The Pulse of the Profession

WITH PROGRESS NOTED, OPPORTUNITIES ARE STILL ABUNDANT

The Institute of Internal Auditors

Audit Executive Center®

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INTRODUCTION

As the United States and other countries are continuing to recover, albeit slowly, from one of the worst financial meltdowns since the Great Depression, the internal audit profession continues to play a vital role in a system of sound corporate governance. In most respects, gone are the days in which internal auditors were seen as solely a policing function or an extension of the accounting department. In many organizations around the world, internal auditors are regarded as a trusted, credible, and knowledgeable business partner who can provide sound, strategic advice, while holding true to the principles of independence and objectivity. In other words, the internal audit profession has come a long way since the 1940s, when The Institute of Internal Auditors (IIA) was formed and the *Statement of Responsibilities of Internal Auditing* was first published.

Despite the enhanced stature of internal auditing and the significant progress noted in recent years, many chief audit executives (CAEs) are not stepping up completely to take advantage of the full range of opportunities that exist, according to key insights gleaned from the Audit Executive Center's March 2012 Pulse of the Profession Survey report, *With Progress Noted, Opportunities Are Still Abundant*. "Although internal audit resources have finally stabilized, many CAEs are not taking advantage of the valuable resources at their disposal to address business and

SURVEY RESULTS AT-A-GLANCE

The March 2012 Pulse of the Profession Survey of 461 North American internal audit professionals found the following five overarching results:

1. Internal audit budgets and staffing levels have finally stabilized, but many chief audit executives (CAEs) are not fully leveraging opportunities to add organizational value.
2. Planned audit coverage for 2012 does not fully align with the risks and priorities of management and the board in many companies.
3. The top five skills sought after for new internal audit staff continue to evolve away from the more traditional profile associated with the internal audit profession.
4. Audit committees are increasingly signaling support of their CAEs, and are exercising increased oversight of and interaction with the internal audit team.
5. Additional opportunities remain to maximize the relationship between the audit committee and CAE.

strategic risks and add greater value for management and the board," says IIA President and CEO Richard Chambers, CIA, CCSA, CGAP, CRMA.

As key findings from the March 2012 survey illustrate, audit plans have become much more balanced between financial and operational coverage in recent years. However, despite the progress in rebalancing internal audit coverage, 2012 internal audit plans for many organizations still include limited coverage of risk management effectiveness and strategic/business risks. In addition, the top five risks being addressed by the board, audit committee, and senior management do not appear to be well aligned with planned audit coverage in 2012. Potential lack of alignment could actually be reinforcing a gap that, as reports from The IIA and other industry research have noted, may already exist between stakeholder expectations of internal audit and actual audit efforts in organizations around the world. Furthermore, additional opportunities are available to enhance the relationship between the audit committee and CAE.

Despite these observations, the survey results do indicate that the internal audit profession continues to move in a positive direction. For instance, the top five skills sought after for new internal audit staff continue to evolve away from those traditionally recruited and are more reflective of those needed to address a rebalanced portfolio of audit coverage and many of the key issues that are priorities for senior management and the audit committee. Additionally, audit committees are increasingly signaling support of their CAEs and are exercising increased oversight of and interaction with internal audit.

The remainder of this report will explore each of these key points and conclude with a series of questions to guide CAEs as they lead their internal audit functions through an increasingly volatile and critical path in 2012.

SURVEY DEMOGRAPHICS AT-A-GLANCE

The 461 internal audit professionals who responded to the Audit Executive Center's March 2012 Pulse of the Profession Survey are from organizations based in North America varying in type and size, and from different industry sectors. Most internal audit departments consist of 2–5 (35 percent) or 6–10 (24 percent) internal auditors. As expected, internal audit staff sizes are substantially higher in Fortune 500 companies: from 11–20 internal auditors (26 percent) to 21–50 internal auditors (35 percent). Only 14 percent of Fortune 500 organizations employ 51 or more audit professionals.

