



REUTERS/Asmaa Waguih

# STATE OF INTERNAL AUDIT SURVEY 2012

# STATE OF INTERNAL AUDIT SURVEY 2012

Thomson Reuters GRC surveyed more than 1,500 internal audit practitioners from firms around the world in March 2012 to canvass their views on the state of internal audit and their greatest challenges for the year ahead. The results reflect an evolving professional discipline that is focused on internal control, IT risk and security, risk management, compliance and fraud.

The responses received covered Europe, the Americas, Australasia, Asia, Africa and the Middle East. They represent firms from across a wide set of industries including financial services, manufacturing, government, education, life sciences, energy and other highly regulated industries. Feedback came from internal audit departments of all sizes, ranging from those whose departments were comprised of less than five auditors to global conglomerates with departments exceeding 100 auditors.

It is clear from both the number of respondents and the details of the information received that internal audit professionals from all industries are faced with an evolving and diverse job, expanding job duties, and challenges with internal and external changes.

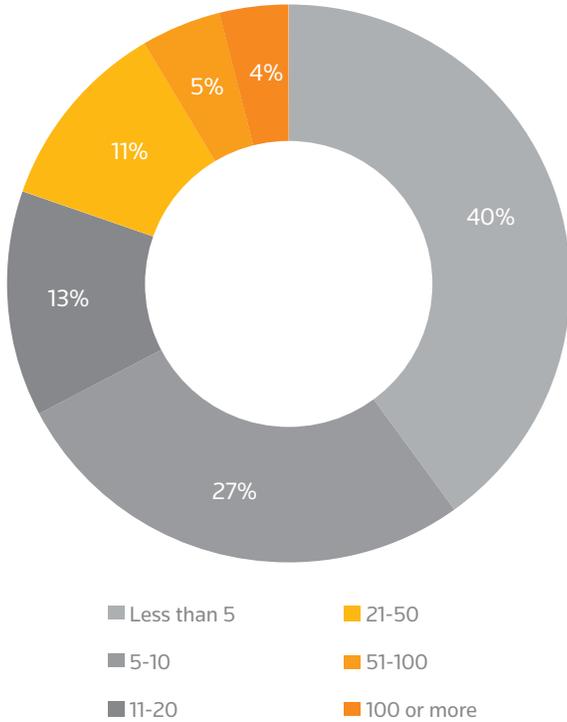
Audit committee chairs and executive management alike need to understand and address the increasing scope and strain on internal audit. A vital factor in easing the pressure on the internal audit function is the provision of adequate skilled resources to meet the growing demands and challenges. The often under-valued task of internal audit can be made substantially easier where senior managers visibly and vocally demonstrate support for the internal audit function and promote a culture of sound corporate governance.

## SURVEY DEMOGRAPHICS

This survey was global in nature with a good balance of responses from North America, Europe, Africa and Asia. The broad demographics of company size, department size, job title, industry and geography offered by the survey respondents provides a good perspective of the global internal audit profession.

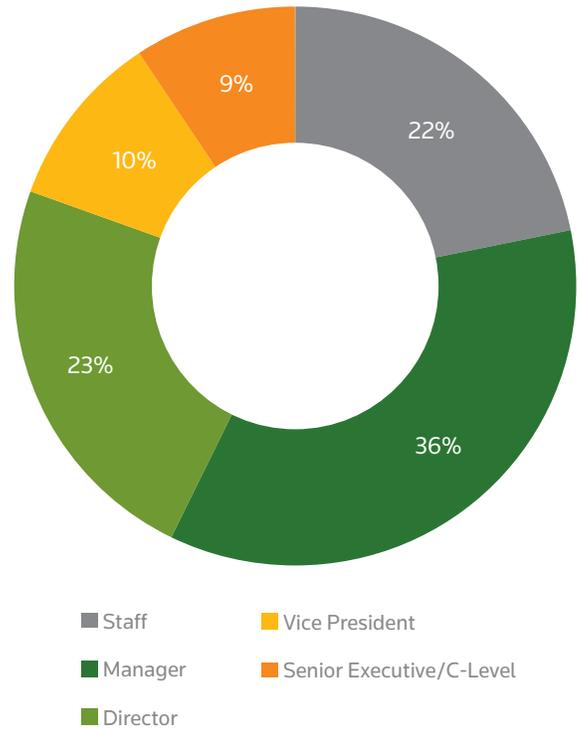
Of those surveyed, 67 percent of respondents worked in organizations that had ten or fewer auditors while 20 percent of respondents worked in organizations with more than 20 auditors. The survey indicated that department size was not directly correlated to revenue. This can be explained in part since 42 percent of those surveyed indicated that they outsource or co-source part of their internal audit activities.

