



“Leading Trends in Internal Audit” as resulting from Protiviti’s 2009 Internal Audit Capabilities and Needs Survey

ECIIA Conference 2009



Global Assurance:
Oversight and Insight to Risks and Opportunities



Leading Trends in Internal Audit

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protiviti[®]
Risk & Business Consulting.
Internal Audit.

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Welcome



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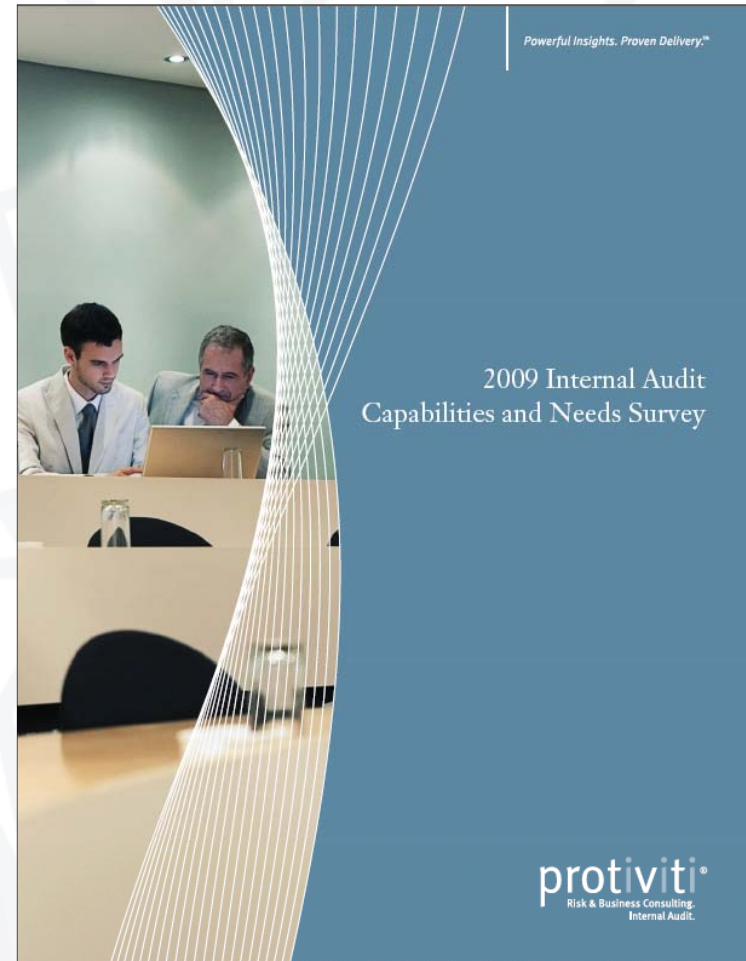


People Don't Care How Much You Know Until They Know That You Care





2009 Internal Audit Capabilities and Needs Survey





Assessing General Technical Knowledge





Assessing General Technical Knowledge *Areas Evaluated by Respondents*

These tie to the corresponding General Technical Knowledge perceptual map:

| | | | |
|----------|---|----------|---|
| A | Guide to the Assessment of IT Risk (GAIT) | I | FIN 48 (Tax Uncertainties) |
| B | International Financial Reporting Standards (IFRS) | J | Stock-Based Compensation (FAS 123R Share-Based Payment) |
| C | Extensible Business Reporting Language (XBRL) | K | ISO 9000 (quality management and quality assurance) |
| D | Enterprise Risk Management (ERM) | L | COBIT |
| E | ISO 27000 (information security) | M | Gramm-Leach-Bliley Act (GLBA)* |
| F | Fair Value Accounting (FAS 159, Fair Value Option for Financial Assets and Liabilities) | N | Six Sigma |
| G | Fraud Risk Management | O | COSO Enterprise Risk Management Framework |
| H | Basel II | P | AU Section 322 – The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements |

* Or Country Equivalent





Assessing General Technical Knowledge *Areas Evaluated by Respondents*

These tie to the corresponding General Technical Knowledge perceptual map:

| | | | |
|----------|---|-----------|---|
| Q | ISO 14000 (environmental management) | X | PCAOB Auditing Standard No. 5 (An Audit of Internal Control over Financial Reporting that is Integrated with an Audit of Financial Statements)* |
| R | Tax Laws (in your applicable region/country) | Y | COSO Internal Control Framework |
| S | SEC Interpretive Guidance for management regarding its evaluation and assessment of internal controls over financial reporting (ICFR) | Z | Revenue Recognition |
| T | FDICIA* | AA | Standards for the Professional Practice of Internal Auditing (IIA Standards) |
| U | Corporate Governance Standards* | BB | Sarbanes-Oxley Section 302 (disclosure controls and procedures)* |
| V | U.S. GAAP | CC | Sarbanes-Oxley Section 404 (internal control over financial reporting) |
| W | Sarbanes-Oxley Section 301 (complaints regarding accounting, internal controls or auditing matters)* | | |

