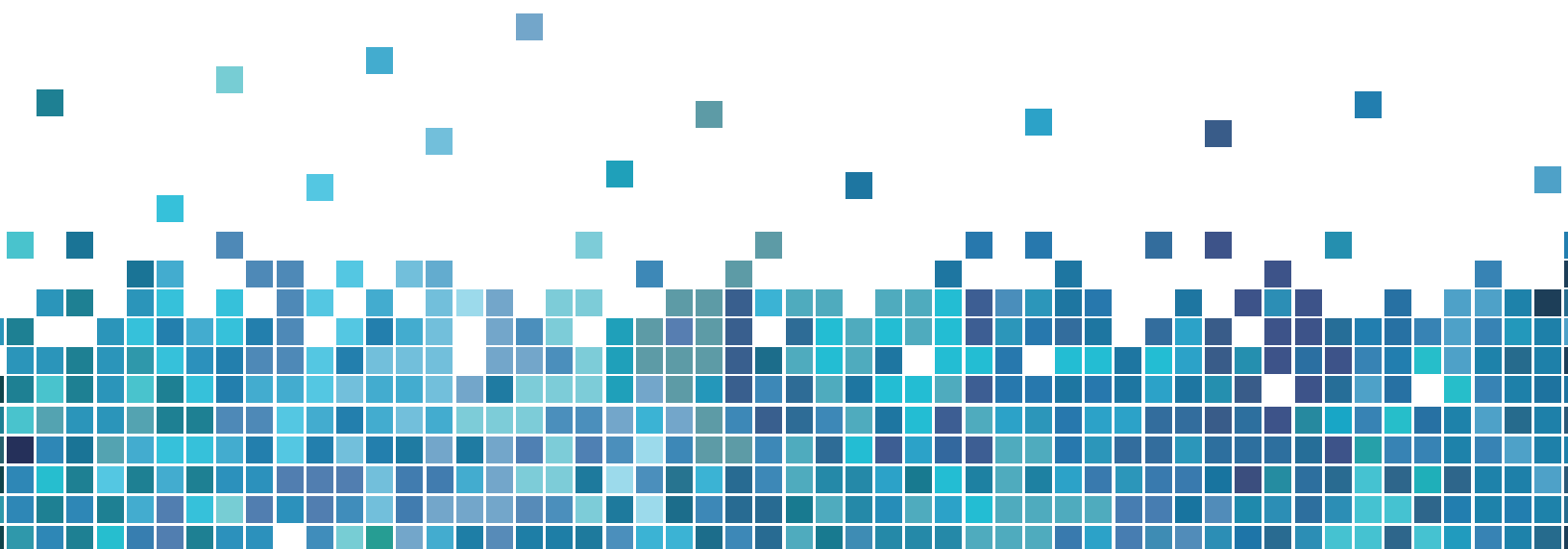


RESEARCH REPORT

# Internal Audit Around the World

## A PERSPECTIVE ON GLOBAL REGIONS



**CBOK**

The Global Internal Audit  
Common Body of Knowledge

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## EXECUTIVE SUMMARY

---

The Institute of Internal Auditors' (IIA's) Global Internal Audit Common Body of Knowledge (CBOK) Survey is conducted every few years and the results help to identify the continuous development of the profession of internal auditing around the world. The survey also highlights the different practices, attributes, and internal and external factors (such as social, political, environmental, and economic) that are shaping the worldwide profession.

This research report provides an in-depth analysis of the factors and rationale behind the development of the profession and seeks to identify opportunities for the transfer of success stories to the rest of the internal audit community. To perform the analysis, the researchers initially analyzed the 2010 CBOK results, comparing the data for each region. Where the 2010 and 2006 survey questions were comparable, a temporal comparison was conducted to analyze those trends.

As explained in chapter 1, our in-depth analysis is based on interviews with members of the internal audit profession as well as chairs and members of audit committees in seven geographical areas: Africa, Asia-Pacific, Eastern Europe and Central Asia, Latin America and the Caribbean, Middle East, United States and Canada, and Western Europe.

A summary of the salient findings of our research follows:

### ***Chapter 2: Internal Auditors: Who Are They?***

- The internal audit function is increasingly being used as a training ground at various times in an individual's career.
- Diversity issues are a key part of recruitment; gender balance is a major element in this context.
- Entry qualifications at graduate level have become more important than in 2006; postgraduate qualifications are becoming increasingly important for specialist positions.
- Professional certification is held by only one-third of practitioners; continuing professional development (CPD) is likely to become a key issue due to the diversified professional experience needed to play an effective role in consulting and other activities carried out by internal auditors.

### ***Chapter 3: Policies, Guidelines, and Plans***

- Corporate governance documents are the most frequently adopted general policies and guidelines addressing internal audit activities. However, they are least common in Eastern Europe-Central Asia, Middle East, and Latin America.

#### **Chapter 4: CAE Appointment, Reporting, and Evaluation**

- Globally, there is a wide variety in the way chief audit executives (CAEs) are appointed.
- Internal audit functions are most commonly evaluated by the percentage of the audit plan completed and surveys.

#### **Chapter 5: Relationship with the Audit Committee**

- Audit committees are most commonly found in North America and Africa; they are least likely to be found in Eastern Europe-Central Asia and Asia-Pacific.
- The involvement of the internal audit function with audit committees has increased across all regions since 2006, with 74% of respondents invited to attend additional meetings in 2010, compared with 63% in 2006.

#### **Chapter 6: Staffing the Internal Audit Function**

- Co-sourcing and outsourcing activities are not just used to ensure that audit plans are completed; they are also used to provide a better level of internal audit service.
- Most respondents expected to have an unchanged budget in the next five years.
- The majority of respondents do not offer incentives when hiring.
- The most common method used in staff evaluation is CAE review/feedback.
- In the next five years, more than 90% of respondents expected staffing levels to remain the same or to increase.

#### **Chapter 7: Standards, Status, and Credibility**

- Approximately one-third of respondents comply only partially, not at all, or may not even know if they are in conformance or not with The Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing (Standards)*.
- There is a positive trend toward an increasing general conformance of all *Standards* except for Standard 1300: Quality Assurance and Improvement Program.
- There is an increased awareness in the profession that conformance with the *Standards* has a positive impact on performance.
- The lack of formal organizational status is not considered by respondents to impair the quality of internal audit service if there is a high level of professional credibility.
- Nonconformance with Standard 2600: Resolution of Senior Management's Acceptance of Risks might be attributable to internal auditors being unwilling to be confrontational in disputing management's acceptance of risks.
- At the institute level, there is a growing need for national institutes to embark on an intensive and active dialogue with boards of directors and senior directors to promote the contribution that could be made by the institute and its standards.

## ***Chapter 8: Activities, Tools, and Competencies for Internal Auditors***

- Operational audits and audits of conformance with regulatory code requirements are the two most performed internal audit activities, while the least performed internal audit activity is the implementation of eXtensible Business Reporting Language (XBRL).
- Internal auditors expect to make a greater contribution to strategic planning and become more involved with training audit committee members.
- Behavioral skills, including leadership and acting as a catalyst for change, are issues that should be addressed by institutes and practitioners.

## ***Chapter 9: How Internal Auditors Add Value***

- Nearly 10% of participants do not perceive the need for bringing a systematic approach to evaluating internal control. This compares with 20% of respondents indicating that they do not consider bringing a systematic approach to evaluating the implementation of corporate governance in their organizations.
- The meaning of corporate governance and the role that the internal audit function should play in corporate governance is not always clear to practitioners.
- More than 90% of respondents believe that the internal audit function adds value to their organizations.

# INTRODUCTION

---

CBOK survey results help to identify the continuing development of the profession of internal auditing around the world. The study also highlights the different practices, attributes, and internal and external factors found in organizations (such as social, political, environmental, and economic) that are shaping the profession in different parts of the world.

The present study was conducted to provide an in-depth analysis of the factors and rationale behind the development of the profession and its different facets. It also seeks to identify opportunities for the transfer of success stories to the rest of the internal audit community in keeping with the IIA's motto, Progress Through Sharing.

This research report analyzes the internal audit profession in seven geographical areas identified throughout CBOK 2010: Africa, Asia-Pacific, Eastern Europe and Central Asia, Latin America and the Caribbean, Middle East, United States and Canada, and Western Europe (see appendix A).

To perform the analysis, the researchers initially analyzed the 2010 CBOK results, comparing the data for each region. Comparisons were then made across the seven regions to identify significant differences in internal audit practices. Where the 2010 and 2006 survey questions were comparable, a temporal comparison was subsequently conducted to analyze the trends for each region.

## INTERVIEWS CONDUCTED TO INTERPRET SURVEY RESULTS

In 2013, the researchers conducted in-depth interviews with a selection of leading CAEs, audit committee members, and IIA representatives in the different regions. The purpose of these interviews was to help interpret the CBOK data by delving deeper into the reasons for the differences or the similarities identified in the internal audit practices across the world.

The interview plan envisaged coverage of the seven regions through carrying out interviews in 15 countries spread around the five continents. Within each country, we attempted to carry out a minimum of two interviews with CAEs and, if possible and feasible, to carry out interviews with IIA representatives from the national institutes where we conducted the interviews and a member of a local audit committee.

Of the 15 countries targeted for interviews, the researchers succeeded in carrying out interviews in 13 countries. Unfortunately, for logistical reasons, we were unable to carry out our targeted interviews in Israel and Malaysia (see table 1.1). The researchers who undertook the interviews were academics and practitioners from the United Kingdom, Italy, Greece, Australia, South Africa, and Dubai. Overall, 42 out of a possible maximum of 60 interviews took place (70%), while for CAE interviews, 27 out of a possible 30 interviews (90%) were achieved.

Table 1.1. List of Interviews per Region and Country			
Region	Country	Interviewees	CAE
Africa	South Africa	4	2
Asia-Pacific	China	3	2
	Japan	3	2
	Australia	4	1
	Malaysia	0	0
	Russia	2	2
Eastern Europe/Central Asia	Russia	2	2
Latin America and Caribbean	Brazil	1	1
Middle East	Israel	0	0
	United Arab Emirates	6	6
	Saudi Arabia	2	2
	United States	2	2
United States and Canada	Canada	3	1
	United Kingdom	4	2
Western Europe	Italy	4	2
	Greece	4	2
	<b>Total</b>	<b>42</b>	<b>27</b>

## LIMITATIONS OF INTERPRETATIONS

In interpreting the results, as presented in the main body of the report, the researchers are aware of the following limitations:

- When looking at the regions as delineated in the survey, it must be noted that the classification has created heterogeneous groups. The Asia-Pacific region includes respondents from countries with mature governance and internal control contexts governing their organizations (for example, Australia, New Zealand, and Singapore). However, also included in the Asia-Pacific region are respondents from countries with less mature governance and internal control contexts governing their organizations (for example, Vietnam, India, and Sri Lanka). Furthermore, this region comprises countries (like China, Japan, Malaysia, and Australia) that are quite dissimilar in their institutional context and business system. The same issue applies to other regions. For example, in Africa, respondents from South Africa, representing 47% of the

overall responses for this region, have been grouped with respondents from Ethiopia, Zimbabwe, Mauritius, and other countries from this continent.

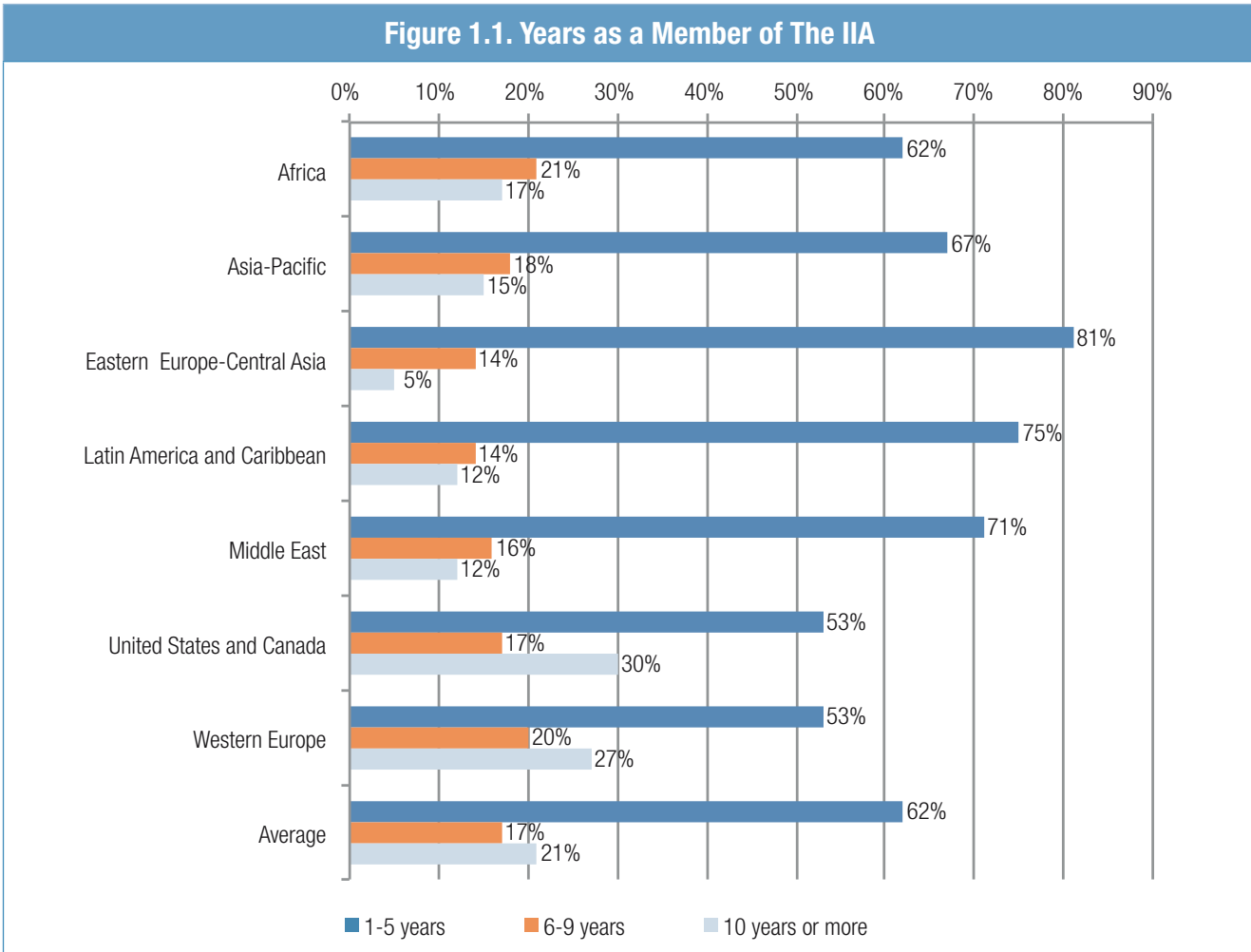
- In reading the analysis, the overall averages produced for the region thus mask the range of responses and, by implication, outliers and extremes are hidden.
- When comparing the results of the 2010 and 2006 surveys, readers are advised that respondents to the 2010 survey are not necessarily the same as those taking part in the 2006 study, creating difficulties in the comparison and interpretation of the results. Put another way, the present study is not a longitudinal study where the same respondents surveyed in 2006 took part in the 2010 survey.
- Comparisons between the 2010 and 2006 studies will not be carried out for all the topics to be included in the 10 chapters because the surveys' questionnaires are different; additionally, the way the data are analyzed creates differences between 2010 and 2006.
- With respect to the percentages regarding the global average, the results reported in the tables and figures differ slightly from those included in the other 2010 CBOK reports. This is because the responses where participants have not indicated the regions they primarily identified with have naturally been omitted when carrying out the comparison among regions. Consequently, the percentages for the global average have been recalculated.

In the rest of this Introduction, the researchers analyze and discuss the demographics of the internal auditors who took part in the 2010 CBOK survey together with details of their organizations within the seven regions. The findings associated with these demographics will shed more light on the results, which can be found in the main chapters of the report.