### How many internal auditors are in your department?



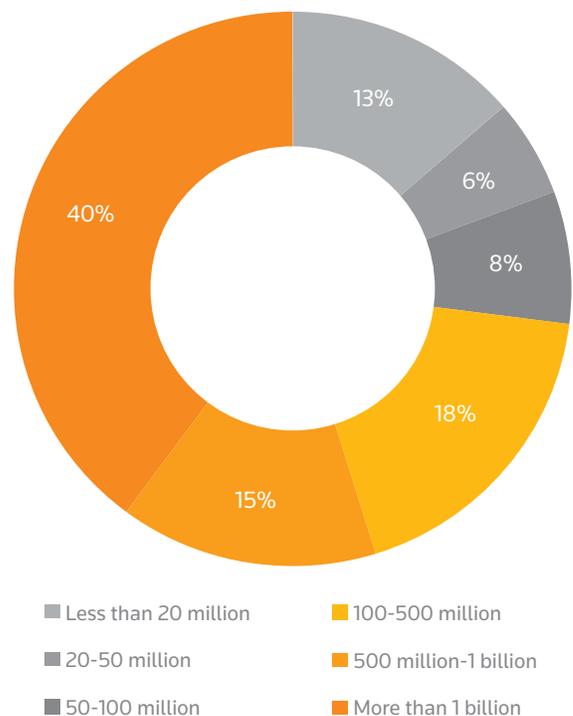
The survey asked about job role as well. The survey respondents represent all levels of the organization with 78 percent of the respondents holding the title of manager or above. Of these, 42 percent were at the title of director or higher including 19 percent of the most senior respondents holding the title of vice president or C-level executive.

### How would you best describe your job role?



The survey also attracted responses from audit professionals that work in organizations of all sizes. 40 percent of respondents work in firms with \$1 billion or more in annual revenue while 28 percent work in firms \$100 million and under.

### What is your organization's annual revenue? (USD)



### INTERNAL AUDIT FOCUS IS ON A DIVERSE SET OF ACTIVITIES

By definition, internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes. When asked to list the top three areas of time and resource allocation, it comes as no surprise that assurance activities topped the list. With the increased focus that boards and management have on risk management, risk related activities were listed as the next three most resource consuming activities.

Overall, 83 percent of internal auditors surveyed listed assurance over internal control as a top three activity. IT risk and security was listed as the second priority with 44 percent of respondents, process level risk management was third with 34 percent and legal and regulatory risk at 30 percent. Following on from the risk related activities was addressing fraud and corruption at 25 percent.

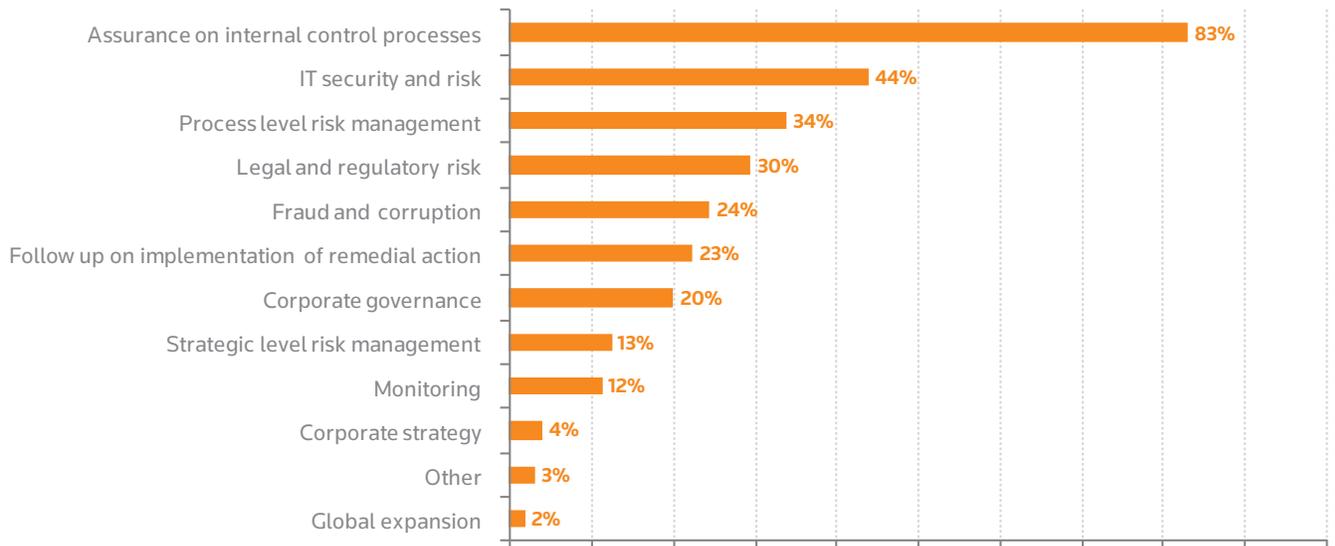
With the increased focus on the enforcement of the Foreign Corrupt Practice Act (FCPA) and recent legislation such as the UK Bribery Act, the prevention of fraud is becoming a top issue in many multinational organizations, which has a direct impact on internal audit.

