

Rising to new challenges: The view from the office of the CAE

Chief Audit Executive Survey 2012

Grant Thornton's second annual survey of approximately 300 chief audit executives (CAEs) from U.S. institutions seeks to better understand and articulate what is on the minds of audit executives at a critical point. With the recession behind them for the most part, and promising economic signs emerging, organizational demands are pulling internal audit in new directions. As CAEs strive to balance competing goals and initiatives, our findings point to areas of opportunity:

- Most CAEs seem to recognize that their departments can better harness the power of technology. Half of respondents acknowledged their organizations do not effectively use governance, risk and compliance (GRC)-specific technology. Data analytics and continuous auditing technologies are gaining wider acceptance, however. Still, given the power of today's technology tools, internal audit can do more.
- Internal auditors are increasingly facing technology risks related to cloud computing and cybersecurity threats. The ability to achieve growth goals is at risk without protected data and secure processes.
- Trends point to the need for a more global internal audit presence. Although 42 percent of CAEs surveyed said their organizations have an internal audit scope outside the U.S., the majority of respondents who conduct internal audit activities on foreign soil deploy U.S. employees.
- CAEs have mixed views on their role and career path. With stakeholders calling for internal auditors to have a broader understanding of their business, CAEs striving to transform the function will want to balance seeing themselves as career auditors and developing experiences necessary for an executive management role.

Many of the challenges facing internal audit aren't new, but they've taken on greater urgency in an environment that offers equal parts opportunity and risk. As businesses prepare to capitalize on an improving economy, internal audit is called on to help light the way through improved insight and smarter risk management. Advancing toward what seems to be a period of growth and greater stability, the timing may be ideal for internal audit to take on an expanded mandate and push for significant improvement opportunities for their departments and their organizations.

"Internal audit is again at something of a crossroads as it examines where it's come from and where it's trying to go," says Warren Stippich, Grant Thornton's National Governance, Risk and Compliance Solution Leader and Partner. "With Sarbanes-Oxley and a record of efficiency improvements behind them, boards and executives have issued internal audit a new challenge to deliver even more value. Chief audit executives are shifting their mindsets from a compliance orientation to a more progressive value enhancement orientation in considering how to meet this charge and help their organizations drive continued growth."

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This survey builds on Grant Thornton's prior CAE survey from 2011 and confirms that internal audit is receptive to assimilating newer and broader responsibilities for evaluating emerging risks, ensuring appropriate corporate governance and incorporating technology into internal audit processes. It is the journey from recognition to reinvention that is likely to present the biggest challenges and potentially the biggest rewards. Grant Thornton is an ardent supporter for driving change through the internal audit function and understands the difficulty around change management to accomplish such futuristic growth. Following are highlights of what CAEs responding to the survey had to say.

Emerging technology risks require attention

Not surprisingly, emerging risks are on the minds of CAEs. More than one-third of respondents acknowledged that cloud computing represents a significant organizational change and that they understand the implications; these responses are up 8 percent from last year. Although many CAEs have a raised awareness about this risk area, half of those surveyed said cloud computing is not part of their audit plan.

Other emerging risks of concern to CAEs, in order of priority, include cybersecurity, mobile technology, business interruption and social media. Furthermore, 42 percent of respondents said they see the greatest cybersecurity threat to their organization coming from external hackers or other outside parties. Some companies have good reason for concern: 16 percent had to report a breach of information to either regulators or customers in the last 12 months.

Board relationships: Just the two of us

Internal audit continues to be a valued adviser to boards of directors and audit committees for its commitment to independently evaluating the risks and rewards facing an organization. A majority of CAEs (81 percent) surveyed noted that they report functionally to the audit committee. Asked to rank the value of specific internal audit services from the board's perspective, CAEs placed risk monitoring and separate evaluation as the highest.

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Said one respondent, “Internal audit is providing comfort that every critical business process is being evaluated. The board likes the emphasis on standard policies and procedures and how we implement them quickly at new locations.”

Internal audit's independent streak was underscored by the finding that 60 percent of CAEs said they take issues to the audit committee that run counter to management's view, which is up 8 percent from last year's results. What's surprising isn't so much the fact that CAEs are comfortable taking an opposing view to the audit committee, but that it happens with relative frequency.