While 16 percent of respondents work in Fortune 500 companies, the remaining 84 percent are employed in organizations of various sizes. In terms of revenue, 51 percent of all the organizations represented in the survey earn less than US $1 billion per year; 37 percent have an annual revenue of US $1 billion to less than US $10 billion; and 12 percent garner more than US $10 billion in revenue. In addition, most respondents work in the financial services/banking/real estate industry (19 percent), followed by manufacturing/industrial (12 percent), insurance carriers and agents (7 percent), health services (6 percent), and utilities (6 percent).

In terms of Fortune 500 companies, 51 percent of the organizations earn US $10 billion or more, 43 percent earn US $1 billion to less than US $10 billion per year, and the remaining 6 percent earn less than US $ 1 billion per year. Most Fortune 500 respondents work in the manufacturing industry (17 percent), followed by energy/oil and gas (12 percent), wholesale/retail (11 percent), insurance (10 percent), financial services/banking/real estate (8 percent), and utilities (8 percent).

INTERNAL AUDIT RESOURCES HAVE STABILIZED, BUT OPPORTUNITIES TO ADD ORGANIZATIONAL VALUE REMAIN

The good news: Internal audit resources have generally stabilized since the recession-induced downsizing that many departments experienced from 2008 to 2012. In fact, survey results from the March 2012 Pulse of the Profession Survey mirror similar findings from last year's emerging trends survey conducted during the fall.[1] According to the March 2012 Pulse of the Profession Survey, 65 percent of all respondents expect staff levels to remain stable during the year ahead, 21 percent expect an increase in staffing this year, and only 13 percent expect staff levels to decrease. In the Fortune 500 sector, 54 percent indicated that staffing levels will stay the same, 22 percent stated staffing will increase, and 24 percent predicted lower staffing levels than last year.

In terms of internal audit budgets, 46 percent of all respondents indicated that budgets will remain the same this year, 37 percent predicted levels will increase compared to last year, and 17 percent indicated budgets will decrease. A slight difference is observed among respondents working in Fortune 500 companies, where budget levels are more likely to increase (42 percent) than stay the same (35 percent) or decrease (24 percent). All around, however, these survey results are encouraging news to the internal audit profession, demonstrating that budget and staffing reductions have waned considerably and, in some areas, appear poised to rebound as the year progresses. (Refer to Tables 1 and 2 for a comparison of internal audit budgets and staff sizes since 2007).

Furthermore, internal audit plans are reflecting much more balanced coverage among operational, financial, and compliance risks than was noted for much of the past decade. General financial, Sarbanes-Oxley, and compliance coverage has receded to levels much lower than those experienced during the early years of the

[1] *Moving Forward: The Fall 2011 Emerging Trends Survey,* www.theiia.org/download.cfm?file=56309.

Sarbanes-Oxley era. All respondents, for instance, indicated that 27 percent of their audit plan is dedicated to operational risks — the highest percentage noted among all 15 risk categories surveyed. The percentage of the audit plan dedicated to operational risks is higher than that set aside for general financial risks (16 percent), compliance risks (15 percent), and Sarbanes-Oxley testing (12 percent). A similar trend is noticed among Fortune 500 participants. In these organizations, 24 percent of the audit plan is dedicated to operational risks, 19 percent to general financial risks, 17 percent to Sarbanes-Oxley testing, and 10 percent to compliance risks. (Refer to Table 3 for a summary of audit plan composition percentages.)

However, there are still opportunities for further rebalancing of coverage in many internal audit functions. While CAEs are continuing to allocate audit resources to strike a realigned, post-Sarbanes-Oxley balance among operational, financial, and compliance risks, audit coverage in other key business risks appears to be lagging. As survey results illustrate, coverage of strategic business risks and risk management effectiveness remain low despite their impact on the corporate sector in recent years. Only about 5 percent of all audit plans are dedicated to assessing strategic and business risks in 2012. And the plan percentage dedicated to assessing the overall effectiveness of risk management came in even lower, at only 4 percent of total audit plan coverage in 2012. Percentages are similar among Fortune 500 respondents: 5 percent and 3 percent of planned audit coverage for 2012 will be allocated to strategic and business risks and risk management effectiveness, respectively.

