



The Pulse of the Profession: 2012 Global Insights

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Prepared by
The IIA's Audit Executive Center

THE PULSE OF THE PROFESSION: 2012 GLOBAL INSIGHTS

To paint a more comprehensive picture of the changes that are impacting internal auditors across the world, The IIA's Audit Executive Center conducted its Global Pulse of the Profession Survey in May 2012, two months after releasing its North American¹ survey results in the report, *The Pulse of the Profession: With Progress Noted, Opportunities Are Still Abundant*.

Total survey participants consisted of 1,149 internal audit professionals from 77 countries, including 653 chief audit executives (CAEs). Global results in this summary highlight areas of both similarity and difference in four world regions with the highest survey responses² — North America, Europe, Latin America, and Asia/Pacific. According to survey results from this year's Global Pulse of the Profession Survey:

- ✓ Internal audit resources (i.e., staff and budget levels) have generally stabilized.
- ✓ Planned audit coverage for the rest of 2012 does not fully align with the risks and priorities of key audit stakeholders.
- ✓ CAEs are recruiting candidates with skills that mirror areas of emerging internal audit coverage, thus continuing to evolve away from skills historically associated with the internal audit profession.
- ✓ Most audit committees are signaling increasing support of their CAE and internal audit department.
- ✓ Opportunities remain to maximize the relationship between the audit committee and internal audit function, especially in Latin America.

Each of the five key points is explored in the following pages.

¹ Countries represented by North American IIA respondents are the United States, Canada, and those in the Caribbean.

² North America was the region with the highest number of survey participants (465 respondents) followed by Latin America (264 respondents), Asia/Pacific (183 respondents), and Europe (130 respondents). The remaining respondents did not aggregate to large enough groupings to consider the results in those world regions as statistically significant.

INTERNAL AUDIT RESOURCES HAVE GENERALLY STABILIZED

According to results from the 2012 Global Pulse of the Profession Survey, internal audit resources are stabilizing after the effects of the global financial crisis. As Tables 1 and 2 illustrate, staffing levels and budgets have generally stayed the same from 2011 to 2012 in all four regions, with some minor exceptions. When examined in their totality, internal audit functions in Latin America and Asia/Pacific have experienced the highest percentage of growth since 2011, in terms of both staff size and budget increases. On the other hand, North American internal audit departments experienced the least amount of growth since 2011. As the economic recession continues to impact European countries and other parts of the world, CAEs should keep a watchful eye for any changes that might break the foundation of this stabilizing force. In particular, CAEs should start thinking about how they would respond if asked to cut back on existing resources.

Table 1. Internal Audit Staff Levels From 2011 to 2012

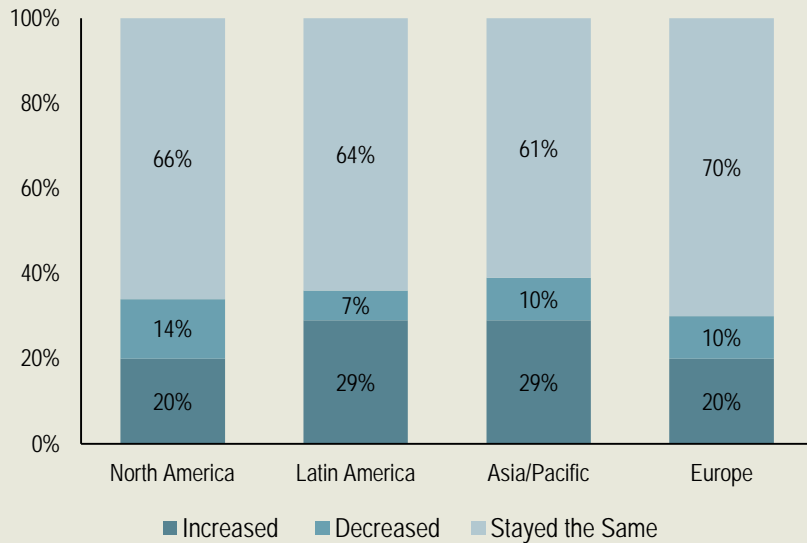
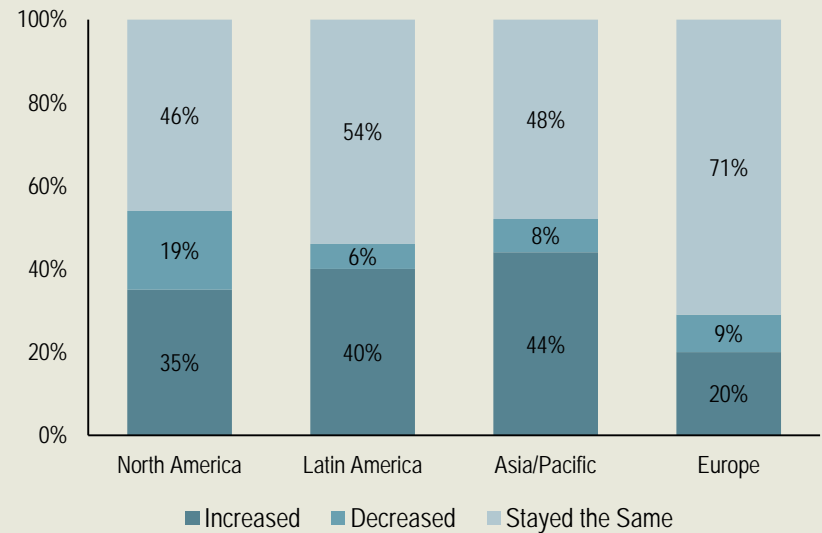


