing education requirements	6.7%	11.2%	66.5%
13. Political pressures during the reporting process	4.9%	8.1%	66.3%
14. Adequate compensation for auditors	9.4%	14.6%	55.2%
15. Promoting effective governance model	6.3%	9.0%	43.0%
16. Ability to measure performance of the audit organization	3.2%	4.4%	36.8%
17. Access to records during audits	1.6%	2.2%	35.9%
18. Ability to report audit results promptly	8.1%	10.3%	27.8%
19. Ability to benchmark with other organizations	4.9%	5.9%	21.2%
20. Media exposure for audit results	4.3%	5.1%	18.4%
21. Requirements to make audit results public	3.5%	4.0%	13.8%
22. Integrating and coordinating audit/evaluation/investigative work	3.2%	2.6%	(20.4%)
23. Ability to provide non-audit (consulting) services	4.3%	3.0%	(31.7%)

TABLE V: CHALLENGES CLASSIFIED AS "SEVERE" BY FEDERAL GOVERNMENT AUDITORS

Federal government auditors were 2½ times more likely to report severe challenges with technology resources if an audit committee was not in place, but communicating with and obtaining the support of elected officials was sometimes challenging for those with audit committees.

	WITH AUDIT COMMITTEE	NO AUDIT COMMITTEE	PERCENT INCREASE (DECREASE)
1. Adequate technology resources	2.8%	7.3%	162.3%
2. Integrating and coordinating audit/evaluation/investigative work	2.8%	7.3%	159.1%
3. Adequate resources to meet continuing education requirements	1.9%	4.6%	150.3%
4. Ability to provide non-audit (consulting) services	3.7%	8.7%	135.6%
5. Access to records during audits	1.9%	4.0%	114.6%
6. Adequate audit staffing	5.6%	10.0%	80.0%
7. Ability to contract for functional expertise in audits	6.5%	8.8%	35.5%
8. Political pressures during the audit process	4.7%	6.1%	30.1%
9. Obtaining the support of senior government managers/executives	4.6%	6.0%	28.7%
10. Promoting organizational ethics	4.7%	5.3%	13.4%
11. Ability to design annual audit plans on the basis of risk	7.4%	7.3%	-1.0%
12. Ability to report audit results promptly	18.7%	17.3%	-7.3%
13. Maintaining independence	10.3%	9.4%	-8.6%
14. Ability to measure performance of the audit organization	4.6%	4.0%	-14.2%
15. Cooperation of audited activity officials during the audit	2.8%	2.0%	-28.0%
16. Ability to benchmark with other organizations	5.6%	3.3%	-40.0%
17. Political pressures during the reporting process	10.3%	6.1%	-40.8%
18. Promoting effective governance model	4.8%	2.7%	-44.0%
19. Requirements to make audit results public	8.5%	4.6%	-45.4%
20. Communicating mission and organizational value to senior government officials/board/elected officials	5.7%	2.7%	-52.7%
21. Adequate compensation for auditors	4.7%	2.0%	-57.5%
22. Media exposure for audit results	11.2%	4.7%	-58.1%
23. Obtaining the support of elected officials	5.0%	2.0%	-58.8%

3. STAFFING AND TRAINING

The survey inquired about the percent of the audit staff holding an accounting degree. On average, respondents from organizations where the entire staff held an accounting degree reported one third fewer severe audit challenges than respondents from organizations where less than 25 percent of the staff held an accounting degree; however, respondents from organizations employing a balanced mix of degreed accountants and those with other backgrounds reported even fewer severe challenges.

TABLE VI — PERCENT OF STAFF WITH ACCOUNTING DEGREES					
<i>Government auditors reported significantly more severe audit challenges when less than 25 percent of the staff held an accounting degree.</i>					
PERCEIVED CHALLENGES	UNDER 25%	25% - 49%	50% - 74%	75% - 99%	100.0%
None	11.6%	10.7%	10.4%	11.4%	15.0%
Minor	26.6%	28.6%	29.0%	28.7%	29.1%
Moderate	30.3%	33.2%	34.8%	33.2%	31.2%
High	23.0%	21.4%	20.6%	21.3%	19.1%
Severe	8.6%	6.0%	5.2%	5.3%	5.7%
Average Score*	1.90	1.84	1.81	1.80	1.71

*Average rankings based upon scores of 0 (not a challenge) to 4 (severe challenge).