Survey results pertaining to coverage of strategic and business risks and risk management effectiveness are troubling for two reasons. First, 63 percent of respondents indicated that their audit committee has either addressed or has explicit responsibility for risk management. Second, recent regulatory developments, such as the 2010 Securities and Exchange Commission mandated proxy disclosure requirements, have increased the pressure on boards to demonstrate greater oversight in the overall effectiveness of risk management in their companies. Therefore, in organizations where internal auditors are not (or are not sufficiently) assessing risk management effectiveness, the CAE is missing a potential opportunity to position internal audit as an objective source of assurance on the overall effectiveness of risk management for the audit committee and the board.

A December 2011 Audit Executive Center special report explains that strategic risks can inhibit an organization's ability to achieve key business objectives and are a key focus of strategic risk management.[2] In addition, a 2008 report by public

[2] *Understanding Strategic Risks,* www.theiia.org/download.cfm?file=67447.

accountancy firm PricewaterhouseCoopers (PwC) documented that nearly 60 percent of instances where large companies experienced swift and significant declines in shareholder value were the direct result of an inability to effectively assess and respond to strategic business risks.[3] While it is recognized that providing assurance on areas such as strategic and business risks and overall risk management effectiveness are more complex than traditional internal audits of financial, operational, or compliance areas, their low amount of relative coverage in audit plans signals a potentially serious gap in internal audit coverage when compared to the full portfolio of risks. Consequently, CAEs should strongly consider revisiting their audit plans to ensure proper coverage of strategic risk and risk management effectiveness, thus elevating the value that internal audit brings to the organization and the board.

Although survey results indicate that internal audit efforts can be better aligned to help organizations in their strategic and risk management endeavors, there is positive news. While coverage of strategic risks and risk management effectiveness is lower than anticipated, nearly one-third of all respondents indicated that they are increasing audit coverage of strategic risks (33 percent) and risk management effectiveness (32 percent) in 2012 compared to 2011. In Fortune 500 companies, audit coverage of strategic business risks is increasing in 2012 in 42 percent of these organizations, while coverage of risk management effectiveness will increase in 28 percent of these companies. (Refer to Table 4 for changes in audit coverage from 2011 to 2012.)

Table 1. Comparison of Internal Audit Budgets and Staff Sizes Among All Survey Participants

STAFF SIZES				BUDGETS			
YEAR	INCREASED	SAME	DECREASED	YEAR	INCREASED	SAME	DECREASED
2007–2008	22%	70%	8%	2007–2008	36%	50%	14%
2008–2009	20%	61%	19%	2008–2009	27%	44%	29%
2009–2010	18%	73%	9%	2009–2010	30%	45%	25%
2010–2011	19%	73%	7%	2010–2011	36%	48%	16%
2011–2012	21%	65%	14%	2011–2012	37%	46%	17%

[3] PwC, *2008 State of the Internal Audit Profession Study.*

Table 2. Comparison of Internal Audit Budgets and Staff Sizes Among Fortune 500 Participants

STAFF SIZES				BUDGETS			
YEAR	INCREASED	SAME	DECREASED	YEAR	INCREASED	SAME	DECREASED
2007–2008	34%	53%	13%	2007–2008	46%	36%	18%
2008–2009	24%	41%	35%	2008–2009	31%	32%	37%
2009–2010	19%	70%	11%	2009–2010	33%	43%	24%
2010–2011	23%	59%	18%	2010–2011	41%	43%	16%
2011–2012	22%	54%	24%	2011–2012	42%	35%	23%

Table 3. Percentage of Audit Plan Composition for 2012

AUDIT FOCUS AREA	PERCENTAGE (ALL PARTICIPANTS)	PERCENTAGE (FORTUNE 500)
Financial	28%	36%
Operational	27%	24%
Compliance	15%	10%
Fraud	5%	5%
Strategic business risk	5%	5%
Effectiveness of risk management	4%	3%
Cost/Expense reduction or containment	2%	3%
Third-party relationships	2%	4%
Credit/Liquidity	2%	1%
Change management	2%	2%
Reputational risks	1%	1%
Mergers and acquisitions	1%	2%
Crisis management	1%	1%
Other	3%	3%

