



The Institute of  
Internal Auditors  
Indonesia

# 2014 ACIIA CONFERENCE BALI, INDONESIA

**ASIAN CONFEDERATION OF INSTITUTE OF INTERNAL AUDITORS**

**The Stones Hotel - Legian, Bali**

**24 - 25 November 2014**

Organized by:



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A light blue silhouette of a person in a dynamic, expressive pose, possibly a dancer or performer, with one arm raised and hand open. The silhouette is positioned on the left side of the slide, partially overlapping the white background.

# **2014 State of the Profession Survey**

***Higher performance by design***

**Gopinath Menon**

**KAP TANUDIREDDA, WIBISANA & REKAN  
PRICewaterhouseCOOPERS**



# At a Glance

- 10<sup>th</sup> Annual State of the Internal Audit Profession Study
- Over 1900 respondents, including 1400 CAEs and more than 520 stakeholders (Board and Audit Committee Members, CFOs, CROs, CCOs, etc.)
- Conducted over 125 stakeholder and CAE interviews across North America, Europe, Australia, and Asia to gain further insights

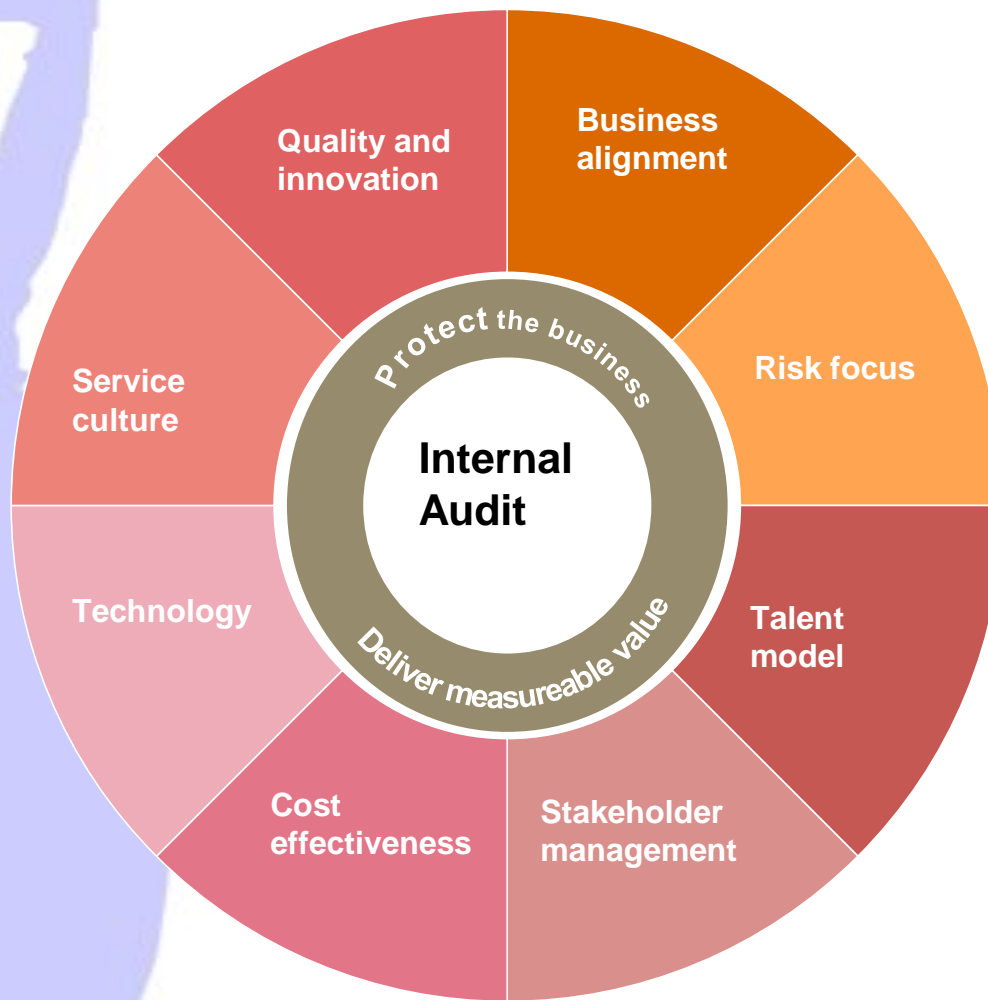


# At a Glance (con't)

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- Over 1900 respondents, including 1400 CAEs and more than 520 stakeholders (Board and Audit Committee Members, CFOs, CROs, CCOs, etc.)
- Conducted over 125 stakeholder and CAE interviews across North America, Europe, Australia, and Asia to gain further insights
- Interviewed certain key regulators across the globe to understand their expectations of internal audit
- Survey focused on:
  - Understanding what is expected from internal audit for the purpose of identifying potential alignment issues;
  - Understanding stakeholder perceptions related to the value of Internal Audit;
  - Understanding internal audit performance related to key attributes.