Additional research may be warranted on the effect of various types of training, education, and certification programs on perceived audit challenges. Variables such as the nature of audit work, scope of audit objectives, or audit methodologies may account for some of the correlation between accounting education and perceived challenges, but for some issues, participants reported more than three times as many severe challenges when less than a quarter of the staff held accounting degrees than when all auditors had accounting degrees.

Severe problems with "Access to records during audits" were reported by only 1.6 percent of auditors when the entire staff had formal accounting education. When fewer than a quarter of the staff held accounting degrees, however, 5.6 percent of auditors reported severe problems with records access – an increase of more than 250 percent. "Political pressures during the reporting process" and "media exposure for audit results" were also perceived as severe at least three times as often when few degreed accountants were on staff as when the entire staff held an accounting degree. Audit organizations with few degreed accountants were also significantly more likely to report severe problems in gaining the cooperation of audited activity officials during audits.

Although the reported number of severe challenges was highest at organizations where less than a quarter of the staff held accounting degrees, a blend of skills is necessary to ensure that the audit function can efficiently and effectively perform non-financial audits. Auditors from

organizations employing only degreed accountants reported more severe challenges with "adequate audit staffing" than any other group. They also reported more severe problems with their ability to contract for functional expertise in audits.

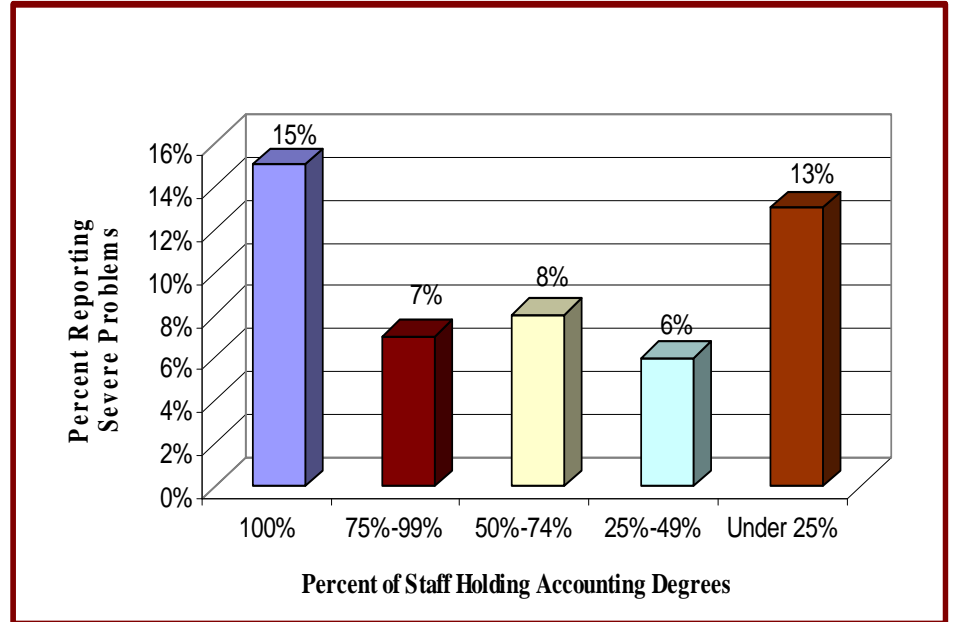
Auditors at organizations where less than a quarter of the staff held accounting degrees were twice as likely as other groups to report severe problems with "Adequate resources to meet continuing education needs." The

survey did not question whether staff members without accounting degrees held other relevant degrees or qualifications that might help to address audit challenges; therefore, no conclusions can be drawn about the backgrounds and qualifications of auditors in this group. For additional information on the effect of formal accounting education on audit challenges, see Appendix C.

Over the next few years, it seems likely that challenges related to audit staffing and training may increase. The survey indicated that audit staff sizes have been declining in the past five years, and because of continuing budget cuts, limited audit resources may be a reality for many government audit organizations.

According to preliminary data from an Institute of Internal Auditors salary survey, compensation for senior-level auditors at U.S. government organizations falls far short of internal audit salaries offered by competing organizations. Reported salaries and bonuses for chief audit executives at government organizations averaged \$80,475, compared to an average of \$151,753 for chief internal auditors at all U.S. organizations.⁴ Recent events related to corporate governance are increasing the demand for senior-level auditors, and many experts expect salaries to continue to rise faster than the inflation rate.

ABILITY TO CONTRACT FOR FUNCTIONAL EXPERTISE IN AUDITS



Finding a Balance — Employees from audit organizations employing a mix of degreed accountants and other specialists reported only about half as many severe problems with the ability to contract for functional expertise in audit.