## IIA MEMBERSHIP

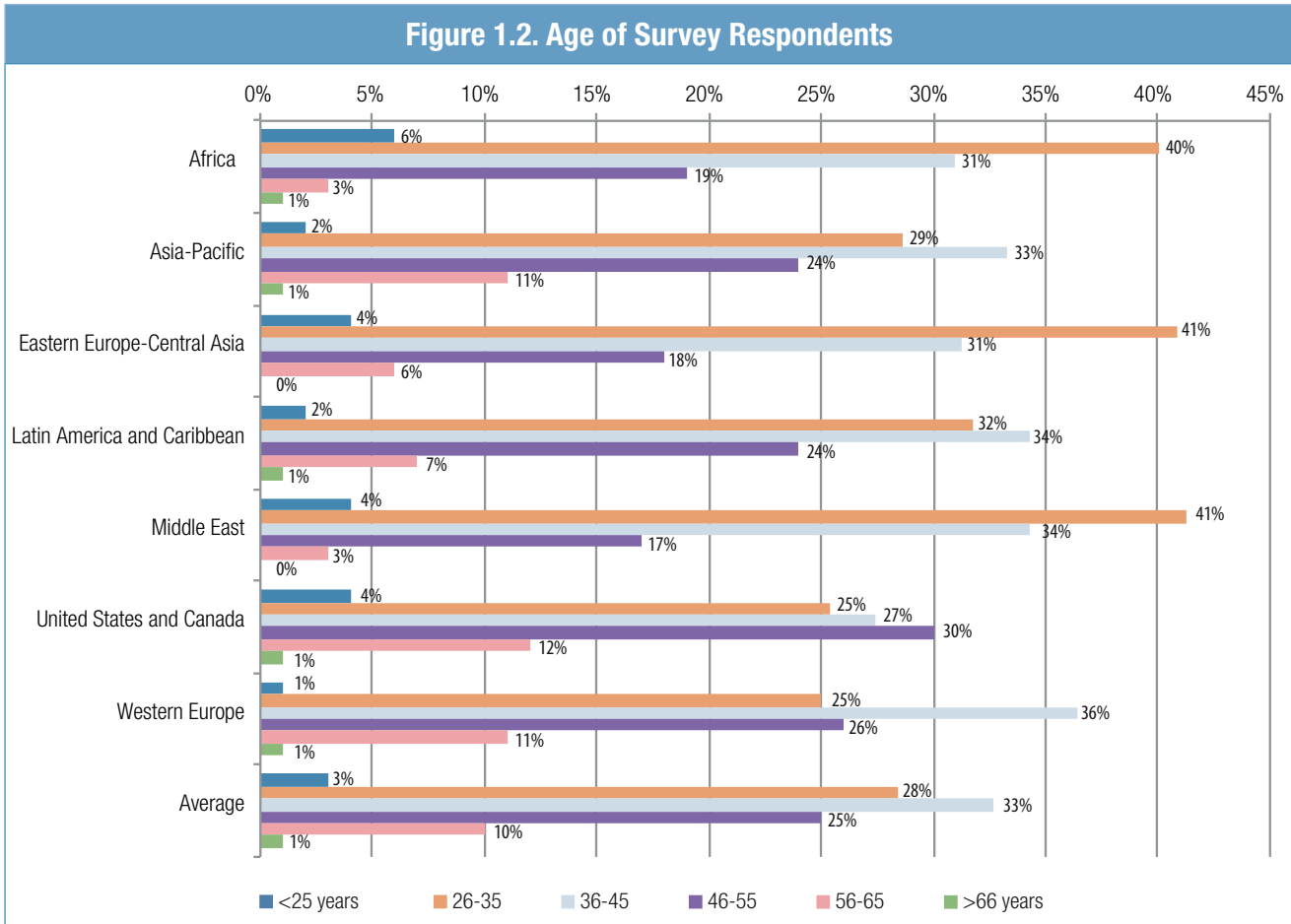
When considering the number of years that the respondents have been members of The IIA (as highlighted in figure 1.1), a majority of participants (62%) became members within the last five years. The highest percentages refer to Eastern Europe-Central Asia (81%) and Latin America/Caribbean (75%), while United States and Canada and Western Europe have, on average, fewer new members.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 1a: How long have you been a member of The IIA?

## AGE RANGES FOR RESPONDENTS

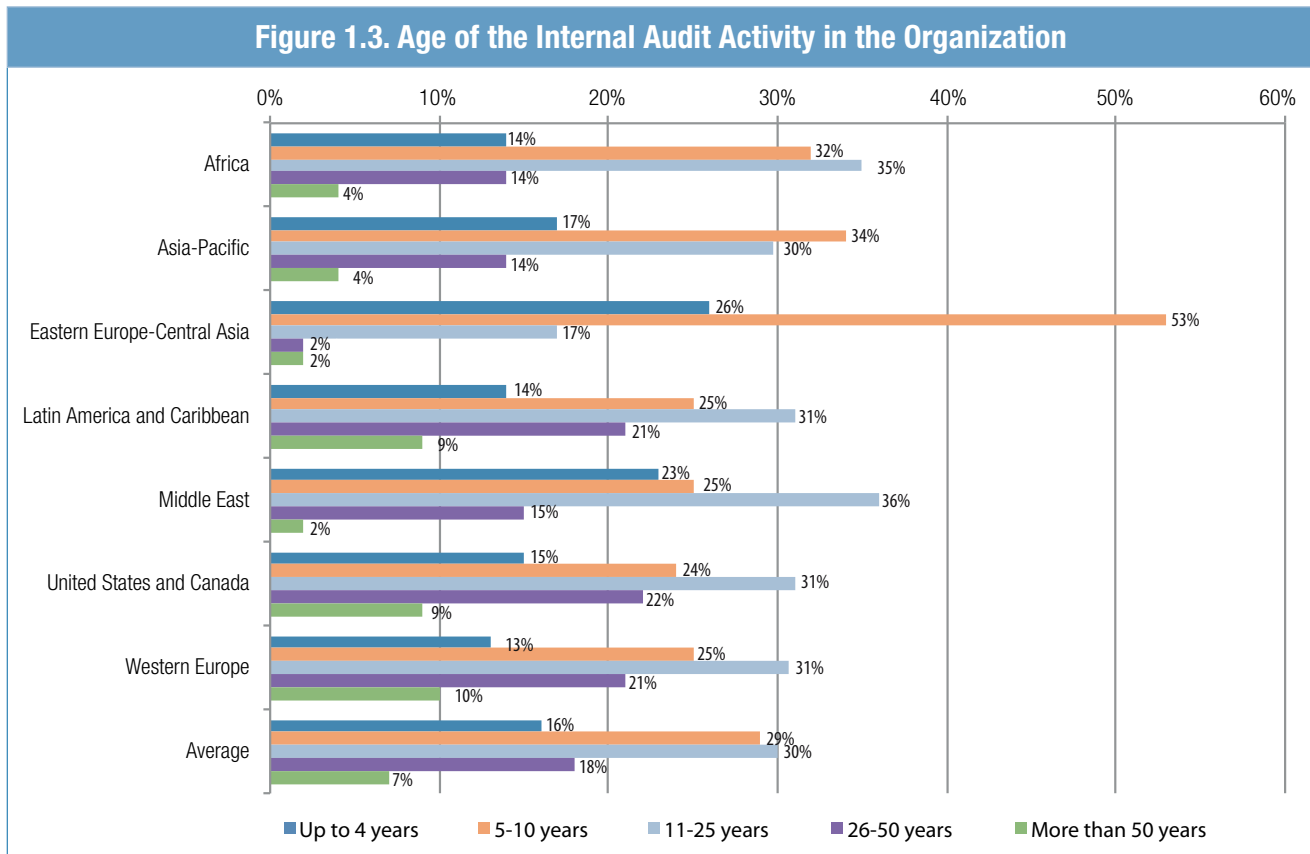
Looking at the age of respondents (see figure 1.2), a majority of the survey participants are in the age range 26 to 45 (62%). Middle East and Africa are the regions with the highest percentage for this age group (72% and 73% respectively), while United States and Canada and Western Europe show the lowest results (53% and 61% respectively).



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 2a: Your age?

### Age of the Internal Audit Activity in the Organization

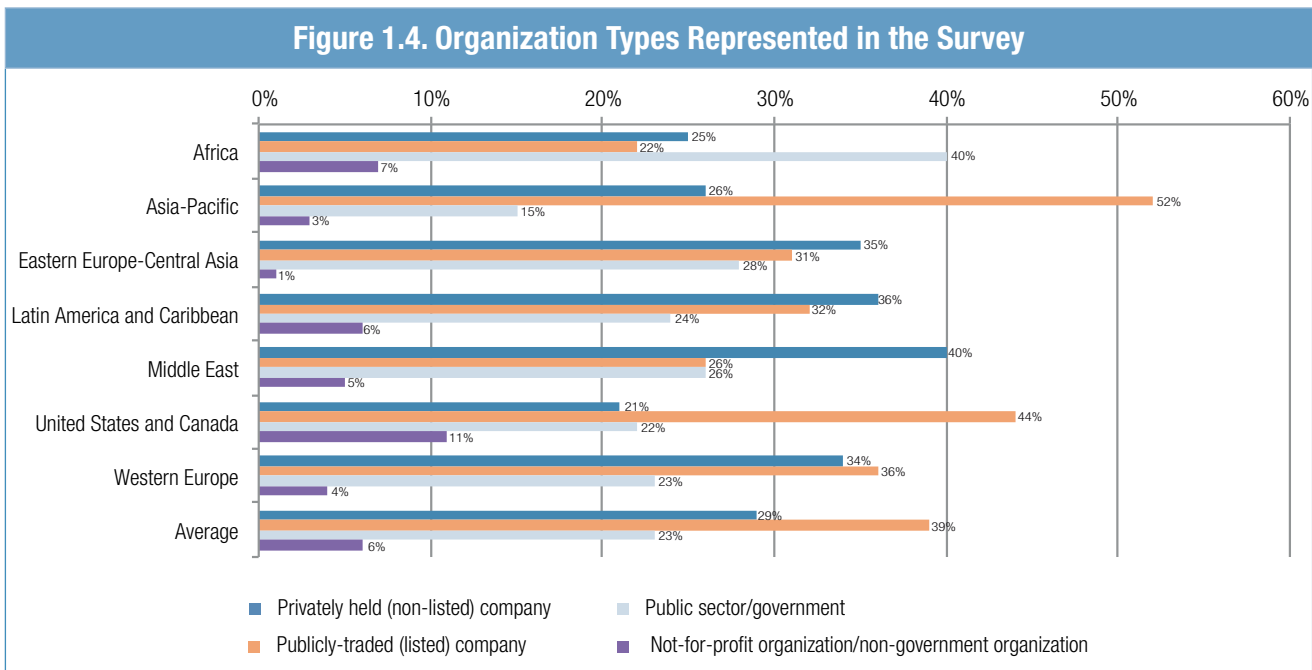
When considering the longevity of internal audit activities existing in the respondent's organization, United States and Canada, Western Europe, and Latin America and Caribbean are the regions with the highest percentage of activities established more than 11 years ago (see figure 1.3). At the other end of the spectrum, Eastern Europe-Central Asia has the largest proportion of respondents who work for an organization where internal audit activities have existed for less than 10 years.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 15: How long has your organization's internal audit activity been in place?

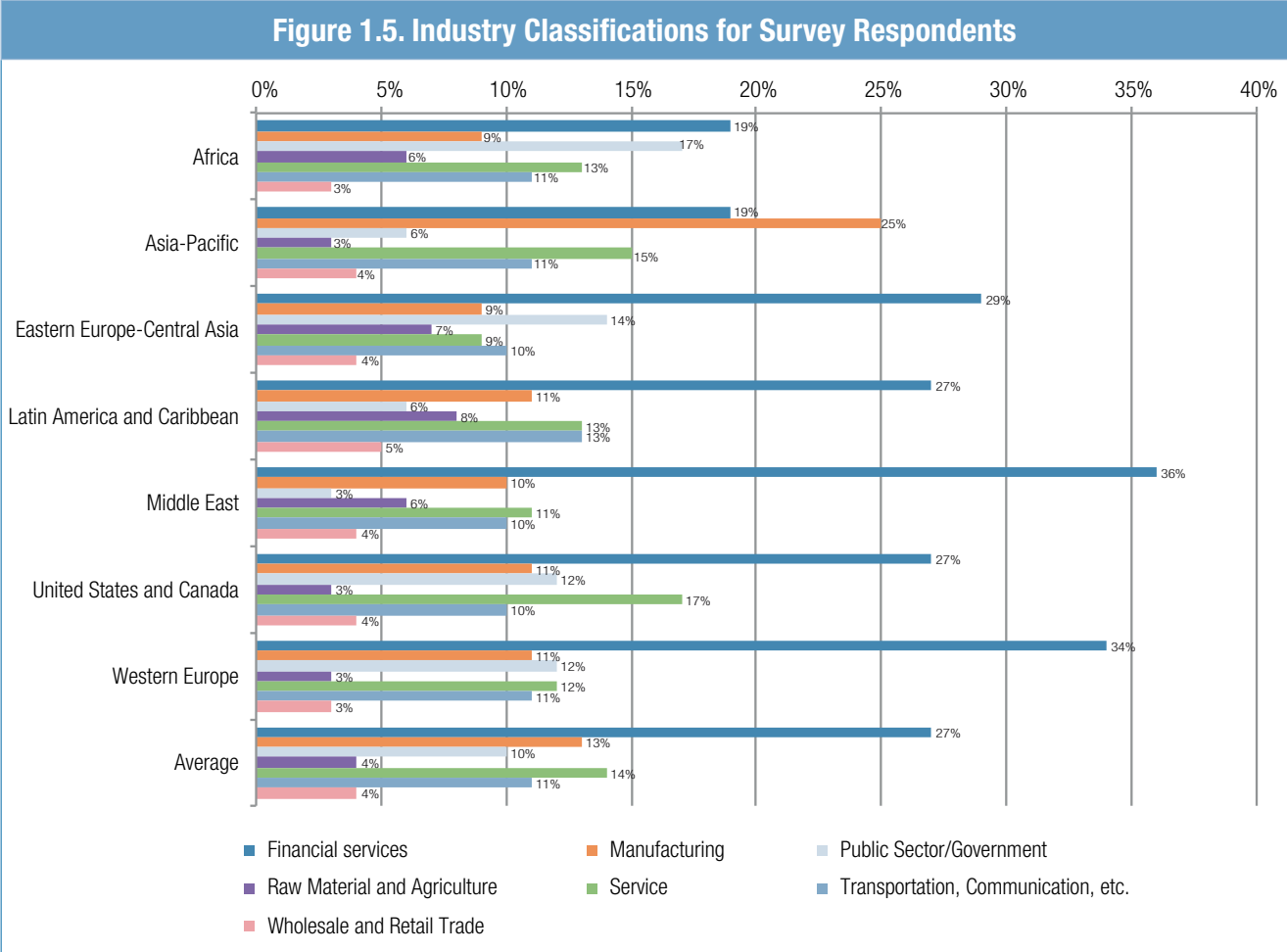
### Organization Types Represented in the Survey

In investigating the demographics of the organizations with which respondents are associated, the researchers were able to identify that Asia-Pacific has the highest number of respondents working for listed companies (52%) compared with 26% for non-listed companies. A similar finding was identified in the United States and Canada: 44% listed versus 21% non-listed (see figure 1.4). In contrast, in the Middle East, 40% of participants work for a non-listed company (26% for listed). In the remaining regions, there is a more balanced representation between listed and non-listed organizations. Finally, when looking at the public sector/government as a place of employment, we identify Africa as the region with the highest number of respondents who work for the public sector/government.



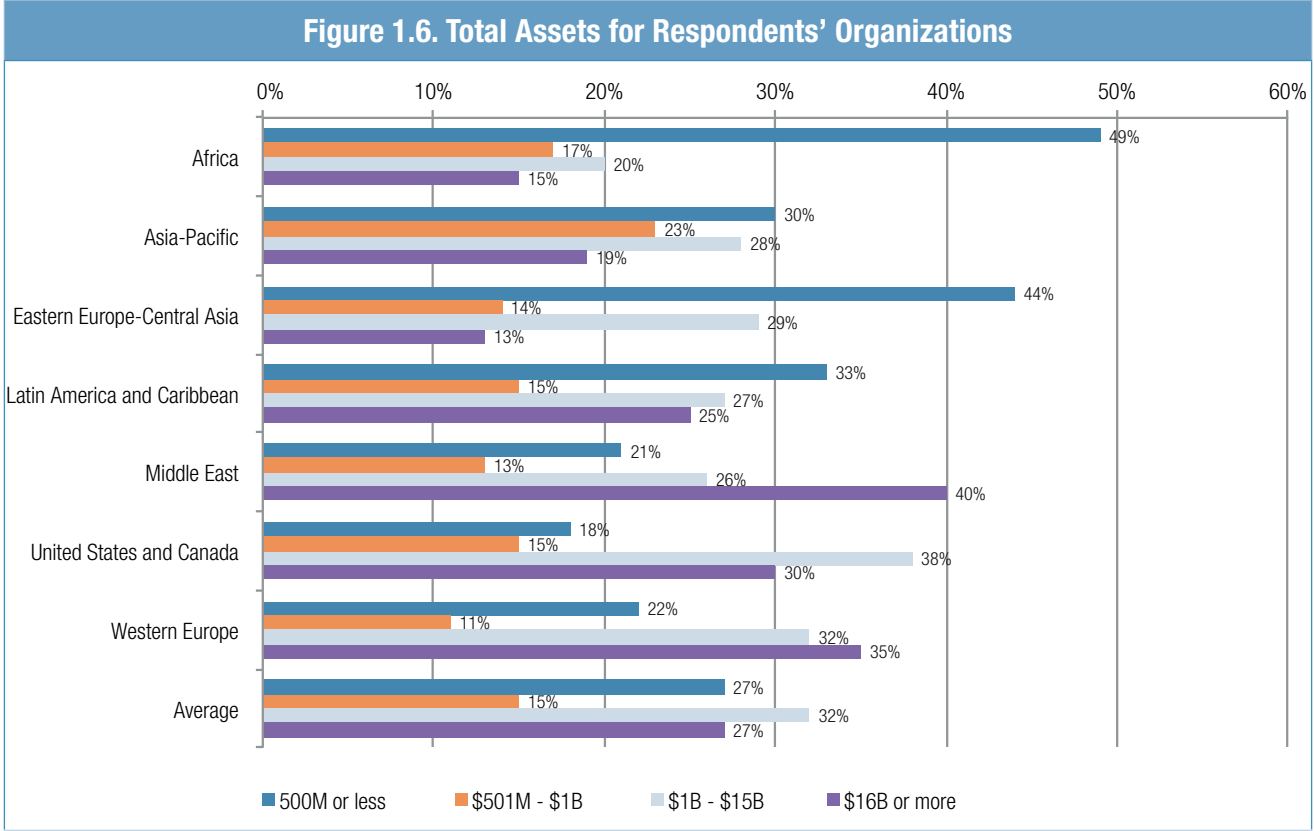
Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 11: The type(s) of organization for which you currently work?