### WHAT SHOULD BE THE TOP PRIORITIES FOR INTERNAL AUDIT

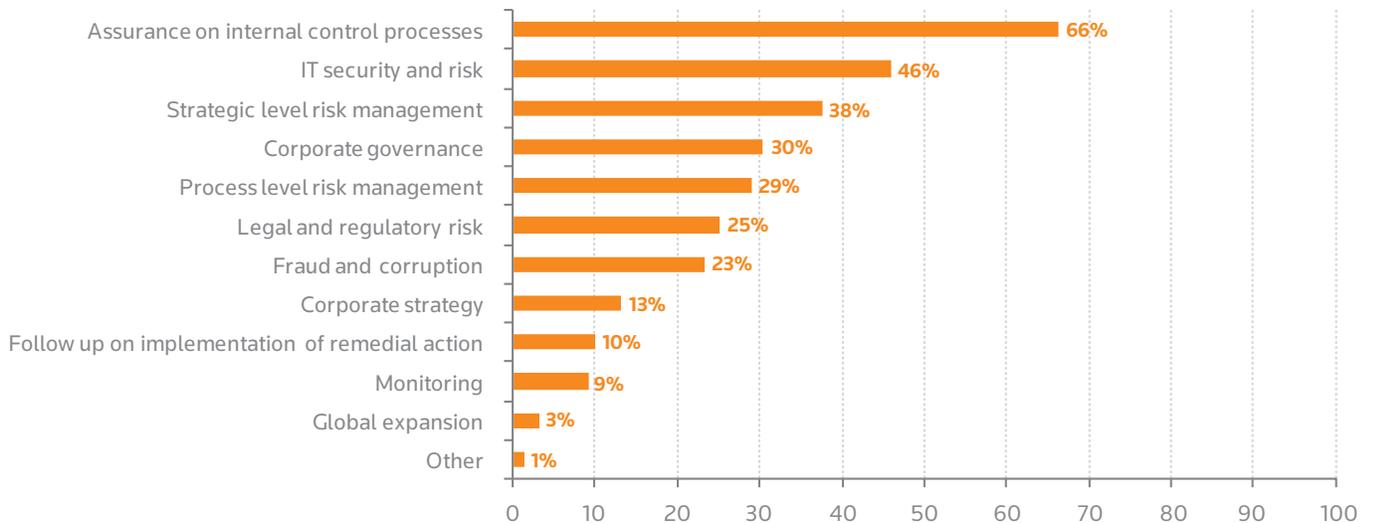
Based on the changing demands of today's regulatory and risk environment, internal audit is moving toward a greater emphasis on risk management, fraud prevention, and corporate governance. With this evolving role of the internal auditor comes a greater connection to the professions of compliance and risk management.

Although respondents see the top priorities as on target - assurance over internal control processes and security and risk were consistently ranked one and two in both responses – a disconnect was apparent between the activities indicated as a focus for 2012 and what auditors believe should be the focus moving forward. Strategic level risk management came in as the third priority at 38 percent and corporate governance came next in line at 30 percent.

**In your organization currently, what areas are internal audit's time and resources primarily applied to? Please tick the three options that most apply.**



**In your opinion, what should be the top priorities for your organization's internal audit function? Please tick the three options that most apply.**