* Or Country Equivalent





Assessing General Technical Knowledge *Top Five – Overall Results*

- Greatest need to improve is with The IIA's GAIT, although it is not ranked among the lowest competency levels
- IFRS and XBRL also rank high in the third survey
- Top responses from 2008 – ISO 27000 and ERM – remain in top five

| "Need to Improve" Rank | General Technical Knowledge | Competency (5-pt. scale) |
|------------------------|--|--------------------------|
| 1 | The Guide to the Assessment of IT Risk (GAIT) | 2.6 |
| 2 | International Financial Reporting Standards (IFRS) | 2.4 |
| 3 | Extensible Business Reporting Language (XBRL) | 1.9 |
| 4 | Enterprise Risk Management (ERM) | 3.3 |
| 5 | ISO 27000 (information security) | 2.1 |





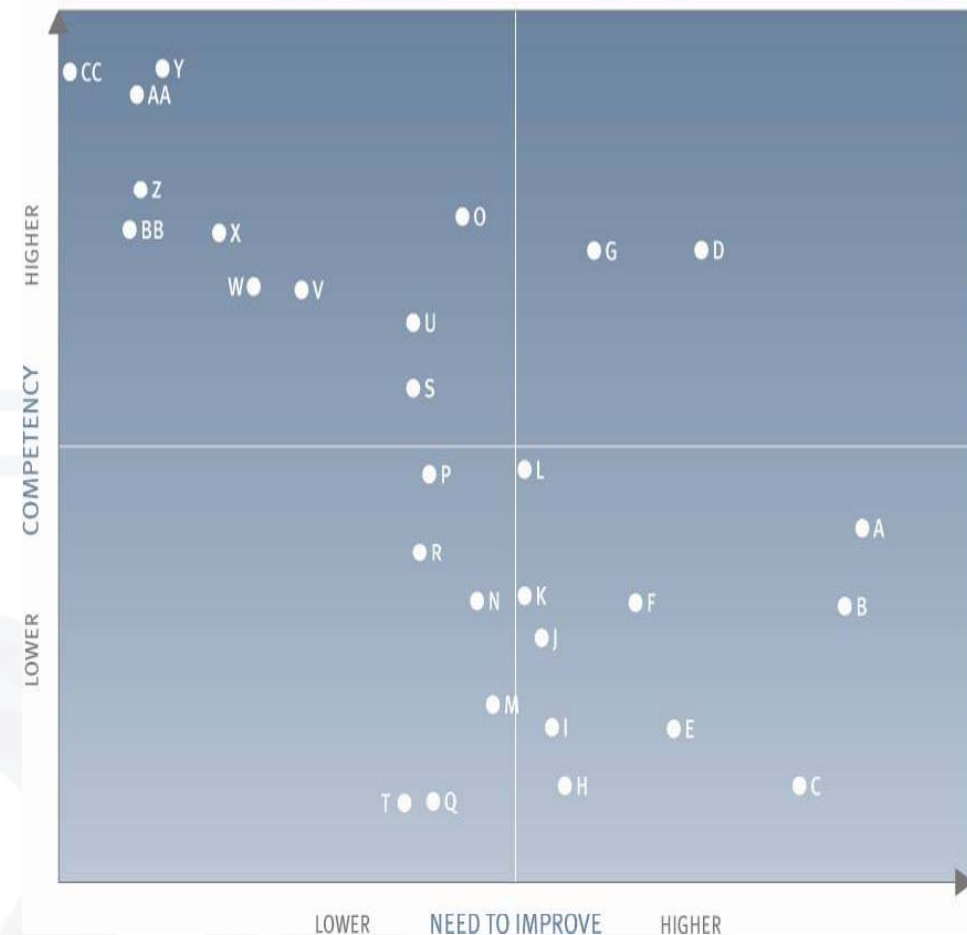
Assessing General Technical Knowledge

Notable Trends

Perceptual Map

Top five overall results:

| | |
|----------|--|
| A | Guide to the Assessment of IT Risk (GAIT) |
| B | International Financial Reporting Standards (IFRS) |
| C | Extensible Business Reporting Language (XBRL) |
| D | Enterprise Risk Management (ERM) |
| E | ISO 27000 (information security) |





Assessing General Technical Knowledge

Company Size Breakdown

| Rank | Small < \$1B | Medium \$1B-9B | Large ≥ \$10B |
|------|--------------|----------------|---------------|
| 1 | GAIT | GAIT | IFRS |
| | | IFRS | XBRL |
| 2 | IFRS | XBRL | ISO 27000 |
| 3 | XBRL | ERM | Basel II |
| 4 | ERM | FRM | FAS 159 |
| | ISO 27000 | | ERM |
| | | | FDICIA* |
| 5 | FAS 159 | ISO 27000 | GLBA* |
| | COBIT | FAS 159 | FIN 48 |
| | | | Six Sigma |

