Knowledge Alert

Internal Auditing in 2010: Shifting Priorities for a Changing Environment

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The Institute of Internal Auditors

Audit Executive Center

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Executive Summary

As news reports from around the world start documenting the first signs of a possible economic recovery in certain industry sectors and job markets, The IIA asked internal audit leaders to share their plans for 2010. In early March, The IIA sent a survey to nearly 3,740 chief audit executives (CAEs) and internal audit directors and managers asking specific questions about their internal audit activity's roles and responsibilities, budgets, staffing and cost-saving efforts, 2010 priorities, and compliance plans with the U.S. Securities and Exchange Commission's new (SEC's) Proxy Disclosure requirements. Figures 1 and 2 provide a breakdown of demographic data by internal audit staff size and annual revenue.

Survey Results at a Glance

This Knowledge Alert discusses five key results as revealed by a recent Flash survey of 402 CAEs and internal audit directors and managers working in different industry groups:

1. The roles of internal audit activities and the CAE are continuing to proliferate in key organizationwide initiatives.
2. Internal audit budgets and staffing levels are beginning to stabilize after a difficult year in 2009.
3. Staffing activities and issues are at the forefront of CAE administrative concerns in 2010.
4. As areas of audit focus and coverage continue to shift from 2009 to 2010, risk management is the No. 1 strategic priority for CAEs and the key area of focus for internal audit activities in 2010.
5. Enterprise risk management and International Financial Reporting Standards are at the forefront of CAE concerns beyond 2010.

The survey uncovered five key trends that began to emerge late in 2009. According to survey results:

1. The roles of internal audit activities and the CAE are continuing to proliferate in key organizationwide initiatives.
2. Internal audit budgets and staffing levels are beginning to stabilize after a difficult year in 2009.
3. Staffing activities and issues are at the forefront of CAE administrative concerns in 2010 — staffing issues are the No. 1 obstacle to audit performance this year. The top three skill sets CAEs are seeking in new internal audit staff are business and industry knowledge, IT audit expertise, and proficiency with data analytics tools.
4. As areas of audit focus and coverage continue to shift from 2009 to 2010, risk management is the No. 1 strategic priority for CAEs and the key area of focus for internal audit activities in 2010.
5. Enterprise risk management (ERM) and International Financial Reporting Standards (IFRS) are at the forefront of CAE concerns for the future beyond 2010.

The rest of this Knowledge Alert provides a detailed analysis of these key survey results for all survey respondents and those working in Fortune 500 organizations.

Snapshot of Survey Demographics

A total of 3,733 survey invitations were sent to IIA members, of which 402 CAEs and internal audit directors and managers participated in the study, representing an 11 percent rate. Of these respondents:

- 37 percent work in internal audit activities consisting of three to six internal auditors, and 28 percent work in internal audit activities consisting of seven to 15 internal auditors.
- 50 percent work in organizations with annual revenues of US $1 billion or more.
- 20 percent work in the financial services, banking, or real estate industry, followed by manufacturing (10 percent), and insurance carriers and agents (9 percent).
- 98 percent work in organizations based in North America.

Fortune 500 respondents. A separate analysis of survey responses was performed for participants working in Fortune 500 companies. A total of 87 Fortune 500 companies are represented in the survey (i.e., 17 percent of all Fortune 500 companies). Of these companies:

- 36 percent employ more than 30 internal auditors, 31 percent employ seven to 15 internal auditors, and 15 percent employ 21 to 30 internal auditors.
- 95 percent have revenues of US $1 billion or more, with 57 percent earning US $10 billion or more.
- 17 percent are in the manufacturing industry, followed by energy, oil, and gas (14 percent); insurance carriers and agents (9 percent); and utilities (8 percent).