Table 2. Internal Audit Budgets From 2011 to 2012



PLANNED AUDIT COVERAGE DOES NOT FULLY ALIGN WITH THE RISKS AND PRIORITIES OF KEY STAKEHOLDERS

Meeting stakeholder expectations is essential to enhancing the credibility and value of internal audit efforts. And to do so, CAEs must match internal audit coverage to stakeholder risk areas as much as possible. However, the prioritization and allocation of internal audit resources, as indicated by the top five areas of planned audit coverage for 2012, are potentially misaligned to the top five risks of boards, audit committees, and senior management.

According to survey results, Europe has the highest level of alignment (80 percent) between the top five areas of planned audit coverage and the top five priorities of key stakeholders, while the other three regions show alignment in only two of the five areas. (Tables 3–6 list the top five areas of planned audit coverage for 2012 and the top five risks for boards, audit committees, and senior management by region.)

Although 100 percent alignment between internal audit coverage and stakeholder priorities should not be taken as a requirement, CAEs should seek to understand why differences exist to better support their planning process and ensure stakeholder needs are addressed. (Note: Table cells highlighted in light blue indicate areas of alignment between planned internal audit coverage for 2012 and the top risks for internal audit stakeholders.)

Table 3. Top Five Risk Areas for North America

Planned Audit Coverage Areas ¹	Top Stakeholder Risks ²
1. Financial risks	1. Compliance risks
2. Operational risks	2. Operational risks
3. Compliance risks	3. Financial risks
4. Fraud risks	4. IT risks
5. Strategic risks	5. Strategic risks

TABLE 3 TAKEAWAYS FOR NORTH AMERICA

- Attention to Sarbanes-Oxley may be elevating the time devoted on internal audit plans to financial risk areas.
- Is enough time being spent on IT risks?

¹ Ranked by highest percentage of coverage in the internal audit plan

² Ranked in order of importance

Table 4. Top Five Risk Areas for Latin America

Planned Audit Coverage Areas ¹	Top Stakeholder Risks ²
1. Operational risks	1. Operational risks
2. Financial risks	2. Compliance risks
3. Compliance risks	3. Financial risks
4. IT risks	4. IT risks
5. Fraud risks	5. Strategic risks

TABLE 4 TAKEAWAYS FOR LATIN AMERICA

- Is enough time being spent on strategic risks?
- Are compliance risks elevating in importance?

¹ Ranked by highest percentage of coverage in the internal audit plan

² Ranked in order of importance

Table 5. Top Fives Risk Areas for Europe

Planned Audit Coverage Areas ¹	Top Stakeholder Risks ²
1. Operational risks	1. Operational risks
2. Financial risks	2. Financial risks
3. Compliance risks	3. Compliance risks
4. IT risks	4. IT risks
5. Risk management effectiveness	5. Credit/liquidity risks

TABLE 5 TAKEAWAYS FOR EUROPE

- Are credit/liquidity risks elevating due to current economic conditions?
- Attention to risk management effectiveness in European internal audit functions is highly progressive compared to the rest of the world.

¹ Ranked by highest percentage of coverage in the internal audit plan

² Ranked in order of importance

Table 6. Top Five Risk Areas for Asia/Pacific

Planned Audit Coverage Areas ¹	Top Stakeholder Risks ²
1. Operational risks	1. Operational risks
2. Financial risks	2. Compliance risks
3. Compliance risks	3. Strategic risks
4. IT risks	4. Financial risks
5. Fraud risks	5. Fraud risks

¹ Ranked by highest percentage of coverage in the internal audit plan

² Ranked in order of importance

TABLE 6 TAKEAWAYS FOR ASIA/PACIFIC

- Should internal audit groups elevate the importance of strategic risks in their audit plans?
- Does internal audit see more IT risks than boards and/or management believe exist?