* Or Country Equivalent





Assessing General Technical Knowledge

Top Five – CAE Results

- The top five areas needing improvement closely mirror the top overall results
- IFRS ranks as top area for CAEs, while GAIT was top need for overall results
- Once again, CAEs reported slightly higher competency levels for each of these areas

| "Need to Improve" Rank | General Technical Knowledge | Competency (5-pt. scale) |
|------------------------|--|--------------------------|
| 1 | International Financial Reporting Standards (IFRS) | 2.7 |
| 2 | The Guide to the Assessment of IT Risk (GAIT) | 2.8 |
| 3 | Extensible Business Reporting Language (XBRL) | 2.1 |
| 4 | Enterprise Risk Management (ERM) | 3.6 |
| 5 | ISO 27000 (information security) | 2.3 |



Assessing Audit Process Knowledge





Assessing Audit Process Knowledge

Areas Evaluated by Respondents

These tie to the corresponding Audit Process Knowledge perceptual map:

| | | | |
|----------|--|----------|--|
| A | Continuous Auditing | N | Auditing IT – Change Control |
| B | Computer-Assisted Audit Techniques (CAATs) | O | QA and Improvement (IIA Standard 1300) – External Assessment (IIA Standard 1312) |
| C | Data Analysis Tools – Statistical Analysis | P | Use of Self-Assessment Techniques |
| D | Data Analysis Tools – Data Manipulation | Q | QA and Improvement (IIA Standard 1300) – Periodic Reviews (IIA Standard 1311) |
| E | Fraud – Monitoring | R | Data Analysis Tools – Sampling |
| F | Fraud – Fraud Detection/Investigation | S | QA and Improvement (IIA Standard 1300) – Ongoing Reviews (IIA Standard 1311) |
| G | Auditing IT – Program Development | T | Marketing Internal Audit Internally |
| H | Fraud – Auditing | U | Operational Auditing – Cost Effectiveness/Cost Reduction |
| I | Fraud – Fraud Risk Management/Prevention | V | Internal Quality Assessment (periodic review) |
| J | Auditing IT – Computer Operations | W | Internal Quality Assessment (ongoing assessment) |
| K | Auditing IT – Security | X | Presenting to the Audit Committee |
| L | Auditing IT – Continuity | Y | Resource Management (hiring, training, managing) |
| M | Fraud – Fraud Risk Assessment | Z | Top-Down, Risk-Based Approach to Assessing ICFR |





Assessing Audit Process Knowledge *Areas Evaluated by Respondents*

These tie to the corresponding Audit Process Knowledge perceptual map:

| | | | |
|-----------|---|-----------|--|
| AA | Operational Auditing – Effectiveness/Efficiency/Economy Ops | MM | Audit Planning – Entity Level |
| BB | Presenting to Senior Management | NN | Assessing Controls Operating Effectiveness (Entity Level) – Co-Level Controls |
| CC | Operational Auditing – Risk-Based Approach | OO | Assessing Controls Design (Process Level) – Operational Controls |
| DD | Planning Audit Strategy | PP | Conducting Opening/Closing Meetings |
| EE | Report Writing | QQ | Assessing Controls Design (Process Level) – Financial Controls |
| FF | Assessing Controls Design (Entity Level) – Tone at the Top/Soft Controls | RR | Developing Recommendations |
| GG | Assessing Risk – Entity Level | SS | Assessing Controls Operating Effectiveness (Entity Level) – Monitoring Controls |
| HH | Interviewing | TT | Assessing Controls Operating Effectiveness (Process Level) – Compliance Controls |
| II | Assessing Controls Operating Effectiveness (Entity Level) – Tone at the Top | UU | Assessing Controls Operating Effectiveness (Process Level) – Financial Controls |
| JJ | Assessing Controls Design (Entity Level) – Company-Level Controls | VV | Assessing Controls Design (Process Level) – Compliance Controls |
| KK | Assessing Controls Operating Effectiveness (Process Level) – Op. Controls | WW | Assessing Risk – Process, Location, Transaction Level |
| LL | Assessing Controls Design (Entity Level) – Monitoring Controls | XX | Audit Planning – Process, Location, Transaction Level |