Figure 1. Annual Revenues for All Organizations and Fortune 500 Companies

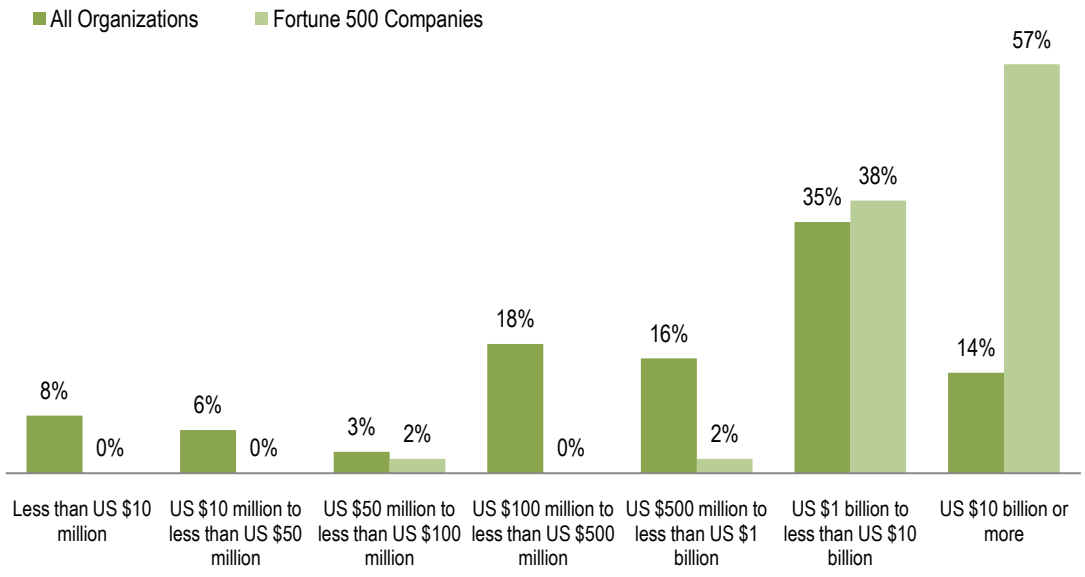
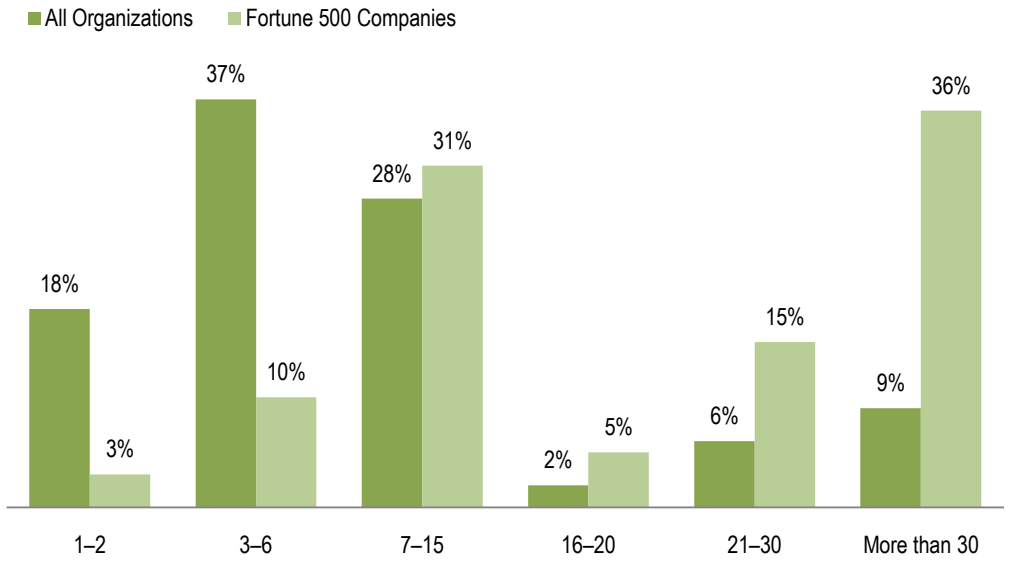


Figure 2. Internal Audit Staff Sizes for All Organizations and Fortune 500 Companies



Proliferation of Internal Audit Roles

In addition to more traditional roles and responsibilities, survey participants were asked to identify the areas for which their internal audit activity is primarily responsible. The top five areas of primary responsibility according to all survey respondents are (refer to Figure 3 for a summary of all responses):

1. Fraud investigations (65 percent).
2. Ethics investigations (42 percent).
3. Sarbanes-Oxley compliance and testing (39 percent).
4. Risk management (33 percent).
5. Managing the organization's ethics and compliance or whistleblower hotline (27 percent).

This proliferation of CAE and internal audit roles throughout the organization is confirmed by an August 2009 IIA Flash survey of 321 CAEs that found internal audit activities also were primarily responsible for ethics investigations (43 percent), Sarbanes-Oxley compliance and testing (40 percent), overseeing the complaint handling process for the audit committee (39 percent), managing the corporate hotline (32 percent), and risk management (24 percent).[1]

Fortune 500 Results

Respondents working in Fortune 500 companies identified the same top five areas of primary responsibility, although the order is slightly different. Similar to all survey respondents, fraud investigations was ranked as the No. 1 nontraditional role (59 percent) followed by Sarbanes-Oxley testing compliance and testing (54 percent), ethics investigations (38 percent), risk management (22 percent), and managing the organization's ethics and compliance or whistleblower hotline (18 percent).