# Eight foundational attributes of internal audit



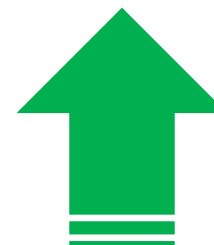
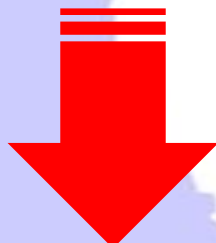
# The results of our research

- The case for change
- Expanding the expectation set
- Developing an aligned set of expectations
- Developing the capabilities to deliver on expectations
- Internal Audit's communication strategy



# The case for change

- **Value**  
Stakeholders have significantly different views of internal audit value, management weaker
- **Performance**  
Improved, but not strong results, particularly management
- **Critical Risks**  
Organisations are doing a better job at managing critical risks



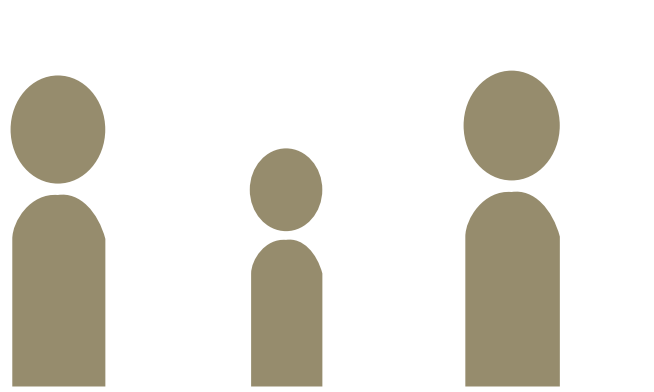
2013	<i>79% of board members see significant value, while only 44% of management do</i>	<i>56% of the board ranks IA performance as strong, while 37% of management do</i>	<i>60% of the board members believe risks are well managed vs. 52% of management</i>
2014	<i>68% of board members see significant value, while only 45% of management do</i>	<i>64% of the board ranks IA performance as strong, while 49% of management do *</i>	<i>80% of the board members believe risks are well managed vs. 66% of management</i>

# Board and management perception of value and performance

Percent of stakeholders reporting Audit provides “significant value”



Percent of respondents reporting that Internal Audit performs well<sup>1</sup>



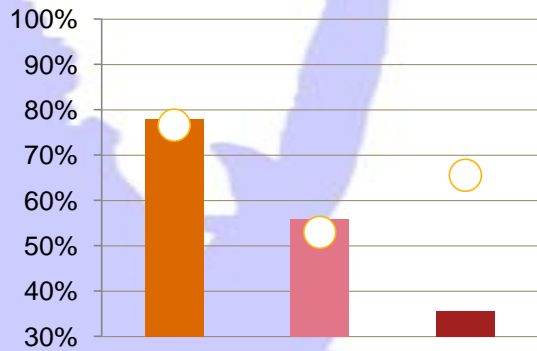
■ 2013  
■ 2014

<sup>1</sup>Represents the average of the “performs well” ratings across 18 capabilities

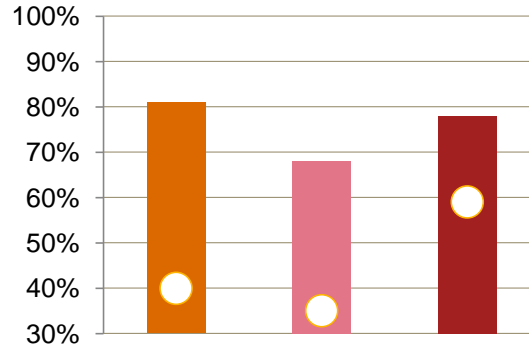




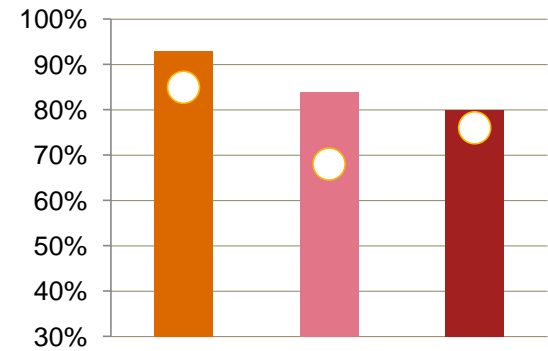
# The case for change



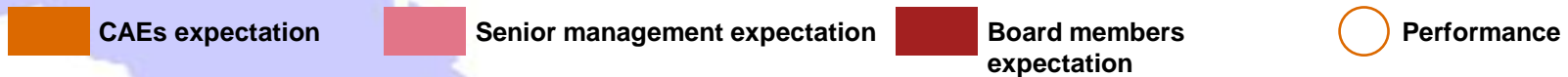
Engaging and managing a relationship with stakeholders