Table 4. Change in Audit Focus Areas in 2012 Compared to 2011

FOCUS AREA (ALL PARTICIPANTS)	INCREASE	FOCUS AREA (FORTUNE 500)	INCREASE
Operational	33%	Strategic business risk	42%
Strategic business risk	33%	Operational	33%
Risk management effectiveness	32%	Third-party relationships	33%
Compliance	31%	Cost/Expense reduction or containment	31%
Fraud	27%	Risk management effectiveness	28%
Third-party relationships	26%	Mergers and acquisitions	26%
Cost/Expense reduction or containment	24%	Compliance	19%
General financial	17%	Change management	19%
Change management	15%	Fraud	17%
Reputational risks	13%	Reputational risks	16%
Mergers and acquisitions	12%	Credit/Liquidity	16%
Other	10%	General financial	14%
Credit/Liquidity	9%	Other	13%
Crisis management	8%	Sarbanes-Oxley	10%
Sarbanes-Oxley	7%	Crisis management	7%

AUDIT COVERAGE IN 2012 MAY NOT BE REFLECTIVE OF STAKEHOLDER AREAS OF CONCERN

As highly successful CAEs know, meeting stakeholder expectations is paramount to enhancing the credibility and value of internal audit efforts. And to do so, internal audit coverage must closely match stakeholder areas of attention as much as possible. Consequently, participants in the March 2012 survey were asked to identify the top five risks that are the center of attention for their board, audit committee, and senior management. In addition, numerous studies have been published in recent months chronicling the key priorities and top risks on the radar of management and the board in 2012. While internal audit plans appear to be addressing some of these risks, the prioritization and allocation of internal audit resources to several areas indicate potential misalignment between internal audit coverage and the priorities of management and the board in many organizations.

According to all survey respondents and those working in Fortune 500 companies, the top five risks identified as receiving the greatest level of board, audit committee, and senior management attention are:

ALL RESPONDENTS	FORTUNE 500
1. Operational risks (15%).	1. Financial risks (14%).
2. Compliance risks (12%).	2. Operational risks (14%).
3. Financial risks (11%).	3. Strategic risks (12%).
4. Strategic risks (9%).	4. Compliance risks (10%).
5. Human capital risks (5%).	5. Market risks (5%).

"TO DOs" FOR CAEs

Although perfect alignment between the audit plan and areas of board, audit committee, and senior management concern might not be possible, CAEs may want to consider the following brief exercise to gauge the level of alignment they have and discuss this alignment with stakeholders:

1. By interview or survey, ask key stakeholders to identify their top five areas of concern.
2. Compile the results and, for the consensus top five, map these into the current audit plan.
3. Prepare and discuss with the stakeholders the results of this mapping to identify both areas where the audit plan could be revised and areas of concern that may be outside or beyond the scope internal audit.
4. Revise the audit plan as appropriate.
5. Periodically update the audit committee and senior management on the results of audits pertaining to these areas.

This exercise can help CAEs increase alignment of audit efforts with stakeholder areas of concern, as well as enhance communications with the board, audit committee, and senior management.

The articulation by internal auditors of management and board priorities for 2012 listed above would appear to be consistent with similar findings in a recent Protiviti study. In its publication, *The Bulletin — Setting the 2012 Audit Committee Agenda for Non-Financial Services Companies*, Protiviti reported that the top five priorities for audit committees in 2012 included:

1. Managing supply chain risks and rising commodity costs.
2. Managing increasingly complex privacy and information security issues.
3. Managing regulatory change.
4. Improving business performance to enhance and sustain competitiveness.
5. Increasing the focus on enterprise risk management (ERM) as risk profiles change.

