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KNOWLEDGE ALERT

Maximizing the Use of Internal Audit Resources

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FOREWORD

At one point, internal audit activities all over the world have been faced with the task of delivering more services in less time, with less staff resources, or without having the expertise to fulfill management requests or review special projects. In fact, a recent report by the Health Care Compliance Association (HCCA) and Society of Corporate Compliance and Ethics (SCCE),[1] found that 36 percent of the 604 compliance and ethics professionals surveyed in the United States expect their budgets to decline in 2009 and about half of respondents expect their budgets to remain stagnant. In addition, 15 percent expect a decrease in staffing levels due to the current recession. While not all ethics and compliance professionals are internal auditors, this survey shows a possible slowing trend in future staff levels that might impact internal audit activities around the world.

To find out whether these statistics hold true for the internal audit profession, The Institute of Internal Auditors' (IIA's) and The IIA Research Foundation's (IIARF's) Global Audit Information Network (GAIN) conducted a survey to find out exactly how much internal audit activities are being affected by the economic downturn. More specifically, the survey sought to find out how chief audit executives (CAEs) are maximizing current internal audit resources given today's financial climate or how they would go about meeting audit responsibilities if they were asked to reduce certain aspects of their administrative functions.[2]

Response	Chart	Frequency	Count
1–2		13.2%	32
3–6		**37.0%**	**90**
7–15		25.1%	61
16–20		8.6%	21
21–30		4.1%	10
More than 30		10.3%	25
Not applicable		1.6%	4

Figure 1: Size of internal audit activities (calculated in full-time staff equivalents)

A total of 243 CAEs, audit managers, and audit directors[3] completed the survey, which was distributed in January 2009.[4] The majority of internal audit functions represented in the survey have staff sizes ranging from three to six internal auditors (refer to figure 1 for a breakdown of internal audit staff sizes calculated in full-time equivalents), while the top five industries represented in the survey include financial services, banking, and real estate (19.8 percent); manufacturing (16.1 percent); insurance carriers and agents (9.5 percent); educational services (8.3 percent); and wholesale and retail (6.2 percent).

Response	Chart	Frequency	Count
Less than USD 10 million		2.5%	6
USD 10 million to less than USD 50 million		5.4%	13
USD 50 million to less than USD 100 million		5.0%	12
USD 100 million to less than USD 500 million		18.2%	44
USD 500 million to less than USD 1 billion		18.2%	44
USD 1 billion to less than USD 10 billion		**41.3%**	**100**
USD 10 billion or more		9.5%	23

Figure 2: Annual revenue ranges for organizations represented in the survey

[1] "Legal, Compliance, and Ethics Risk in the Recession" (Jan. 5, 2009)
[2] The survey "Maximizing the Use of Current Internal Audit Activities" was completed in January 2009.
[3] While the majority of respondents work in the United States (78.6 percent), other countries represented in the survey include Canada (5.3 percent), Australia (3 percent), and Belgium (1.2 percent).
[4] A total of 1,726 survey invitations were sent to members of GAIN's Flash Network, out of which 243 members participated in the online survey representing a 14.1 percent response rate.

In addition, the majority of respondents have 19 years or more of internal audit experience, work in publicly listed organizations with annual revenues ranging from US $1 billion to less than US $10 billion, and employ 1,001 to 5,000 full-time employees (figures 2, 3, 4, and 5 provide a breakdown of organizations by annual revenue, total number of employees, type of organization, and number of years in the internal audit field).

Similarly to the HCCA and SCCE survey, the vast majority of survey participants do not anticipate staff reductions in 2009 or experienced significant staff reductions in 2008. In fact, 79.4 percent and 78.4 percent of survey participants indicated they were not asked to reduce the number of internal auditors in 2008 or 2009, respectively. In addition, respondents were asked to specify if any changes took place in 2008 or would take place in 2009 regarding the scope of their internal audit plan as a way to determine whether the current financial crisis is having an impact on the internal audit profession. Again, the majority of respondents were not asked to reduce the scope of their internal audit plan in 2008 or 2009 (88.9 percent and 83.5 percent, respectively).