⁴ Preliminary data from *Internal Auditor Job Market 2004: A Comprehensive Review of Salaries, Staff Sizes, Director Statistics, and Attitudes*, by Thomas H. Oxner and Donald E. Sparks, The Institute of Internal Auditors, expected publication date June 2004.

TABLE VII – 2004 MANAGEMENT SALARIES & BONUSES⁵			
	CHIEF AUDIT EXECUTIVE OR PARTNER	AUDIT DIRECTOR	AUDIT MANAGER
2004 U.S. Average Salary & Bonuses - Government	\$80,475.00	\$64,071.11	\$63,629.85
2004 U.S. Average Salary & Bonuses - All Organizations	\$156,958.51	\$110,506.70	\$83,717.92
Percent Difference	95%	72%	32%

TABLE VIII - CHANGES TO INTERNAL AUDIT STAFFING LEVELS OVER THE PAST FIVE YEARS										
	TYPE OF EMPLOYMENT						AUDIT STAFF SIZE			
	ALL	CITY	COUNTY	STATE	FEDERAL	OTHER	1-3	3-10	10-100	100+
Decreased more than 10%	21.6%	22.6%	14.5%	26.7%	19.2%	17.7%	21.0%	21.0%	18.2%	26.9%
Decreased less than 10%	9.0%	7.5%	7.2%	10.8%	10.7%	3.2%	0.6%	5.8%	13.9%	14.9%
Remained about the same	42.8%	50.4%	50.6%	39.4%	39.1%	46.0%	56.9%	46.5%	43.3%	25.5%
Increased by less than 10%	9.0%	4.5%	8.4%	8.6%	11.5%	9.7%	5.4%	9.0%	7.4%	13.5%
Increased by more than 10%	17.7%	15.0%	19.3%	14.6%	19.5%	23.4%	16.2%	17.7%	17.3%	19.2%

⁵ Preliminary data from *Internal Auditor Job Market 2004: A Comprehensive Review of Salaries, Staff Sizes, Director Statistics, and Attitudes*, by Thomas H. Oxner and Donald E. Sparks, The Institute of Internal Auditors, expected publication date June 2004.

4. DIFFERENT ROLES, DIFFERENT VIEWPOINTS

Not surprisingly, auditors at different stages in their careers perceive audit challenges differently. Less experienced auditors were more concerned than other auditors about finding adequate resources to meet continuing education requirements, and intermediate/senior auditors were most likely to report severe challenges with the ability to report audit results promptly. Because of the autonomy granted to U.S. federal government inspectors general, these audit executives did not report the severe problems with political pressures and obtaining the support of officials that seem to plague some other government audit executives.

TABLE IX: CHALLENGES RECEIVING "SEVERE" RATING

	STAFF AUDITOR (1-3 YEARS)	INTERMEDIATE AUDITOR (3-5 YEARS)	SENIOR AUDITOR (5+ YEARS)	AUDIT MANAGER/ SUPERVISOR	DIRECTOR OF THE AUDIT ORGANIZATION	INSPECTOR GENERAL	OTHER
Adequate audit staffing	5.3%	9.1%	8.0%	12.3%	10.9%	3.7%	9.3%
Adequate compensation for auditors	8.0%	11.7%	11.2%	8.2%	8.7%	0.0%	9.3%
Adequate technology resources	5.3%	6.5%	6.0%	7.3%	6.0%	0.0%	3.6%
Adequate resources to meet continuing education requirements	13.3%	9.1%	7.1%	6.5%	4.9%	0.0%	10.9%
Ability to contract for functional expertise in audits	8.1%	10.4%	6.1%	10.3%	15.8%	7.4%	9.3%
Maintaining independence	5.3%	6.5%	10.4%	8.6%	4.9%	0.0%	16.4%
Requirements to make audit results public	1.3%	7.9%	3.6%	3.7%	7.7%	0.0%	1.8%
Media exposure for audit results	4.0%	10.5%	5.2%	4.1%	7.1%	3.7%	1.9%
Ability to measure performance of the audit organization	1.3%	6.4%	3.6%	5.4%	2.2%	0.0%	5.6%
Ability to design annual audit plans on the basis of risk	1.3%	7.7%	6.0%	6.2%	3.8%	3.7%	3.7%
Ability to provide non-audit (consulting) services	0.0%	5.3%	3.2%	6.2%	4.4%	11.1%	5.6%
Ability to benchmark with other organizations	0.0%	5.1%	4.4%	5.4%	6.6%	7.4%	5.5%
Access to records during audits	1.3%	0.0%	5.2%	0.8%	0.5%	3.7%	3.7%
Promoting organizational ethics	0.0%	9.1%	7.6%	4.6%	3.3%	3.7%	3.6%
Ability to report audit results promptly	10.7%	15.8%	15.9%	11.7%	4.9%	11.1%	7.4%
Integrating and coordinating audit/evaluation/investigative work	2.7%	2.6%	5.2%	3.3%	2.7%	0.0%	5.7%
Promoting effective governance model	1.3%	8.1%	6.9%	6.8%	6.6%	0.0%	7.3%
Cooperation of audited activity officials during the audit	2.7%	2.6%	4.8%	3.3%	0.5%	0.0%	1.9%
Obtaining the support of senior government managers/executives	2.7%	6.6%	7.5%	5.7%	3.8%	0.0%	3.6%
Obtaining the support of elected officials	0.0%	5.6%	3.3%	7.7%	3.9%	0.0%	3.7%
Political pressures during the audit process	1.4%	8.1%	4.8%	5.8%	2.7%	0.0%	5.7%
Political pressures during the reporting process	2.7%	10.8%	7.6%	8.2%	4.4%	0.0%	5.7%
Communicating mission and organizational value to senior government officials/ board/elected officials	0.0%	4.0%	3.6%	5.0%	4.4%	0.0%	3.8%