Assessing Audit Process Knowledge *Top Five – Overall Results*

- Greatest need to improve is with Continuous Auditing and CAATs
- Four fraud activities rank as a top need – a significant change from past years
- Data Analysis Tools appears for second consecutive year

| "Need to Improve" Rank | Audit Process Knowledge | Competency (5-pt. scale) |
|---------------------------|--|-----------------------------|
| 1 (tie) | Continuous Auditing | 3.1 |
| | Computer-Assisted Audit Techniques (CAATs) | 3.0 |
| 2 (tie) | Data Analysis Tools – Statistical Analysis | 3.1 |
| | Data Analysis Tools – Data Manipulation | 3.1 |
| 3 | Fraud – Monitoring | 3.3 |
| 4 (tie) | Fraud – Fraud Detection / Investigation | 3.3 |
| | Auditing IT – Program Development | 2.9 |
| 5 (tie) | Fraud – Auditing | 3.4 |
| | Fraud – Fraud Risk Management / Prevention | 3.3 |
| | Auditing IT – Computer Operations | 2.9 |
| | Auditing IT – Security | 3.1 |





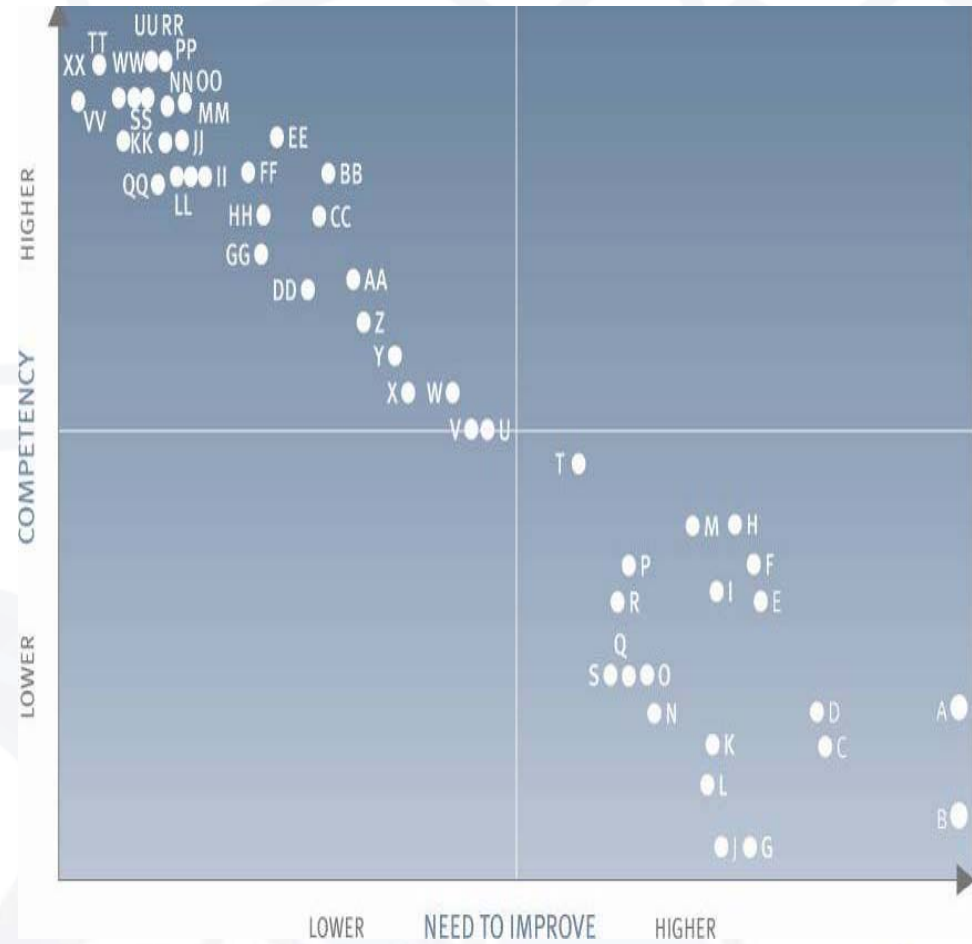
Assessing Audit Process Knowledge

Notable Trends

Perceptual Map

Top five overall results:

| | |
|----------|--|
| A | Continuous Auditing |
| B | Computer-Assisted Audit Techniques (CAATs) |
| C | Data Analysis Tools – Statistical Analysis |
| D | Data Analysis Tools – Data Manipulation |
| E | Fraud – Monitoring |
| F | Fraud – Fraud Detection/Investigation |
| G | Auditing IT – Program Development |
| H | Fraud – Auditing |
| I | Fraud – Fraud Risk Management/Prevention |
| J | Auditing IT – Computer Operations |
| K | Auditing IT – Security |