The foregoing would indicate heavy emphasis in 2012 by management and boards on strategic, business, technology, and regulatory/compliance risks. While internal auditors are providing coverage in these areas, it is interesting to note the contrast in how critical risk components are prioritized in internal audit plans in 2012:

ALL RESPONDENTS	FORTUNE 500
1. Financial risks (28%).	1. Financial risks (36%).
2. Operational risks (27%).	2. Operational risks (24%).
3. Compliance risks (15%).	3. Compliance risks (10%).
4. Fraud risks (5%).	4. Strategic business risks (5%).
5. Strategic business risks (5%).	5. Fraud risks (5%).

(Refer back to Table 3 for a summary of key coverage areas based on audit plan percentage allocation.)

As the comparison between stakeholder priorities and internal audit coverage illustrates, the top priorities for the board, audit committee, and senior management — internal audit's primary stakeholders — do not appear to be fully reflected in planned audit coverage in 2012. The fact that compliance risk is the No. 1 area of concern for the board, audit committee, and senior management according to The Pulse of the Profession Survey respondents is not surprising. Compliance with legislation such as the Foreign Corrupt Practices Act, Dodd-Frank Wall Street Reform and Consumer Protection Act, Fair Credit Reporting Act, Health Insurance Portability and Accountability Act, and a host of other regulations is of increasing concern to organizations in the United States.

Perfect alignment of internal audit coverage with stakeholder priorities would be a rare occurrence if for no other reason than the fact that stakeholders themselves are not always aligned with each other in terms of their priorities. However, where alignment is not evident, the CAE should fully understand why and ensure that stakeholders support an internal audit plan that emphasizes a portfolio of coverage that differs somewhat from their priorities and assessment of risks. To ensure proper coverage, CAEs need to communicate with these primary stakeholders not just on ways to enhance alignment, but also to identify areas of concern that may be beyond the scope of internal audit and how they will be monitored. This will help to further delineate stakeholder expectations of internal audit and ensure audit efforts are concentrated in the right portfolio of risks.

INTERNAL AUDIT SKILLS ADDRESS A DIFFERENT PORTFOLIO OF RISKS

Prior to ensuring audit efforts are properly aligned to key strategic initiatives, CAEs must understand the expectations of their stakeholders and ensure audit staff have the appropriate skill sets to proactively meet, or exceed, these expectations. Consequently, highly successful CAEs continuously assess whether existing internal audit skills enable their teams to deliver on stakeholder expectations and properly assess the organization's portfolio of risks. As the March 2012 Pulse of the Profession Survey illustrates, the profile of today's successful internal auditor continues to evolve away from traditional auditor profiles. According to all survey participants, the top five skills sought after for new internal audit staff are (refer to Table 5 for a ranking of all skills):

1. Analytical and critical thinking (73 percent all respondents; 75 percent Fortune 500).
2. Communication skills (61 percent all respondents; 62 percent Fortune 500).
3. Data mining and analytics (50 percent all respondents; 67 percent Fortune 500).
4. General IT knowledge (49 percent all respondents; 64 percent Fortune 500).
5. Business acumen (46 percent all respondents; 65 percent Fortune 500).

This is the second survey in a row in which CAEs have rated analytical and critical thinking as the No. 1 sought-after skill.[4] As the March 2012 survey demonstrates, the skill set of today's internal auditor is substantially different from the traditional profile associated with internal audit professionals as recent as a decade ago. Gone are the days in which accounting or financial skills were the sole focus of many internal audit job descriptions. The profile of today's successful internal auditor is one that demonstrates an aptitude toward understanding the key issues of relevance to the organization, while keeping an eye on the horizon to forecast tomorrow's greatest challenges and opportunities. They also reinforce that successful internal auditors today must be capable of building and sustaining effective relationships grounded in a keen understanding of the business.

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4 *Moving Forward: The Fall 2011 Emerging Trends Survey*, www.theiia.org/download.cfm?file=56309.

In addition, survey results continue to point to the desire of CAEs to acquire staff with data mining and analytics skills. This trend is consistent with recent IIA surveys and is reflective of the move by many CAEs to expand audit coverage through the use of data mining activities as well as more continuous forms of auditing and monitoring. Because these are not skills often associated with the internal audit profession, many CAEs are recruiting professionals with backgrounds not traditionally associated with internal auditing.

