2016 NORTH AMERICAN PULSE OF INTERNAL AUDIT

Time to Move Out of the Comfort Zone
19 Industries Represented

Finance & Insurance: 32%
Educational Services: 10%
Manufacturing: 9%
Public Administration: 8%
Health Care & Social Assistance: 7%
Utilities: 5%
Retail Trade: 4%
Other: 25%

486 CAE and Director Participants

89% CAE
11% Director or Senior Manager

Participants by Organization Type

38% Publicly Traded Organization
28% Privately Held Organizations
24% Public Sector
8% Other
2% Service Provider/Consultant
TRENDS
AUDIT PLAN COVERAGE

2015 vs. 2016

- Strategic business risks: 6% (2015) vs. 8% (2016)
- Risk management assurance: 7% (2015) vs. 8% (2016)
- Corporate governance: 4% (2015) vs. 4% (2016)
- Operational: 23% (2015) vs. 24% (2016)
- Compliance/regulatory: 14% (2015) vs. 14% (2016)
- Information technology: 12% (2015) vs. 12% (2016)
- Sarbanes Oxley: 11% (2015) vs. 11% (2016)
- General financial: 8% (2015) vs. 7% (2016)
- Third-party relationships: 4% (2015) vs. 4% (2016)
- Fraud: 4% (2015) vs. 4% (2016)
- Other: 7% (2015) vs. 5% (2016)

PLAN COVERAGE FOR FINANCIAL AUDITS

- 2012: 16% Financial, 12% SOX
- 2013: 14% Financial, 13% SOX
- 2014: 9% Financial, 12% SOX
- 2015: 8% Financial, 11% SOX
- 2016: 7% Financial, 11% SOX
### CAE Administrative Reporting Line

<table>
<thead>
<tr>
<th>Role</th>
<th>2013</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief financial officer (CFO)</td>
<td>37%</td>
<td>35%</td>
</tr>
<tr>
<td>Chief executive officer (CEO)</td>
<td>33%</td>
<td>35%</td>
</tr>
<tr>
<td>Audit committee or board of directors</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>General or legal counsel</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Chief compliance officer (CCO)</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Chief risk officer (CRO)</td>
<td>2%</td>
<td>3%</td>
</tr>
<tr>
<td>Other or N/A</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

### CAE Functional Reporting Line

<table>
<thead>
<tr>
<th>Role</th>
<th>2013</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit committee or board of directors</td>
<td>76%</td>
<td>83%</td>
</tr>
<tr>
<td>Chief executive officer (CEO)</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Chief financial officer (CFO)</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>General or legal counsel</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Chief compliance officer (CCO)</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Chief risk officer (CRO)</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Other or N/A</td>
<td>6%</td>
<td>2%</td>
</tr>
</tbody>
</table>
## Internal Audit Budget & Staffing Projections

<table>
<thead>
<tr>
<th></th>
<th>Budget</th>
<th>Staffing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Remain the Same</td>
<td>55%</td>
<td>71%</td>
</tr>
<tr>
<td>Increase</td>
<td>35%</td>
<td>25%</td>
</tr>
<tr>
<td>Decrease</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>Unsure</td>
<td>2%</td>
<td>1%</td>
</tr>
</tbody>
</table>
Moving Out of the Comfort Zone
52%

55%

71%

58%
Are We Too Comfortable?
Culture
Lack of Support Can Be a Hurdle

Has full support of the board to assess all levels
- Strongly Disagree: 1%
- Disagree: 17%
- Neither: 34%
- Agree: 43%

Has full support of the executive management to assess all levels
- Strongly Disagree: 3%
- Disagree: 13%
- Neither: 19%
- Agree: 38%
- Strongly Agree: 27%

Has freedom to assess the entire organization & staff
- Strongly Disagree: 2%
- Disagree: 10%
- Neither: 12%
- Agree: 43%
- Strongly Agree: 33%
Support Makes a Difference

Has full support of the board to assess all levels
- Do Not Audit Culture: 68%
- Audit Culture: 89%

Has full support of the executive management to assess all levels
- Do Not Audit Culture: 56%
- Audit Culture: 77%

Has freedom to assess the entire organization & staff
- Do Not Audit Culture: 68%
- Audit Culture: 87%
What About Reporting Lines?

Report Administratively to the CEO

Report Administratively to the CFO
Is Internal Audit Equipped?