This *Knowledge Alert* summarizes the main points and recommendations of survey respondents regarding their use of existing internal audit resources and the tactics employed to maximize operational efficiency.

Response	Chart	Frequency	Count
Less than 50		0.8%	2
51–100		0.4%	1
101–500		12.8%	31
501–1,000		11.1%	27
1,001–5,000		**38.3%**	**93**
5,001–20,000		25.5%	62
20,001–50,000		5.8%	14
50,001–100,000		2.1%	5
More than 100,000		3.3%	8

Figure 3: Total number of employees organizationwide (calculated in full-time equivalents)

Response	Chart	Frequency	Count
Private company		23.5%	57
Publicly listed company		**46.5%**	**113**
Nonprofit organization		13.6%	33
Government agency		13.2%	32
Other, please specify:		3.3%	8

Figure 4: Breakdown of respondents by organization type

Response	Chart	Frequency	Count
1–3		4.5%	11
4–6		10.3%	25
7–9		10.7%	26
10–12		15.7%	38
13–15		10.3%	25
16–18		10.7%	26
19 or more		**37.6%**	**91**

Figure 5: Breakdown of respondents by number of years in the internal audit field

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KEY SURVEY RESULTS

To determine how CAEs are maximizing the use of current internal audit resources, survey participants were asked eight main questions:

1. Were you asked to reduce the size of your internal audit department, group, or function in 2008?
2. Were you asked to reduce the scope of your internal audit plan in 2008?
3. Were you asked to reduce the size of your internal audit department, group, or function for 2009?
4. Were you asked to reduce the scope of your internal audit plan for 2009?
5. If you were asked to reduce the size of your internal audit staff, what would be the first three areas of focus?
6. If you were asked to reduce your audit staff size, briefly describe your downsizing approach.
7. If you were asked to reduce the scope of your audit plan, what would be the first areas of focus?
8. If you were asked to reduce the scope of your internal audit plan, briefly describe how you would reduce the scope of your internal audit activities over the next 30 days.

Answers to these questions helped to illustrate the effect of the current financial crisis on internal audit activities around the world and the mechanisms used or that would be used to cope with dwindling resources. Following is a detailed summary of survey findings.

Current Staff Sizes and Internal Audit Plan Reduction Efforts

Given the increasing number of downsizing efforts in organizations around the world, it was vital to determine if internal audit activities were impacted the same way. To this end, survey participants were asked to determine if they were asked to reduce the size of their internal audit department, group, or function in 2008 and for 2009. According to survey results, the majority of survey participants indicated "no" to both questions — 79.4 percent and 78.4 percent said they were not asked to reduce the number of internal auditors in 2008 or for 2009, respectively.

Of those who were asked to reduce the size of their internal audit staff for 2009, 5.3 percent were asked to do so by January 2009 while only 2 percent must achieve this during the second, third, or fourth quarters of the year. In addition, respondents were asked to specify whether they voluntarily started cutting back on either staff hours or staff due to upcoming budget cuts they knew would impact their function directly. Again, many internal audit activities represented in the survey seemed unaffected by the current global economic landscape (refer to figures 6 and 7 for a breakdown of these responses).

Response	Chart	Frequency	Count
Yes		15.6%	38
No		**79.4%**	**193**
No, but I voluntarily started cutting back on staff hours due to upcoming budget cuts I knew would impact my function directly		1.6%	4
No, but I voluntarily started cutting back on staff due to upcoming budget cuts I knew would impact my function directly		3.3%	8

Figure 6: Survey respondents who were asked to reduce the size of their internal audit function in 2008

Similarly, participants were asked to identify if any changes took place in 2008 concerning the scope of their internal audit plans or were going to take place in 2009. Again, the majority of respondents answered "no" — 88.9 percent and 83.5 percent of respondents were not asked to reduce the scope of their audit plan in 2008 or for 2009, respectively. Of those respondents who were asked to narrow down the scope of their audit plan for 2009 (5.3 percent), 2.5 percent were asked to do so during the first quarter of 2009 compared to 1.6 percent who were asked to do the same during the last quarter of 2008.