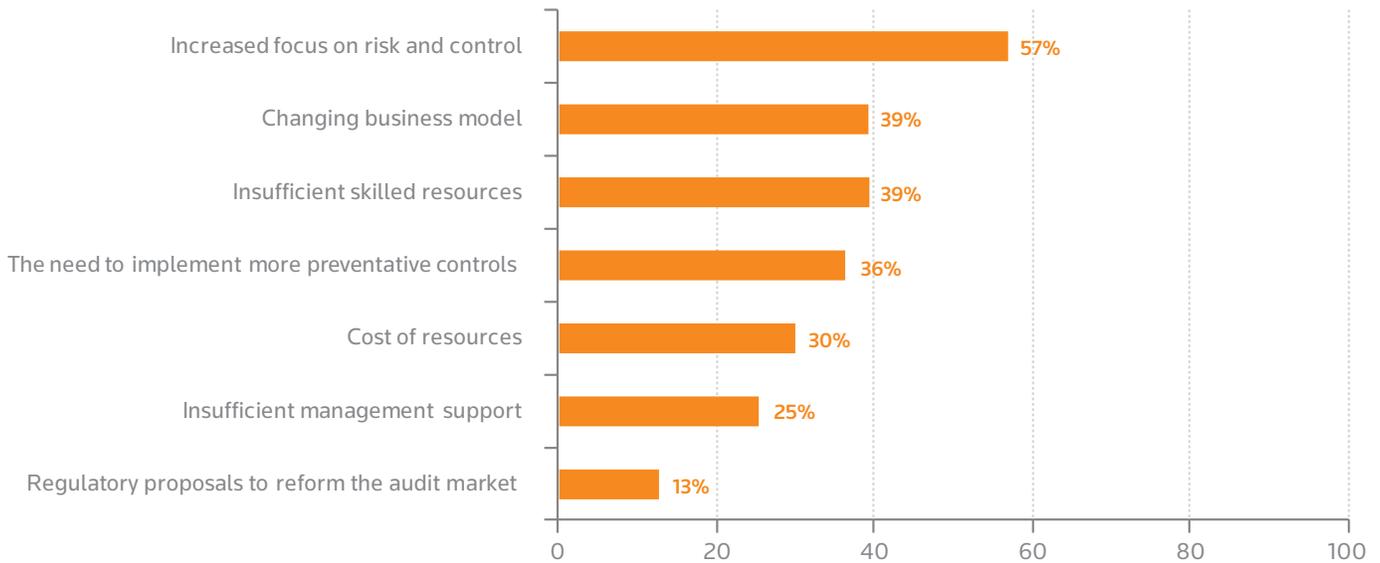
### WHAT ARE THE STRATEGIC CHALLENGES FOR 2012

The environment of ever increasing regulations, a renewed focus on fraud and corruption and the heightened need for risk management has executives, corporate boards, risk management and business line managers under increased oversight and scrutiny by regulators, shareholders and external auditors. As a result, internal audit professionals are faced with more information requests, new compliance requirements, and constant pressure to do more with less.

Internal audit professionals were asked about the greatest challenges they face in the coming year. The consensus on the issues highlighted demonstrates how many internal audit departments are facing similar challenges in managing and responding to competing priorities and stakeholders. The issues most often highlighted by firms for 2012 were, increased focus on risk and control, a changing business model, and insufficient skilled resources.

In fact, 57 percent of respondents listed increased focus on risk and control as the top issue. This challenge, coupled with the need to adapt to changing business models, has many internal audit departments looking for new processes and tools to address these challenges. This need is further compounded by the call for an improved workforce with 39 percent of respondents listing insufficient skilled resources as a top challenge for 2012.

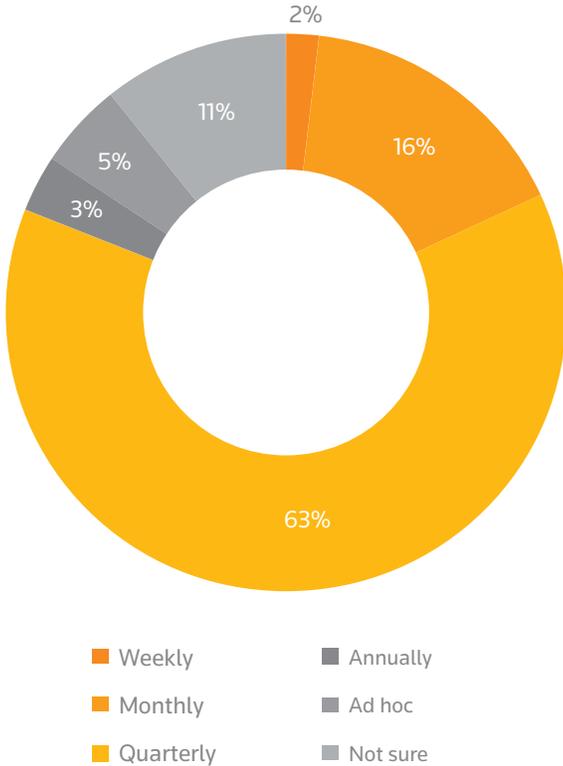
#### What are the key challenges for the year ahead? Please tick all that apply.



**AUDIT COMMITTEE**

The scope and role of internal audit is directly tied to the board audit committee. Charged with oversight of the organization’s audit and control functions, the audit committee responsibilities include the oversight of the processes and structures implemented by the board and monitoring the activities of the organization toward the achievement of its objectives. In support of the board, of those surveyed a vast 63 percent indicated that meetings with the audit committee and the board take place quarterly. More frequent interaction is the norm for 18 percent who indicated that these meetings happen monthly or on a more frequent basis.