Figure 1.5 shows that, on average, just over a quarter of all respondents work in the financial services sector, which as defined in the survey includes banking, insurance, and real estate. The figures reveal the prominence of this sector in the Middle East and in Western Europe, while in the other regions, prominence of the sector is lower.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 12: The broad industry classification(s) of the organization for which you work or provide internal audit services?

Finally, when considering the size of the organizations as measured by total assets where respondents are employed, we identify Africa, Eastern Europe-Central Asia, and Latin America and Caribbean as the regions with the highest percentage of internal auditors working in what can be called “small” organizations, where their total assets are less than \$500 million. Furthermore, when we combine the categories representing organizations with total assets of up to \$1 billion, the percentage of respondents working in these organizations rises to 42% (see figure 1.6).



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 13b: Size of the entire organization (total asset) for which you work as of December 31, 2009, or the end of the last fiscal year.

**Summary and Interpretation of the Demographic Data**

A careful analysis of the figures presented above and their implications for the profession, and more specifically the national institutes spread around the world, are as follows:

- A large percentage of the respondents in some of the regions are new to the profession.
- A sizable majority of the respondents are in the age range of 26 to 45 years.
- The profession is relatively new in certain regions, particularly in Asia-Pacific and Eastern Europe and Central Asia where the percentages of organizations with internal audit activities that have existed for less than 10 years are 51% and 79% respectively.
- While the majority of respondents in five out of the seven regions work in publicly listed companies, this is not the case in the Middle East and/or Africa, where 40% in each region work in private non-listed companies and in the public sector/government respectively.

- Respondents employed in the financial services sector made up a significant percentage of respondents.
- Slightly more than 40% of the respondents work for organizations with total assets of less than \$1 billion.

All of the above confirms the broad-based membership of the national institutes and the need for the tailoring of their services, which includes advice, guidance, and training and development. This tailoring must take into account the respondents' age, number of years affiliated with the institutes, and length of time internal audit activities have been performed in their organizations. The organizations' demographics are also imperative if the national institutes are to serve their members. These demographics can be encapsulated into their size, the industry sector in which they operate, and the type of organization (private non-listed companies, publicly listed companies, and the public sector and government).

# INTERNAL AUDITORS: WHO ARE THEY?

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This chapter addresses the question, “Who are internal auditors?” While based primarily on the quantitative findings of the 2010 CBOK Internal Audit Survey, the findings and analysis also use qualitative information derived from a series of global interviews with senior internal audit practitioners, audit committee members, and IIA representatives. Where appropriate, we compare findings from CBOK 2006 with CBOK 2010.

Asking IIA members to reflect on who they are elicited a surprisingly wide range of responses. In 2010, internal auditors were likely to have joined the profession as graduates (but less likely to be involved in continuing professional development [CPD]), increasingly diverse in terms of gender and ethnicity, and their career plans included movements into and out of the internal audit function over time.

### *Key Findings*

1. The internal audit function is used as a training ground increasingly at various times in a career.
2. Diversity issues are a key part of recruitment, and gender balance is a major element in strategic planning.
3. Entry qualifications at graduate level became more important than they were in 2006; postgraduate qualifications became increasingly important for specialist positions.
4. Professional certification is held by only one-third of practitioners; CPD is likely to become a key issue due to the diversified professional experience needed to play an effective role in consulting and other activities.

### INTERNAL AUDIT AS A MANAGERIAL TRAINING GROUND

The young age of most respondents (covered in more detail in chapter 1) indicates that their experience in internal auditing is, in many cases, also their first work experience. Survey results (supported by our interviews) also show that an increasing number of organizations use internal audit as a management training ground by hiring new employees into the internal audit function for a specific period of time before moving them into other management positions. Given the relatively young age of those recruits, there is an opportunity for future growth of the profession in terms of both quality (the levels of education and experience) and quantity. Joining an internal audit function early in a career with the expectation of rotation should encourage continuing membership so that skills and knowledge are maintained. The IIA can play a significant role in creating opportunities for the professional development of young talents through input into the provision of both training (certification and CPD) and education (degree and advanced diploma level).

The interviews supported the survey findings that the use of the internal audit function as a management training ground has been adopted by some organizations. In the countries analyzed, The IIA’s representatives were aware of companies where this is the case, but considered that this is not yet a generally



accepted practice. The opinion of other interviewees was that the decision to use the internal audit function as a management training ground is based on the complexity of the organization, its dimension, and the size of the function.

Companies that practice the management training ground approach adopt different methods for its implementation. According to the president of IIA–Italy:

There are two main ways. The first [and more widespread] consists of hiring new employees [often graduates without professional experience] in the internal audit function with the intention to move them into line management after two to three years of experience in the [internal audit function]. The second refers to assigning the existing employees to work in the [internal audit function] for a specified time before being cycled back into management.

The second method was also indicated as a practice that is applied by some organizations in China (PRC).

The IIA representative in North America commented:

There are certainly some organizations, including those in the Fortune 500, that specifically consider internal audit as a training ground and have very specific rotational programs to bring people into and out of the function at varying levels, including the CAE.

### ***Implications for the Future***

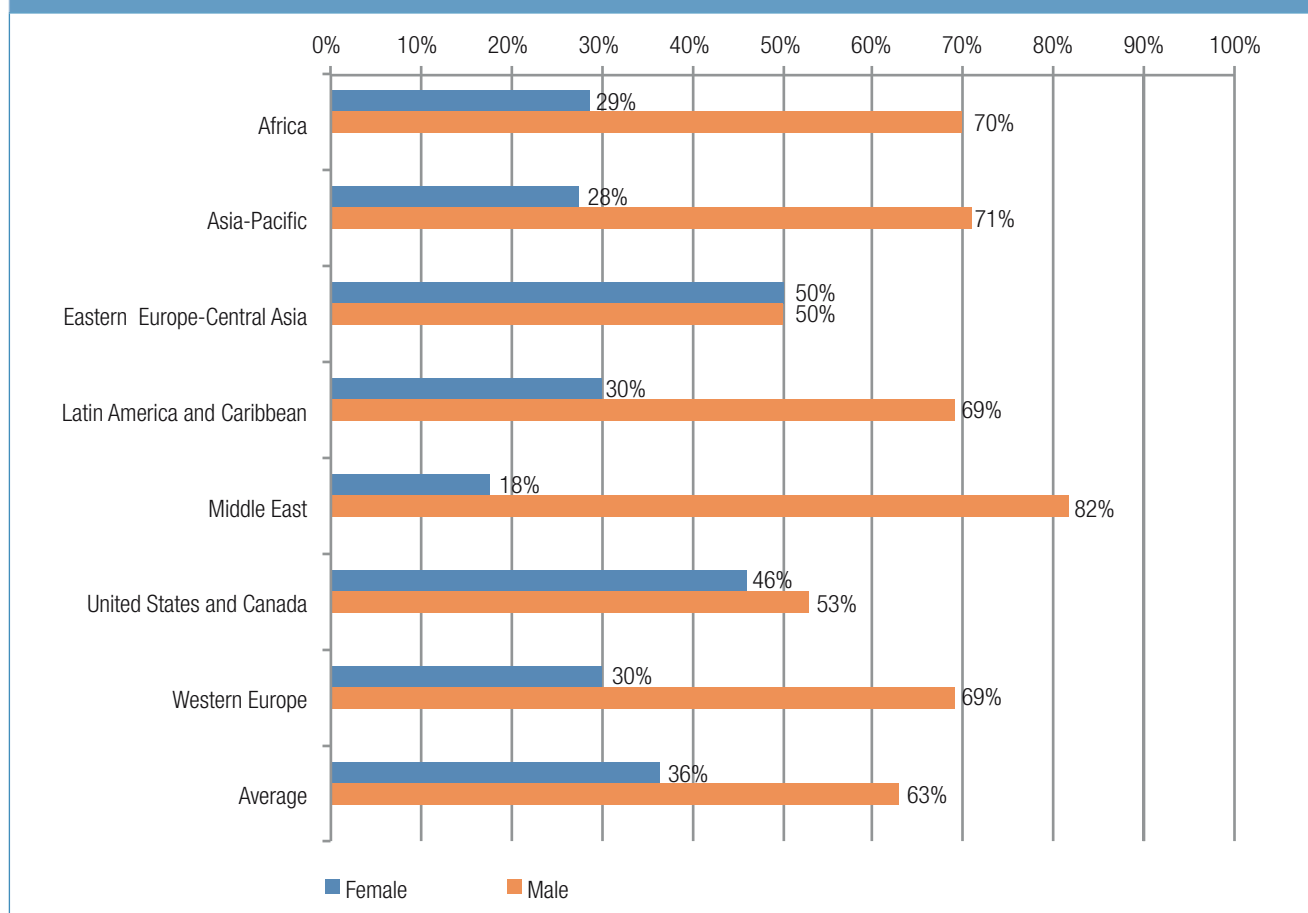
There are major future implications if organizations continue to increase the practice of recruitment of new graduates into the internal audit function as a training ground for future managerial positions. Importantly, after having gained experience in the internal audit function, these recruits can become ambassadors and promoters of internal control and governance across the organization. In addition, some of these individuals might return to internal audit in future years as senior auditors and managers, having acquired knowledge and experience of not only the specific operations in which they have worked but also a wider understanding of their organization's culture, strategy, and risks.

Finally, recruitment of internal auditors should not be limited to entry at staff level. Given the likelihood of rotation throughout a career, there is also a need to consider the importance of management experience and the development of important general skills in risk management and corporate governance. The evidence from CBOK 2010 shows that specific CPD is not seen as a major factor; this might be partially compensated by developing more effective general skills.

## **GENDER**

There are significant differences among regions regarding the gender of respondents. Globally, internal auditing seems to be a male-dominated profession, but the percentage of female respondents who participated in the survey varied noticeably across regions, ranging from 50% in Eastern Europe-Central Asia to 17% in the Middle East (see figure 2.1). With respect to the Middle East, the low percentage may be influenced by cultural reasons.

Figure 2.1. Gender of Respondents



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOOK), question 2b: Your gender.

In practical issues, a general trend among interviewees was that when organizations select people, more than one criterion may be used, and gender balance may be one of several considerations. Motivation for the use of gender balance as a criterion when recruiting staff varied among interviewees. The stated reasons included the following:

Gender balance is part of the strategy that some organizations adopt to achieve a more general objective: the increase in the “diversity of the internal audit team” that can affect (in a positive way) the effectiveness of their work. This trend was particularly found in multinational companies, where a broad range of diversity issues (including gender balance) was addressed.

The IIA representative in South Africa commented:

The organization attempts to meet labor regulations requirements. Periodic reviews are performed to determine any nonconformance. Within the South African context, the Black Economic Empowerment (BEE) requirements and ratings require organizations to employ staff to better reflect the demographic of the country.

Another reason for using the gender balance is the implementation of best practices. For example, an IIA–Australia staff officer highlights that:

(Listed) organizations would be aware of the guidance for listed companies and gender balance; and government sector has guidelines for choosing the best candidate, which covers off-gender.

Some interviewees highlight that the application of this criterion depends on the nature of the organization because there could be a problem that could limit the use of gender balance. Gender is definitively a significant issue across the world, despite the positive responses from Australia and South Africa that gender and ethnicity are factors when recruiting male or female staff in specific areas of internal auditing.

### ***Implications for the Future***

Gender will remain a significant issue, but it is likely to become part of a wider agenda of diversity. Organizations will need to address these issues to ensure that overall the function is suitably qualified to perform audit work. Diversity concerns age, gender, sexual orientation, language, ethnicity, professional affiliation and experience, disability, and the organization’s policy and that of the internal audit function should incorporate guidance to reflect diversity in the organization and in the context in which organization and internal auditors operate.

## **EDUCATION**

Globally, the most frequently required level of formal education is a master’s and/or bachelor’s degree in business (see table 2.1 in appendix B). Within this response, significant differences exist between regions. Organizations in Africa, United States and Canada, and Asia-Pacific tend to recruit people with a bachelor’s degree; in the remaining regions, organizations prefer to hire trained internal auditors who also have a master’s and/or bachelor’s degree in business.

Overall, the evidence from interviewees is that in all countries, companies consider the minimum acceptable level of educational qualification to be a bachelor’s degree. This is a significant change compared to a decade ago when organizations tended to recruit people with a diploma.

Even though a bachelor’s degree is generally the minimum acceptable requirement, some interviewees underlined that when recruiting audit staff, several organizations preferred candidates with a specialized master’s degree<sup>1</sup> (for example, MSc in internal auditing, or MSc/MCom with a significant element of internal auditing in the syllabus). Furthermore, an interviewee from Western Europe highlighted that in a tight job market, having an MSc in internal auditing can provide an advantage for a potential applicant. An MSc in internal auditing or in other fields (like IT and engineering) becomes more important (but not essential) when organizations recruit for specialists or for the positions of internal audit supervisors and managers. In this case, professional experience is considered to be more important—indeed a crucial advantage.

The preferred area of study of the bachelor’s degree seems to be for those that are in business (see figure 2.2), although this also depends on the industry in which the companies operate and the type of specialization the companies are looking for. Regarding the latter, if companies are interested in recruiting a junior internal auditor for the IT team, it is likely that they will recruit someone with a bachelor’s degree in IT. This is because, as underlined by an interviewee in Western Europe:

While the auditing methodology and techniques is a skill that an employee can learn by doing the internal audit activities, the technical skills in IT systems should be part of the academic education.

In this case, a graduate in IT with a master's degree in economics could be considered to possess the most desirable combination of educational qualifications, even though it is not easy to find people with these multidisciplinary skills.

### ***Implications for the Future***

Previous surveys found that staff were recruited from the accounting and finance professions. This is no longer the case and we perceive that this trend will continue for the future. Internal auditors must upgrade their skills and knowledge in strategy, culture, risk, and governance to be able to serve the organization and add value.

These findings also reveal the need to develop effective training programs to ensure that internal auditors develop or possess the skills they need to perform their activities successfully. The IIA may provide an important contribution to this purpose by organizing and running training activities that help practitioners to improve their level of knowledge through education and training initiatives.

## **PROFESSIONAL CERTIFICATION/EXPERIENCE**

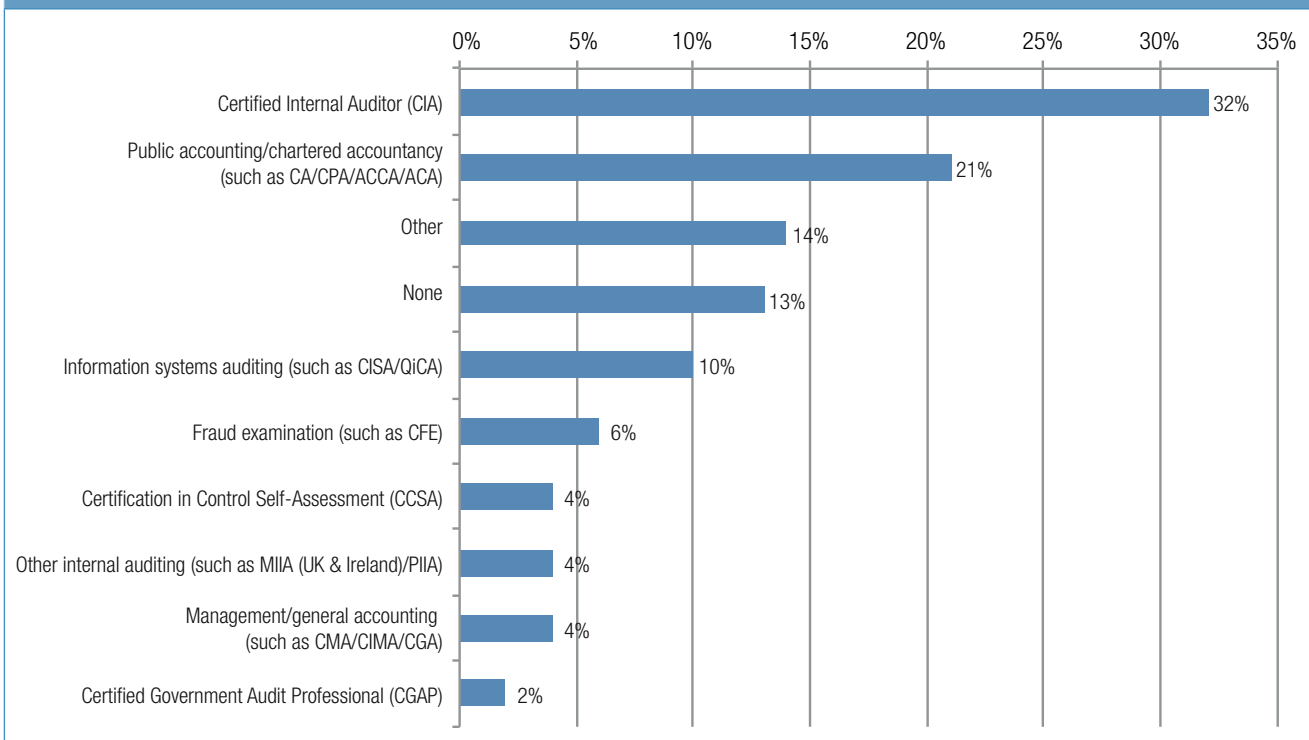
Survey results on professional experience reveal that overall the domain of the profession seems to be more focused on accounting/finance than on management/IT (see figure 2.2). Indeed, the percentage obtained by adding the results regarding professional experience in accounting and finance (64%) is noticeably higher than that achieved by combining management and IT/ICT (46%).

Figure 2.2 shows that 32% of respondents hold the certified internal auditor (CIA) certification. It is also worth noting that only one-third of participants with professional experience in internal auditing hold the CIA certification (the most widely held, though there are others). This figure implies that there is still a significant need to encourage certification.