Response	Chart	Frequency	Count
Yes		13.7%	33
No		**78.4%**	**189**
No, but I voluntarily started cutting back on staff hours due to upcoming budget cuts I knew would impact my function directly		1.7%	4
No, but I voluntarily started cutting back on staff due to upcoming budget cuts I knew would impact my function directly		6.2%	15

Figure 7: Survey respondents who were asked to reduce the size of their internal audit function in 2009

Furthermore, respondents were asked to identify whether they voluntarily started cutting back the scope of their internal audit plan due to initiatives they knew would impact their function directly. Unlike responses obtained for voluntary reductions in staff hours, more internal audit activities reduced the scope of their internal audit plans in 2008 or will be reducing the number of items in their audit universe for 2009 (refer to figures 8 and 9 for a breakdown of responses).

Response	Chart	Frequency	Count
Yes		4.9%	12
No		**88.9%**	**216**
No, but I voluntarily started cutting back the scope of our internal audit plan due to initiatives I knew would impact my function directly		6.2%	15

Figure 8: Survey respondents who were asked to reduce the scope of their internal audit plan in 2008

Response	Chart	Frequency	Count
Yes		5.3%	13
No		**83.5%**	**203**
No, but I voluntarily started cutting back the scope of our internal audit plan due to initiatives I knew would impact my function directly		11.1%	27

Figure 9: Survey respondents who were asked to reduce the scope of their internal audit plan for 2009

Based on responses to these four key questions — were you asked to reduce the size of your internal audit department, group, or function in 2008 or for 2009 and were you asked to reduce the scope of your internal audit plan in 2008 or for 2009 — it is safe to determine that internal audit activities among the organizations represented in the survey have not been affected significantly by the economic crisis. Of those respondents who indicated they will be affected by reductions in either staff or staff hours or in the scope of their internal audit plan in 2008 or for 2009, the majority work in publicly listed organizations with internal audit activities of three to six internal auditors.

Additionally, although reductions were not impacted by industry group, organizations in the manufacturing and financial services, banking, and real estate sectors were more likely to reduce the scope of their internal audit plan, the number of staff hours devoted to internal audit activities, and the size of their internal audit staff whether voluntarily or not. Finally, while current survey results indicate internal audit activities are not being significantly impacted with staff cuts or through other financial means, it might be worthwhile to continue monitoring the current financial landscape to identify if any shifts occur that might impact the internal audit profession more profoundly. These changes could then be captured by repeating the survey later during the year or early in 2010.

Hypothetical Staff Size and Internal Audit Plan Reduction Efforts

Realizing that not all internal audit activities would be impacted in terms of staff size, work hours, or planning scope, a series of questions were asked to determine the steps CAEs would take if they were asked to reduce their audit staff sizes or the scope of their internal audit plans.

Internal Audit Staff Reductions. Survey participants were asked whether staff size changes need to be pre-approved by the audit committee. The majority (60.4 percent) stated that reductions in internal audit staff would either need to be pre-approved by the audit committee (46.7 percent) or the audit committee and another function (13.7 percent), including the chief executive officer (CEO), chief financial officer (CFO), both the CEO and CFO, the board, senior management, and general counsel. In terms of areas of focus, respondents stated they would reduce the number of audits performed during the year, the frequency of audits performed, or the scope of audits performed if audit staff cuts were imminent (table 1 summarizes each focus area in more detail).