5. THE ROAD AHEAD: IDENTIFYING AUDIT CHALLENGES, POTENTIAL CONSEQUENCES, AND POSSIBLE SOLUTIONS

The very fact that so many audit challenges were classified as "severe" by survey participants indicates that solutions to many common audit challenges are not found easily; yet addressing these challenges is an essential component in assuring audit quality. In some cases, solutions may not be possible without fundamental changes in the way audit is perceived – and funded – in the government work environment.

Additional research may be necessary to determine the extent to which the challenges faced by government auditors relate to those auditors' reporting relationships, degree of independence, and the structures of their governments. Perhaps some challenges should be addressed collectively, through initiatives designed to promote the value of government audit or to promote legislation requiring independent auditors and audit committees in government organizations. Every government audit function is unique, however, with its own distinct challenges and opportunities, and some of the best approaches for dealing with severe audit challenges will vary between institutions.

Audit executives facing severe audit challenges may benefit from the use of structured problem-solving approaches. Typical problem-solving approaches often include four basic steps:

1. **Identifying and analyzing the organization's challenges.** When analyzing audit challenges, it is important to consider the degree of severity of the challenge and its potential impact. Some audit executives may find that their perception of audit challenges differs significantly from those of other stakeholders such as the audit staff, senior management, or the audit committee; therefore, it is important to consider more than one viewpoint. Techniques used to identify specific audit challenges might include interviews, anonymous surveys, and benchmarking against statistics such as information found in this report.
2. **Identifying and evaluating possible solutions or mitigation techniques.** Audit executives should consider benefits of possible solutions/mitigation techniques and should compare benefits to implementation costs, including possible impacts on budgets, audit plans, staffing levels, and training requirements.
3. **Developing recommendations and implementation plans.** Audit executives may wish to develop specific action plans and timelines to address important challenges. In most circumstances, these plans should be forwarded to senior management and the audit committee for review/approval.
4. **Performing follow-up to track progress.** Because the audit function is an integral part of the organization's internal control system, follow-up is as important for recommendations related to severe audit challenges as for any other audit recommendations. Audit executives should ensure that follow-up activities are sufficient to determine whether audit challenges are being addressed effectively.

Of the four steps listed above, many audit executives may find the second step (identifying and evaluating possible solutions) the most difficult. At times, auditors facing severe challenges may not believe that a solution exists for their specific problems. Yet solutions often exist, and in many cases severe audit challenges can at least be mitigated if they cannot be eliminated completely.

Solutions and mitigation techniques for severe audit challenges can sometimes be found through open communications and frank discussions of problems with senior management, elected officials, and the audit committee or other oversight group. Audit executives facing severe audit challenges are encouraged to foster an atmosphere in which problems and challenges can be discussed freely and in a positive manner, for it is only through open dialogue that these challenges can sometimes be addressed successfully. Networking and benchmarking with peers can also be invaluable in developing new solutions for audit challenges and in working together for positive changes.