IA is able to identify & assess measures of culture

- Strongly Disagree: 2%
- Disagree: 12%
- Neither: 26%
- Agree: 50%
- Strongly Agree: 9%

IA is able to identify & assess measures of culture

- Do Not Audit Culture: 45%
- Audit Culture: 80%
Addressing a Toxic Culture

- Coordinate efforts with other governance functions: 37% Not effective, 43% Slightly effective, 10% Very effective
- Raise as separate topic with board: 29% Not effective, 45% Slightly effective, 17% Very effective
- Raise as separate topic with management: 12% Not effective, 40% Slightly effective, 37% Very effective
- Focus on culture in audit reports: 24% Not effective, 45% Slightly effective, 20% Very effective

Colors represent:
- Red: Not effective
- Black: Slightly effective
- Cyan: Moderately effective
- Yellow: Very effective
- Green: Extremely effective
Culture

• Develop an approach to assess the critical elements

• Gather objective and subjective information about the organization’s culture
  
  o use professional judgment to evaluate information that cannot be easily measured

• Build and use relationships
Use of Data
Use of Data – Some Risks

• Ethical or barely legal?
• Responsive or convenient?
• Complete or available?
• Causation or correlation?
• Comprehensive or cherry-picked?
Internal Audit Involvement in Evaluating Data Quality

- Very or Extreme: 17%
- Moderate: 36%
- Slight or Not at All: 47%
Confidence in Strategic Decisions Made Using Data

- Slight or Not at All: 23%
- Moderate: 48%
- Very or Extreme: 29%
Use of Data

• Know what is collected, how it is analyzed, and which decisions it supports
• Assess the risks
• Consider these risks in audit planning
• Make sure you have requisite skills
From Cybersecurity to Cyber Resiliency
Addressing Cyberattacks – What is Effective?

- 53% ranked prevention efforts, such as hardening interior and exterior barriers, as the most effective method for addressing a cyberattack.
- 36% ranked education efforts, such as training staff, as most effective.
- 7% ranked detection efforts as most effective.
- 2% ranked reaction efforts as most effective.
- 1% ranked restoration efforts as most effective.
Cyber Resiliency
Addressing Cyberattacks in Business Continuity Plans

- **49%** provide general procedures in response.
- **25%** provide clear, specific procedures in response.
- **17%** do not specify procedures in response.
Internal Audit Effort Falls Short of Ideal

- Communicates to board & management level of risk & efforts to address:
  - Ideal: 69%
  - Actual: 40%

- Ensures communication & coordination among all parties regarding risk:
  - Ideal: 55%
  - Actual: 33%

- Works collaboratively with IT and others to build effective response:
  - Ideal: 56%
  - Actual: 31%

- Provides assurance over readiness and response:
  - Ideal: 63%
  - Actual: 26%
Why We Fall Short

- Lack of expertise in internal audit: 52%
- Lack of communication or cooperation from IT: 26%
- Lack of understanding of Board as to criticality: 23%
- Lack of support from executive management: 23%
- Lack of communication or cooperation from departments other than IT: 19%
Cyber Resiliency

- Understand cybersecurity risk
- Consider all aspects of cyber resiliency in your organization: protection, monitoring, response and recovery
- Ensure internal audit has the skills to be engaged in these areas
- Discuss cyber resiliency preparedness with management and the audit committee
Valuing Interpersonal Skills
Interpersonal Skills are Critical

- Communication skills: 98%
- Analytical/critical thinking: 97%
- Business Acumen: 83%
- Industry-specific: 65%
- IT: 44%
- Accounting: 42%
- Risk management: 40%
- Data mining & analytics: 37%
- Cybersecurity: 28%
- Finance: 23%
- Fraud auditing: 21%
- Investigations: 19%
- Quality controls: 9%
How Do We Ensure Internal Audit Has the Requisite Skills?

- Collaborates with others: 15% (Recruiting) vs. 86% (Training)
- Organizes & expresses ideas clearly: 14% (Recruiting) vs. 86% (Training)
- Listens actively: 14% (Recruiting) vs. 86% (Training)
- Manages conflict effectively: 13% (Recruiting) vs. 86% (Training)
- Balances diplomacy & assertiveness: 13% (Recruiting) vs. 86% (Training)
- Uses research, intelligence, problem solving: 14% (Recruiting) vs. 85% (Training)
- Recognizes own limitation and seeks advice: 14% (Recruiting) vs. 84% (Training)
- Leads through influence, conviction, sensitivity: 15% (Recruiting) vs. 84% (Training)
- Accounts for org politics: 8% (Recruiting) vs. 81% (Training)
- Accounts for cultural aspects: 10% (Recruiting) vs. 79% (Training)
What Kind of Training?