The analysis per region highlighted that:

- Possession of CIA certification in Asia-Pacific, Middle East, and United States and Canada is higher than average. If the results for CIA are combined with those for the CMIIA qualification of the IIA—UK and Ireland, Western Europe would also be included in this group.
- Asia-Pacific, Middle East, and United States and Canada have the highest percentage for certifications in information systems auditing and in public accounting/chartered accountants.

**Figure 2.2. Top 10 Professional Certifications Held by Respondents**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 6: Your professional certification(s).

The interviews indicate that while in the past professional experience was important for the position of internal audit supervisor, audit manager, and CAE, it is now increasingly required for junior internal audit positions. A trend that has emerged in the United States and Canada, Western Europe, Australia, and Japan shows that there is an increasing demand for specialists with technical expertise in areas such as IT, financial derivatives, and mathematical modeling rather than a general knowledge of auditing principles. This is linked with the need to expand the range of services provided by the internal audit function to better satisfy the requests coming from senior management. As a consequence, technical expertise in the fields that are related to the characteristics of the company's business model also become more important for the position of junior auditor. All the interviewees believed that professional experience in internal auditing combined with technical knowledge is crucial for positions with high seniority such as internal audit supervisors and managers.

Finally, an interviewee in Western Europe believes that the CAE should have experience in other areas of the company to:

...gain a better understanding of the organization's culture and a superior capability to foresee risks that lie ahead for the organization. Moreover, this experience may help them to better understand the stakeholders' expectation for the internal audit activities.

### **Implications for the Future**

The need to develop certification for professional internal auditors is still a very high priority, and there is a long way to go before the profession is largely comprised of certified internal auditors (including CIA and other programs such as the IIA–UK and Ireland Chartered Practitioner [CPIIA] and Member [CMIIA])

qualifications). Furthermore, there is a need for The IIA to champion a formal system of CPD where it does not yet exist and encourage greater participation where it does.

Internal auditors are now expected to become much more involved in consulting activities. Their professional education and certification therefore should include more diverse professional experience and skills in those topics that are closely related to the business model of their organizations.



# POLICIES, GUIDELINES, AND PLANS

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This chapter addresses the question, “What policies, guidelines, and plans are used by internal auditors?” While it is based primarily on the quantitative findings of the CBOK 2010 survey, our findings and analysis also use qualitative information derived from a series of global interviews with senior internal audit practitioners, audit committee members, and IIA representatives. Where appropriate, we compare findings from CBOK 2006 with those from CBOK 2010.

We found that corporate governance guidance and publications are widely used across most of the world, although less commonly in Eastern Europe-Central Asia, Middle East, and Latin America. This is likely to be a reflection of the development of such guidance and its origins in Western Europe and North America. Annual internal audit plans are used more frequently than long-term and strategic planning, while audit charters are the most commonly used policy documents.

### *Key Findings*

1. Corporate governance documents are the most frequently adopted general policies and guidelines addressing internal audit activities; they are least common in Eastern Europe-Central Asia, Middle East, and Latin America.
2. Annual audit plans and audit charters are the most frequently used specific internal audit documents.
3. Long-term audit plans and audit strategy are the least used guidance.

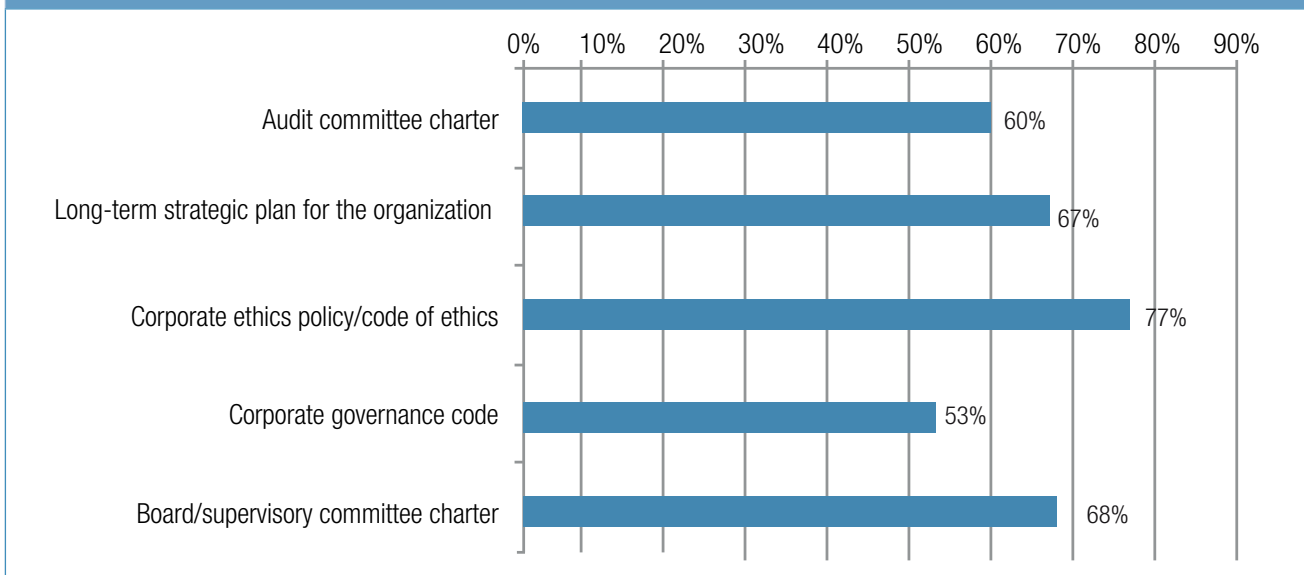
## CORPORATE GOVERNANCE

Policy and guidance publications specifically addressing internal audit activities used by respondents globally include:

- Corporate ethics policy/code of ethics (77%)
- Board charter (68%)
- Long-term strategic plan (67%)

The 2010 survey also showed that corporate governance guidance publications are the most frequently adopted general policies and guidelines, with no fewer than 50% of respondents using them (see figure 3.1).

**Figure 3.1. Corporate Governance Policies in Respondents' Organizations**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOk), question 16: Which of the following exist in your organization?

When comparing across regions, organizations in the United States and Canada, Western Europe, and Asia-Pacific are above average for having a:

- Board charter
- Corporate governance code
- Corporate ethics policy

One factor that might have shaped these results is the fact that these regions also have the highest percentage of respondents working for listed companies. Such enterprises might have a higher propensity to implement governance rules than those that are non-listed. This may be for one or more of several reasons:

- In the United States, the adoption of the U.S. Sarbanes Oxley Act of 2002 introduced a mandatory governance regime for companies listed in the U.S. stock markets.<sup>2</sup>
- In Asia-Pacific, the supervisory authorities in the main financial markets in this area recommend that listed companies comply with governance codes issued since the mid-1990s (Australia) or in the early years of this century (Japan, China, China Taiwan, and Malaysia).

An interviewee from Western Europe highlighted the importance of complying with both the letter and the spirit of corporate governance guidance:

This is the Holy Grail, which corporate governance gurus are trying to reach. Folks have recognized that box ticking and complying with voluntary provisions in a code is insufficient. A company may look through a code and say, "I see we need an audit committee, if are going to say we are complying, so let's set up an audit committee." And the company may be fully



compliant with the code, but the spirit isn't there. So, many other people, even more than me, have placed an emphasis on substance rather than form (if you like, performance rather than conformance) and have said that behavior and ethics and values, and changing behavior and ethics and values is essential if we are going to try to avoid some of the problems that we have had in the past in terms of corporate governance.

The adoption of governance documents is least common in Eastern Europe-Central Asia, Middle East, and Latin America. In these regions, corporate governance codes have generally been introduced more recently compared to other areas. In 2010, some organizations had not yet introduced such documents.

The comparison between 2010 and 2006 (see table 3.1 in appendix B) reveals:

- An increase in the adoption of corporate governance documents contained in the survey for Asia-Pacific and Western Europe
- A decrease for adoption of these documents in Africa
- United States and Canada is the region where the governance context appears to be the most stable

These trends reflect the maturity of the corporate governance culture across the world. North America introduced corporate governance guidance as far back as 1992 (Committee of Sponsoring Organizations of the Treadway Commission [COSO]) and 1995 (Canadian Institute of Chartered Accountants [CoCo]). While the Cadbury Code in the United Kingdom was published in 1992, other Western European national codes have been introduced since then and development continues across the continent. Asia-Pacific has seen advances in the development of corporate governance guidance led by Singapore, Malaysia, China, and Australia.

When asked, "How important are corporate governance guidelines in your region?" The IIA's representative in China said:

Not just for listed companies. The other companies also need to follow them, but it is different for listed companies. They have needed to follow the guidelines since January 2012 and before. For the other companies, the time may be later; it's not a set time for them. Sooner or later, I think probably the majority of the companies will follow the corporate governance guidelines.

### ***Implications for the Future***

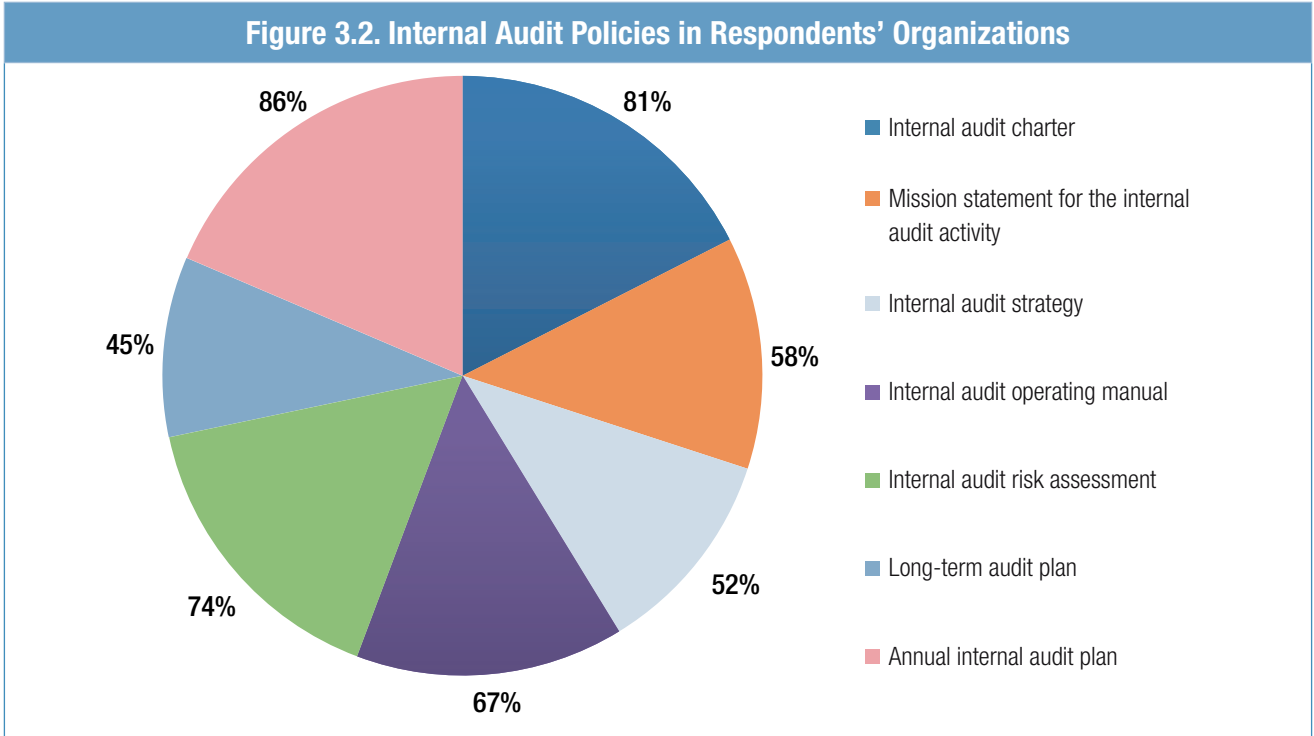
The current implementation of rules and guidelines for board charter, audit committee charter, and corporate ethics should be seen as too low, especially in the Middle East, Latin America, Eastern Europe, and Africa (except for South Africa). Developing a higher awareness of the importance of this guidance should be championed by The IIA centrally, and through specific initiatives by national institutes.

## **INTERNAL AUDIT DOCUMENTS**

The 2010 survey found that of the specific internal audit documents existing in an organization, the highest responses referred to the annual internal audit plan (86%) and the internal audit charter (81%)

(see figure 3.2). In contrast, the long-term audit plan (45%) and the internal audit strategy (52%) are the least adopted.

Across all regions (see figure 3.2), approximately 66% of respondents indicated that they use risk assessment to determine what areas to audit. This finding confirms that internal audit functions are playing a positive and proactive role in risk assessment. The United States and Canada region has the highest percentages for the internal audit function’s mission statement and for internal audit risk assessment.



Source: The IIA’s 2010 Global Internal Audit Survey (a part of the CBOk), question 16: Which of the following exist in your organization?

The interviews confirmed that the most commonly used documents are the audit charter and annual audit plans. An exception to this situation was found in China. The IIA’s staff officer agreed that the audit charter was important in China, but also indicated that:

Not all the companies had the audit charters before. They had a charter for the whole company. Internal audit may just be one part of their company charter.

It is worth noting that the adoption of a long-term audit plan may be of more value in developed countries than with developing countries where economic events are moving too fast to justify the time and effort expended in developing such plans.

A CAE in the United Kingdom stated:

We certainly have the annual internal audit plan. That’s very important, it’s probably one of our most important documents and far more than the charter (...) I see that as three years or three years plus. You can’t think three years ahead. In fact, you can’t think one year ahead in terms of internal audit. It is quite pointless to try and do a long-term plan. It’s just a waste of

effort and people will look at you puzzled thinking what do you know that we don't? So our plans tend to be short to medium-term, and even the short-term is very short because the corporate priorities change frequently. So an internal audit (plan) really must reflect a change at fast speed.

A CAE in Italy agreed, stating:

In the last years, the internal auditing units tend to abandon the adoption of a long-term audit plan because of the rapid changes featuring the external environment, the organization's business model, and other factors [that] make it difficult to look three years ahead. Regarding the annual plan, the trend I perceive is that not all the internal audit resources are allocated, but an increasing percentage remains available to answer promptly to the requests coming from the CEO, the senior managers, etc. If in the past their requests were collected and used as an input for the next audit plan, now the internal audit unit needs to process their requests promptly, otherwise the risk is that internal audit reports evidence that is already known.

A CAE in the United Arab Emirates confirmed the difference between developed and developing environments:

These results are normal as the long-term audit plan does not serve properly the risk-based internal audit; we are in the direction of having shorter audit plans for a six-month period that are subject to update relative to the emerging risks and their priorities.

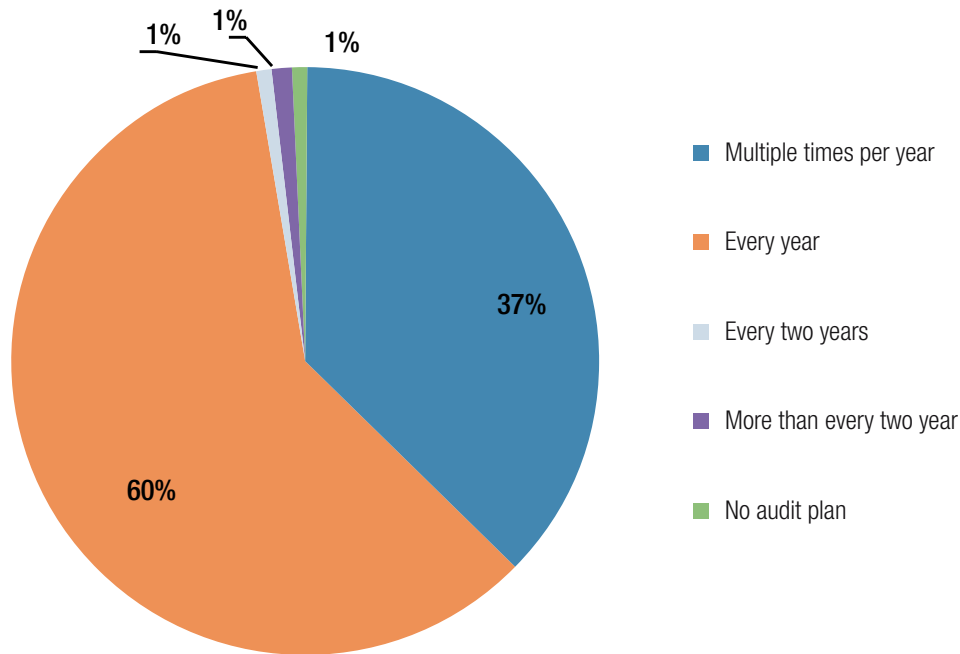
### ***Implications for the Future***

Even though a high level of stability in the use of internal audit risk assessment is found when comparing 2010–2006 across all regions, there is room for further development. In 2010, 25% of respondents indicated that they have not yet adopted a risk assessment methodology to determine the areas to audit and define the priorities. The trend toward risk-based audit means that internal auditors need to be more responsive to risk issues and less focused on rigid long-term planning, despite the differences in approach across the regions.

## **INTERNAL AUDIT PLANS**

Planning activities analyzed during the survey addressed the frequency of updating the audit plan to the approaches used to define the audit plan and to identify the priorities of the internal audit function.

Figure 3.3. Frequency of Updating Internal Audit Plans



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 23a: How frequently do you update the audit plan?