**How frequently does your audit committee interact with the board of directors?**

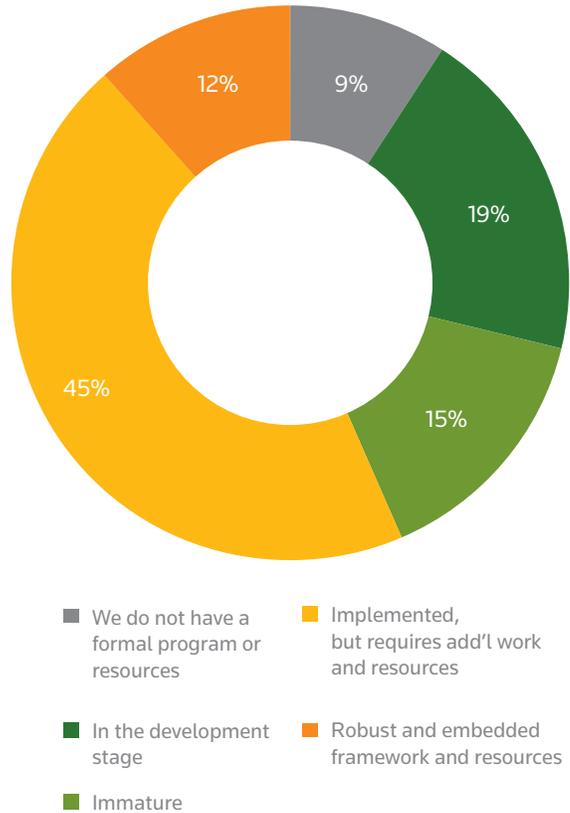


**RISK MANAGEMENT MATURITY**

With the increased focus that many boards and management teams have on risk management, it comes as a surprise that many organizations do not yet have the robust processes and resources to execute on risk management. Of those surveyed, only 12 percent of respondents claimed to have a robust and embedded risk management framework and resources in place. Furthermore, 45 percent have some form of a program implemented, but require additional work and resources to advance the maturity of their risk function.

With a majority of organizations still maturing their risk management processes, internal audit has a great opportunity to lead the charge in risk maturity and driving to standardized processes. By nature of the profession, the internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes. Of all the assurance professionals, internal audit is one of the best suited to advance the risk discipline of the organization.

**In your opinion, how mature is your organization’s risk management function?**

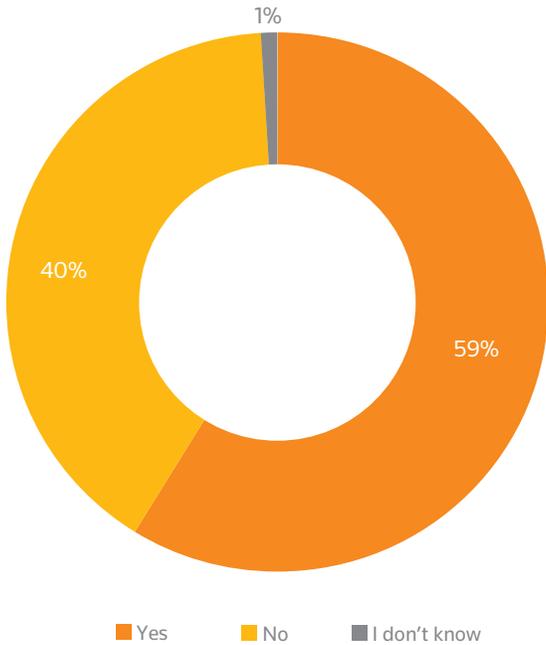


### A FORMAL COMPLIANCE FUNCTION

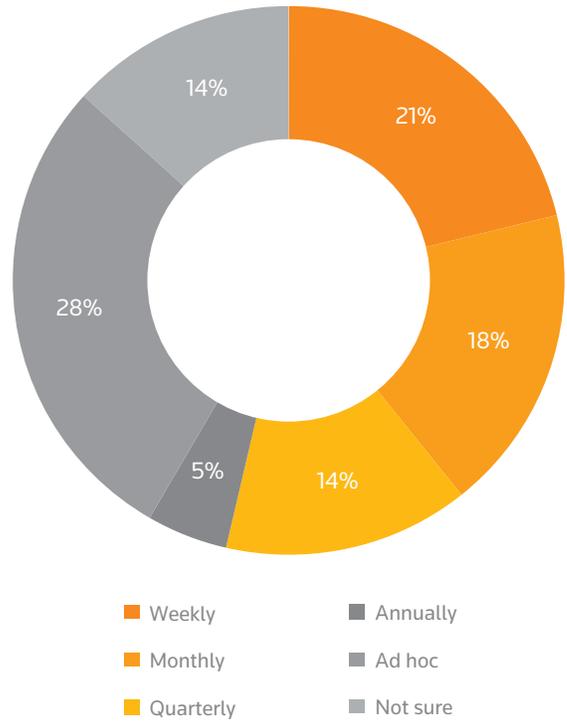
The existence of the compliance function is strongly suggested by regulatory bodies and enforcement organizations such as the United States Department of Justice, The Basel Committee on Banking Supervision, and the UK Financial Services Authority. Regardless of the industry, the role of compliance is becoming increasingly important as government and industry regulation expands and enforcement becomes more rigorous.