! ACTION ITEMS FOR AUDIT EXECUTIVES

Develop a plan to address your organization's major audit challenges that includes (1) Identifying and analyzing the organization's audit challenges; (2) Identifying and evaluating possible solutions or mitigation techniques; (3) Developing recommendations and implementation plans; and (4) Performing follow-up to track progress. Solicit feedback about the plan from the audit committee and other stakeholders.

Table X (following page) lists a few possible solutions or mitigation techniques for addressing some of the most common challenges in government auditing. The information in the table is offered merely as an example to facilitate analysis. Audit executives are encouraged to develop their own analyses of severe challenges and possible solutions, and to share this information with their audit committee or other oversight group. If solutions are not immediately apparent, candid discussion of such a document with senior management and the audit committee may shed new light on possible corrective actions.

TABLE X: SAMPLE ANALYSIS MATRIX FOR DEVELOPMENT OF POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES		
CATEGORY	DESCRIPTION & POTENTIAL IMPACT	POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES
1. INADEQUATE/ NONEXISTENT AUDIT COMMITTEE OVERSIGHT	<ul style="list-style-type: none"> • Government auditors report more than twice as many severe challenges with audit staffing, technology resources, and obtaining the support of senior government managers and executives when they do not report to or have a relationship with an audit committee. • Many government organizations do not have audit committees, but the current regulatory environment may be conducive to the establishment of new committees. 	<ul style="list-style-type: none"> • Forward information on risks/potential benefits associated with audit committees to key officials • Support legislative changes requiring independent audit committees <ul style="list-style-type: none"> ○ See IIA model legislation for state or local governments • If budget is unavailable, work towards creation of a volunteer audit committee • If establishing an independent audit committee is impossible, consider forming an internal management committee to provide input about audit issues
2. ADEQUATE AUDIT STAFFING	<ul style="list-style-type: none"> • More than half of respondents on staffs of 10 or less report high/severe challenges • Over 30% report decrease over past five years • Consequences: <ul style="list-style-type: none"> ○ Disproportionate decrease in discretionary audit coverage ○ Diminished audit capability ○ Impact on high-risk coverage 	<ul style="list-style-type: none"> • Demonstrate impact of staffing shortfalls • Demonstrate potential value from staffing increase • Identify strategies for "force multiplication" <ul style="list-style-type: none"> ○ Share resources during peak demand ○ Co-source ○ Leverage technology

TABLE X: SAMPLE ANALYSIS MATRIX FOR DEVELOPMENT OF POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES		
CATEGORY	DESCRIPTION & POTENTIAL IMPACT	POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES
3. ADEQUATE COMPENSATION FOR AUDITORS	<ul style="list-style-type: none"> • Government compensation typically established by legislative bodies • Compensation adjustments impacted by government economic conditions • Consequences: <ul style="list-style-type: none"> ○ Difficult to attract new talent ○ Difficult to retain the most talented ○ Difficult to motivate performance 	<ul style="list-style-type: none"> • Promote regular compensation surveys/adjustments • Implement pay-banding • Identify alternative compensation strategies <ul style="list-style-type: none"> ○ Alternative forms of recognition ○ Time-off awards
4. ABILITY TO REPORT AUDIT RESULTS PROMPTLY	<ul style="list-style-type: none"> • Lack of timely audit undermines: <ul style="list-style-type: none"> ○ Productivity ○ Stakeholder satisfaction ○ Organization value • Audit cycle time spans the audit process <ul style="list-style-type: none"> ○ Planning ○ Fieldwork ○ Reporting • Stakeholders will seek alternative solutions 	<ul style="list-style-type: none"> • Analyze cycle time <ul style="list-style-type: none"> ○ Journey begins with awareness ○ Solutions are tied with process improvements • Keys to success: <ul style="list-style-type: none"> ○ Identify cycle time drivers ○ Prioritize reengineering ○ Benchmark ○ Measure progress ○ Reward success
5. ADEQUATE TECHNOLOGY RESOURCES	<ul style="list-style-type: none"> • Relates to what is audited and how audits are conducted • IT is expensive and has a short "shelf life" • Risk-based auditing mandates an IT audit capability 	<ul style="list-style-type: none"> • Solicit additional resources-based risk assessments • Share resources within the community • Co-source or out-source the IT function