Figure 3.3 indicates that the majority of respondents update their audit plan once a year (60%) and more than one-third (37%) update the plan multiple times per year. A comparison between 2010 and 2006 revealed that overall the results are quite similar (see figure 3.3). The major changes are found in the United States and Canada where the percentage response for “every year” declined (from 54% to 39%) in favor of the response “multiple times per year” (from 41% to 48%) and Latin America, which shows a significant decrease (from 76% to 67%) for the percentage “every year.”

Analyzing the approaches applied to develop the audit plan shows that auditors used a combination of different approaches (including risk-based methodology and requests from management) with no one approach being dominant. This confirms the widely adopted understanding that it is the practice of internal auditors to use different methodologies and techniques to gauge where internal audit needs to be directed to provide its service to management.

In the United States, a CAE said:

We actually will do a mixture approach, a risk-based approach. We use risk-based [methods] in our audit planning, and we also assess each engagement for risk as well. But in reality, if issues come up from management or the internal audit committee, we need to be able to respond to those. So, we will look at their requests and then we will analyze the request based on risk. We actually do both. And in reality, I have a good sense what the problems in some territories in the country are doing and 100% of them use the risk-based approach.

Similarly, a CAE in Italy stated:

In my experience there are two methods that are more consolidated than others: 1) the use of a risk-based methodology that involves the adoption of qualitative and quantitative risk factors defined by the internal auditor and 2) the requests the internal auditor receives from the top management and from (an) other actor of control systems (such as the audit committee).

This is further supported by an audit committee member in Italy, who stated:

The requests from the board, the CEO, and the audit committee represent the most important input that [the] CAE [should] consider for setting up the annual internal audit plan.

In Asia-Pacific, while the use of a risk-based audit plan seems a practice that is well established in Australia and Japan, it is still a relative novelty in China, as pointed out by a CAE in that country:

At this stage, many internal audit departments have started to adopt a risk-based method.

Finally, a very interesting perspective on the use of risk-based methodology in developing the internal audit plan was provided by a CAE interviewee from Brazil, who candidly said:

We are pretty much different from the U.S. in the sense that our capital market is very much less mature than the capital market in the U.S. So, when you think about risk management, for example, this is a well-established concept in the U.S. and the companies I dealt with in the U.S. However, in Brazil it is not. Everybody talks about risks and risk management, but we do not have a common approach (...). So, to explain the cause of why the lowest percentage for the use of risk-based methodologies in developing countries, why it is the lowest, I think the reason is that we don't have a risk-based methodology in place for most companies in Brazil.

This position was also confirmed by the results of the interviews carried out in both Russia and China.

### ***Implications for the Future***

Despite The IIA's continuing efforts to emphasize the importance of basing the internal audit function's plans on risk, there are still areas where this is not yet the default position. National institutes should support the use of risk-based audit planning and prioritize the promotion of this activity through initiatives such as training programs, local events, and publications to support its development.

# CAE APPOINTMENT, REPORTING, AND EVALUATION

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This chapter addresses the ways that CAEs are appointed, the reporting lines of the CAE, and how the internal audit function is evaluated. The CBOK 2010 survey and our qualitative interviews identified a wide range of methods for appointing the CAE. These include the appointment being managed by the audit committee, being the responsibility of the board itself, and by a senior officer. Similarly, internal audit performance was also evaluated by a range of methods. The reporting lines were more specific and were primarily to the board or the highest levels of management.

### *Key Findings*

1. Globally, there is a wide variety in the way CAEs are appointed.
2. Most CAEs report administratively to the CEO or equivalent, and to audit committees.
3. CAEs report functionally to boards and audit committees.
4. Internal audit functions are most commonly evaluated by the percentages of the audit plan completed and surveys.

The parts of the survey addressed in this chapter include analysis of responses to questions about the way the leadership of the internal audit function is appointed and how the function is evaluated. There were three main elements of this section of the survey:

- CAE appointment
- CAE reporting
- Evaluation of the internal audit performance

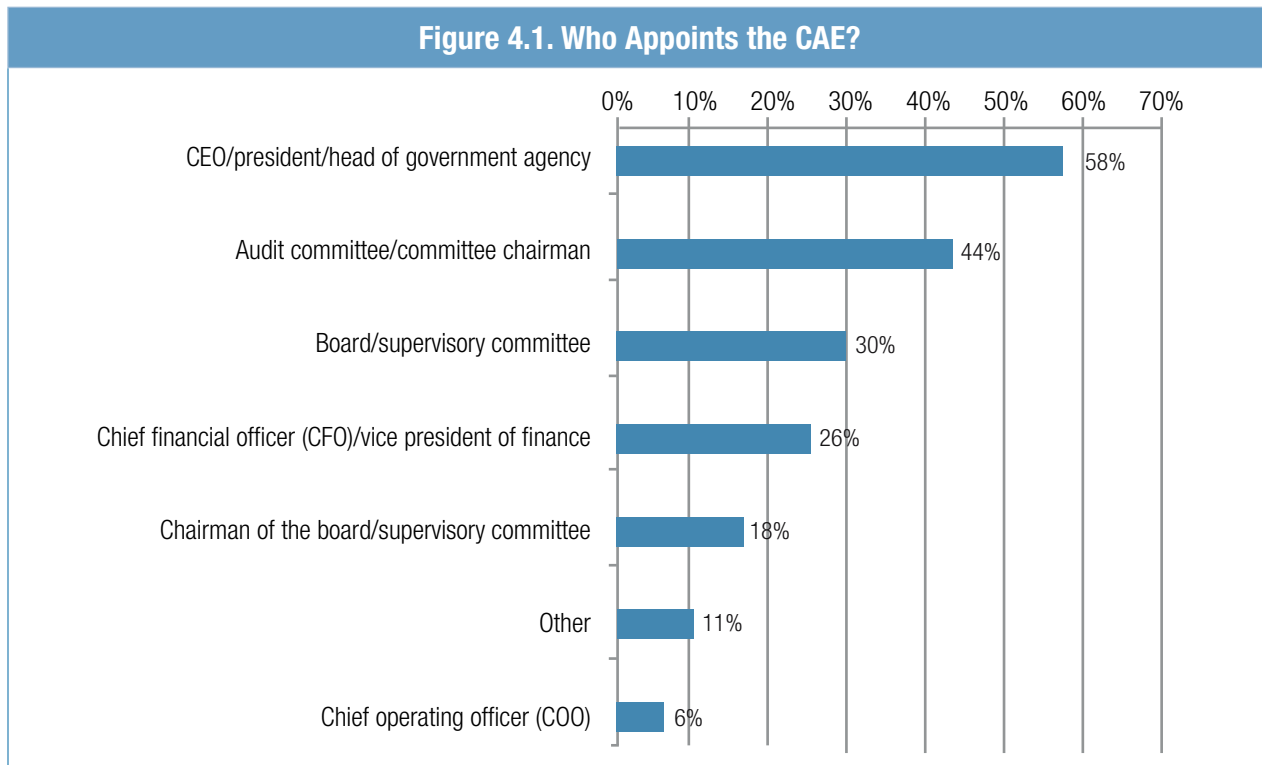
This chapter addresses each of these issues in turn.

## CAE APPOINTMENT

When considering the question “Who is involved in the appointment of the CAE (or equivalent)?” the 2010 survey results showed that the authority for the appointment of the CAE is ranked by respondents in the following order (see figure 4.1).

1. CEO/president/head of government agency
2. Audit committee/committee chairman
3. Board/supervisory committee

#### 4. Chief financial officer/vice president of finance



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 17a: Who is involved in appointing the chief audit executive (CAE) or equivalent? (Please mark all that apply.) (For more information, see table 4.1 in appendix B.)

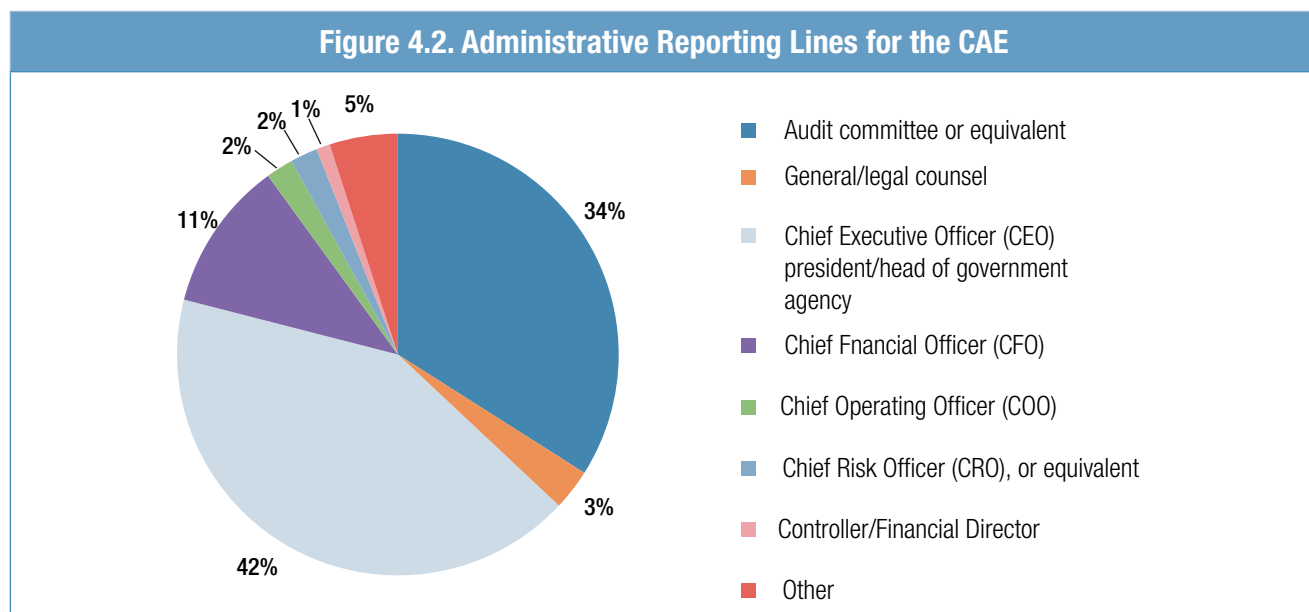
Results for regions are shown in table 4.1 in appendix B.

These results are confirmed by the findings of the interviews. Some examples of accepted practice across the regions include:

- In the United States and Canada: the audit committee or the board is generally responsible for the appointment.
- In Western Europe: increasingly this responsibility belongs to the board rather than the audit committee. This tendency is more evident in Italy and in Greece and less evident in the United Kingdom.
- In Australia: the CAE appointment “varies amongst organizations: it could be appointed by audit committees; CEO; chief financial officer (CFO); department director.”<sup>3</sup>
- In China: a growing number of organizations assign this responsibility to the board as a way to reinforce independence.
- In Japan: senior management may appoint the CAE and the board may approve it. This process depends on the nature/sector and/or if it is a regional or international appointment.

## CAE ADMINISTRATIVE REPORTING

The questions in the survey were directed at administrative reporting and did not separately seek responses about the functional reporting lines of CAEs, so it is not possible to make inferences about the latter from the data. We instead addressed this issue in our interviews, and our reported findings in this chapter are based on their direct responses. The results show that for administrative reporting, the highest responses show that CAEs report to the CEO or head of government agency (42%) and to the audit committee (34%). (See figure 4.2.)



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 9: Where do you administratively report (direct line) in your organization?

When comparing the regions, the main differences are (see table 4.2 in appendix B):

- Eastern Europe-Central Asia and Africa are the areas with the highest percentage for reporting to the CEO; United States and Canada has the lowest.
- Middle East is the region with the highest percentage of CAEs reporting to the audit committee; Eastern Europe-Central Asia has the lowest.

In three regions (Middle East, United States and Canada, and Latin America), the percentage of CAEs who report to the audit committee is higher than those reporting to the CEO or the chairman. In all other cases, the results are inverted.

## CAE FUNCTIONAL REPORTING

To develop a clearer picture of both administrative and functional reporting, the interviewees were asked to comment on two questions:

- To whom does the CAE *administratively* report?
- To whom does the CAE *functionally* report?



There is a clear difference between Anglo-Saxon countries and the others. While the interviewees in United States and Canada, Australia, and the United Kingdom indicated that their reporting line is to the CFO and/or the CEO, in all other countries the most frequent administrative reporting line is to the CEO or the chairman of the board. In contrast, when asked about functional reporting, interviewees were unanimous in confirming that CAEs functionally report to the board and/or to the audit committee.

This was explained by The IIA's representative in the United Kingdom, who stated:

Yes, I think that corresponds to the most common practice today that administratively, for pay and rations internal audit reports into management, either to the CEO, which as I mentioned before, much preferable than reporting to the CFO. Yet, I don't think it is any longer adequate because I think he who pays the piper calls the tune.

## EVALUATING INTERNAL AUDIT PERFORMANCE

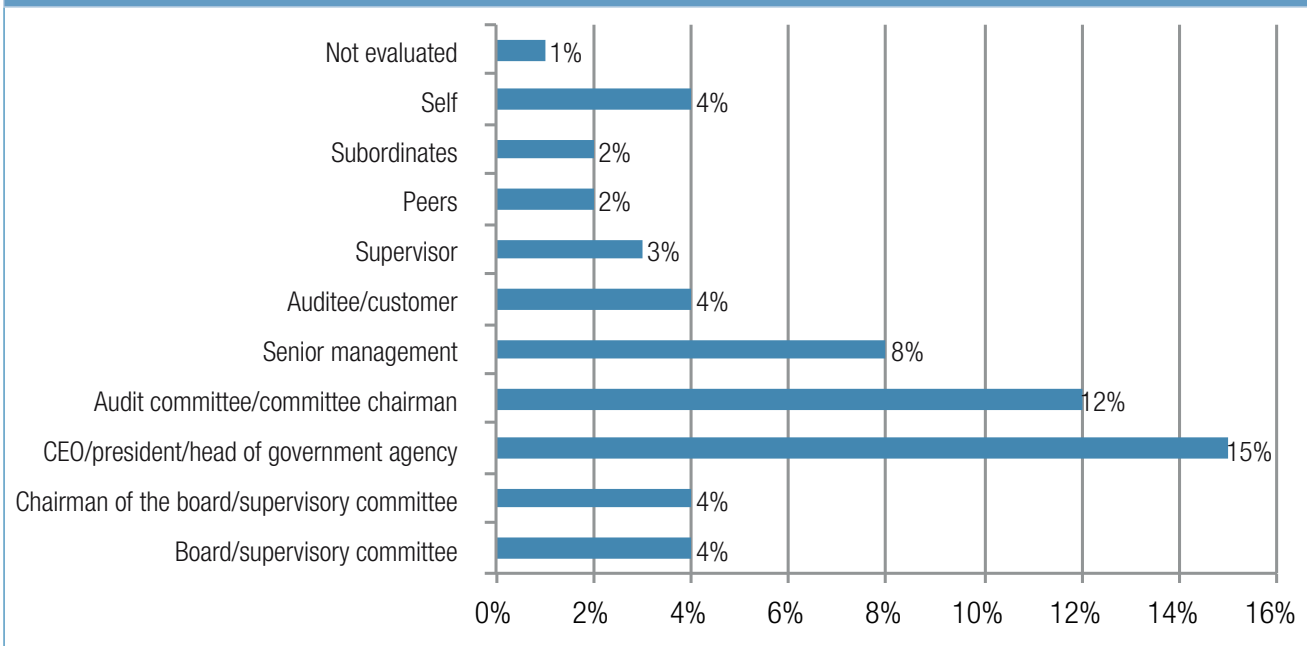
This section examines the responses to the following questions:

- Who contributes to the evaluation of the CAE's performance?
- What are the methods currently adopted to measure the performance of the internal audit activity?

Responses to the first question show that evaluation of the CAE's performance is influenced by inputs into this exercise through a very wide consultation process that includes:

1. The board and its committees
2. Executive management
3. Auditees
4. Audit staff

Figure 4.3. Evaluation of CAE Performance



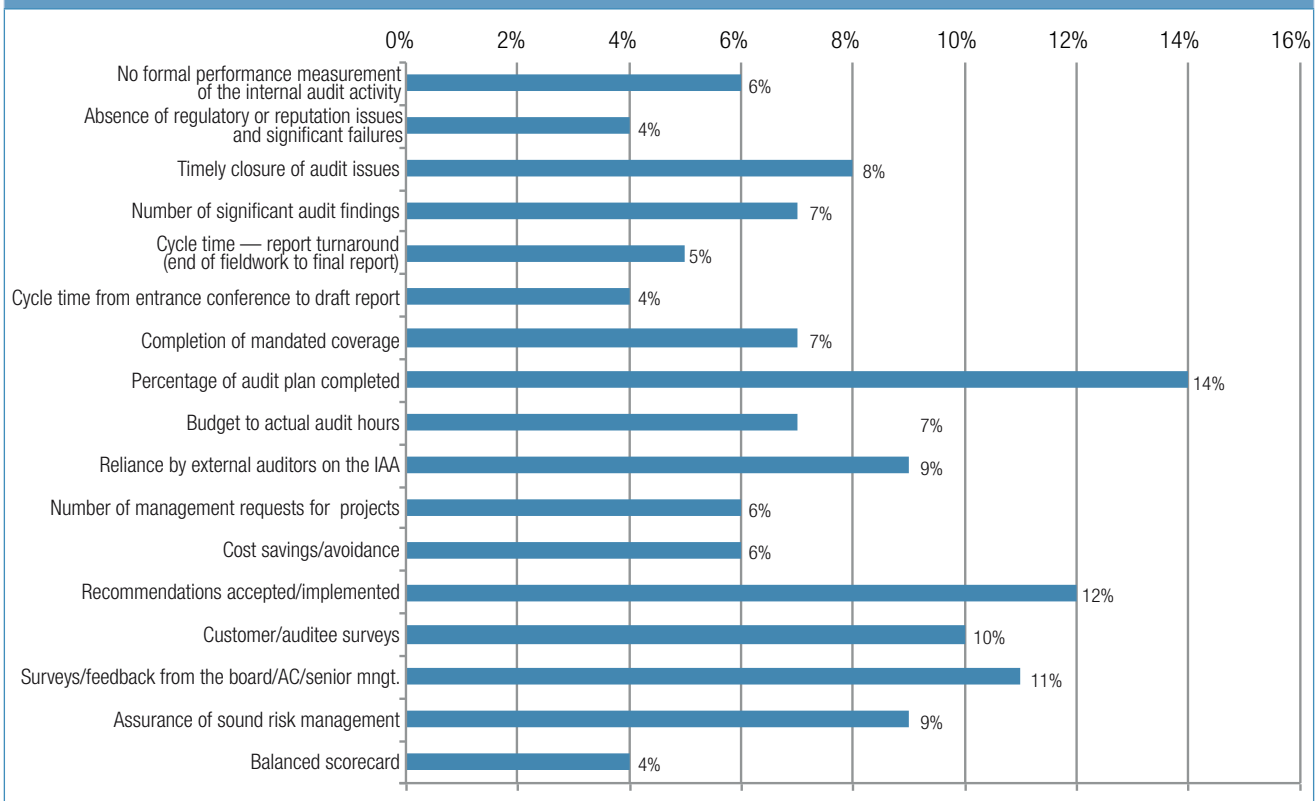
Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOk), question 18: Who contributes to the evaluation of your performance? (Please check all that apply.)