Leveraging technology effectively in the execution of audit services



Aligning scope and audit plan with stakeholder expectations



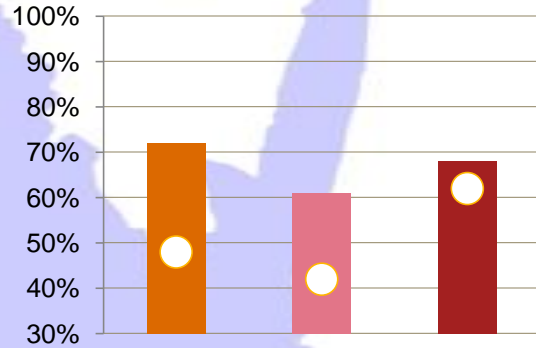
**Expectation:** % who expect this from internal audit; base = total survey responses

**Performance:** % who believe internal audit performs this well; base = only those respondents that expect internal audit to do this

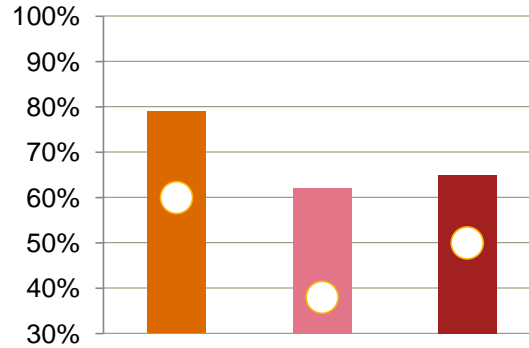
*Stakeholders are not aligned in their expectation of internal audit over key attributes.*



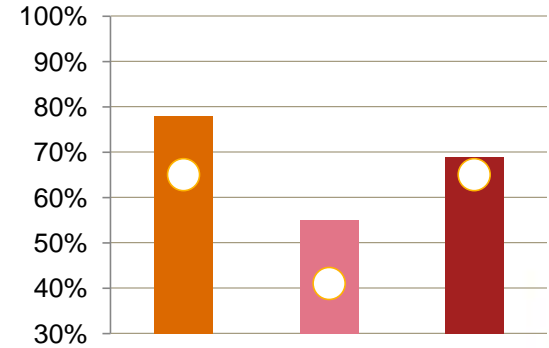
# The case for change



**Involvement in company initiatives before, during and after deployment**



**Identifying thematic issues the organization is facing**



**Promoting quality improvement and innovation**

**CAEs expectation**

**Senior management expectation**

**Board members expectation**

**Performance**

**Expectation: % who expect this from internal audit; base = total survey responses**

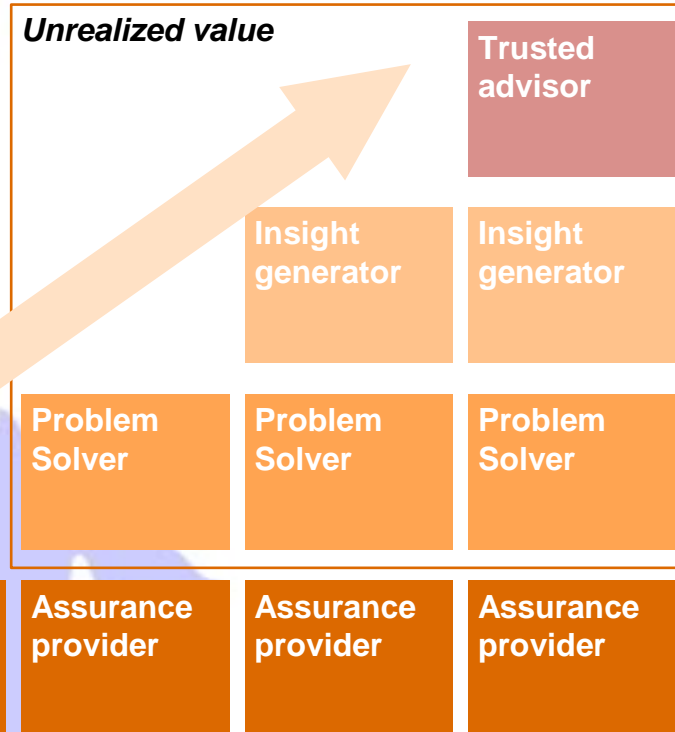
**Performance: % who believe internal audit performs this well; base = only those respondents that expect internal audit to do this**