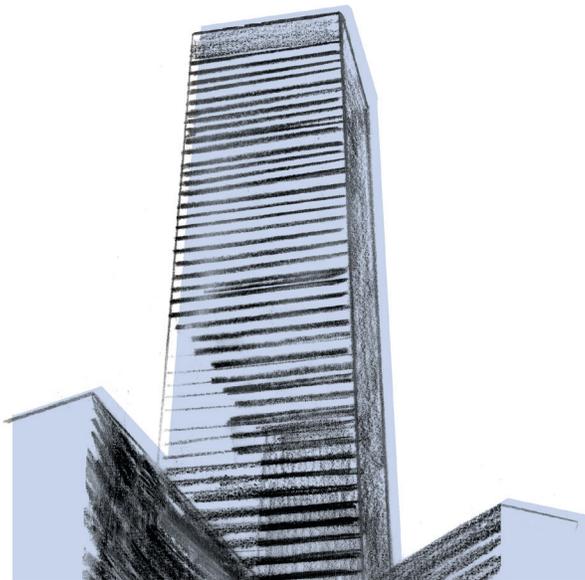
For CAEs, the continual challenge is to remain an objective thinker while also being a respected adviser to both the audit committee and senior management. For the most part, internal audit takes an active role in setting the agenda for the audit committee, a task 81 percent of respondents said they perform. But there may be opportunities to do more: More than three-fourths (76 percent) of CAEs said internal audit does not conduct training for the audit committee.

Technology usage slow to boot up

Internal audit seems to recognize that they can do better when it comes to using technology to carry out their mission. Half of respondents disagreed with the statement that their organizations effectively use GRC-specific technology; these results are 6 percent higher than last year. Perhaps the answers can be attributed to the fact that 79 percent said they were not using a GRC tool.

Asked what the biggest challenges were in implementing a GRC tool, respondents ranked cost of effort and time to deploy, cost of seat license, and difficulty to maintain and support as the top obstacles. “It seems that the challenges are identified; now organizations have to drive implementation of GRC tools to move the organization forward,” says Paul Kanneman, National Managing Principal of Business Advisory Services at Grant Thornton.

On the other hand, data analytics continue to gain a solid foothold in internal audit, with 64 percent of respondents saying they're using these transformative tools to examine raw data and draw conclusions. Momentum toward continuous auditing is also building, with 42 percent of respondents performing it to some degree, up from one-third in last year's survey.



Audit focus remains largely domestic

CAEs are not just giving lip service when they say their audit focus is shifting away from being heavily compliance oriented. Asked to rank the importance of their audit focus in four key areas, financial risks ranked first, followed by operational, compliance and strategic risks. This ranking was consistent with last year's survey, suggesting that internal audit has been steadily de-emphasizing compliance risks and focusing more on financial and operational risks.

An area where internal audit has been slowly making changes is in how it handles international activities. Forty-two percent of respondents have a portion of their internal audit scope conducted outside the country, up slightly from 2011. If they perform global internal audit, most put domestic internal audit professionals on airplanes. Some also conduct non-U.S. work through the use of co-source providers with in-country staff. And despite increasing attention by businesses to the emerging economies of Brazil, Russia, India and China (the BRIC countries), 44 percent do not have an internal audit focus on these countries.

Anti-fraud efforts continue

Conducting fraud investigations remains a common internal audit activity, as cited by 76 percent of respondents, and internal audit leads more than one-third (36 percent) of fraud investigations. More than three-quarters of CAEs said their organizations have formal anti-fraud measures in place (e.g., policies, internal fraud reviews and internal audit CAAT testing). On the other hand, almost one-quarter of respondents indicated their organizations have no anti-fraud measures in place, suggesting that this is one "easy win" area where some internal audit departments can immediately add value.

Also growing in importance is the monitoring of intermediaries in foreign locations with respect to anticorruption. Respondents said their top tactics for managing risks in this area include using compliance monitoring, conducting due diligence and performing an annual certification/background check. One CAE noted, "As the company gets larger, we will need to build more anti-fraud procedures into the internal audit plan, especially with respect to overseas operations."