Assessing Audit Process Knowledge *Company Size Breakdown*

| Rank | Small < \$1B | Medium \$1B-9B | Large ≥ \$10B |
|------|--|--|---------------------------------------|
| 1 | CAATs | Continuous Auditing | Continuous Auditing |
| 2 | Data Analysis Tools – Data Manipulation | CAATs | CAATs |
| | Continuous Auditing | | |
| 3 | Data Analysis Tools – Statistical Analysis | Data Analysis Tools – Statistical Analysis | Fraud – Monitoring |
| | Auditing IT – Program Development | | |
| 4 | Fraud – Fraud Detection/Investigation | Data Analysis Tools – Data Manipulation | Fraud – Auditing |
| 5 | Fraud – Fraud Risk Management/Prevention | Auditing IT – Continuity | Fraud – Fraud Detection/Investigation |
| | Auditing IT – Computer Operations | | |





Assessing Audit Process Knowledge

Top Five – CAE Results

- The top five areas needing improvement closely mirror the overall results
- Skills related to fraud (monitoring, detection / investigation and auditing) rank in top five
- Continuous Auditing (including CAATs) and fraud-related activities continue to be priorities for CAEs

| "Need to Improve" Rank | Audit Process Knowledge | Competency (5-pt. scale) |
|------------------------|--|--------------------------|
| 1 (tie) | Computer-Assisted Audit Techniques (CAATs) | 3.0 |
| | Continuous Auditing | 3.1 |
| 2 | Data Analysis Tools – Data Manipulation | 3.2 |
| 3 | Data Analysis Tools – Statistical Analysis | 3.2 |
| 4 (tie) | Fraud – Monitoring | 3.6 |
| | Fraud – Fraud Detection / Investigation | 3.6 |
| 5 (tie) | Fraud – Auditing | 3.7 |
| | Fraud – Fraud Risk Management / Prevention | 3.7 |





Personal Skills and Capabilities





Personal Skills and Capabilities *Areas Evaluated by Respondents*

These tie to the corresponding Personal Skills and Capabilities perceptual map:

| | | | |
|----------|--|----------|--|
| A | Developing Other Board Committee Relationships | M | Leadership (within your organization) |
| B | Dealing with Confrontation | N | Developing Rapport with Senior Executives |
| C | Persuasion | O | Change Management |
| D | Presenting (public speaking) | P | Coaching/Mentoring |
| E | Strategic Thinking | Q | Leveraging Others' Expertise |
| F | Leadership (within the IA profession) | R | Personnel Performance Evaluation |
| G | Developing Outside Contacts/Networking | S | Written Communication |
| H | Time Management | T | Working Effectively with Regulators |
| I | Developing Audit Committee Relationships | U | Presenting (small groups) |
| J | High-Pressure Meetings | V | Working Effectively with Outside Parties |
| K | Creating a Learning Internal Audit Function | W | Working Effectively with External Auditors |
| L | Negotiation | | |





Personal Skills and Capabilities *Top Five – Overall Results*

- Greatest need to improve is with Developing Other Board Committee Relationships (for third time)
- Dealing with Confrontation (second highest) was newly added to 2009 study
- Reported relatively high competency scores in top five

| "Need to Improve" Rank | Personal Skills and Capabilities | Competency (5-pt. scale) |
|---------------------------|--|-----------------------------|
| 1 | Developing Other Board Committee Relationships | 3.1 |
| 2 | Dealing with Confrontation | 3.5 |
| 3 (tie) | Persuasion | 3.5 |
| | Presenting (public speaking) | 3.6 |
| | Strategic Thinking | 3.7 |
| 4 (tie) | Leadership (within the IA profession) | 3.3 |
| | Developing Outside Contacts / Networking | 3.5 |
| | Time Management | 3.7 |
| 5 | Developing Audit Committee Relationships | 3.3 |