*Stakeholders are not aligned in their expectation of internal audit over key attributes*



# The journey to capture unrealized value

Align expectations  
Build capabilities  
Deliver quality  
Increase value



Providing value-added services and proactive strategic advice to the business well beyond the effective and efficient execution of the audit plan

Taking a more proactive role in suggesting meaningful improvements and risk assurance

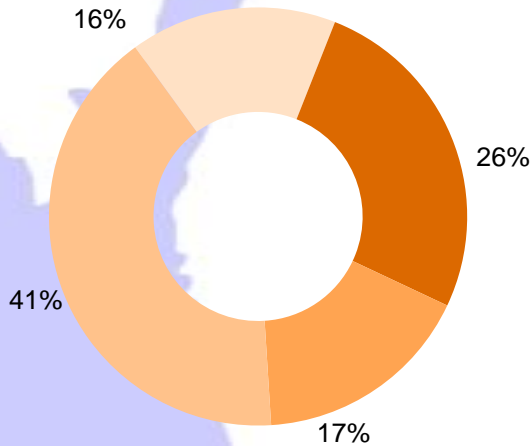
Bringing analysis and perspective on root causes of issues identified in audit findings to help business units take corrective action

Delivering objective assurance of the effectiveness of an organizations' internal controls

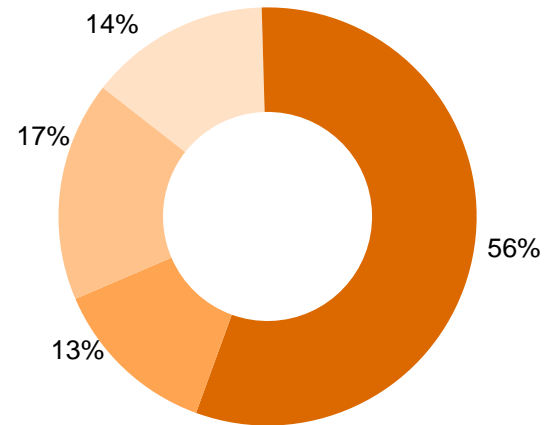


# Expanding the expectation set

Assurance Provider



Trusted Advisor



Internal Audit adds significant value and performs well

Internal Audit adds some value and performs well

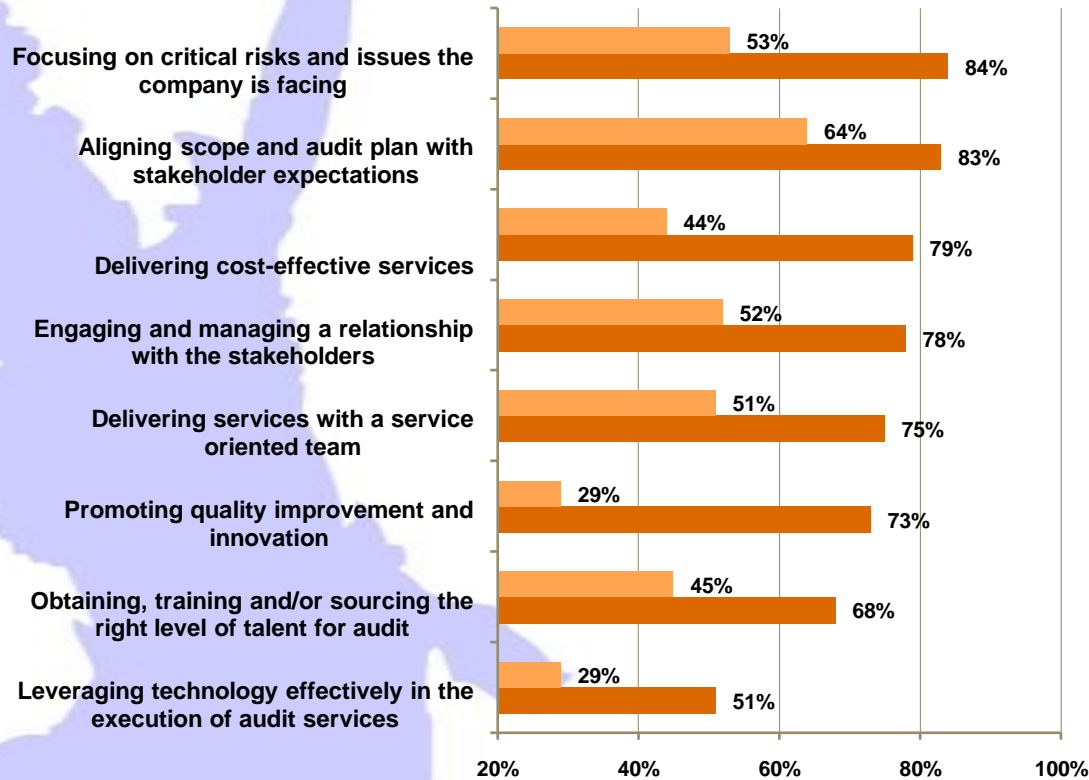
Internal Audit adds value but performs poorly