	Main Focus Areas
1.	*Reduce the number of audits performed during the year, the frequency of audits performed, or the scope of audits performed (e.g., would not perform audits of previously reviewed areas, operational or process improvement audits, audits of special projects or extracurricular activities, and management requests)* ***45 responses***
2.	*Reduce internal audit staff (e.g., eliminate administrative or part-time staff and paid interns; streamline audit management staff; and eliminate positions held by auditors about to retire)* ***34 responses***
3.	*Reduce or eliminate IT audits or information security audits (e.g., eliminate IT auditor position and outsource function and eliminate audits of IT projects or software development projects)* ***26 responses***
4.	*Eliminate audits of low- to medium-risk areas based on latest risk assessment or annual audit plan and concentrate on areas of highest risk to the organization* ***19 responses***
5.	*Not perform consulting work or provide assistance to external auditors or consultants* ***16 responses***
6.	*Eliminate positions held by low- to medium-performing internal audit staff* ***15 responses***
7.	*Eliminate audits related to Sarbanes-Oxley compliance, controls testing, or monitoring and use Sarbanes-Oxley audit results to streamline performance of other audits where overlap is apparent* ***15 responses***
8.	*Cut back on travel expenses by consolidating audits on affiliate or branch operations* ***13 responses***
9.	*Eliminate co-sourcing or outsourcing work to save money, find a cheaper co-sourcing or outsourcing alternative, and in-source more internal audit work* ***8 responses***
10.	*Eliminate audits of financial areas or finance-related activities* ***7 responses***

Table 1. Main focus areas of survey participants if they were to be asked to reduce their audit staff

Similarly, respondents were asked to describe their downsizing approach. The number one method would be to eliminate staff whose work is related to areas of low risk or that impact the organization the least, in addition to cutting back on staff with the least amount of internal audit experience or positions filled by low-performing auditors who add little value to the organization (table 2 summarizes all responses).

	Main Focus Areas
1.	*Eliminate staff whose work is related to areas of low risk or of less importance to the organization, staff whose work has the least impact to the organization, and staff with the least amount of experience (i.e., entry-level staff)* ***46 responses***
2.	*Eliminate positions filled by low-performing staff or auditors whose work add little value to the organization* ***35 responses***
3.	*Not fill any position vacancies or hire new internal auditors* ***34 responses***
4.	*Eliminate high-cost positions (e.g., highest paid internal auditors, internal auditors with the highest seniority, or auditors about to retire)* ***16 responses***
5.	*Not co-source or outsource internal audit work or scale back on co-sourcing or outsourcing activities* ***14 responses***
6.	*Cut back on audit work (e.g., would not perform audits of special projects or management requests and reduce the amount of help provided to other areas)* ***14 responses***
7.	*Identify cost reduction areas (e.g., cut back on staff hours; not provide assistance to external auditors; eliminate training or provide local or targeted training opportunities only; and do not give raises, bonuses, or merit increases)* ***10 responses***
8.	*Look for ways to reassign high-performing auditors to other organizational areas or companies* ***9 responses***

Table 2: Downsizing approach of survey participants if they were to be asked to reduce their audit staff

Reductions in Internal Audit Plan Scope. Survey participants also were asked the same set of hypothetical questions regarding the scope of their internal audit plan. In terms of approval, 70.1 percent of respondents stated reductions in the internal audit's plan scope would need to be pre-approved by either the audit committee (61.1 percent) or the audit committee and another function (9 percent), including the CEO, CFO, both the CEO and CFO, and senior management. This finding not only illustrates the importance of the CAE-audit committee relationship, but the valuable insight an effective audit committee can provide to internal audit activities.

The main plan reduction area identified is to eliminate project-specific audits or audits of areas that are being monitored by other business functions followed by eliminating audits of low- to medium-risk processes (table 3 summarizes these responses in more detail).