TABLE X: SAMPLE ANALYSIS MATRIX FOR DEVELOPMENT OF POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES		
CATEGORY	DESCRIPTION & POTENTIAL IMPACT	POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES
<p>6. ABILITY TO MEASURE PERFORMANCE OF THE AUDIT ORGANIZATION</p>	<ul style="list-style-type: none"> • The audit function has traditionally not been measured at many organizations • No universally accepted measures for success • Measures frequently used are "outputs" versus "outcomes" • Consequences: <ul style="list-style-type: none"> ○ Output measures undermine relationships ○ Difficult to demonstrate organization value 	<ul style="list-style-type: none"> • Solicit stakeholder feedback • Benchmark with other organizations • Identify output- and outcome-based measures • Potential measures to consider <ul style="list-style-type: none"> ○ Stakeholder satisfaction ○ Engagements completed ○ Audit cycle time ○ Return on investment • IIA Government Auditors' Resource Center
<p>7. ABILITY TO BENCHMARK WITH OTHER ORGANIZATIONS</p>	<ul style="list-style-type: none"> • Benchmarking fosters organizational improvement • Sharing/networking is not common within government audit community • No universally accepted performance measures • Sometimes a reluctance to share information that is not flattering • Sharing information will benefit the community as a whole 	<ul style="list-style-type: none"> • Global Audit Information Network (GAIN) benchmarking: <ul style="list-style-type: none"> ○ 750 participants; 80 government subscribers ○ Reduced fees for government; free "Flash Survey" information • NALGA benchmarking report <ul style="list-style-type: none"> ○ 64 local government participants; free report • Benchmarking/networking opportunities at professional association meetings/conferences

TABLE X: SAMPLE ANALYSIS MATRIX FOR DEVELOPMENT OF POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES		
CATEGORY	DESCRIPTION & POTENTIAL IMPACT	POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES
8. PROMOTING EFFECTIVE GOVERNANCE MODEL	<ul style="list-style-type: none"> • Recent events highlighted risk of poor governance • Governance in government sometimes viewed as perfunctory • Effective governance includes: <ul style="list-style-type: none"> ○ Board or governing authority ○ Senior management ○ External auditors ○ Internal auditors 	<ul style="list-style-type: none"> • Benchmark governance practices with other government and industry practices • Establish strong and supportive relationship with board or other governing bodies • Highlight enhancements to existing governance practices
9. ABILITY TO CONTRACT FOR FUNCTIONAL EXPERTISE IN AUDITS	<ul style="list-style-type: none"> • Government programs/organizations/functions are becoming increasingly complex • Especially important when auditors do not have expertise in major risk areas that are highly technical • Specialists can help accelerate learning curve and add credibility • Contracting process is costly and time-consuming 	<ul style="list-style-type: none"> • Analyze potential means of acquiring specialists <ul style="list-style-type: none"> ○ Hire, contract, "borrow" or temporary exchange of resources, etc. • Analyze costs of obtaining specialists vs. cost of training staff • Compare costs to risks/ potential consequences if function is not audited • Be able to communicate the value of specialists' work to management/audit committee/other oversight groups
10. ABILITY TO DESIGN ANNUAL AUDIT PLANS ON THE BASIS OF RISK	<ul style="list-style-type: none"> • Allows audit resources to be targeted to areas where risks are greatest <ul style="list-style-type: none"> ○ Increases efficiency/effectiveness of audit resources ○ Reduces costs • Required by professional standards⁶ 	<ul style="list-style-type: none"> • Undertake a comprehensive risk-based planning process at least annually • Keys to success: <ul style="list-style-type: none"> ○ Identify appropriate audit entities/ potential audits ○ Identify 3-5 major risk factors ○ Use numerical ratings ○ Incorporate concepts of impact and probability

⁶ *International Standards for the Professional Practice of Internal Auditing*, The Institute of Internal Auditors, 2004.

TABLE X: SAMPLE ANALYSIS MATRIX FOR DEVELOPMENT OF POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES		
CATEGORY	DESCRIPTION & POTENTIAL IMPACT	POSSIBLE SOLUTIONS/MITIGATION TECHNIQUES
11. ADEQUATE RESOURCES TO MEET CONTINUING EDUCATION REQUIREMENTS	<ul style="list-style-type: none"> • U.S. government auditing standards require 80 hours of continuing professional education every two years. <ul style="list-style-type: none"> ○ When continuing professional education credits are not earned, individuals cannot meet requirements of professional standards • Declining resources may limit availability of funds for training/travel 	<ul style="list-style-type: none"> • Be innovative in acquisition of training • All training does not require expense/travel • Potential solutions: <ul style="list-style-type: none"> ○ Professional association meetings/events ○ Online training/e-learning ○ Internal training and onsite training by third parties may reduce or eliminate travel expenses