Results by region show a similar trend for the responsibility for the consultation process associated with the evaluation of CAEs (see figure 4.3).

Regarding the methods adopted to evaluate the performance of the internal audit function (see figure 4.4), it is worth noting that organizations use a combination of methods to carry out this exercise, with the top three methods in 2010 being:

- The percentage of the audit plan completed
- Survey/feedback from the board, the audit committee, and senior management
- Customer/auditee surveys

**Figure 4.4. Evaluation of Internal Audit Performance**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 22: How does your organization measure the performance of the internal audit activity? (Please mark all that apply.)

Interviewees were clear in their opinions that emphasized the futility and sub-optimality of using a single method for evaluating the performance of the internal audit function. For example, a CAE from Brazil stated:

Well, when you talk about any kind of evaluation performance, it is a very tricky thing. If you take a look, for example, at the percentage of the audit plan completed, of course this is it at KPI, however you can complete your annual plan and you at the same time add no value to the company and have very bad internal audit functions. The reason I think the most common are those three ones, it is because although they are not the best, it is very easy to measure the completion of an auditing plan or a survey. It is very easy for you to take a look. For example in oil, we have all those tools that you use to evaluate performance, and we have a lot of others, but when it comes for example to viable compensation, the bonus program, in internal audit we are totally attached to the overall results of the company. I am an executive, I am not evaluated on how much of the audit plan I delivered in a year.

In the United States and Canada and Western Europe, the interviewees indicated that many CAEs consider that analyzing the satisfaction of their customers is a fundamental indicator of whether their internal audit function adds value. The most adopted method seems to be the evaluation made by the board and the audit committee. This was exemplified by an interviewee in the United Kingdom, who stated that the audit committee was directly involved:

Rather than asking someone else to give them assurance on the quality of the internal audit service, they will sort it out themselves because of the extent of the interaction with (the internal audit function). In view of the briefing we give them, the extent of the reports and the content of the reports, and their reaction from management and the change injected.

Furthermore, an interviewee from IIA–Australia highlighted the fact that other methods, including quality assurance reviews and participation in benchmarking surveys (locally and globally), are also used in evaluating the performance of the internal audit function.

Finally, it is important not to infer that all these methods are generalizable. Interviewees in China and Japan drew our attention to the fact that “Different companies have different ways to conduct the internal audit performance evaluation.”

### ***Implications for the Future***

Although it was not possible to infer a single clear answer of who is responsible for the appointment of the CAE, The IIA’s drive to encourage boards to make the appointment is commendable as this practice gives a clear signal that the internal audit function is taken seriously by senior management. The traditional evaluation method of using metrics such as the percentage of the audit plan completed is ineffective because the internal audit activity now needs to respond to a fast-changing risk environment. Using the 360° style of evaluation, where all involved in the audit process are included, is considered to be more effective.

## Chapter 5

# RELATIONSHIP WITH THE AUDIT COMMITTEE

This chapter presents and discusses the ways in which the internal audit function and the audit committees of their enterprises are structured and managed. The findings are based on the results of the CBOK 2010 survey, supported by interviews with a range of audit committee members from each of the regions. Where appropriate, comparisons are made with the CBOK 2006 survey to identify potential trends.

The relationship between the CAE and the audit committee was analyzed by taking into consideration the following variables:

- The existence of an audit committee
- The CAEs' regular and ad hoc meetings and appropriate access to the audit committee
- Reporting to the audit committee on internal control

This chapter addresses each of these issues in turn.

### *Key Findings*

- Audit committees are most commonly found in North America and Africa; they are least likely to be found in Eastern Europe-Central Asia and Asia-Pacific.
- The majority of respondents (84%) attend 75% or more of audit committee meetings.
- The involvement of the internal audit function with audit committees has increased across all regions since 2006, with 74% of respondents invited to attend additional meetings in 2010, compared with 63% in 2006.

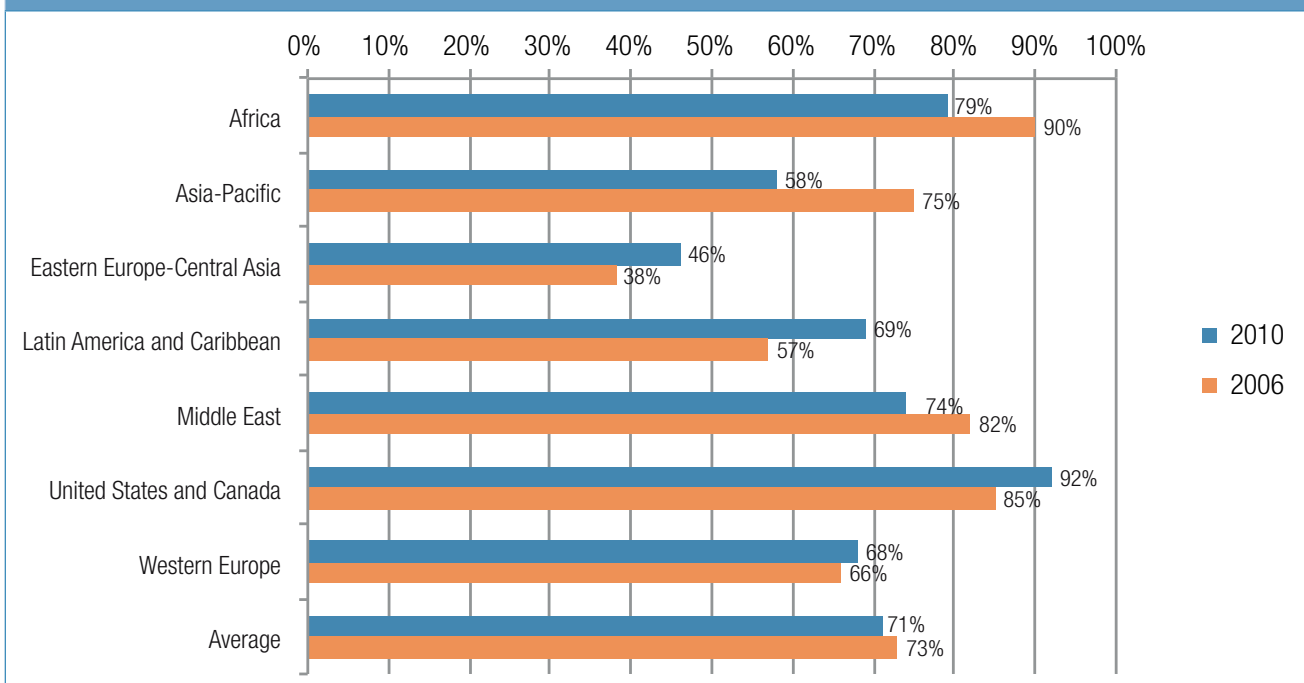
### THE EXISTENCE OF AN AUDIT COMMITTEE

An audit committee or an equivalent body is most commonly found in the United States and Canada. The possible reasons for this were discussed in the Introduction: as United States and Canada is the region with the highest percentage of listed companies, it can be inferred that this factor has shaped the result.

In second position is Africa, where 79% of respondents work for an organization that has an audit committee, a result that is largely influenced by the presence of South Africa<sup>4</sup> in the group of countries representing the region. Unlike the rest of the region, South Africa is a more developed economy where the largest companies follow the mature and advanced standards in corporate governance that have been developed there through the King Committee series of corporate governance publications that began in 1994.<sup>5</sup>

Figure 5.1 shows the comparative responses for 2006 and 2010. While there are some apparent anomalies where the frequency of responses might show a drop in the presence of an audit committee, these are explicable once the underlying factors of corporate governance maturity and growth are considered.

**Figure 5.1. Audit Committees in Respondents' Organizations**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 19: Is there an audit committee or equivalent in your organization?

Respondents who gave the lowest results were Eastern Europe-Central Asia and Asia-Pacific. In the latter, it is worth noting that there are significant differences between countries in the region. In Australia and Malaysia, percentages are higher than 90%; in China, Taiwan, and Japan, the results are lower, 20% and 40% respectively.

Interviews confirmed the inference that in 2010 the differences between regions (and between countries belonging to a same region) depend on the diversities of the legal frameworks and of the corporate governance systems existing between the states.

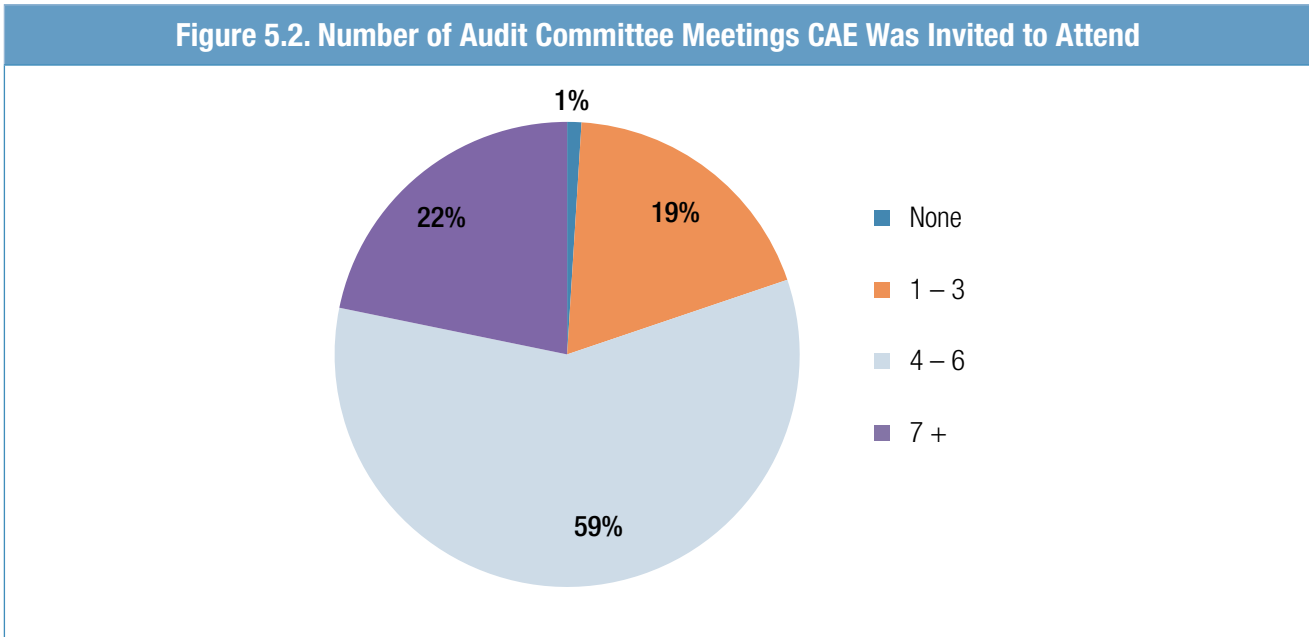
For example, in Australia (Asia-Pacific region), internal auditors work for organizations that introduced audit committees more than 20 years ago;<sup>6</sup> other countries in the region do not generally have audit committees. This can be exemplified by the cases of China and Japan. In China, audit committees were introduced comparatively recently for listed companies only, and even then probably not all of them.<sup>7</sup> In Japan, although listed companies generally introduced audit committees in order to comply with the requirements of corporate governance codes issued at the beginning of the new century, not all listed companies in Japan did so. This is because these organizations may instead be complying with the requirements of another corporate governance system, such as having a Board of Corporate Auditors (*Kansayaku-kai*) appointed by the shareholders' meeting in place of the audit committee.

Differences also exist between countries in Western Europe. For example, in the United Kingdom, audit committees exist in many listed and some of the largest non-listed companies; in Italy, they are only found in listed companies.<sup>8</sup>

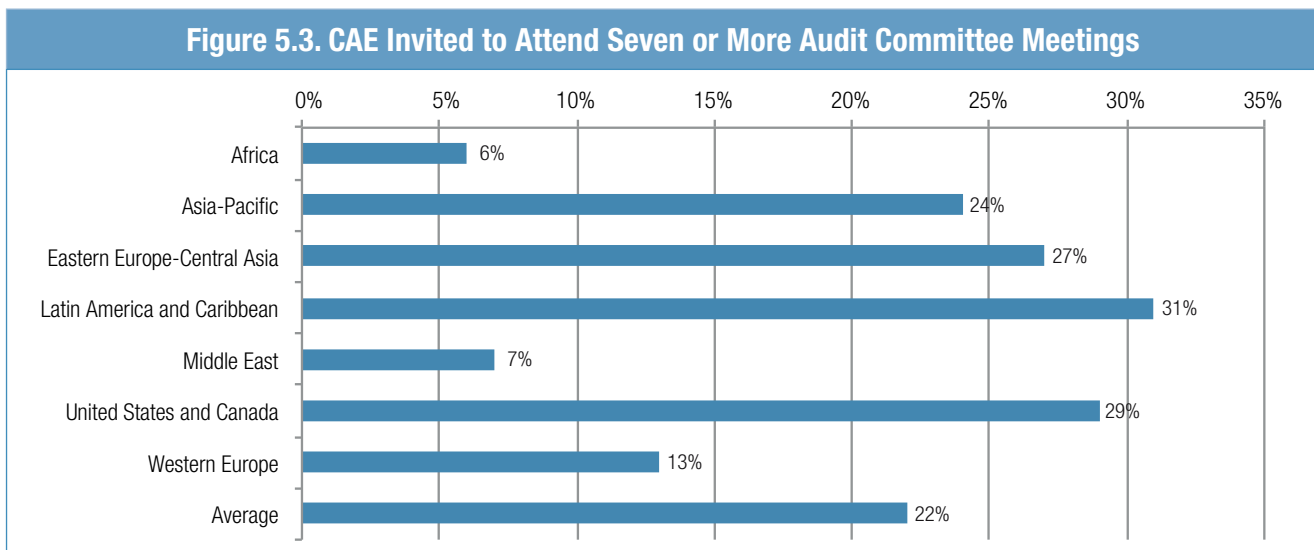
## CAES' REGULAR AND AD HOC MEETINGS AND APPROPRIATE ACCESS TO THE AUDIT COMMITTEE

### CAEs Attend Regular Audit Committee Meetings

Figure 5.2 shows the number of audit committee meetings that the CAE was invited to. Figure 5.3 shows how often CAEs were invited to attend seven or more audit committee meetings.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 20b: Number of audit committee meetings you were invited to attend (entirely or in part) during the last fiscal year.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 20b: Number of audit committee meetings you were invited to attend (entirely or in part) during the last fiscal year.

The majority of respondents (59%) stated that they have attended between four and six meetings with members of the audit committee. This result reflects the normal practice of quarterly meetings.

After further analysis of these results, we are able to identify that between 20% and 30% of respondents attend seven or more audit committee meetings. This may reflect the ongoing economic and financial crisis that has put pressure on boards and consequently to audit committees, and for the internal audit function to support and advise the audit committee.

The president of IIA–Italy saw a distinction between types of enterprise:

Regarding this point, I think that there are some differences between the financial industry and others. In banks and insurance companies, my perception is that the frequency of audit committee meetings is higher than nonfinancial ones. As an example, in my bank, the AC [audit committee] in the last years has met more than 50 times.