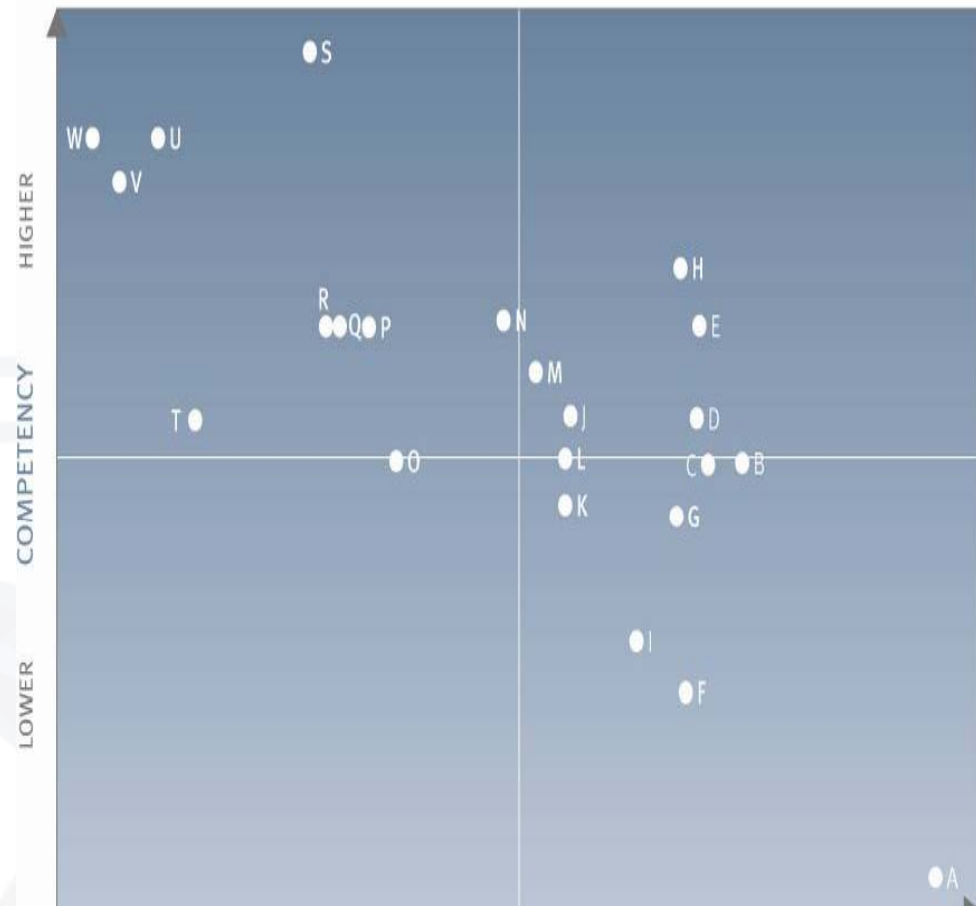
Personal Skills and Capabilities

Notable Trends

Perceptual Map

Top five overall results:

| | |
|----------|--|
| A | Developing Other Board Committee Relationships |
| B | Dealing with Confrontation |
| C | Persuasion |
| D | Presenting (public speaking) |
| E | Strategic Thinking |
| F | Leadership (within the IA profession) |
| G | Developing Outside Contacts/Networking |
| H | Time Management |
| I | Developing Audit Committee Relationships |





Personal Skills and Capabilities *Company Size Breakdown*

| Rank | Small < \$1B | Medium \$1B-9B | Large ≥ \$10B |
|------|--|--|--|
| 1 | Developing Other Board Committee Relationships | Developing Other Board Committee Relationships | Developing Other Board Committee Relationships |
| 2 | Dealing with Confrontation | Developing Outside Contacts/Networking | Leadership (within the IA profession) |
| | | | Developing Outside Contacts/Networking |
| 3 | Persuasion | Dealing with Confrontation | Persuasion |
| | Strategic Thinking | | Dealing with Confrontation |
| | Time Management | | |
| 4 | Presenting (public speaking) | Strategic Thinking | Time Management |
| 5 | High Pressure Meetings | Developing Audit Committee Relationships | Strategic Thinking |
| | Creating a Learning Internal Audit Function | | Developing Audit Committee Relationships |





Personal Skills and Capabilities *Top Five – CAE Results*

- Top need mirrors overall results: Developing Other Board Committee Relationships
- Unlike the overall response, Leadership (within the Internal Audit profession) and Persuasion do not rank in CAE's top areas needing improvement

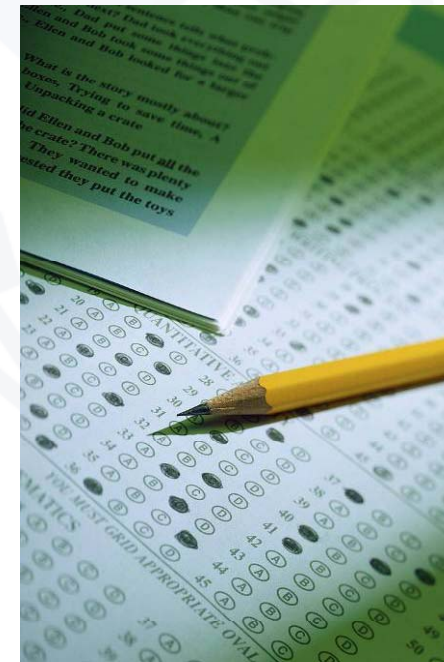
| "Need to Improve" Rank | Personal Skills and Capabilities | Competency (5-pt. scale) |
|---------------------------|--|-----------------------------|
| 1 | Developing Other Board Committee Relationships | 3.3 |
| 2 (tie) | Presenting (public speaking) | 3.7 |
| | Strategic Thinking | 3.9 |
| 3 (tie) | Dealing with Confrontation | 3.8 |
| | Time Management | 3.8 |
| 4 (tie) | Developing Outside Contacts / Networking | 3.6 |
| | Negotiation | 3.7 |
| 5 | Creating a Learning Internal Audit Function | 3.7 |





Top Skills Identified as "Not Sufficient By IIA Members"