6. RESOURCES FOR ADDITIONAL INFORMATION

Additional resources and information related to government auditing can be found through The Institute of Internal Auditors' *Government Auditors Program*, at <http://www.theiia.org/membership/join-now/gap/>

For other research reports from The Institute of Internal Auditors Research Foundation, please visit <http://www.theiia.org/research/research-reports/chronological-listing-research-reports/>

APPENDIX A: PROFILE OF SURVEY RESPONDENTS

In January 2004, The Institute of Internal Auditors published a survey titled Challenges in Government Auditing, with the goal of assessing the unique challenges facing auditors in government organizations. Invitations were sent to 4,100 government auditors in North America. The survey drew 917 responses, most of which were from audit management or senior auditors with more than five years of auditing experience. Approximately 80 percent of participants were from the United States.

Survey participants were from a broad cross-section of government organizations, including city, other municipal, county, state, federal, and other types of organizations. They included individuals from all sizes of audit groups, from those with very small staffs to those with over 100 employees.

STAFF SIZE	
1 to 3	18.1%
3 to 10	34.0%
10 to 100	25.2%
Over 100	22.7%

ORGANIZATION TYPE	
City	14.5%
Other Municipal	1.4%
County	9.1%
State	34.5%
Federal	28.5%
Other	12.1%

POSITION	
Staff Auditor (1-3 years auditing experience)	8.2%
Intermediate Auditor (3-5 years auditing experience)	8.5%
Senior Auditor (Over 5 years auditing experience)	27.5%
Audit Manager/Supervisor	26.7%
Director of the Audit Organization	20.1%
Inspector General	2.9%
Other	6.1%

These surveys are hosted by the GAIN Flash Survey program and are designed to provide information about new and emerging subjects related to the profession of internal auditing. Flash Surveys are intended to detect general trends but normally are not statistically random samples and may not be of statistically significant size, especially as relates to findings regarding smaller subcategories and groups within some surveys. Readers should use judgment in reading and interpreting the information in this report.

**APPENDIX B: PERCEIVED CHALLENGES - SPECIFIC RESPONSES BY
FEDERAL & NONFEDERAL GOVERNMENT AUDITORS**

AUDIT CHALLENGE	FEDERAL GOVERNMENT AUDITORS					OTHER GOVERNMENT AUDITORS				
	NONE	MINOR	MODERATE	HIGH	SEVERE	NONE	MINOR	MODERATE	HIGH	SEVERE
1. Ability to report audit results promptly	6.2%	14.7%	31.4%	29.8%	17.8%	7.3%	23.9%	31.6%	28.2%	9.0%
2. Maintaining independence	16.7%	33.1%	21.0%	19.5%	9.7%	15.4%	36.2%	23.9%	17.0%	7.5%
3. Adequate audit staffing	2.7%	7.0%	41.1%	41.1%	8.1%	3.5%	11.3%	36.3%	38.7%	10.1%
4. Political pressures during the reporting process	21.9%	30.9%	23.0%	16.4%	7.8%	17.1%	30.6%	27.9%	18.2%	6.2%
5. Ability to contract for functional expertise in audits	9.7%	27.6%	32.7%	22.2%	7.8%	12.2%	26.2%	29.6%	21.2%	10.8%
6. Media exposure for audit results	17.9%	35.4%	23.0%	16.3%	7.4%	19.0%	36.3%	23.9%	16.2%	4.6%
7. Ability to design annual audit plans on the basis of risk	4.2%	31.3%	35.9%	21.2%	7.3%	8.5%	24.8%	39.6%	22.8%	4.3%
8. Ability to provide non-audit (consulting) services	12.0%	32.6%	27.5%	21.3%	6.6%	13.8%	29.2%	35.2%	18.1%	3.7%
9. Requirements to make audit results public	22.5%	32.2%	20.9%	18.2%	6.2%	21.8%	33.6%	24.3%	16.6%	3.7%
10. Political pressures during the audit process	24.6%	37.1%	20.3%	12.5%	5.5%	22.4%	34.3%	25.8%	13.4%	4.2%
11. Integrating and coordinating audit/evaluation/investigative work	6.6%	28.4%	38.9%	20.6%	5.4%	8.0%	32.9%	38.8%	17.3%	2.9%
12. Adequate technology resources	5.0%	31.5%	34.6%	23.5%	5.4%	5.0%	21.3%	42.4%	25.1%	6.3%
13. Obtaining the support of senior government managers/executives	6.2%	26.5%	40.4%	21.5%	5.4%	13.0%	31.3%	31.3%	19.0%	5.4%
14. Promoting organizational ethics	15.8%	38.2%	23.9%	17.0%	5.0%	16.0%	33.8%	30.7%	14.4%	5.1%
15. Ability to benchmark with other organizations	6.2%	26.6%	36.3%	26.6%	4.2%	8.3%	22.5%	35.9%	28.0%	5.2%
16. Ability to measure performance of the audit organization	2.7%	23.8%	42.3%	26.9%	4.2%	5.4%	21.7%	44.2%	25.1%	3.7%
17. Communicating mission and organizational value to senior government officials/board/elected officials	9.1%	33.1%	40.6%	13.4%	3.9%	14.2%	31.9%	32.7%	17.6%	3.7%
18. Promoting effective governance model	7.8%	25.0%	43.8%	19.9%	3.5%	7.2%	23.3%	40.5%	21.6%	7.4%
19. Adequate resources to meet continuing education requirements	7.7%	30.4%	39.6%	18.8%	3.5%	10.7%	28.2%	30.8%	21.5%	8.7%
20. Obtaining the support of elected officials	30.5%	26.5%	26.1%	13.7%	3.2%	25.2%	26.4%	29.7%	13.8%	4.9%
21. Adequate compensation for auditors	4.2%	19.3%	44.0%	29.3%	3.1%	3.7%	13.0%	33.3%	38.3%	11.7%
22. Access to records during audits	13.5%	45.4%	25.8%	12.3%	3.1%	23.4%	40.6%	23.2%	10.9%	1.8%
23. Cooperation of audited activity officials during the audit	4.2%	38.6%	38.2%	16.6%	2.3%	8.0%	40.3%	36.5%	12.1%	3.1%