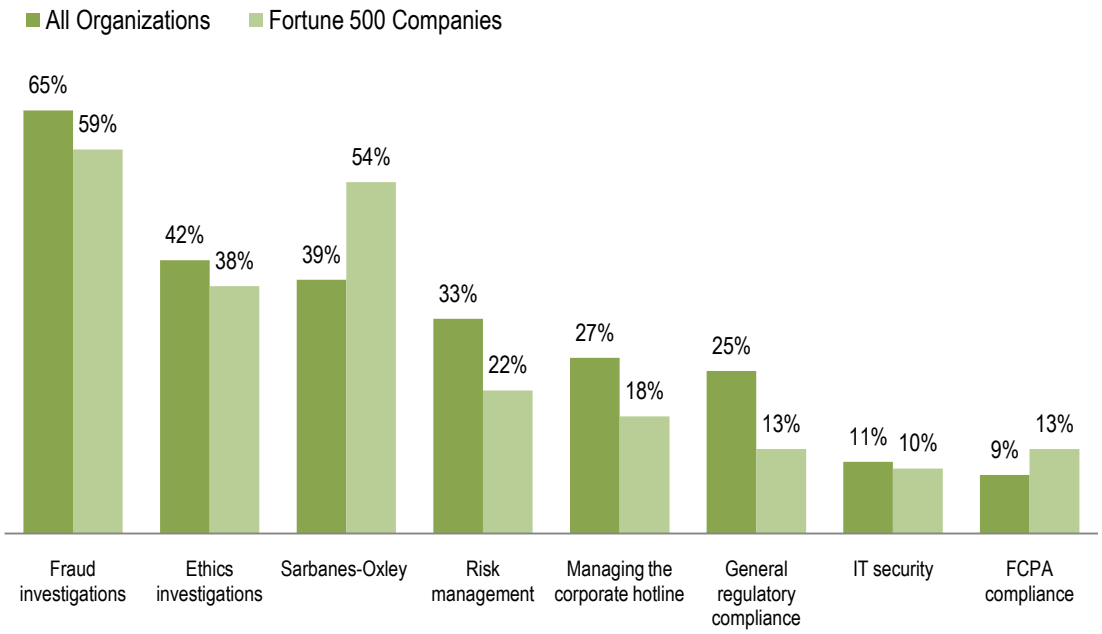
Regardless of this slight variation in terms of ranking, all internal audit activities are being asked to take a leading role in their organization's anti-fraud activities and risk management processes.

What Does This Mean?

In examining survey results closely, a key finding emerges: Internal auditors are being asked to expand their more traditional assurance and consulting roles, and apply their business knowledge and audit expertise in key organizationwide initiatives, particularly those pertaining to fraud and risk management. This places the CAE in a unique position to coordinate organizational activities pertaining to these two important areas.

[1] Results from the August 2009 IIA Flash survey are discussed in the Knowledge Alert, *Internal Auditing and Risk Management* (PDF, 1.1 MB).

Figure 3. Nontraditional, Primary Roles and Responsibilities for Internal Auditors



According to IIA Standard 2050: Coordination,[2] the CAE "should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimize duplication of efforts." This sharing of information and coordination of activities extends to the organization's fraud and risk management efforts, which, in turn, helps ensure internal audit efforts are focused and provide coverage on the right business areas. More important, coordination of activities helps CAEs provide recommendations that can consolidate the organization's approach to providing assurance in the areas of fraud and risk management so that the organization is looking at these areas holistically and using the same methodology.

One way to enhance the effectiveness of communication and coordination efforts is through the use of an assurance map, as explained by Practice Advisory (PA) 2050-2.[3] "Often an organization will have defined the significant risk categories that make up its risk management framework. In such cases, the assurance map would be based on the structure of this framework," the PA states. For example, an assurance map could have the following column categories:

- Significant risk.
- Management role responsible for the risk (risk owner).
- Inherent risk rating.
- Residual risk rating.
- External audit coverage.
- Internal audit coverage.
- Other assurance provider coverage.

[2] www.theiia.org/guidance/standards-and-guidance/ippf/standards/standards-items/?C=3094&i=8263
[3] www.theiia.org/guidance/standards-and-guidance/ippf/practice-advisories/list-items/index.cfm?i=10277&Site=iia

In this example, the CAE would populate the internal audit coverage column with recent coverage. Often each significant risk has a risk owner or a person responsible for coordinating assurance activities for that risk, and that person would populate the “other assurance provider coverage” column. Each significant unit within the organization could have its own assurance map. Alternatively, the internal audit activity may play a coordinating role in developing and completing the organization’s assurance map.