An audit committee member in the United States saw a difference in the frequency of meetings:

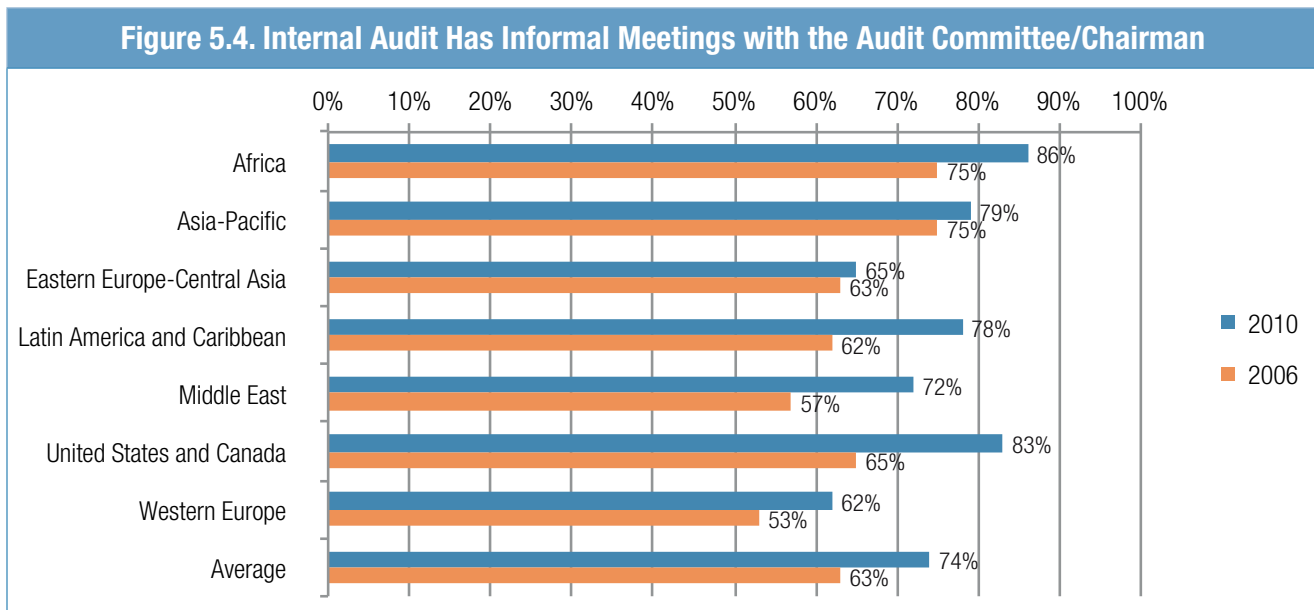
I am seeing that audit committee meetings are becoming more frequent. At one point in time it was probably every six months, but it has moved to once a quarter because of the amount of information that needs to be covered, meetings being every other month as well for some of the leading practice audit departments and committees. My view is that the audit executive should attend all of the meetings, because all of the information in those meetings is relevant. And I think that touch point between the audit committee and the audit executive is absolutely critical, formal or otherwise, so I do believe they should attend every meeting.

Another example of the growth in the frequency of internal auditors attending audit committee meetings was found in China, where the interviewees highlighted that participation has become progressively more frequent. They perceive that after an initial stage in which some audit committees did not seem to function effectively, now they can help improve the mechanisms adopted for exercising its oversight duties. This is leading the audit committee to meet more frequently and to establish a closer interaction with the CAE.<sup>9</sup>



## CAEs Attending Ad Hoc Audit Committee Meetings

Figure 5.4 presents responses regarding additional meetings with the audit committee.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOk), question 20c: Do you meet or talk with the audit committee/ chairman in addition to regularly scheduled meetings?; and The IIA's 2006 Global Internal Audit Survey, question 22d.

Comparing the 2010 and 2006 surveys, there is an increase across all regions; 74% of respondents were invited to attend additional meetings in 2010, compared with 63% in 2006. This reflects a clear indication of the trust and the value that audit committees gain from the participation of the CAE in these meetings.

### Appropriate Access

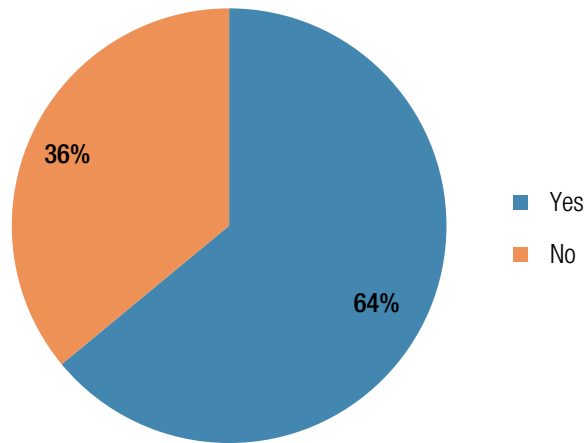
The relationship between the CAE and the audit committee is reported to be at least adequate in many organizations, given that 90% of respondents stated that they have appropriate access to their audit committee. To gain additional insight into this relationship, interviewees were asked to indicate whether the CAE should be involved in setting the meeting's agenda. An audit committee member indicated that this is up to the committee itself, but some of the interviewees have a positive view of the chair getting some input from the CAE. As an audit committee member in Australia described it, the audit committee is in a position of seeing what is happening through the internal audit work.

To conclude, an audit committee member from Italy highlighted the benefit the CAE may obtain from attending the audit committee meetings by saying that it is a way for the CAE to stay informed about the changes of the strategy and the plans of the organization. As we discuss further in the next chapters, this knowledge becomes crucial in keeping the internal audit function's activities aligned with organizational changes, and this is perceived as a critical success factor for the internal auditors.

## REPORTING ON INTERNAL CONTROL

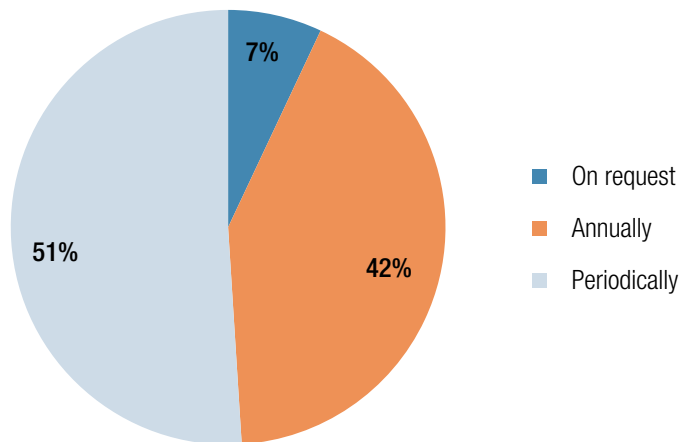
Figure 5.5 indicates that nearly two-thirds of CAEs prepare a written report for the audit committee on the whole internal control system, and the majority (51%) produce this report periodically (see figure 5.6).

**Figure 5.5. Internal Audit Prepared an Internal Control Report for the Audit Committee and Senior Management**



*Source:* The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 21b: Do you prepare a written report on overall internal control for use by the audit committee or senior management?

**Figure 5.6. Frequency of Internal Control Reports**



*Source:* The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 21c: How often do you provide the written report?

An audit committee member from North America explained how audit committees perform their duties:

I would say that the annual piece probably comes into play and maybe it is because there is some structure around the audit committee and the audit committee charter that says that at least annually you would do the following. So I would say that's what drives that number, and I would say the expectation of more frequent reporting, more timely reporting, given the complexities of organizations. If were to try and break it down by industries whether you are

regulated or not, I suspect some of that frequency might be higher and more frequent. But I think the charters drive that annual desire for reporting, and I suspect that from what I have seen, depending on the industry, depending on the complexity of the business that may be higher back to your periodic where it was about 50%.

### ***Implications for the Future***

It is likely that listed companies will continue to be the major sector where audit committees are found, due to the increasing growth of corporate governance codes and guidance. International and national institutes should promote the benefits of audit committees and their relationships with internal audit functions to encourage non-listed companies, government agencies, and other public sector organizations to introduce and develop audit committees.

Although the relationship between audit committees and CAEs is mostly considered to be very positive and constructive, internal auditors should not be complacent. They should ensure that they continuously and actively manage this relationship.

At international and national levels, The IIA should become involved in the education of audit committee members. CAEs should recognize the importance of providing audit committees with effective communications regarding the overall quality of internal controls in financial, operational, and conformance systems in their organizations.

# STAFFING THE INTERNAL AUDIT FUNCTION

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This chapter addresses the staffing of the internal audit function. The major issues can be grouped into the following subheadings:

- How Do We Compensate for Missing Skills?
- Budget Changes
- Recruitment
- Evaluation
- Changes in Staff Levels in the Next Five Years
- Internal Audit's Contribution to Strategic Issues

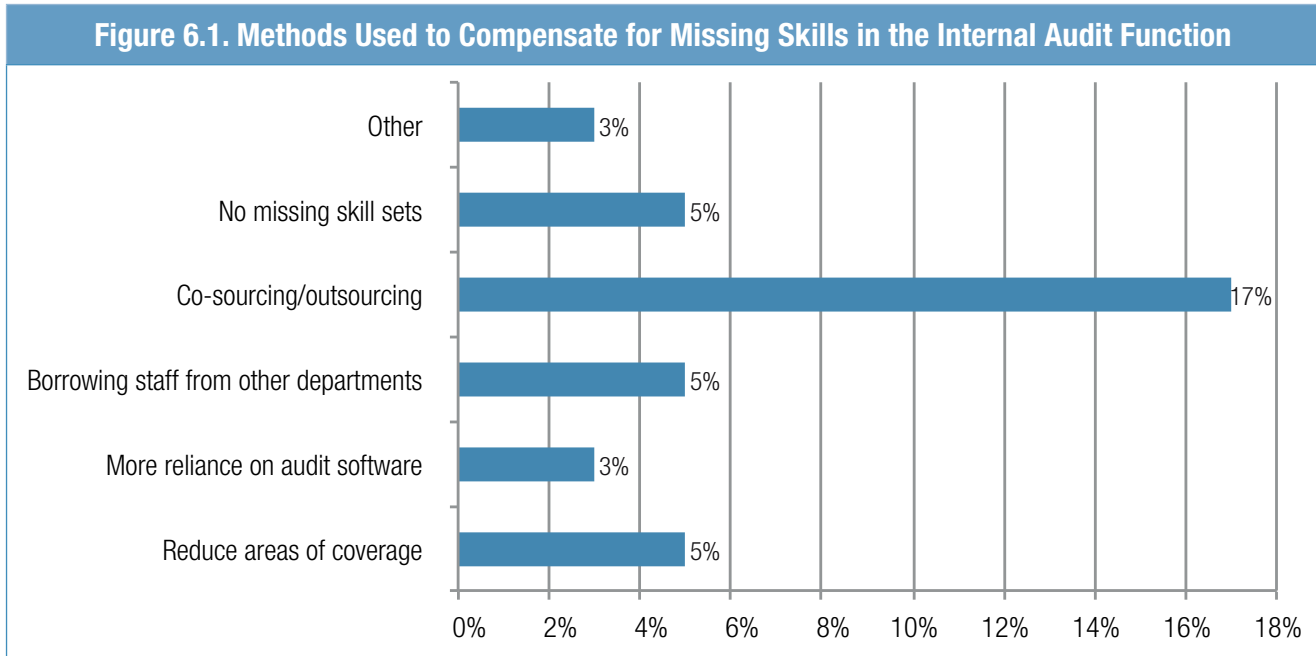
The results of CBOK 2010 and our qualitative interviews show a diverse range of opinions of the likely changes to staffing practices in the next five years. In particular, co-sourcing/outsourcing was perceived differently across regions. Evaluation techniques were more consistent across regions, as were hiring practices.

### ***Key Findings***

1. Co-sourcing and outsourcing activities are not generally used just to ensure that audit plans are completed; they are also used to provide a better level of service.
2. While most respondents expected to have an unchanged budget in the next five years, twice as many of those who did not expected an increase rather than a decrease.
3. The majority of respondents do not offer additional incentives when hiring.
4. The most common method used in staff evaluation is CAE review/feedback.
5. Less than 10% of respondents expect internal audit function staff levels to decrease in the next five years.
6. Internal audit leaders must ensure the profession is able to make an effective contribution to strategic issues.

## HOW DO WE COMPENSATE FOR MISSING SKILLS?

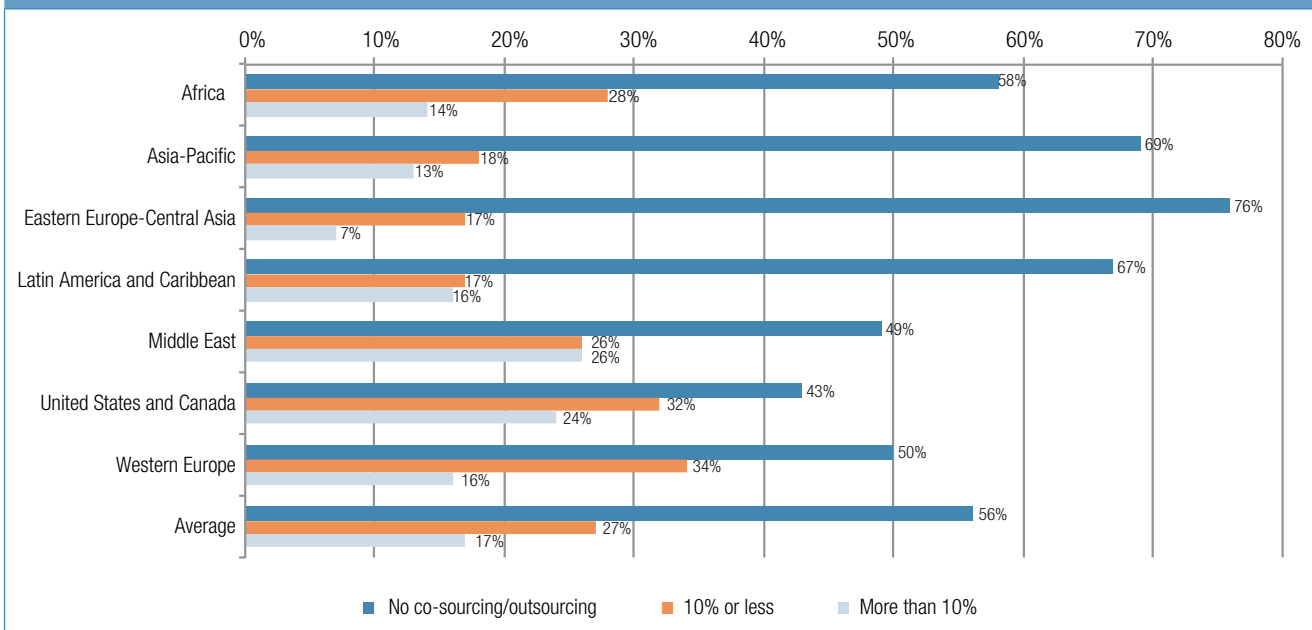
Respondents were asked to identify the methods used to manage missing skills in their internal audit function. The results show that the largest response (17%) to the question regarding the methods adopted to compensate for missing skills refers to co-sourcing/outsourcing. The regions that gave above average responses were Africa, Middle East, United States and Canada, and Western Europe (see figure 6.1).



*Source:* The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 28: What methods is your organization employing to compensate for missing skill sets?

Despite the clearly significant level of responses that cited co-sourcing/outsourcing as the preferred method of managing missing skills, responses to the survey question regarding the level of internal audit activities co-sourced/outsourced showed that in practice, 56% of respondents do not co-source/outsource any activities (see figure 6.2).

**Figure 6.2. Percentage of Internal Audit Activity That Is Co-Sourced/Outsourced**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 29: What percentage of your internal audit activities is currently co-sourced/outsourced?

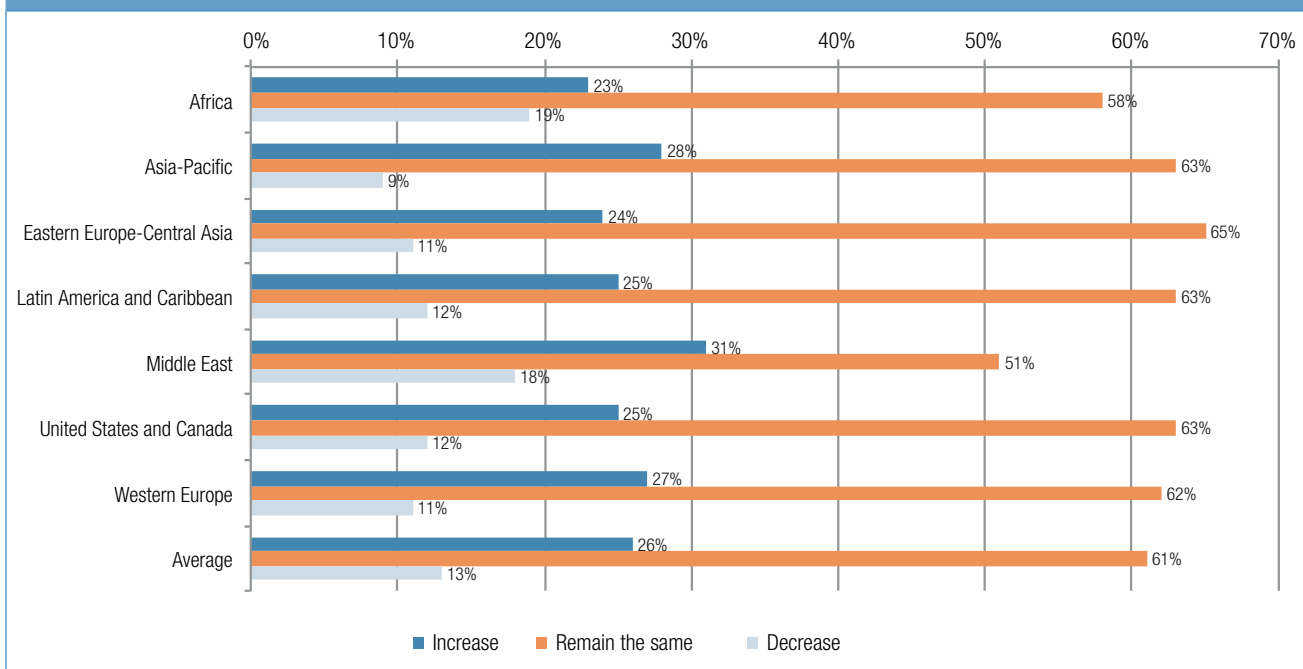
There are significant differences among the regions. Regions where more than 50% of respondents state that they co-source or outsource the internal audit function include United States and Canada and the Middle East. Africa follows reasonably closely behind these regions (42%).