Internal Audit adds little value or don't know

*Internal audit has the opportunity to drive greater value to the organization by expanding capabilities and skill sets, regardless of expectations/role.*



# Trusted advisors have higher performance on 8 foundational attributes



*Expanded expectations and Alignment of stakeholder expectations creates an opportunity for Internal Audit to raise its performance and provide added value to the organization.*

Percent of respondents indicating internal audit was performing well

■ Assurance providers    ■ Trusted advisors



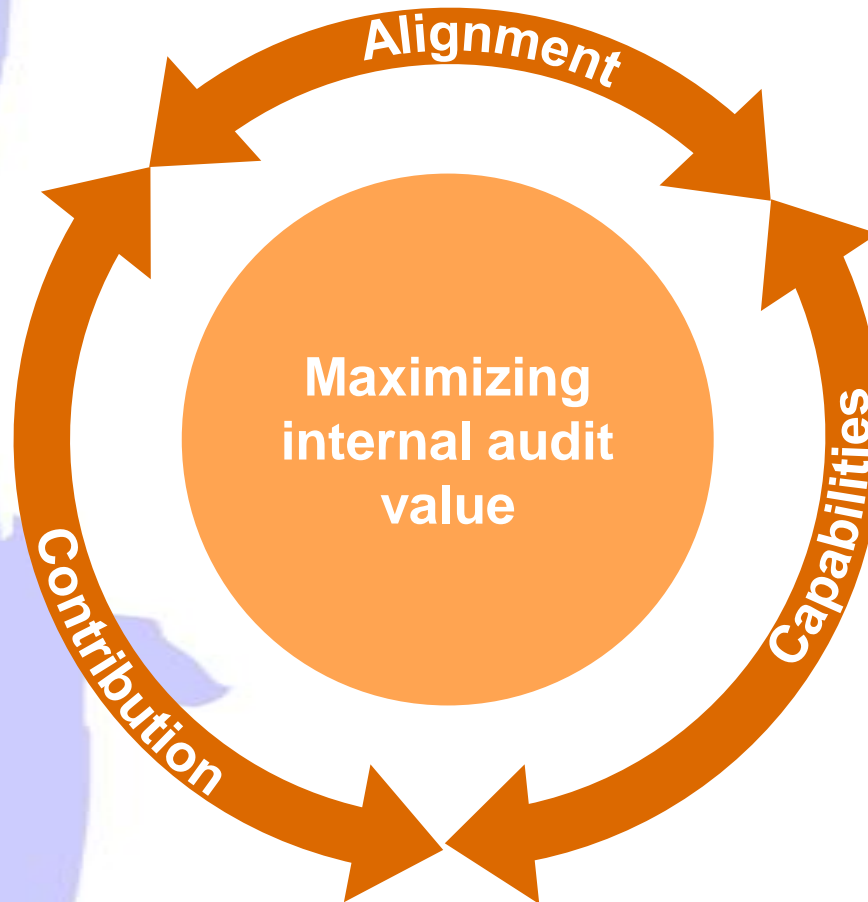
# Developing an aligned set of expectations

- Align and agree on the critical risks the organization faces (fundamental)
- Establish detailed expectations aligned to the eight foundational attributes
- In developing these detailed expectations, consider:
  - Future needs and emerging issues and risks;
  - Regulatory expectations;
  - The first and second lines of defense
- CAE should drive the discussion
- Proactively share your expectations, but do so with open lines of communication across the key stakeholder group