Once the assurance map for the organization has been completed, significant risks with inadequate assurance coverage, or areas of duplicated assurance coverage, can be identified. Senior management and the audit committee need to consider changes in assurance coverage for these risks, and the internal audit activity needs to consider areas of inadequate coverage when developing the internal audit plan.

As the role of the internal audit activity continues to proliferate throughout the organization, CAEs should strongly consider the use of an assurance map to consolidate coverage efforts and refocus internal audit work in the right business areas or those with inadequate coverage.

Internal Audit Staffing and Budgets Levels Are Stabilizing

In October 2009, The IIA performed a Flash survey to determine the recent impact on the staffing and sourcing of North American activities.[4] Overall, the survey found that internal audit activities experienced staff reductions, with 2009 yielding the greatest impact. More specifically, nearly twice as many survey participants, including those working in Fortune 500 companies, reported internal audit staff decreases in 2009 compared to 2008. What's more, 12 percent of all respondents indicated that staff reductions were expected to continue in 2010.

Although 9 percent of all participants in the March 2010 survey indicated that their staffing levels decreased from 2009 to 2010, this percentage is still lower than the 12 percent who projected staff reductions in October 2009 and the 19 percent of respondents to the March 2010 survey who stated that staffing levels decreased from 2008 and 2009. In addition, 73 percent of March 2010 survey participants indicated that their staffing levels stayed the same and 18 percent stated that their staffing levels actually increased from 2009 to 2010. Table 1 illustrates the average percentage staffing changes for all respondents and Fortune 500 companies.

In terms of budget decreases, 45 percent indicated that internal audit budgets stayed the same from 2009 to 2010, only one point higher than the percent of internal audit budgets that stayed the same in 2009 from 2008. The good news is found in the percentage of audit budgets that increased compared to those that decreased. According to survey results, 27 percent of respondents stated that their budgets increased from 2008 to 2009 while 30 percent stated that their budgets increased from 2009 to 2010. The percentage of budget decreases also have abated, thus continuing to reinforce the stabilization of internal audit budgets: 29 percent of all respondents stated that their budgets decreased from 2008 to 2009 compared to 25 percent who stated that budgets decreased since last year. Table 2 illustrates the average percent budget changes for all organizations and Fortune 500 companies.

When examined together, staffing and budget levels among all survey respondents are showing a stabilization trend consistent with news of financial recovery, albeit slow, in some industry sectors and business markets. This is great news for the internal audit profession, as significant job losses in some of the world's largest organizations characterized much of 2009.

Table 1. Average Percentage Internal Audit Staff Changes

	All Organizations			Fortune 500 Companies		
	Increased	Stable	Decrease	Increased	Stable	Decrease
2008	22%	70%	8%	34%	53%	13%
2009	20%	61%	19%	24%	41%	35%
2010	18%	73%	9%	19%	70%	11%

[4] Results from the October 2009 IIA Flash survey are discussed in the Knowledge Alert, *Recent Impacts on the Staffing and Sourcing of North American Internal Audit Activities* (PDF, 820 KB).

Table 2. Average Percentage Changes in Internal Audit Budgets

	All Organizations			Fortune 500 Companies		
	Increased	Stable	Decrease	Increased	Stable	Decrease
2008	36%	50%	14%	46%	36%	18%
2009	27%	44%	29%	31%	32%	37%
2010	30%	45%	25%	33%	43%	24%

Fortune 500 Results

The stabilization of staffing and budget levels was more profound in Fortune 500 companies. According to survey results, 12 percent of respondents working in Fortune 500 companies stated that their staffing levels decreased from 2009 to 2010 compared to 35 percent who reported staff reductions from 2008 to 2009. Furthermore, 70 percent stated that internal audit staff sizes stayed the same since last year compared to 41 percent who stated that staff sizes stayed the same from 2008 to 2009.

In terms of budget levels, 24 percent of Fortune 500 respondents stated that their budgets decreased since 2009 compared to 37 percent who stated that budgets decreased from 2008 to 2009. Also, 43 percent stated that their budgets stayed the same from 2009 to 2010 compared to 32 percent who stated the same for the 2008 to 2009 period. Finally, 33 percent of the Fortune 500 companies represented in the survey actually increased their internal audit budgets from 2009 to 2010 compared to 31 percent who did the same from 2008 to 2009.

When combined, results depicted among the Fortune 500 companies represented in the survey not only illustrate that internal audit staff and budgets levels are stabilizing in these organizations but that they are taking a turn for the better. As the economy continues to improve it would be interesting to note if internal audit staffing and budget levels begin to resemble their pre-2008 levels.

What Does This Mean?