	Main Focus Areas
1.	*Eliminate project-specific audits or audits performed in areas that are already being monitored by business managers (e.g., audits of inventories, payroll, noncash areas, or fixed assets; acquisition reviews; ad-hoc management requests or special projects; control testing; audits of core activities; discretionary audits; audits of monitoring programs; or business operations or processes)* ***53 responses***
2.	*Eliminate audits of low- to medium-risk areas based on latest risk assessment or annual audit plan and concentrate on areas of highest risk to the organization, as well as eliminate fraud audits* ***52 responses***
3.	*Reduce the number or frequency of internal audits (e.g., eliminate audits of recently reviewed areas or follow-up audits; defer audits for the following year or increase the length of audit cycles; eliminate time-consuming audits or small-scope audits; reduce the scope of the annual plan or number of audit universe components)* ***24 responses***
4.	*Reduce or eliminate IT audits or information security audits (e.g., perform fewer IT audits or eliminate them entirely; not perform audits on IT projects or software development projects)* ***14 responses***
5.	*Eliminate advisory or consulting services and help to external auditors and consultants* ***15 responses***
6.	*Eliminate audits related to Sarbanes-Oxley compliance, controls testing, or monitoring; and use Sarbanes-Oxley audit results to streamline performance of other audits where overlap is apparent* ***14 responses***
7.	*Eliminate audits of other regulatory compliance areas (i.e., non-Sarbanes-Oxley compliance)* ***11 responses***
8.	*Find synergies across internal audits and assign audits to internal auditors by proximity (e.g., have local auditors perform branch and domestic audits or have nonlocal auditors perform international audits)* ***11 responses***
9.	*Eliminate contracted/outsourced/co-sourced internal audit work or audits of vendor-related work* ***5 responses***

Table 3: Focus areas of survey participants if they were to be asked to reduce their audit plan's scope

Furthermore, survey participants were asked to describe how they would reduce the scope of their internal audit plan within a 30-day timeframe. Similarly to responses provided for reductions in audit plan scope, respondents stated they would first identify low-risk areas based on the internal audit plan or latest risk assessment and only audit those areas considered of high risk to the organization. Respondents also would review the audit plan and narrow down its scope based on current staff resources, while eliminating the performance of follow-up audits (table 4 summarizes these responses in more detail).

	Main Focus Areas
1.	*Identify low-risk areas based on internal audit plan or latest risk assessment as well as audit areas of highest risk to the organization* ***65 responses***
2.	*Review audit plan and narrow down its scope based on current staff resources and eliminate follow-up audits* ***30 responses***
3.	*Eliminate project-specific audits or audits on specific business functions that are being monitored by business managers (e.g., cancel operational reviews and audits related to Sarbanes-Oxley, as well as audits of nonregulatory compliance areas, process improvement audits, and payroll audits)* ***14 responses***
4.	*Meet with the audit committee, board, or senior management to obtain information on the areas where internal audit resources should be allocated* ***6 responses***
5.	*Reduce support provided to the audit committee and external auditors* ***4 responses***
6.	*Cut back on the use of contractors* ***2 responses***
7.	*Leverage the work of continuous monitoring efforts to reduce the frequency of audit monitoring activities* ***2 responses***
8.	*Cut back on audits requiring travel* ***2 responses***

Table 4: 30-day internal audit plan reduction approach

Recommendations for Operational Efficiency

The remaining survey questions asked participants to list the top three practices for operational efficiency CAEs can implement to maximize current internal audit and organization resources, whether other business functions have asked for help in a particular area not previously serviced by the internal audit activity, and the top three areas internal auditors were asked for assistance and why. Responses to these questions can provide audit leaders with examples of how to efficiently maximize existing internal audit resources, while adding more value to their organization, and how to go about assisting other business areas if asked.

Practices for Operational Efficiency

According to survey participants, the number one practice for operational efficiency is to assess business areas where internal auditors add the most value and concentrate on these areas, as well as identify the controls of highest risk or importance to the organization. In addition, respondents stated that performing more focused or targeted audits can help them to maximize internal audit resources. This can be accomplished by reviewing the current audit plan to understand the issues of greatest importance to the organization.

Other areas of operational efficiency identified were related to the use of audit management software, computer assisted audit techniques (CAATs), or automated and electronic working papers; combining audits by geographical areas, and leveraging management tracking or continuous monitoring efforts as a way to cut back on audit monitoring activities (table 5 provides a detailed summary of these responses).