Of those surveyed, 59 percent indicated that their organization had a formal compliance function while 40 percent indicated that there was no compliance function. In the absence of a formalized function, it is oftentimes the case that internal audit assumes some or most of the compliance activities in the organization. For those organizations without a formal compliance function, it is important that the internal audit team clarify the expectations in regards to compliance with the board audit committee.

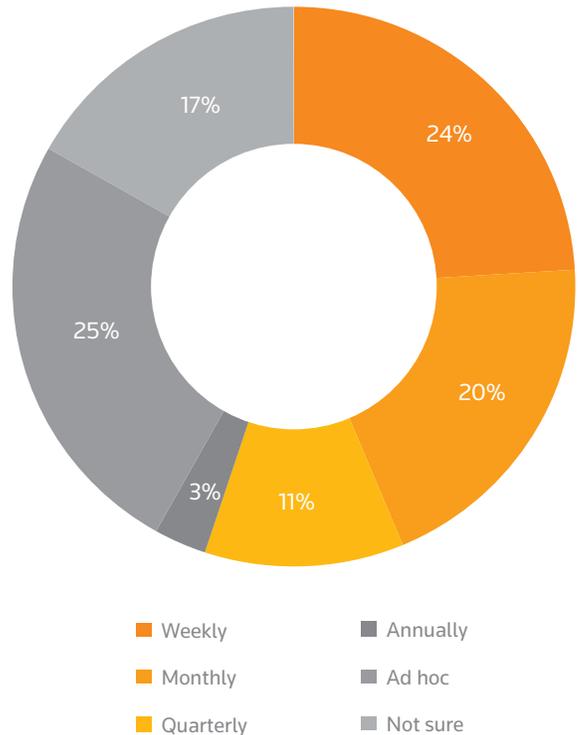
#### Does your organization have a formal compliance department or function?



#### On average how often do you interact with the risk management group?



#### On average how often do you interact with the compliance group?



### EFFECTIVELY WORKING WITH RISK AND COMPLIANCE

As important as the internal audit function is, it is only one element of the overall control and corporate governance framework. It is, therefore, essential that internal audit is aligned with compliance, audit, risk management and legal functions to help ensure there is a consistent, integrated and holistic approach to risk identification, management and mitigation. Only then will the business be able to focus on addressing the most significant areas of risk.

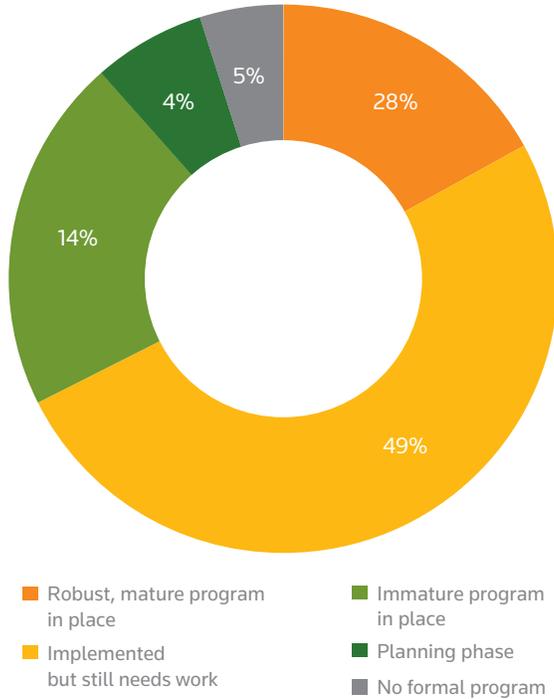
The survey asked how often the internal audit team interacted with the compliance and risk management teams. In the case of interacting with both teams, over forty percent of respondents indicated that these interactions were ad-hoc or they were not sure on how frequently they met. In the case of internal audit working with risk management, 21 percent of respondents met weekly, 18 percent monthly, and 14 percent quarterly. The numbers for internal audit working with compliance were similar but a bit higher indicating more frequent interaction. To recap, 24 percent of respondents indicated that they met weekly with compliance, 20 percent monthly and 11 percent on a quarterly basis.