As internal audit and CAE roles continue to proliferate throughout the organization in the areas of risk management and fraud, there will be an increasing demand on the internal audit activity as a whole. This translates into greater demands on the internal audit activity's time and other resources such as training — if audit staff lack the necessary skills to perform the work — and finances — if co-sourcing is a better option or if it is determined there is a need to hire additional internal audit staff.

With internal audit staff and budget levels stabilizing, and in many areas increasing, CAEs are in a better position to ensure the organization gets the necessary audit coverage. This also translates into good news for the internal audit profession as a whole, as CAEs around the world can concentrate once more on rebuilding their staff levels or bringing in the skills needed to ensure the organization's internal audit needs are met.

Staffing Activities and Issues Are at the Forefront of CAE Concerns

Recruitment and retention of high-quality staff is a concern to business executives around the world, and CAEs are no exception. Unfortunately, last year's economic downturn not only affected CAEs' ability to hire high-caliber staff but in many cases directly impacted their staffing levels through layoffs, hiring freezes, and diminished financial resources.

As staffing and budget levels stabilize in 2010, many CAEs are trying to determine what business skills they should bring in to provide the right amount of audit coverage. To this end, the survey asked respondents to identify the skill sets they will be actively seeking or recruiting for their internal audit activity in 2010 (Table 3 summarizes all survey results). According to 50 percent of all survey respondents, business and industry-specific knowledge is the No. 1 needed skill followed by general IT knowledge (46 percent), data mining and analytics (39 percent), risk management (32 percent), and fraud auditing (28 percent).

Fortune 500 respondents identified the same five skills, although in a slightly different order: business and industry-specific knowledge (61 percent), data mining and analytics (56 percent), general IT knowledge (47 percent), risk management (30 percent), and fraud auditing (25 percent). An interesting finding is that Fortune 500 percentages are typically greater than those for all survey respondents. This may be due to the generally greater complexity in Fortune 500 companies.

As evident in the survey results, expertise in different technology tools and processes (i.e., general IT knowledge and data mining and analytics) and activities pertaining to risk prevention and detection (i.e., risk management and fraud auditing) dominate the list of skills CAEs are seeking in new staff. This is properly aligned to the areas where CAEs will be focusing their priorities in 2010 as will be discussed in the next section.

Table 3. Needed Skill Sets for 2010

Skill Sets	All Organizations	Fortune 500 Companies
Business and industry-specific knowledge	50%	61%
General IT knowledge	46%	47%
Data mining and analytics	39%	56%
Risk management	32%	30%
Fraud auditing	28%	25%
Forensics and investigations	12%	12%
Interviewing	9%	6%
Cybersecurity and privacy	8%	10%
Quality controls (e.g., Six Sigma, ISO)	7%	12%

What Does This Mean?

While CAEs continue refocusing audit engagements on the right issues and organizational priorities, they also need to consider the obstacles that could hinder internal audit performance. Given last year's massive layoffs and hiring freezes in nearly all industry sectors and organizations around the world, it is not surprising to find that staffing issues was identified as the No. 1 obstacle to internal audit performance in 2010. Specific staffing issues pertaining to the internal audit activity and the organization as a whole identified by 59 percent of all survey respondents include:

- The negative impact of layoffs on the organization's control environment.
- Reduced staff resources due to layoffs.
- Failure to manage audit committee and senior management expectations due to a smaller audit staff size.
- The quality of existing internal audit staff.
- Inability of skill sets to keep up with business and technological changes.
- Need for additional but unbudgeted staff.
- Issues filling existing vacancies.
- Problems implementing a rotational program to supplement staff levels.
- Inability to provide adequate training or have the ability to develop meaningful internal training programs around company operations.
- Problems hiring and retaining the right staff.
- Disengaged staff or a drop in morale due to layoffs; benefits or pay cuts, or both; and salary freezes.

Evidently, staffing issues come from various sources and can have a profound impact on the internal audit activity as a whole as CAEs move forward with their plans for 2010. Consequently, CAEs need to pay close attention to how staffing issues in their internal audit activity and the organization as a whole can impact the quality of audit efforts and the organization's control environment.

Ongoing and Shifting Priorities for 2010

As the recession made its way through most of 2009, many organizations were operating in a "financial survival mode" that was often combined with significant budget cuts and layoffs. In fact, the top two areas of concern where organizations concentrated their efforts in 2009 and will pay close attention to in 2010 clearly reflect the deep impact of the economic recession. The rest of this section provides a detailed summary of these survey results.

Looking Back to 2009

The IIA asked survey participants to identify the top five areas of concern in which their organization concentrated its efforts in 2009. According to respondents, the top five areas of concern for 2009 were:

1. The company's financial performance (65 percent).
2. The continued impact of the economic slowdown on the organization (60 percent).
3. Businesswide strategic changes and their impact (50 percent).
4. Human resources concerns and issues, such as cost-saving measures and staff reductions (36 percent).
5. The presence and effectiveness of IT controls (34 percent).