APPENDIX C: EFFECT OF HOLDING AN ACCOUNTING DEGREE ON PERCEIVED NUMBER OF SEVERE AUDIT CHALLENGES					
CHALLENGES RATED "SEVERE"	100% DEGREED ACCOUNTANTS	75-99% DEGREED ACCOUNTANTS	50-74% DEGREED ACCOUNTANTS	25-49% DEGREED ACCOUNTANTS	0% - 25% DEGREED ACCOUNTANTS
1. Access to records during audits	1.6%	2.0%	1.1%	2.9%	5.6%
2. Political pressures during the reporting process	5.1%	5.2%	6.1%	4.8%	16.7%
3. Media exposure for audit results	3.5%	4.3%	5.0%	7.5%	11.0%
4. Cooperation of audited activity officials during the audit	2.0%	2.4%	2.8%	3.8%	5.6%
5. Obtaining the support of elected officials	3.2%	3.7%	4.5%	5.9%	7.7%
6. Political pressures during the audit process	4.3%	4.8%	2.8%	1.9%	10.2%
7. Requirements to make audit results public	3.5%	2.8%	5.6%	4.8%	8.3%
8. Adequate resources to meet continuing education requirements	5.9%	7.1%	3.9%	10.4%	11.8%
9. Communicating mission and organizational value to senior government officials/board/ elected officials	3.6%	2.8%	3.9%	3.8%	6.6%
10. Obtaining the support of senior government managers/executives	5.5%	3.9%	5.0%	4.7%	10.1%
11. Maintaining independence	7.1%	5.5%	11.7%	6.7%	12.8%
12. Adequate compensation for auditors	6.3%	9.1%	11.7%	10.4%	11.0%
13. Ability to provide non-audit (consulting) services	2.4%	7.5%	3.9%	3.9%	3.7%
14. Promoting effective governance model	6.4%	6.5%	6.1%	3.0%	9.3%
15. Ability to report audit results promptly	10.6%	13.4%	8.4%	10.7%	13.9%
16. Integrating and coordinating audit/evaluation/investigative work	3.2%	4.7%	2.2%	4.8%	3.7%
17. Promoting organizational ethics	4.7%	5.2%	5.0%	5.8%	5.6%
18. Ability to measure performance of the audit organization	4.7%	2.8%	2.8%	5.8%	4.6%
19. Ability to design annual audit plans on the basis of risk	6.7%	3.2%	5.0%	5.8%	6.4%
20. Ability to benchmark with other organizations	5.9%	3.6%	3.9%	7.8%	5.5%
21. Ability to contract for functional expertise in audits	15.0%	6.8%	7.8%	5.8%	12.8%
22. Adequate technology resources	6.7%	5.9%	4.4%	8.5%	5.5%
23. Adequate audit staffing	12.2%	9.5%	5.6%	9.4%	9.1%

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