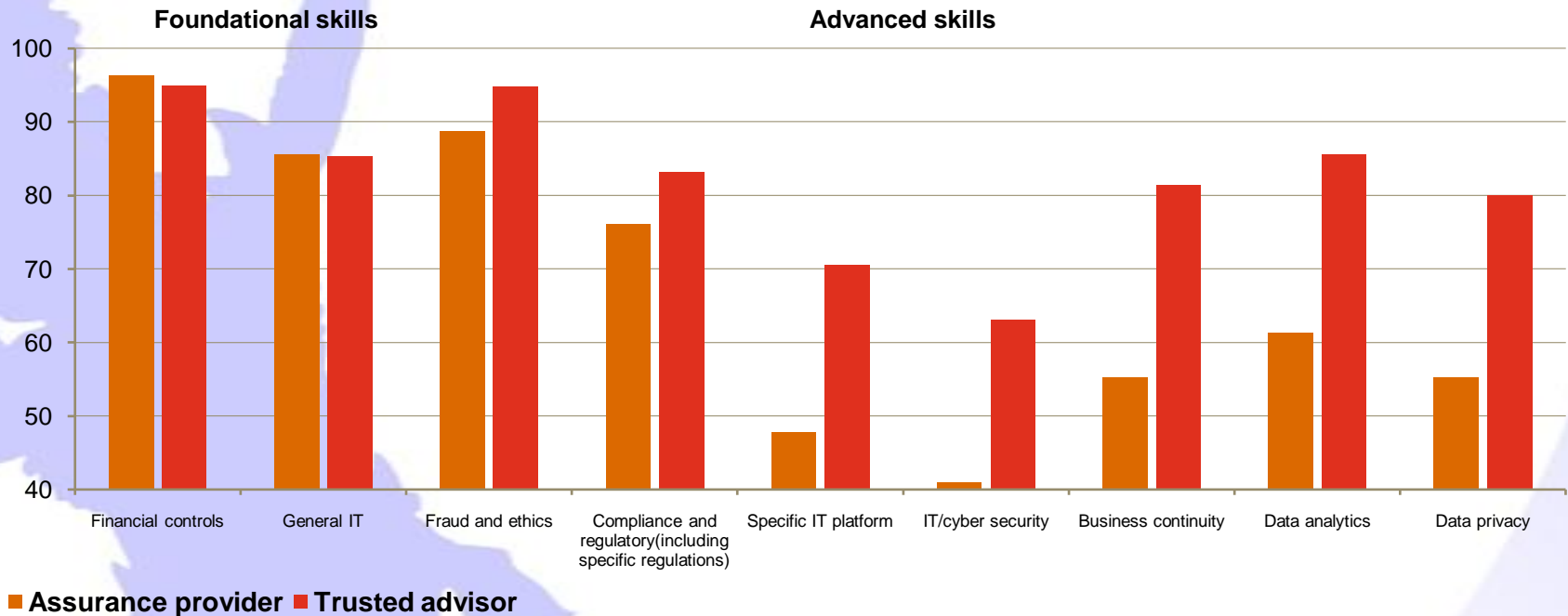
*Achieve alignment on the breath of expectations and critical risks is a significant step towards internal audit improving its relevance and value to the business.*



# Maximizing internal audit value



# Building the capabilities to deliver on expectations



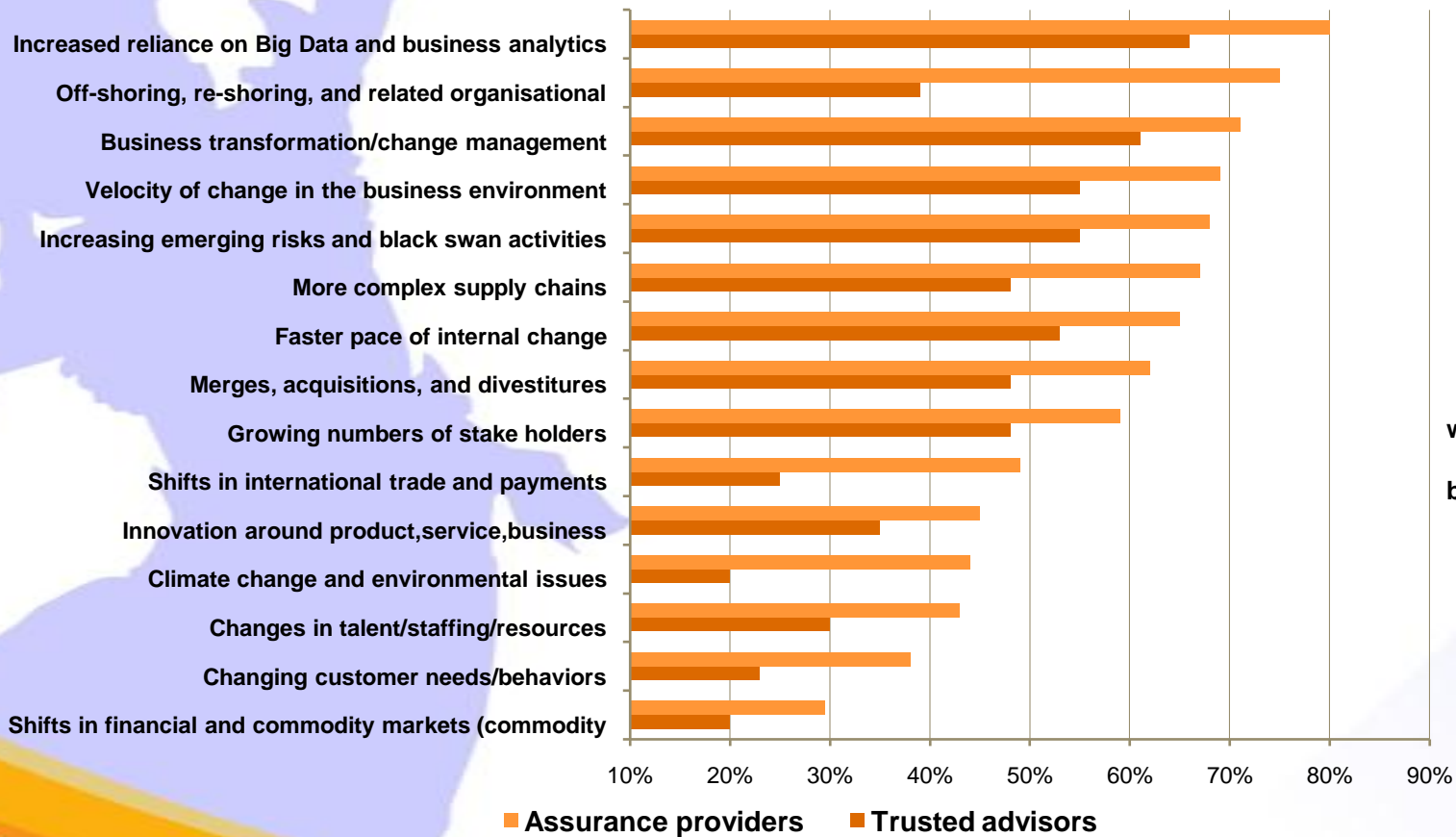
*Trusted advisors are performing at a significantly higher level because of the purposeful plan to obtain skill sets most valued by the organization.*