Except for items 4 and 5, Fortune 500 respondents identified the same top three concerns for 2009. The last two, in order of importance, were the company's overall growth — including mergers and acquisitions and investment portfolio — and strengthening the balance sheet.

Some of the best news for CAEs and the profession is the manner in which internal audit activities were able to adapt and respond to the changing economic environment. Most CAEs have been quick to refocus their efforts to address organizational areas of importance. For instance, respondents to this survey were asked to identify whether their internal audit activity had uncovered cost savings or expense reductions for the company in 11 key areas. Not surprisingly, internal audit activities have identified cost savings and expense reductions in each area, with vendor payments cited as the top cost reduction area by 33 percent of all respondents and 46 percent of those working in Fortune 500 companies (Table 4 summarizes all responses).

Changing Priorities for 2010

2010 Organizational Priorities. Respondents also were asked to identify the top five topics or areas of concern in which their organization will be or is concentrating its efforts in 2010. The top five topics or areas of concern for 2010 are:

1. The company's financial performance (71 percent).
2. The continued impact of the economic slowdown on the company (61 percent).
3. Businesswide strategic changes and their impact (60 percent).
4. The company's overall growth (50 percent).
5. Human resources concerns and issues (34 percent).

Except for human resources concerns and issues, Fortune 500 respondents identified the same topics and areas of concern. Again, Fortune 500 percentages are typically higher than the results for all organizations. The top five topics or areas of concern in which the Fortune 500 companies represented in the survey will be or are concentrating their efforts in 2010 include:

1. The company's financial performance (83 percent).
2. The company's overall growth (74 percent).
3. Businesswide strategic changes and their impact (66 percent).
4. The continued impact of the economic slowdown on the company (66 percent).
5. Strengthening the balance sheet (39 percent).

Table 4. Areas Where Internal Audit Activities Have Uncovered Cost Savings and Expense Reductions

Cost Savings/Expense Reduction Areas	All Organizations	Fortune 500 Companies
Vendor payments	33%	46%
Additional streamlining of Sarbanes-Oxley compliance	32%	46%
Contract compliance	29%	37%
Contract administration	27%	25%
Organization control structure/ span of control	26%	22%
Construction and capital projects	21%	31%
Outsourcing agreements	18%	18%
Revenue assurance	18%	21%
Overtime payments	9%	6%
IT infrastructure spending	8%	13%
Sales commissions	7%	6%

2010 Top Three CAE Priorities. To determine if there are gaps in internal audit coverage, The IIA asked survey participants to identify the top three CAE priorities in terms of the internal audit activity's current overall focus. According to 53 percent of survey respondents, helping management identify, manage, mitigate, and monitor key risks was the No. 1 area of focus for CAEs this year followed by performing more risk-based audits (32 percent) and rebalancing internal audit coverage (25 percent). In Fortune 500 companies, the top three CAE priorities are nearly identical: helping management identify, manage, mitigate, and monitor key risks (56 percent); performing more risk-based audits (31 percent); and business changes and their impact (24 percent).

CAE priorities for 2010 are aligned to the top areas of concern in which organizations will be or are concentrating their efforts this year. In addition, activities pertaining to risk management, when added together,[5] outnumber all other focus priority areas for CAEs.

Finally, activities and controls pertaining to IT is another priority area of CAE focus in 2010. This is illustrated by the percentage of respondents who identified IT controls, data security and privacy controls and activities, and the use of automated tools or techniques as key areas of CAE focus for the rest of the year. Table 5 summarizes responses from all survey participants and those working in Fortune 500 companies.

Table 5. Top CAE Priority Areas for 2010

Priority Areas	All Organizations	Fortune 500 Companies
Helping management identify, manage, mitigate, and monitor key risks	53%	58%
Performing more risk-based audits	32%	31%
Rebalancing internal audit coverage	25%	17%
Effectiveness of risk management and risk assessment activities	20%	23%
The use of automated tools or techniques	20%	28%
Performing more operational audits	19%	18%
IT controls	16%	13%
Compliance with regulations/legislation	16%	14%
Business changes and their impact	15%	24%
Adding or upgrading audit resources	14%	23%
Controls to detect and prevent fraudulent behavior	13%	8%
Compliance with policies and procedures	13%	6%
Re-scoping audit workloads	11%	12%
Data security and privacy controls and activities	11%	7%
Financial controls and activities	8%	5%
Auditing cost or staff reduction initiatives	2%	3%

[5] Activities pertaining to risk management are: helping management identify, manage, mitigate, and monitor key risks; performing more risk-based audits; effectiveness of risk management and risk assessment activities; and controls to detect and prevent fraudulent behavior.