CAEs ARE RECRUITING CANDIDATES WITH SKILLS THAT MIRROR AREAS OF EMERGING AUDIT COVERAGE

The profile of today's successful internal auditor is one that demonstrates an understanding of the key issues of relevance to the organization, and this is no surprise: Emerging areas of internal audit coverage require different skill sets. More CAEs are now seeking internal auditors who are able to think critically and communicate effectively.

When examined by world region, survey results differ somewhat. While analytical/critical thinking is still the No. 1 skill sought for new internal audit staff across the board, the remaining skills varied somewhat depending on the region (refer to Table 7). Regardless, the once highly sought after accounting and finance skills no longer make the top of the list.

Today's fragile economic landscape and increasing regulatory demands have impacted internal audit functions around the world. Consequently, CAEs need to keep in mind that today's sought after skills are evolving due to the changing, complex nature of internal audit work, as well as internal audit's focus on risk and risk management and elevating visibility to the highest level of the organization. (**Note:** Table cells highlighted in light blue indicate areas of similarity among all four regions.)

Table 7. Top Five Skills Sought for New Internal Auditors in 2012

North America	Latin America	Europe	Asia/Pacific
Analytical/critical thinking	Analytical/critical thinking	Analytical/critical thinking	Analytical/critical thinking
Communication	Risk management	Risk management	Communication
Data mining and analytics	Communication	Communication	Risk management
General IT	General IT	General IT	Data mining and analytics
Business acumen	Business acumen	Business acumen	General IT

MOST AUDIT COMMITTEES ARE SIGNALING SUPPORT OF CAES

A substantial percentage of respondents in all regions indicated that the relationship between the CAE and audit committee in their organization is positive. For example, the relationship is characterized as one in which there is open dialogue and a two-way flow of regular communication, the CAE has a functional reporting relationship to the audit committee, and the audit committee provides overall guidance to the CAE (refer to Tables 8–9). In addition to the amount of interaction between the audit committee and CAE, survey results identified a number of activities internal audit performs in support of the audit committee, such as providing ongoing assessments of organizational risks and conducting confidential investigations as needed (refer to Tables 10–11). (Note: Table cells highlighted in light blue indicate response rates of less than 50 percent, thus signaling potential opportunities for improvement.)

Table 8. Relationship Between the CAE and Audit Committee

Relationship	North America	Latin America	Europe	Asia/Pacific
There is open dialogue and a two-way flow of regular communication	76%	64%	67%	64%
The CAE has a functional reporting relationship to the audit committee	74%	36%	65%	69%
The audit committee clearly communicates its support for the CAE and internal audit function to the board and management	73%	42%	61%	61%
The audit committee looks to the CAE for advice and counsel, not just for internal audit coverage	51%	27%	30%	40%
The audit committee communicates to the external auditor that it expects a high level of communication and interaction with the CAE	44%	20%	34%	32%
The audit committee ensures that management actively communicates and involves the CAE in major strategic initiatives	22%	30%	23%	23%

TABLE 8 KEY POINTS

The stature and independent reporting trends for internal audit continue to improve globally, and more internal auditors are being recognized as central to good governance around the world.

Table 9. Audit Committee's Main Responsibilities Toward the CAE

Activity	North America	Latin America	Europe	Asia/ Pacific
Ensuring that the CAE is receiving appropriate support and cooperation from management	83%	52%	56%	76%
Ensuring that the CAE has an adequate budget and staffing	75%	36%	45%	63%
Concur with management on the CAE's hiring or termination	68%	26%	28%	40%
Provide overall guidance to the CAE	58%	65%	47%	56%
Review the CAE's performance	57%	58%	65%	57%
Have input on the CAE's annual performance objectives, which are set with management	42%	38%	28%	32%
Approve the CAE's compensation	33%	24%	25%	21%
Solely establish the annual performance objectives for the CAE	7%	18%	6%	15%
Make any hiring or termination decision solely without management	5%	10%	10%	7%

TABLE 9 KEY POINTS

Audit committees in each of the four regions are actively involved in overseeing the CAE's efforts, especially in North America where audit committees ensure the CAE receives appropriate support and cooperation from management (83 percent) and has adequate budget and staffing (75 percent). Overall, audit committees in Latin America are still somewhat uninvolved in certain aspects of their CAE's performance.