1. IFRS – **68%**
2. Data Analytics – **52%**
3. Liquidity – **46%**
4. Fraud/Forensics – **41%**
5. Sustainability – **39%**
6. Supplier/Counterparty Interactions – **33%**
7. Risk Management – **32%**
8. Privacy – **28%**
9. Supply Chain Management – **28%**
10. Cost Containment/Recovery – **26%**
11. FCPA – **26%**



Source: IIA GAIN Survey, September 2009





Changing Expectations – Ten Challenges for the Coming Year

- Aligning Internal Audit **coverage** to meet new **expectations**
- Realigning **skills** to address new **requirements**
- Addressing Internal Audit's **role** in assessing **risk management**
- Leveraging **technology** to achieve **greater efficiencies**
- Coping with **diminished resources**
- Demonstrating **value** and adding to the bottom line
- Maintaining **stature** with the audit committee
- Developing a **continuous focus** on risks
- Maintaining a focus to prevent and detect **fraud**
- Implementing **new IPPF**



Source: Richard Chambers, President, IIA





Some Key Questions...

- Are you up-to-date on the technical requirements of your job? Really?
- Do you have a clear audit process, does everyone understand it and is it followed? Are you adequately addressing fraud, IT and using technology to your advantage?
- How are you developing professional and managerial skills for yourself and your people? Is your team a source of talent for your organization?
- Have you had an external quality assessment? How do you know how good you really are?





Leading Trends





My Leading Trends

- Meeting professional requirements
- Using technology
- Focus on fraud
- Continuous improvement
- Getting ERM and GRC right
- Leveraging others
- Serving the whole Board
- Creating two assets
- Being efficient
- Knowing and delivering on stakeholder wants





Meeting Professional Requirements



- Continuing professional education
- External quality assessment
- Changes to IIA Standards
 - IT governance
 - Fraud risk assessment and management
 - Ethics programs and activities
 - Data analytics
 - Records retention
 - Quality programs





Using Technology

- As part of your management process
- As part of your auditing
- As part of your company's controls
- As part of your planning process – get the data first
- Leave behind your tools for the business
- Look into available products
- Drive throughout the company



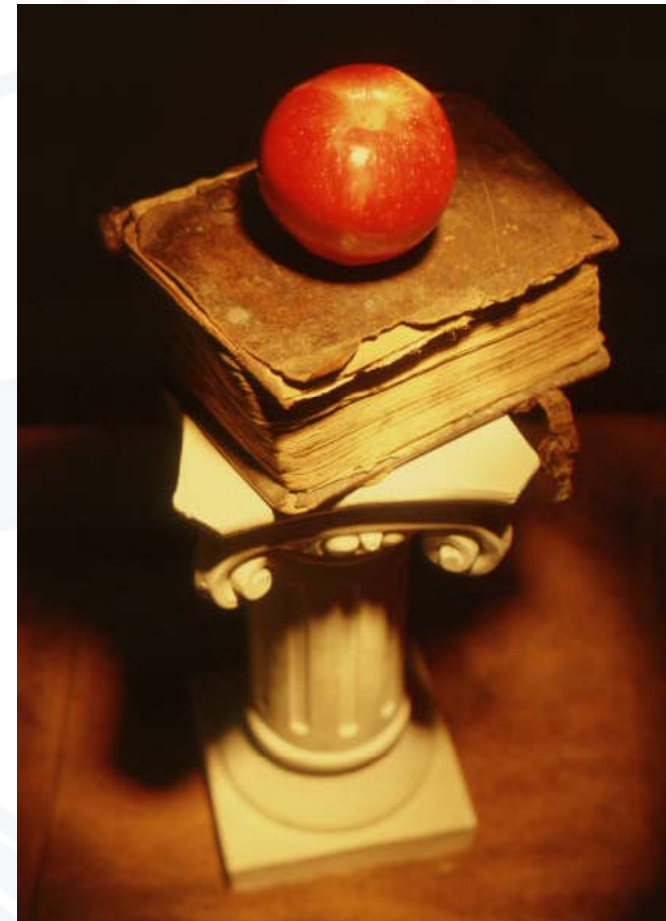
Focus on Fraud

- Develop fraud scenarios for risk assessment
- Identify other key fraud risks
- Develop and assess key fraud controls
- Develop better communication, discussion and awareness on fraud
- Use technology to prevent and detect
- Having or getting the right resources for investigations
- Outstanding relationship with legal



Continuous Improvement

- Never stop trying to improve
- Set higher goals each year
- Benchmark yourself
- Use QAR to help you improve
- Create a peer network
- Adopt concepts like TQM, Six Sigma, etc.
- Ask your stakeholders