Areas of Increased Audit Focus and Coverage in 2010

In addition to the top five CAE priorities for 2010, respondents identified the organizational areas where the internal audit activity will provide increased focus and coverage. According to all survey respondents and those working in Fortune 500 companies the top five areas of increased focus are:

1. Operational risks (68 percent for all respondents and 70 percent for Fortune 500 participants).
2. Effectiveness of risk management (57 percent for all respondents and 58 percent for Fortune 500 participants).
3. Compliance risks (52 percent for all respondents and 41 percent for Fortune 500 participants).
4. General financial risks (47 percent for all respondents and 37 percent for Fortune 500 participants).
5. Cost/expense reduction or containment (34 percent for all respondents and 33 percent for Fortune 500 participants).

Table 6 summarizes all survey responses.

As the survey results illustrate, CAE priorities are shifting away from the financial focus that was evident during the Sarbanes-Oxley era to more traditional audit roles, such as operational audits, and even beyond into areas including risk management, compliance, and cost and expense reduction and containment. As new organizational goals demand that CAE priorities be aligned to expand audit coverage, this is a prime time for CAEs to educate senior management and the audit committee on the growing need to consolidate assurance activities and create a uniform risk management, fraud, and compliance methodology.

Obstacles Impacting Audit Efforts

As explained in the previous section, staffing issues are the top challenge facing the organizations represented in the survey. Besides staffing issues, CAEs listed the following obstacles, in order of importance, as factors that could potentially impact internal audit performance:

- Financial issues (e.g., extreme management focus on revenue leading to financial manipulation, budget constraints, availability of additional capital for growth, and revenue shortfalls).
- Management issues (e.g., changes in management priorities, lack of cooperation from senior management, lack of communication with management, and the audit function's ability to remain relevant to management).
- The effects of the economy on the organization (e.g., the economy's slow economic upturn could lengthen the organization's financial recovery and continued customer losses).
- Internal audit activity-related issues (e.g., lack of business knowledge, communication problems with auditees, refocus of audit priorities, and delivering quality results while seeking more execution efficiencies).

- Government policy changes, new regulations, or reforms (e.g., new health-care reform, increased emphasis on regulatory compliance issues, and compliance with new industry- and country-specific regulations).
- Organizational changes (e.g., new product launches, reorganization, and changing priorities and strategies).
- Technology issues and activities (e.g., risk of implementing new systems, IT center relocation, delays in implementing new technology, and leveraging technology to create audit efficiency).
- Risk management issues/activities (e.g., inaccurate identification of high-risk contracts for audit reviews, understanding company risks accurately to provide better audit coverage, educating management and the audit committee on ERM, key risk identification, and continuous changes in business risks).
- Mergers and acquisitions (e.g., business expansion into new or geographical markets, systems integrations after mergers, integration activities associated with new acquisitions, and justification of expansion activities given current financial constraints).

Table 6. Areas of Increased Internal Audit Focus for 2010

Focus Areas	All Organizations	Fortune 500 Companies
Operational risks	68%	70%
Effectiveness of risk management	57%	58%
Compliance risks	52%	41%
Financial risks (general)	47%	37%
Cost/expense reduction or containment	34%	33%
Reputational risks	19%	20%
Credit risks	17%	20%
Supplier or counterparty risks	15%	26%
Sarbanes-Oxley testing or other support	13%	13%
Company exposure to third parties in financial distress	13%	21%
Liquidity risks	10%	7%
Off-shoring/vendor risks	9%	20%
Model/valuation validation	5%	7%

Although many CAEs have taken these and other issues into account during the 2010 annual planning phase, the list above is worth reviewing as some of these risks may not have been specifically identified and could impact internal audit performance in the months to come. In addition, these issues could be taken into account as internal audit coverage expands into organizational areas not previously serviced, risk assessments are completed, and senior management looks to internal auditing as a source of cost containment and reduction advice.

The IIA's 2008 ERM Benchmarking Survey found that defining and using the same risk management language and methodology throughout the organization was identified as one of the top five practices internal auditors can recommend to ensure the risk management program's success, thus enhancing the level of assurance provided around risk management efforts.[6] Not surprising, many CAEs are working in their organizations to identify where assurance activities are performed, especially in the areas of risk management, fraud, and compliance. Although in some organizations assurance activities are being pulled under the purview of the CAE, at a minimum, CAEs should ensure these activities use a consistent methodology and oversight framework.