Career corner?

Although many CAEs view their post as a final destination on their career path, 56 percent said they see internal audit as a grooming place for future leadership roles elsewhere in their organizations. Noted one respondent, "It is a place where you can learn the whole company." Furthermore, 40 percent see their next career step being an executive management position within their company or another organization. Another respondent stated, "Internal audit is becoming a place where leaders are made."

However, not all chief audit executives surveyed have designs on the executive management suite. Nearly one-third (32 percent) were neutral on whether internal audit is a grooming place for future leadership roles within their organization, and 12 percent disagreed with this assertion altogether. Moreover, 26 percent indicated that they expect their next career step to be another CAE role. This begs the question: Are some CAEs overly content in their positions? Does a desire to maintain a professional status quo make it more difficult to transform the function? If nearly a third aren't looking to be groomed for an executive management role, are they personally comfortable with growth and change?

Although internal audit may provide a vantage point for organizational learning, other research suggests that it may be essential for CAEs to have management experience outside of internal audit to gain additional credibility within their organizations. A recent report from The Institute of Internal Auditors, "Insight: Delivering Value to Stakeholders," suggests that a lack of operating or general management experience in internal audit departments can hinder the ability of CAEs to deliver insights and may even cause management to reject an internal audit analysis or recommendation.

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Visit our web page at www.GrantThornton.com/CAESurvey.

About the survey

Survey purpose

The 2012 survey of U.S. CAEs aimed to uncover how internal audit is adjusting to the evolving expectations of its role. We hope that by identifying trends taking place in the profession, we can provide CAEs with valuable insights for staffing, career progression, training, use of technology and audit planning.

Methodology

The survey was administered online and in person during December 2011 and January 2012. Approximately 300 internal audit professionals responded to the survey of 30-plus questions. Respondents were not required to answer every question.

Responses came from public and private companies in geographically dispersed U.S. locations. While there was a wide range of organizational revenues, the majority of respondents came from dynamic organizations in the middle market (defined as having \$100 million to \$5 billion in annual revenues). Respondents worked in a variety of industries, such as professional services, consumer products, technology, health care, not-for-profit and manufacturing. Respondents performed internal audit functions under varying titles including chief audit executive, vice president and director. Throughout this survey, we refer to all respondents as CAEs.

Anonymity

This summary reflects the responses of participants to the maximum extent possible. To preserve anonymity, the survey does not attribute responses to specific individuals.



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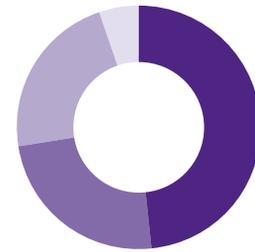
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Company type

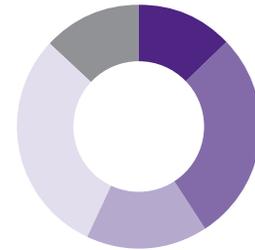
- Public 48%
- Private 24%
- Not-for-Profit 22%
- Government 5%



Responses do not total 100% due to rounding.

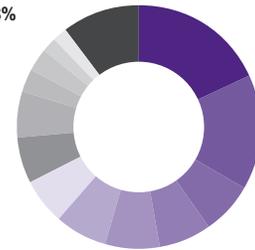
Revenues

- Less than \$100M 13%
- \$100M-\$500M 28%
- \$500M-\$1B 16%
- \$1B-\$5B 30%
- Greater than \$5B 13%



Industry

- Banking/Financial institutions 18%
- Manufacturing 15%
- Health care 7%
- Higher education 7%
- Retail 7%
- Technology 7%
- Energy 6%
- Financial services 6%
- Not-for-profit 6%
- Consumer products 3%
- Transportation 3%
- Pharmaceuticals 2%
- Professional services 2%
- Other 10%



Responses do not total 100% due to rounding.

Titles

- Chief Audit Executive 41%
- Director of Internal Audit 37%
- Manager of Internal Audit 9%
- Chief Financial Officer 4%
- Internal Auditor 4%
- Vice President 3%
- Other 2%