# Potential areas of focus – The next 12 months

Percent of respondents reporting that Internal Audit should be more involved in the next 12 months\*



\*Base = those who said the area was among the biggest drivers of change in the next year



# Internal audit's communication strategy

Specific communication with audit committee chair and board on internal audit mandate	77%
At least an annual discussion with key stakeholders to ensure internal audit's role is aligned with expectations	73%
Hold a meeting between internal audit, management and board members to agree on expectations	73%
Top-down communication with internal audit team members on expectations	71%
Specific communication with internal audit members on expectations	70%
Regular survey of stakeholders on internal audit's performance and adherences to stakeholder expectations	49%
Hold a meeting with external stakeholders such as regulators and external auditors to discuss expectations	45%
Post internal audit expectations on company's internal website	31%

*CAE's of internal audit functions that are seen as trusted advisors are leveraging the tactics above to communicate across the organization to stay the course of alignment on expectations and delivering value.*

# Communicating performance and value

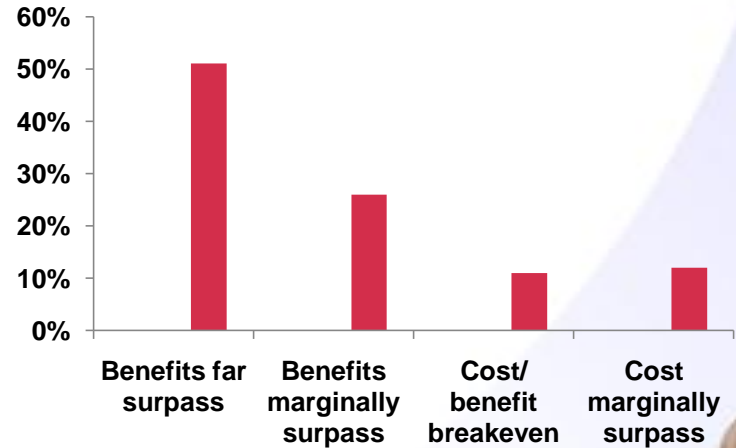
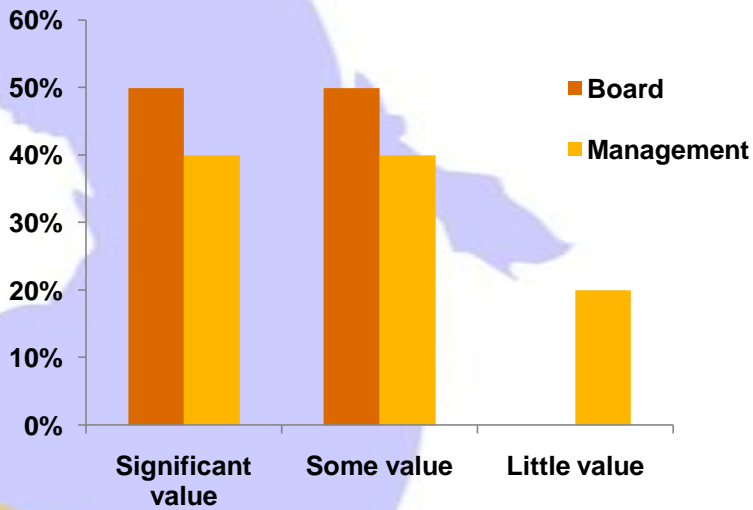
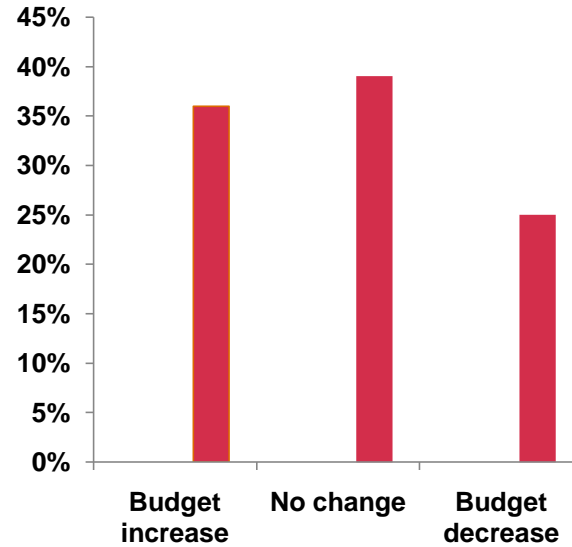
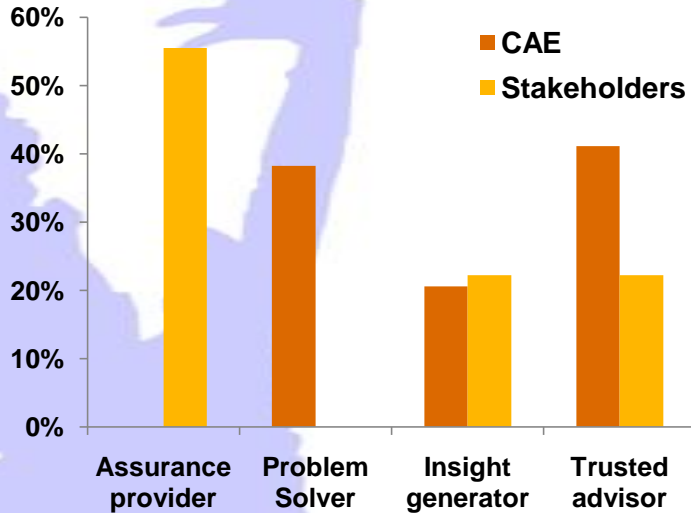
## Advanced metrics being used to measure internal audit performance:

- Involvement and value provided in all key initiatives and emerging risk including new systems, acquisitions, dispositions, new products, new regulations, etc.
- Ability of internal audit to provide thematic views on key issues and areas of critical risk to the organization
- Ability of internal audit to be a “change agent” in the organization, that is, is the overall control environment improving year over year because of internal audit’s influence.