	Main Focus Areas
1.	*Assess areas where the internal audit activity adds the most value and concentrate on these areas, as well as areas or internal controls of highest risk and importance to the organization* ***68 responses***
2.	*Acquire audit management software or use CAATs* ***45 responses***
3.	*Review the current audit plan and universe of auditable activities to understand existing business processes and pay attention to key organizational issues, hence performing more focused audits* ***41 responses***
4.	*Combine audits by geographical areas or allow employees to attend local training opportunities to cut down on travel expenses* ***34 responses***
5.	*Use automated and electronic working papers* ***31 responses***
6.	*Leverage management monitoring and tracking efforts or continuous monitoring efforts* ***30 responses***
7.	*Streamline the audit plan by combining small and large audits whenever possible, get the client more involved in the audit process to ensure deliverables are accomplished on time (e.g., hold monthly status meetings), and decrease the amount of time between audits* ***29 responses***
8.	*Establish clear audit reporting and documentation guidelines, create a reporting template, and reduce reporting time* ***19 responses***
9.	*Use data analysis or mining techniques* ***16 responses***
10.	*Use continuous auditing* ***12 responses***
11.	*Coordinate audit efforts with external auditors* ***5 responses***

Table 5: Top practices for operational efficiency

Assistance Areas

When asked to identify whether or not their internal audit activity was asked for help in a particular area that was not previously serviced, 57.4 percent of respondents answered "yes" compared to 42.6 percent who said "no." The top three areas internal audit activities were asked to provide assistance on include performing fraud-related audits or audits of the organization's code of ethics or conduct; performing audits of IT processes and tools, the effectiveness of the organization's IT governance efforts, IT controls, and new systems or system conversions; and performing audits on key performance indicators (KPIs) and regulatory compliance activities (refer to table 6 for a summary of all responses).

The main reason why internal audit activities were asked for assistance was due to the auditors' knowledge or expertise in the business process or practice, which can then help the organization to ensure the presence of more effective internal controls.

	Main Focus Areas	*Reasons Why Assistance Was Asked*
1.	*Perform fraud-related audits or audits regarding the organization's code of conduct or ethics*	*Knowledge of internal audit function on internal controls and resources necessary to identify fraud, as well as the internal audit activity's knowledge of business processes and practices*
2.	*Perform audits of IT processes and tools, the effectiveness of the organization's IT governance efforts, IT controls, and new systems or system conversions*	*Expertise in the area and to ensure the presence of better controls*
3.	*Perform audits on KPIs and regulatory compliance activities*	*To provide recommendations on how management can use KPIs*
4.	*Perform contract reviews*	*To ensure contractor was in compliance*
5.	*Perform audits on the organization's risk management program or controls to detect and prevent risk*	*Experience level of auditors and knowledge in executing risk assessments*

Table 6: Top areas where internal audit activities were asked for assistance

RESOURCES

CAEs and internal auditors in general must adapt to organizational changes while continuing to move forward with their internal audit plans to provide the best coverage possible, ensure risks are properly mitigated, and compliance efforts are under way. As stated previously, while current survey results indicate internal audit activities are not being significantly affected by the current financial crisis, this survey could be repeated later during the year or early in 2010 to identify whether any shifts occurred that more profoundly impacted the internal audit profession.

The following Web sites provide information internal auditors might find useful as they move forward with their respective plans and activities:

- CFO.com, "Internal Auditors Changing Gears": www.cfo.com/article.cfm/10050976?f=related.
- "Doing More With Less: Obstacle or Opportunity for IT?": http://net.educause.edu/ir/library/pdf/ERM0460.pdf (PDF, 256 KB).
- "Doing More With Less: Your Untapped Resources": www.gfoaz.org/resources/attach/presentations/0508_int_cntrl_keller_jacka.ppt#256,1,Doing More with Less_Your Untapped Resources (PPT).
- *InternalAuditoronline.org,* "In Times of Crisis": www.theiia.org/intAuditor/free-feature/2008/in-times-of-crisis/.
- Lean Production Web site: www.1000ventures.com/business_guide/lean_production_main.html.

The IIA Research Foundation
GLOBAL HEADQUARTERS
247 Maitland Avenue
Altamonte Springs, FL 32701-4201
www.theiia.org