Getting ERM and GRC Right

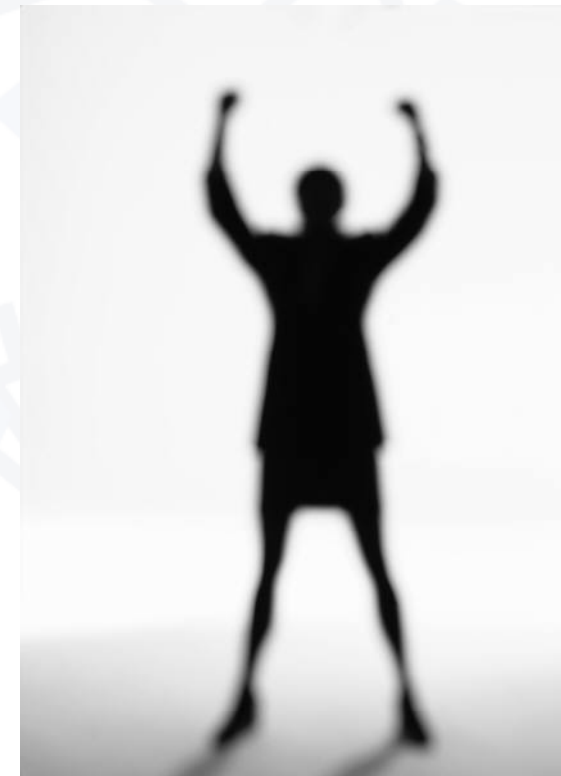
- Critical to overall enterprise and Internal Audit effectiveness
- Reduce duplication, improve coordination
- Use technology to facilitate
- Compare yourself to peers
- Internal Audit has an opportunity to lead
- Must lead to fewer surprises, better results





Leveraging Others

- Use guest auditors
- Use self-assessment
- Continuous monitoring by the business
- Identify key outside resources
- Develop a network of resources and contacts
- Consider sharing resources with other organizations





Serving the Whole Board

- Governance is more than just the Audit Committee
- What about:
 - Compensation
 - Nominating
 - Governance
 - Other ad hoc committees
- Look at their charters – see how you can help
 - Formal and separate risk committees are being considered for U.S. public companies





Creating Two Assets

1. A great Internal Audit activity

- Focused on the right things
- Efficient
- Value-added
- Respected
- Forward thinking



2. A source for talent and future leaders

- Training ground
- Strong cultural builder
- Fast track people
- A better risk management and control environment





Being Efficient

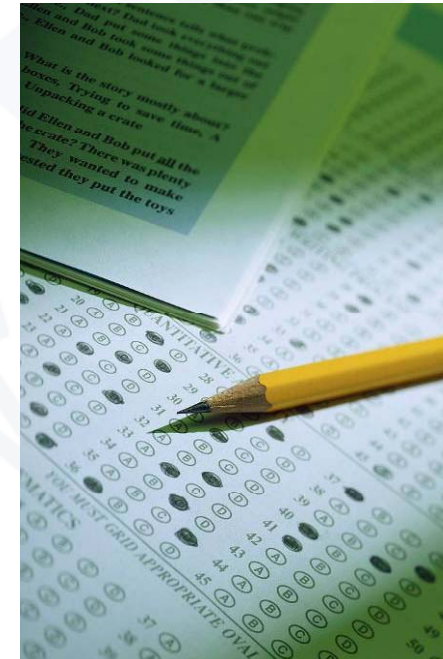
- What are your total costs?
- How much does an audit cost you?
- What is your productivity per person?
- How is your report cycle time?
- What are your other key measurements?
- Are you appropriately scoping your work?
- How do you compare to others?
- What quick improvements can you make?
- How would you defend an outsourcing?





Knowing and Delivering on Stakeholder Wants

- Have you asked lately?
- Have you covered all important constituencies?
- Do you follow-up and report back?
- Are your measurements aligned with stakeholder desires?
- How do you compare to others?





Become Indispensable

"Our CAE is great. I just don't know what we'd do without her. She keeps us focused on our key risks, helps us address new issues, develops future leaders and is highly respected in our organization."

From: An Audit Committee Chair



The End Game

Protiviti Perspective on Internal Audit

Oversight

Is the process operating as planned?

Are the controls, resources and performance measures adequate and operating effectively?

Are policies being adhered to as intended?

Are we safe?

Insight

How can the process, measurements and controls be modified or enhanced?

What are other companies doing?

Are you missing out on some best practices?

Are we effective and efficient?

Foresight

Where is this process going?

Can it scale as the company grows?

Will current controls be adequate in the future?

What planned or future changes need to be considered?

Are we thinking ahead?





Concluding Comments

- Review and see that you:
 - Know your stuff
 - Know your job
 - Know how to be effective with others
 - Know where you need to improve
- Take on some leading practice ideas!!!





Thank You

Gracias

Grazie

Tack

Danke

Dank u

Merci

Tak

Spasibo



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