- Accounts for culture: 41% (48%)
- Accounts for organization politics: 49% (45%)
- Balances diplomacy with assertiveness: 48% (40%)
- Collaborates with others: 34% (53%)
- Listens actively: 38% (44%)
- Uses research, intelligence, problem solving: 24% (46%)
- Leads through conviction, influence, sensitivity: 40% (42%)
- Organizes & expresses ideas clearly: 40% (38%)
- Recognizes own limitations & seeks advice: 54% (36%)
- Manages conflict effectively: 42% (36%)

Classroom training for auditors
Self-study
On-the-job
Mentoring
### How Effective is Our Training?

<table>
<thead>
<tr>
<th>Skill</th>
<th>Not effective</th>
<th>Slightly effective</th>
<th>Moderately effective</th>
<th>Very effective</th>
<th>Extremely effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborates with others</td>
<td>13%</td>
<td>49%</td>
<td>34%</td>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>Leads through influence, conviction, sensitivity</td>
<td>40%</td>
<td>40%</td>
<td>45%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Uses research, intelligence, problem solving</td>
<td>40%</td>
<td>40%</td>
<td>49%</td>
<td>42%</td>
<td></td>
</tr>
<tr>
<td>Recognizes limitations and seeks advice</td>
<td>42%</td>
<td>42%</td>
<td>46%</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>Listens actively</td>
<td>43%</td>
<td>43%</td>
<td>49%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Accounts for culture</td>
<td>39%</td>
<td>39%</td>
<td>48%</td>
<td>39%</td>
<td></td>
</tr>
<tr>
<td>Accounts for organization politics</td>
<td>38%</td>
<td>38%</td>
<td>47%</td>
<td>38%</td>
<td></td>
</tr>
<tr>
<td>Balances diplomacy with assertiveness</td>
<td>37%</td>
<td>37%</td>
<td>50%</td>
<td>37%</td>
<td></td>
</tr>
<tr>
<td>Organizes &amp; expresses ideas clearly</td>
<td>38%</td>
<td>38%</td>
<td>50%</td>
<td>38%</td>
<td></td>
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<tr>
<td>Manages conflict effectively</td>
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<td>38%</td>
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The Result ➔ Mediocrity

- Collaborates with others: 23% Not effective, 54% Slightly effective, 18% Very effective
- Leads through influence, conviction, sensitivity: 43% Not effective, 39% Slightly effective, 39% Very effective
- Uses research, intelligence, problem solving: 38% Not effective, 41% Slightly effective, 31% Very effective
- Recognizes limitations and seeks advice: 41% Not effective, 41% Slightly effective, 31% Very effective
- Listens actively: 40% Not effective, 47% Slightly effective, 33% Very effective
- Accounts for culture: 49% Not effective, 31% Slightly effective, 31% Very effective
- Accounts for organization politics: 44% Not effective, 30% Slightly effective, 30% Very effective
- Balances diplomacy with assertiveness: 46% Not effective, 37% Slightly effective, 18% Very effective
- Organizes & expresses ideas clearly: 49% Not effective, 34% Slightly effective, 18% Very effective
- Manages conflict effectively: 48% Not effective, 33% Slightly effective, 18% Very effective
Is Something Askew?

Rely on Training

On-the-Job & Mentoring

Training is Pretty Effective

Less Than Half of Staff are Very Proficient
Interpersonal Skills

• Recruit for needed soft skills – don’t assume that accountants, engineers or IT professionals can easily learn these.

• Take a more disciplined/formal approach to training/mentoring.

• Consider branching out from informal training methods and seek new options for improving the effectiveness of training.

• Evaluate current job description and job postings to ensure they reflect the skills you truly need.

Invest in yourself and your team
Parting Thoughts

- Identify known & emerging risk areas: 85%
- Facilitate & monitor effective risk management practices by operational management: 78%
- Identify appropriate risk management frameworks, practices & processes: 78%
- Consult on business process improvements: 76%
- Alert operational management to emerging issues & changing regulatory & risk scenarios: 74%
- Assurance on compliance with legal & regulatory requirements: 71%

Source: CBOK Stakeholder Report: Relationships and Risk, Insights from Stakeholders in North America