"Whether services are delivered in-house or cosourced, CAEs need to ensure their audit team's composite portfolio of skills appropriately complements the organization's risk and control environment and strategic goals," Chambers says. "Understanding the organization's audit needs goes hand-in-hand with selecting staff who understand the business and can deliver results that add value to the organization and internal audit's stakeholders."

Table 5. Top Skills Sought After for New Internal Auditors in 2012

SKILL	PERCENTAGE (ALL RESPONDENTS)	PERCENTAGE (FORTUNE 500)
Analytical/Critical thinking	73%	75%
Communication skills	61%	62%
Data mining and analytics	50%	67%
General IT knowledge	49%	64%
Business acumen	46%	65%
Industry-specific knowledge	34%	36%
Risk management	33%	31%
Fraud auditing	19%	12%
Cybersecurity and privacy	18%	26%
Forensics and investigations	13%	14%
Strategic risk assurance	10%	8%
Other	10%	14%

AUDIT COMMITTEES ARE INCREASINGLY SIGNALING SUPPORT OF THEIR CAEs

The March 2012 survey results confirm that formal reporting relationships for internal auditing continue to reinforce its independence and stature. In fact, 75 percent of all participants and 85 percent of Fortune 500 respondents to the March 2012 survey stated that the CAE reports functionally to the audit committee. When asked to describe the relationship between the CAE and audit committee in their organization, a substantial percentage of survey respondents indicated that the relationship is one in which:

- There is open dialogue and a two-way flow of regular communication (77 percent all respondents; 85 percent Fortune 500 respondents).
- The audit committee clearly communicates its support for the CAE and internal audit function to the board and management (72 percent all respondents; 87 percent Fortune 500 respondents).
- The audit committee looks to the CAE for advice and counsel, not just for audit coverage (50 percent all respondents; 60 percent Fortune 500 respondents).
- The audit committee communicates to the external auditors that it expects a high level of communication and interaction between them and the CAE (42 percent all respondents; 58 percent Fortune 500 respondents).

Survey results also point to the level of involvement between the audit committee and CAE. In particular, these results illustrate a continuing trend where functional reporting to the audit committee is translating into an increased involvement of the audit committee in the CAE's selection, performance review, and even compensation. This positive trend helps to enhance the organizational independence and stature of the CAE. More specifically, results found that:

- 84 percent of all audit committees and 90 percent of the Fortune 500 audit committees represented in the survey ensure that the CAE is receiving appropriate support and cooperation from management.

- 74 percent of all audit committees and 89 percent of Fortune 500 audit committees ensure that the CAE has an adequate budget and staffing.
- 68 percent of all audit committees and 84 percent of Fortune 500 audit committees concur with management on the CAE's selection.
- 58 percent of all audit committees and 70 percent of Fortune 500 audit committees review the CAE's performance.
- 58 percent of all audit committees and 68 percent of Fortune 500 audit committees provide overall guidance to the CAE.

As these survey results indicate, the CAE and audit committee relationship continues to positively evolve. In addition to the amount of interaction the audit committee exercises with internal audit, survey results identified a number of activities internal auditors perform in support of the audit committee, thus cementing the two-way flow of information between both parties. The top five activities include:

1. Providing ongoing assessments of the risks facing the organization (75 percent all respondents; 89 percent Fortune 500 respondents).
2. Educating the audit committee on new developments related to its activities (72 percent all respondents; 75 percent Fortune 500 respondents).
3. Assisting in the development of audit committee meeting agendas and presentation materials (71 percent all respondents; 79 percent Fortune 500 respondents).
4. Conducting confidential investigations as needed (71 percent all respondents; 81 percent Fortune 500 respondents).
5. Providing views on the performance of management in relation to controls or the adequacy of corrective actions during executive sessions (70 percent all respondents; 87 percent Fortune 500 respondents).

Table 6 summarizes the different activities internal audit departments provide in support of the audit committee.

While some may argue that a number of these percentages could and should be higher, and that the challenge of full, functional reporting to the audit committee is not complete until it approaches 100 percent, the internal audit profession has come a long way and, in many respects, we are past the stage where the "glass is half empty."