- Annual “voice of the customer survey”
- How well internal audit is able to answer questions from the Board and Management.
- Value of recommendations provided
- Cost savings and revenue enhancement based on internal audit recommendations and findings

*Trusted advisors are focused on communicating the value they bring to the organization through the recommendations they provide and their involvement in emerging issues rather than classic value measures such as successful completion of the audit plan.*



# A Central and South Americas view



# Taking action

CAE

Lead The Design

Pro-Active Communication

Board Members

Pro-Active Input On The Design

Facilitate alignment when needed

Approve Design

Senior Management

Active Participation in Design

Support The Agreed Upon Design



# The heart of the matter

## Higher performance by design: A blueprint for change

### This year's findings

- Significant differences of opinion exist between stakeholders and CAEs on the nature of what is expected of internal audit, i.e. , a miss-alignment
- On average only 49% of senior management and 64% of board members believe internal audit is performing well at delivering on expectations
- More than half (55%) of senior management do not believe internal audit adds significant value

### Leads to the following questions.....

- Is your function aligned to the expectations of its key stakeholders?
- Are you aligned with respect to the critical risks?
- Are you expecting enough from your function? Our research shows that when more is expected, internal audit has the opportunity to add more value to the organization
- Have you got the right capabilities, investment and communication approach to meet these higher expectations?

*Internal audit must be aligned with the expectations of its stakeholders in order to strategically build the right capabilities and raise its performance and value.*



# QUESTIONS