**MATURITY OF BUSINESS PROCESS – WORKPAPERS**

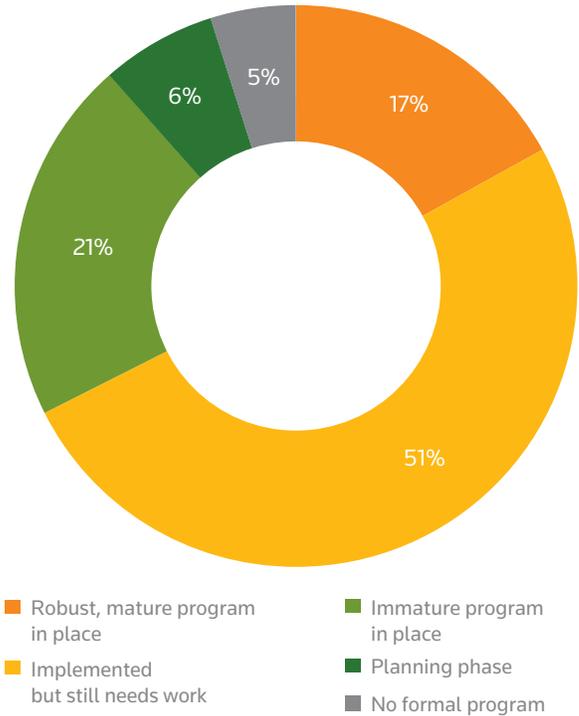
A series of questions were asked for those surveyed to rank their maturity on a number of standard audit business processes. In the case of audit workpapers, only 28 percent of respondents described their process as robust or mature. Since this is a core activity to the internal audit process, it comes as a surprise that only a quarter of those surveyed believed that they had a robust program. 49 percent of the respondents indicated that they had a workpaper process in place but that it still needed work.

Moving from an ad-hoc to a more robust automated workpaper management process is a trend we are seeing with many audit departments. Many audit executives are reevaluating their reliance on spreadsheets as their primary solution for managing internal audit processes and moving to a more structured and purpose-built solution.

**Please rate your organization’s level of maturity in workpapers.**



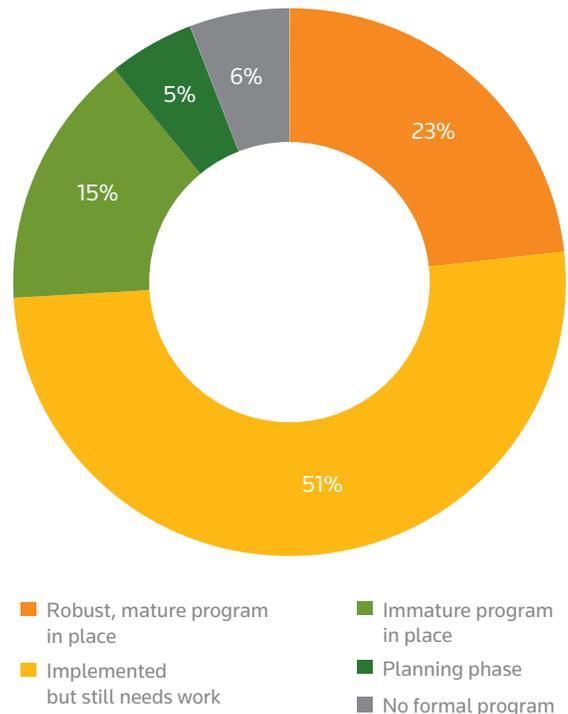
**Please rate your organization’s level of maturity in risk assessment.**



**MATURITY OF BUSINESS PROCESS – ISSUE TRACKING**

On the topic of issue tracking, 74 percent of those surveyed responded that they had either a robust program or one that was implemented. This high maturity level on issue tracking is a good indicator for organizations moving towards the disciplines of GRC. Centralized issue tracking is one of the foundational business processes for connected governance, risk and compliance. Centralized issue tracking provides the capability to track outstanding issues and action plan recommendations from internal audit, compliance and business process owners. By leveraging a common system and process, audit and compliance teams are empowered to be in lock step on the material issues facing the organization and track the steps for follow up and correction.