Table 6. Internal Audit Activities Performed in Support of the Audit Committee

ACTIVITY	PERCENTAGE (ALL PARTICIPANTS)	PERCENTAGE (FORTUNE 500)
Provide ongoing assessments of the risks facing the organization	75%	89%
Educate the audit committee on new developments related to its activities	72%	75%
Assist in the development of audit committee meeting agendas and presentation materials	71%	79%
Conduct confidential investigations as needed	71%	81%
In executive sessions, provide views on the performance of management in relation to controls or the adequacy of corrective actions	70%	87%
Assist in the compilation and distribution of advanced information packages before meetings	69%	78%
Monitor audit committee activities to ensure the committee's charter responsibilities are accomplished	50%	58%
Provide the committee with an annual opinion on the adequacy of the organization's system of internal controls	47%	57%
Request management attendance to address issues or risks	46%	51%
Provide input on the evaluation of the external auditor's performance	42%	53%
Ensure that the audit committee receives appropriate reports or information from external parties, such as regulators	37%	25%
Identify external seminars or conferences of possible interest to audit committee members	21%	14%
Other	3%	3%

OPPORTUNITIES REMAIN TO MAXIMIZE THE RELATIONSHIP BETWEEN THE AUDIT COMMITTEE AND CAE

As the previous section illustrates, most audit committees are highly supportive of the CAE and internal audit function. However, opportunities remain to maximize the relationship between both parties. According to survey results, less than one-third of the audit committees represented in the survey ensure that management communicates and involves the CAE in major strategic initiatives (23 percent all respondents; 31 percent Fortune 500 respondents). Furthermore, less than half of all audit committees approve the CAE's compensation (32 percent all respondents; 39 percent Fortune 500 respondents), and 40 percent of all audit committees represented in the survey are involved in setting the CAE's annual performance objectives.[5] (Refer to Table 7 for a summary of survey results.)

Survey results also point to an additional area of opportunity where the CAE may assist the audit committee to fulfill its responsibilities. According to survey results, only 42 percent of respondents indicated that the audit committee provides input on the external auditors' performance. Because oversight of the external auditors is a significant responsibility of the audit committee, the CAE can provide the audit committee with independent and objective feedback on the external auditors and their relationship with management, especially if the CAE has an existing relationship with the the external audit team.

The March 2012 survey also asked questions regarding the presence and frequency of meetings between the CAE and the audit committee. On the positive side, nearly all survey participants (93 percent all respondents; 96 percent Fortune 500 respondents) indicated that the CAE participates in all audit committee meetings and

[5] This percentage was higher in Fortune 500 organizations: 61 percent.

47 percent of all respondents and those working in Fortune 500 companies stated that other members of the internal audit department participate during at least some audit committee meetings.

On the other hand, not all CAEs hold executive or private sessions with the audit committee, potentially restricting the amount of one-on-one access the CAE can have with one of internal audit's key stakeholders. In fact, 48 percent of all survey participants and 61 percent of those working in Fortune 500 companies indicated that CAEs hold executive or private sessions with the audit committee at each meeting. And, surprisingly, 13 percent of all respondents stated that private sessions are never held with the audit committee.[6] In terms of length, executive or private sessions last mostly less than 15 minutes (46 percent all respondents; 63 percent Fortune 500 respondents) or 16–30 minutes (34 percent all respondents; 31 percent Fortune 500 respondents).

Finally, CAEs may consider involving other members of the internal audit team in audit committee meetings. Survey results indicate that almost half of the CAEs involve, at least periodically, other members of internal audit in audit committee meetings. Asking members of the audit team to participate in audit committee meetings can provide two significant benefits. First, it is an opportunity for audit committee members to meet and see in action other members of the audit team, thus giving committee members first-hand knowledge of staff members for succession planning purposes. Second, giving internal auditors direct interaction with the audit committee acknowledges the committee's significant oversight role and gives internal auditors a valuable opportunity to build their relationship and communication skills at the director level.