Table 10. Activities Internal Audit Performs in Support of the Audit Committee

Activity	North America	Latin America	Europe	Asia/Pacific
Provide ongoing assessments of organizational risks	75%	73%	68%	70%
Educate the audit committee on new developments related to its activities	74%	28%	34%	58%
Conduct confidential investigations as needed	72%	69%	59%	59%
Assist in the development of audit committee meeting agendas and presentation materials	71%	39%	40%	57%
In executive sessions, provide views on the performance of management in relation to controls or the adequacy of corrective actions	69%	40%	36%	50%
Assist in the compilation and distribution of advanced information packages before meetings	69%	37%	42%	53%
Monitor audit committee activities to ensure the committee's charter responsibilities are accomplished	50%	29%	25%	40%
Provide the committee with an annual opinion on the adequacy of the organization's system of internal controls	48%	70%	76%	69%
Request management attendance to address issues or risks	45%	45%	45%	52%
Provide input on the evaluation of the external auditor's performance	42%	22%	23%	25%
Ensure that the audit committee receives appropriate reports or information from external parties, such as regulators	36%	43%	27%	40%
Identify external seminars or conferences of possible interest to committee members	21%	20%	12%	26%

TABLE 10 KEY POINTS

Internal audit departments in general are performing activities in support of the audit committee. For example, the majority of internal audit functions in all four regions provide ongoing assessments of organizational risks and conduct confidential investigations as needed. Other activities performed in support of the audit committee seem to be more region-specific. In North America, for instance, 74 percent of internal audit functions educate the audit committee on new developments related to its activities, 71 percent assist in the development of audit committee meeting agendas and presentation materials, and 69 percent provide views on the performance of management in relation to controls or the adequacy of corrective actions. These percentages are comparatively lower in Latin America, Europe, and Asia/Pacific.

Table 11. Activities the Audit Committee Performs in Support of Internal Audit

Activity	North America	Latin America	Europe	Asia/Pacific
Solicit internal audit's view on the responsiveness of management to internal audit findings and concerns	83%	43%	56%	62%
Assess the performance of internal audit against stated objectives	72%	56%	53%	58%
Annually review and approve the internal audit charter	72%	52%	50%	61%
Solicit internal audit's view on management activities to set and reinforce an appropriate "tone at the top"	65%	33%	35%	46%
Be involved in the CAE's selection	65%	21%	34%	35%
Determine whether the CAE's reporting structure provides for internal audit's organizational independence and objectivity	64%	33%	39%	50%
Receive periodic reports on internal audit's quality improvement program	56%	39%	44%	55%
Solicit internal audit's view on the performance of the external auditor	45%	21%	20%	28%
Review and have input into the CAE's compensation, including incentive plans	41%	16%	20%	22%
Involve internal audit when appointing or discharging the organization's external auditor	37%	19%	26%	22%
My organization does not have an audit committee	8%	37%	28%	25%

TABLE 11 KEY POINTS

Although in North America, audit committees are supportive of internal audit, other world regions such as Latin America could benefit from more audit committee support or involvement. According to survey results, 37 percent of respondents in Latin America indicated that their organizations do not have an audit committee compared to 28 percent in Europe, 25 percent in Asia/Pacific, and 8 percent in North America. Of organizations in Latin America that do have an audit committee, only 21 percent are involved in the CAE's selection and 33 percent determine whether the CAE's reporting structure provides for internal audit's organizational independence and objectivity.

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

Although audit committees in general are supportive of the CAE and internal audit function, opportunities remain to maximize the relationship between both parties, especially in Latin America. As demonstrated in Tables 8–11, only 36 percent of CAEs in Latin America report functionally to the audit committee and 42 percent of audit committees in this region communicate their support for the CAE and internal audit function to the board and management. When examined across all four regions, opportunities to strengthen the relationship between the audit committee and CAE and, by extension, the internal audit function are also evident. According to survey results in all four regions, for instance:

- ✓ Less than half of survey respondents indicated that the audit committee has input into the CAE's annual performance objectives.
- ✓ Thirty percent or less of survey respondents indicated that the audit committee ensures management actively communicates and involves the CAE in major strategic initiatives.
- ✓ Less than one third of respondents stated that the audit committee approves the CAE's compensation.

The 2012 Global Pulse of the Profession Survey also asked questions regarding the presence and frequency of meetings between the CAE and the audit committee (refer to Tables 12–13). Notably, more than half of survey respondents indicated that the CAE participates in all audit committee meetings, and that executive or private sessions between the audit committee take place. On the other hand, not all CAEs have one-on-one access to the audit committee, potentially restricting the CAE's ability to raise concerns pertaining to key organizational issues. As these findings suggest, opportunities still exist for CAEs and audit committees to strengthen their relationship, thus increasing the level of support between both parties.

Table 12. Presence of the CAE in all Audit Committee Meetings

Response	North America	Latin America	Europe	Asia/ Pacific
Yes	93%	61%	78%	83%
No	7%	39%	22%	17%

Table 13. Presence of Executive or Private Sessions Between the CAE and Audit Committee

Response	North America	Latin America	Europe	Asia/ Pacific
At each audit committee meeting	50%	28%	33%	15%
As needed throughout the year	16%	38%	29%	45%
Not at all	12%	10%	24%	17%
Approximately every other audit committee meeting	12%	11%	4%	7%
Yearly	7%	7%	7%	13%
Less often than yearly	3%	7%	3%	3%

*Columns may not add up to 100 percent due to rounding.

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