**Please rate your organization’s level of maturity in issue tracking.**



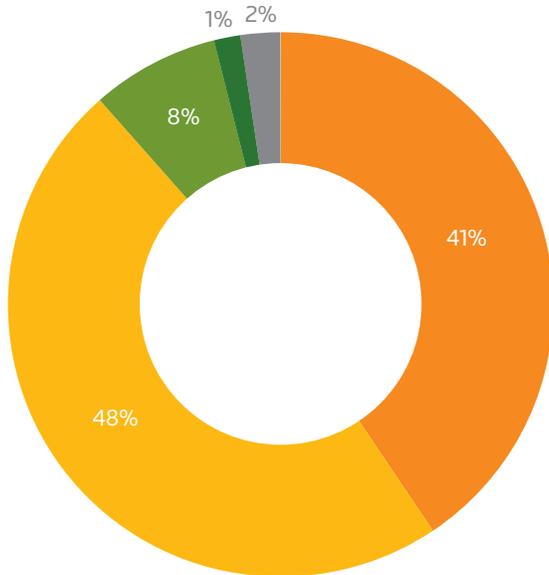
**MATURITY OF BUSINESS PROCESS – RISK ASSESSMENT**

Consistent with some of the other survey questions related to risk management, only 17 percent of respondents indicated that they had a robust and mature process for risk assessment. The majority, 51 percent, have a process that is implemented but still needs work, while 12 percent of respondents do not even have a current program or process discipline. Risk management is one of the areas of most significant change for the audit profession. For internal audit, risk assessment is an activity that is a requirement as outlined by the professional practices framework of the Institute of Internal Auditors (IIA). According to these professional standards, internal audit must evaluate the effectiveness and contribute to the improvement of risk management processes in the firm. This includes evaluating risk exposures relating to the organization’s governance, operations and information systems.

### MATURITY OF BUSINESS PROCESS – REPORTING

Of all of the business processes surveyed, respondents indicated that they had the highest level of maturity on reporting. Since reporting is the end work product of the internal audit team, it comes as no surprise that reporting would receive the highest response on maturity. Whatever inefficiencies exist in the other internal audit business processes, efforts are made to make sure that audit reports are delivered with the highest accuracy and quality. 41 percent indicated that they had a robust, mature program in place for reporting. 48 percent indicated that their reporting processes were implemented but still need some work. Only 11 percent of respondents indicated that they had a relatively immature business process.

**Please rate your organization’s level of maturity in reporting.**



- Robust, mature program in place
- Implemented but still needs work
- Immature program in place
- Planning phase
- No formal program

### THE CHANGING ROLE OF INTERNAL AUDIT

Effective internal audit functions help organizations accomplish their business objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes. Based on changes in the business environment, internal audit’s role in the organization is continually evolving, based on stakeholder and management expectations. Shareholders, board members and management are placing a greater emphasis on how internal auditors can play a role in evaluating and mitigating risks, their involvement in IT and operations, managing fraud risk, and playing a greater role in corporate governance.

The internal audit role can take on different appearances, going from an independent assurance function to a real management advisor. The interaction between the evolving internal audit function and its major stakeholders is an important area for organizations to focus on and develop. For many organizations, executive management will request more advisory involvement of internal audit, including performing reality checks on key management decisions.

These changes will also bring about a greater connection of internal audit to compliance and risk functions. The traditional approach to governance, risk and compliance relies on working in silos and using separate point solutions to address each assurance group’s requirements. This creates a fragmented approach that leads to inefficiencies, added costs and an inability to maintain compliance initiatives and make informed and accurate decisions.

Governance, risk and compliance activities are by nature interconnected and rely on common sets of information, methodology, processes and technology. By establishing a common, integrated discipline around regulations, policies, risks, controls, and issues; leading internal audit practitioners have demonstrated that they can better leverage information, gain operating efficiencies, and provide greater transparency into legal, regulatory, operational, and overall business risks.



THOMSON REUTERS **ACCELUS™**

Thomson Reuters Governance, Risk & Compliance (GRC) business unit provides comprehensive solutions that connect our customers' business to the ever-changing regulatory environment. GRC serves audit, compliance, finance, legal, and risk professionals in financial services, law firms, insurance, and other industries impacted by regulatory change.

The Accelus suite of products provides powerful tools and information that enable proactive insights, dynamic connections, and informed choices that drive overall business performance. Accelus is the combination of the market-leading solutions provided by the heritage businesses of Complinet, IntegraScreen™, Northland Solutions, Odeon, Paisley®, West's Capitol Watch®, Westlaw® Business, Westlaw Compliance Advisor® and World-Check®.

For more information, visit [accelus.thomsonreuters.com](http://accelus.thomsonreuters.com)

For more information on THOMSON REUTERS **ACCELUS™** : contact the local East African partner for Uganda, Kenya, Tanzania & Rwanda



**BitWork Consult Ltd**

P.O.BOX 851  
Kampala, Uganda

Tel: (+256) 414 579099 / 0782480878 / 0704556089

Fax: (+256) 414-289218

e-mail: [info@bitworkconsult.com](mailto:info@bitworkconsult.com)

Web: [www.bitworkconsult.com](http://www.bitworkconsult.com)



THOMSON REUTERS™