As these findings suggest, opportunities still exist for CAEs and audit committees to strengthen the relationship between the two. "CAEs need to properly identify what issues to bring to the audit committee's attention," Chambers says. "The audit committee's time is limited and, in many organizations, the amount of time allocated for executive sessions with the CAE is brief, at best." As a result, Chambers continues, "CAEs need to take maximum advantage of their time with the audit committee; use executive sessions thoughtfully and proactively; and demonstrate true strategic value, business acumen, and insight."[7]

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[6] This percentage was lower in Fortune 500 organizations: 6 percent.

[7] CAEs can refer to the 2010 Korn/Ferry Institute and Audit Executive Center report *License to Lead* (www.theiia.org/download.cfm?file=96522) and The IIA Research Foundation 2011 report *Insight: Delivering Value to Stakeholders* (www.theiia.org/bookstore/product/insight-delivering-value-to-stakeholders-1587.cfm) for recommendations on how to demonstrate strategic value, business acumen, and insight to stakeholders.

Table 7. Audit Committee's Main Responsibilities Toward the CAE

RESPONSIBILITIES	PERCENTAGE (ALL RESPONDENTS)	PERCENTAGE (FORTUNE 500)
Ensure that the CAE is receiving appropriate support and cooperation from management	84%	90%
Ensure that the CAE has an adequate budget and staffing	74%	89%
Concur with management on any hiring or termination of the CAE	68%	84%
Review the CAE's performance	58%	70%
Provide overall guidance to the CAE	58%	68%
Have input on the CAE's annual performance objectives, which are set with management	40%	61%
Approve the CAE's compensation	32%	39%
Solely establish the annual performance objectives for the CAE	8%	3%
Make any hiring or termination decision solely without management	5%	4%
Other	3%	1%

MOVING DOWN THE RIGHT PATH

As the results from the March 2012 Pulse of the Profession Survey indicate, CAEs are proactively seeking ways to enhance the value that internal audit brings to the organization: Internal audit skill sets are evolving to align with the new portfolio of internal audit coverage, and there is a strong two-way flow of communication between the CAE and the audit committee in most organizations. However, opportunities remain to continue moving audit efforts down the right path: Planned audit coverage for 2012 may not be sufficiently aligned with the key risks of importance to the board, audit committee, and senior management, and more can be done to strengthen the relationship between the audit committee and internal audit function.

Now that internal audit resources have generally stabilized, CAEs should take advantage of the full range of opportunities to add value by asking themselves the following questions:

1. How do risks addressed in the internal audit plan compare with the key concerns of executive management and the audit committee? If risks are not properly aligned, why not?
2. How does the allocation of audit resources and time compare to the areas of major concern or "top risks" as voiced by management and the audit committee? If resources and time allocations are not properly aligned, why not?
3. Is the collective skill set of the internal audit function appropriately evolving to cover the organization's dynamic risk portfolio?
4. Are we including assessments of the organization's strategic risks as part of the risk assessment process?
5. Are we properly assessing the organization's risk management processes and advising management and the audit committee on overall risk management effectiveness?
6. What is the tone of conversations between the CAE and audit committee? Is it one that encourages candid, objective dialogue, and a willingness to bring up major issues or concerns?
7. How are we routinely involved with the organization's most pressing needs and upcoming strategic business initiatives?

8. Are we advising the audit committee of our needs and plans to move beyond traditional audits and audit skills and the benefits to be derived?
9. Are we an active participant in the agenda-setting process for audit committee meetings, bringing ideas and topics of interest and significance to committee members, thus helping them to stay current on emerging trends and business issues and to discharge their responsibilities?
10. Are we maximizing our time with the audit committee and using executive sessions effectively?

"Now is the time for CAEs to take advantage of the resources at their disposal by identifying ways to strategically add value to their stakeholders," Chambers concludes. "As the survey results point out, 2012 offers tremendous opportunities for the internal audit profession to further enhance its stature and relevance and the value that it adds. However, it is up to CAEs to tap into the opportunities that lie ahead by identifying stakeholder expectations and properly aligning audit plans and priorities to deliver the value of which internal audit is capable."

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