What's more, many organizations have a cross-organizational team that addresses risk management, fraud, and compliance issues and activities. The purpose of the team is to bring together stakeholders that play a role in these significant processes to open communication and streamline activities and processes. Key functions often include the chief risk officer, legal counsel, compliance, security, internal auditing, and ethics. For instance, a 2009 IIA Knowledge Report on ethics and compliance hotline implementation found that the top five functions that should be included as part of the organization's fraud hotline project management team are the internal audit activity; legal or general counsel; human resources; ethics and/or compliance; and the organization's health, safety, environmental, and/or security department.[7]

What Does This Mean?

As expected, top CAE priorities and key internal audit focus areas for 2010 are closely linked to the organization's key areas of concern for the year. Just as senior management is looking to strengthen the organization's financial performance (as stated by 83 percent and 71 percent of all respondents and Fortune 500 survey participants, respectively), a priority for many CAEs this year is to identify, manage, and mitigate key risks through more risk-based audits and the rebalancing of internal audit coverage. This, in turn, can be used to uncover cost savings and expense reductions, thus adding value to revenue-generating initiatives.

Furthermore, mergers and acquisitions are a key area of concern for senior management and audit committees as stated by 50 percent of all respondents and 74 percent of Fortune 500 survey participants. As explained earlier, issues with mergers and acquisitions was identified as a factor or risk that could potentially affect internal audit performance this year. In fact, according to an article published by Reuters, dealmakers expect merger and acquisition activity to pick up in the first six months of 2010, with manufacturing, health care, and financial services positioned to benefit most in the near term.[8] Consequently, CAEs need to pay close attention to their organization's business expansion plans as the year progresses.

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[6] *2008 ERM Benchmarking Survey* (PDF, 3.4 MB)
[7] Knowledge Report, *Implementing an Effective Ethics and Compliance Hotline* (PDF, 1.3 MB)
[8] "Dealmakers See More M&A in H1 2010," www.reuters.com/article/idUSTRE5B750820091208

Finally, although many CAEs have worked hard to ensure audit coverage is expanded into key areas of organizational concern, it is important for them to keep an eye on the future by anticipating the trends and emerging risks that could impact organizations during the next 12 to 18 months. Consequently, CAEs are in a unique position to demonstrate the value of internal auditing as a strategic business partner and advisor.

IFRS and ERM Are at the Forefront of CAE Concerns for the Future

Finally, survey participants were asked to identify the topics internal audit activities are starting to devote attention to with an eye to the future beyond 2010. Survey results found that ERM is the No. 1 topic CAEs will be devoting time to in the future according to 62 percent of respondents, followed by IFRS (35 percent) and new regulations and legislation (20 percent). These new regulations include changes in health-care and pharmaceutical legislation, the Model Audit Rule, and the recently released SEC Proxy Disclosure Rules.

Fortune 500 respondents identified the same three topics but in a slightly different order: IFRS (55 percent), ERM (54 percent), and new regulations and legislation (21 percent). Table 7 provides a summary of all survey responses.

Table 7. Topics of Future Focus Beyond 2010

Topics	All Organizations	Fortune 500 Companies
ERM	62%	54%
IFRS	35%	55%
New regulation/legislation	20%	21%
XBRL	7%	7%
New guidance	5%	5%

What Does This Mean?

New regulations, legislation, and guidance, when combined, can be considered an area of increased focus beyond 2010. This is consistent with the number of regulations recently enacted and those that are under way. One such regulation is the SEC proxy disclosure requirements for registrant companies. The proxy requirements require companies to publicly disclose substantial new information on a wide range of governance activities including:

- The board's leadership structure and role in risk oversight.
- The relationship of the organization's overall compensation policies and practices to ERM.
- The background and qualifications of directors and director nominees.
- Past or ongoing legal actions involving executives, directors, and director nominees.
- The consideration of diversity in the process by which directorship candidates are considered for nomination.
- Stock and option awards to executives and directors.
- Potential conflicts of interests of compensation consultants.

CAEs must act quickly to respond to these regulations — including a unique opportunity to establish the importance of internal audit opinions on the adequacy and effectiveness of risk management processes as well as audit reports on the accuracy of other SEC-required disclosures as compliance best practices. Like requirements of the U.S. Sarbanes-Oxley Act of 2002, the SEC's new disclosure rules are becoming a way of life for publicly listed companies. Similarly, they provide opportunities for internal auditing to add value to the organization.

Internal auditing can significantly assist an organization and its board in complying with these rules by providing objective assurance that risk management processes are designed and functioning properly. However, the decision to seize these opportunities must be made by each individual CAE. For more information on what CAEs can do now to establish internal auditing as an integral part of the new proxy disclosure process, read: Flash Alert: New SEC Proxy Disclosure Rules (PDF, 275 KB).

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