A better understanding of the methods used for managing missing skills can be gained by comparing results shown in figure 6.1 with those reported in figure 6.2. It is clear that United States and Canada, Middle East, and Africa are the regions that show the highest percentage for the use of outsourcing as a method for managing missing skills. While the percentages reported in figure 6.2 are higher than those shown in figure 6.1, this might be explained by organizations partially co-sourcing and/or outsourcing, even though they have the required skills to perform the activities included in the audit plan to provide a better level of service.

## BUDGET CHANGES

Respondents were asked to identify anticipated budget changes for outsourcing/co-sourcing activities. In all regions, the majority of respondents (61%) expected to have an unchanged budget. It is interesting to highlight that the percentage of respondents who indicated an increase is double the percentage for those who expected a decrease in nearly all regions (see figure 6.3).

**Figure 6.3. Anticipated Budget Changes for Co-Sourcing/Outsourcing**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 30a: How do you anticipate that your budget for co-sourced/outsourced activities will change in the next five years?

When comparing 2010 and 2006, the percentage of those expecting pressure on their budgets is higher in Eastern Europe-Central Asia, Latin America and Caribbean, and Western Europe. Figure 6.3 outlines the ways that internal audit functions manage the pressures for changes in their budgets. For example, in Australia, a CAE pointed out that companies could use co-sourcing/outsourcing because it provides an easy and quick way to have new capabilities rather than building them internally. In contrast, a CAE from Greece stated that staff development was the preferred method to compensate for missing skills, and that staff undertook seminar training and professional qualification.

In Italy, the interviewees highlighted the fact that the use of co-sourcing/outsourcing reflects the economic condition under which companies operate. Internal audit functions were understaffed yet were unable to increase staff levels, so co-sourcing/outsourcing became the compromise that could compensate for missing skills.

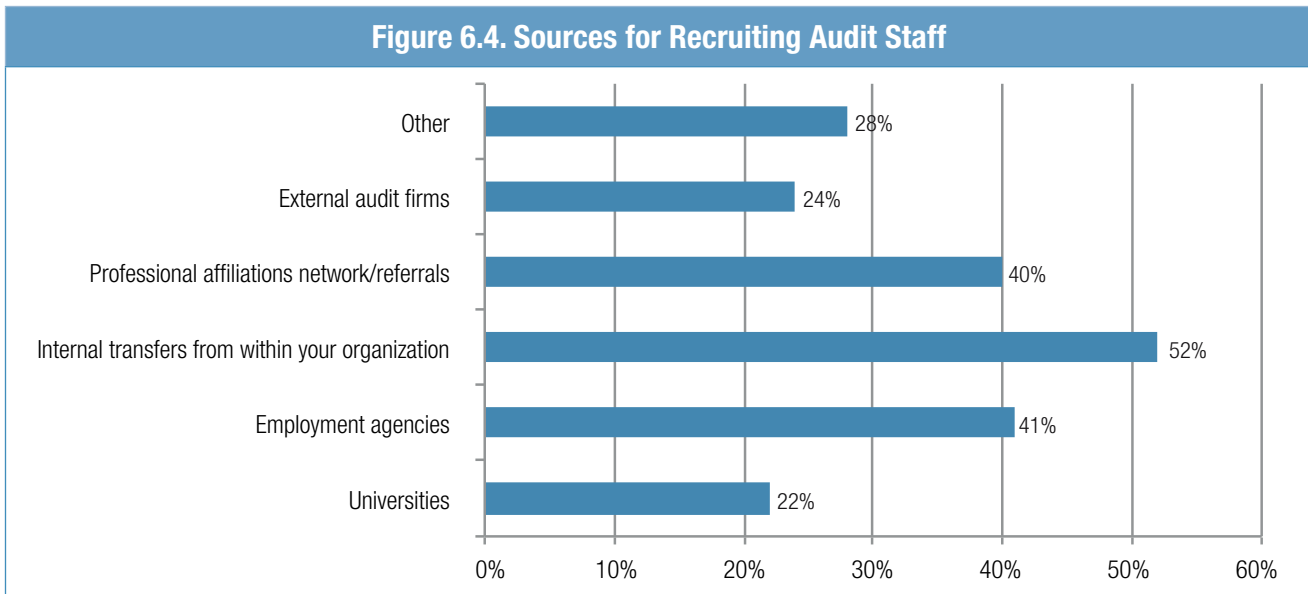
Respondents from China and Japan indicated that to compensate for missing skills, many companies prefer to adopt other methods instead of using outsourcing/co-sourcing. These methods include:

- On-the-job training
- The use of computer-assisted audit techniques (CAATs) to increase productivity
- Borrowing staff from other departments for new audit engagements

The above shows a mixed picture of the way CAEs manage the challenge of delivering internal audit services through a tradeoff between time, quality of services, and availability of funds.

## RECRUITMENT

Responses to CBOK 2010 survey questions regarding sources used for recruitment showed that different sources are used for recruitment to internal audit functions. Figure 6.4 shows that internal transfer gained the highest percentage (52%), followed by the use of an employment agency (41%) and the use of professional affiliation networks (40%).

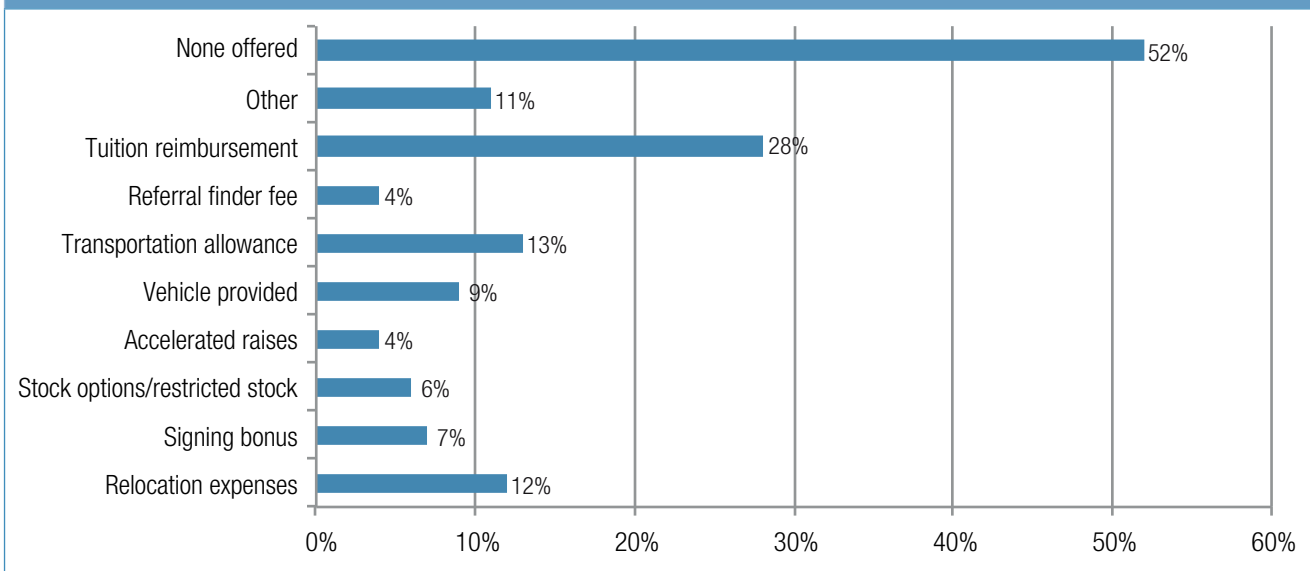


*Source:* The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 26b: What sources does your organization use to recruit audit staff?

Significant differences among regions were found for type of incentive offered. Figure 6.5 shows that 52% of respondents indicated that no incentives were offered when hiring new employees, although within these responses there are noticeable differences among regions. For example, in Asia-Pacific, 61% indicated that they do not offer any incentive, while in Africa, it is only 32%. Furthermore, interviewees in China, Japan, and the United Kingdom indicated that the market conditions in these regions do not create a need for organizations to offer incentives to hire or retain their internal audit staff.



**Figure 6.5. Incentives Used to Hire/Retain Internal Audit Professionals**



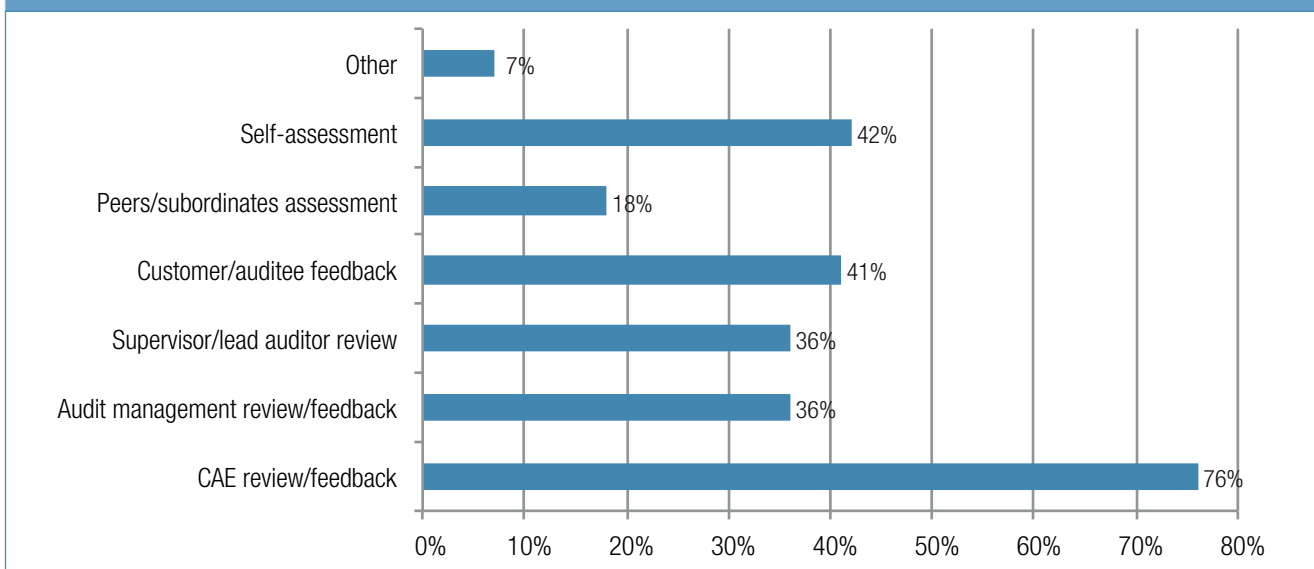
Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 26a: Is your organization offering any special incentives to hire/retain internal audit professionals?

## EVALUATION

Figure 6.6 shows that across all the regions, the largest method used in staff evaluation is CAE review/feedback (76%), followed by self-assessment (42%) and customer/auditee feedback (41%).

Statistical tests indicated that the differences among the seven geographical areas are not significant, while noticeable differences were found for other methods (see table 6.5 in appendix B). In particular, customer/auditee feedbacks are more common in the United States and Canada (50%) than in Asia-Pacific (32%).

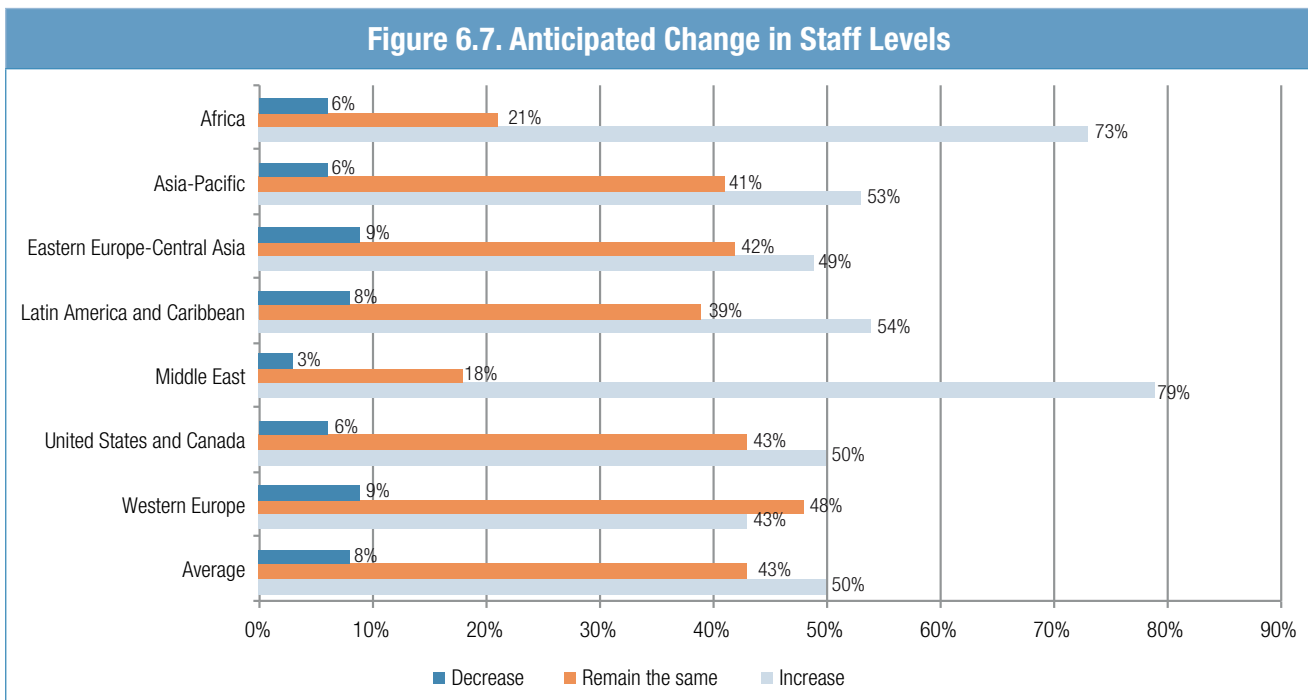
**Figure 6.6. Methods Used for Staff Evaluation**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 31: What method of staff evaluation do you use?

## CHANGES IN STAFF LEVELS IN THE NEXT FIVE YEARS

Figure 6.7 summarizes the expected changes in staff levels in the next five years. In all the regions, 50% or more of respondents indicate that they expect their staff levels to increase except for Western Europe, where the highest response is that the staff will stay the same (48%). The highest percentages for increase are found in the Middle East and in Africa. Finally, less than 10% of respondents expect internal audit function staff levels to decrease.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 30b: How do you anticipate that your permanent staff levels will change in the next five years?

The interviews provided us with some very interesting and contrasting explanations for the potential changes that might happen in the next five years. Interviewees from China, Japan, Russia, and United Arab Emirates envisaged an increase in the number of internal auditors to be recruited. The reasons for this were that staff numbers will increase because many companies start from a situation where controls are not well established and documented and there is a perceived need to improve internal control systems.

## INTERNAL AUDIT'S CONTRIBUTION TO STRATEGIC ISSUES

Another reason for the increase in the number of internal auditors is provided by CAEs in Japan who believe that staff will probably increase because senior management and control bodies are demanding more services from the internal audit function. These range from consulting activities to prevention of fraud and other risks through a more effective internal control system.

An interviewee in South Africa highlighted a different reason for the potential increase in the internal audit staff. Growth of the internal audit function was merited due to regulatory requirements with regard to the King III code. More is expected from the internal audit function in terms of audit coverage and assurance provided. Internal audit will need to equip itself for these changes. Finally, interviewees in the United

States and the United Kingdom maintained that while the number of internal auditors will stay the same, the caliber and quality will have to improve to meet high expectations from the board and senior management.

***Implications for the Future***

A significant challenge for the profession can be inferred from the survey and interviews. Internal auditors must recognize and adapt to the changing expectations of boards of directors and senior managers. They also must ensure that their profile and organizational status are raised so that they can join the top tables and become much more involved in strategic matters. For this to happen, internal audit leaders at both global and national levels must be prepared to meet that challenge through their guidance and direction.



# STANDARDS, STATUS, AND CREDIBILITY

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[Note: References to particular *Standards* were made using the 2010 edition of The IIA’s International Professional Practices Framework (IPPF) of which the *Standards* are part. There are slight wording differences between that version and the current 2013 edition.]

For more than 30 years, The IIA’s *International Standards for the Professional Practice of Internal Auditing* (*Standards*) has been key to ensuring the quality of internal audit work throughout the world. This chapter addresses the responses to the 2010 CBOOK survey that relate to conformance and nonconformance with the *Standards* and analyzes the reasons given for conformance and nonconformance. In particular, we examine the *Standards* with the highest percentage of full conformance—Standard 1100: Independence and Objectivity and Standard 1000: Purpose, Authority, and Responsibility—and the least complied with—Standard 1300: Quality Assurance and Improvement Program and Standard 2600: Resolution of Senior Management’s Acceptance of Risks.

Analysis of responses is carried out in the context of a discussion on the overall attitudes shown by respondents regarding conformance (and nonconformance) with the *Standards*. This is followed by further discussion of the respondents’ views of the *Standards* governing the attributes and the performance of the internal audit activities. The chapter concludes with some inferences, analysis, and debate of the relative value of internal audit’s status in the organization versus its credibility. This discussion was supported by qualitative interviews carried out with senior internal audit practitioners, audit committee members, and representatives of national institutes.

The chapter is structured as follows:

1. Conformance with IIA *Standards*
2. Attribute Standards
3. Performance Standards
4. Status versus Credibility

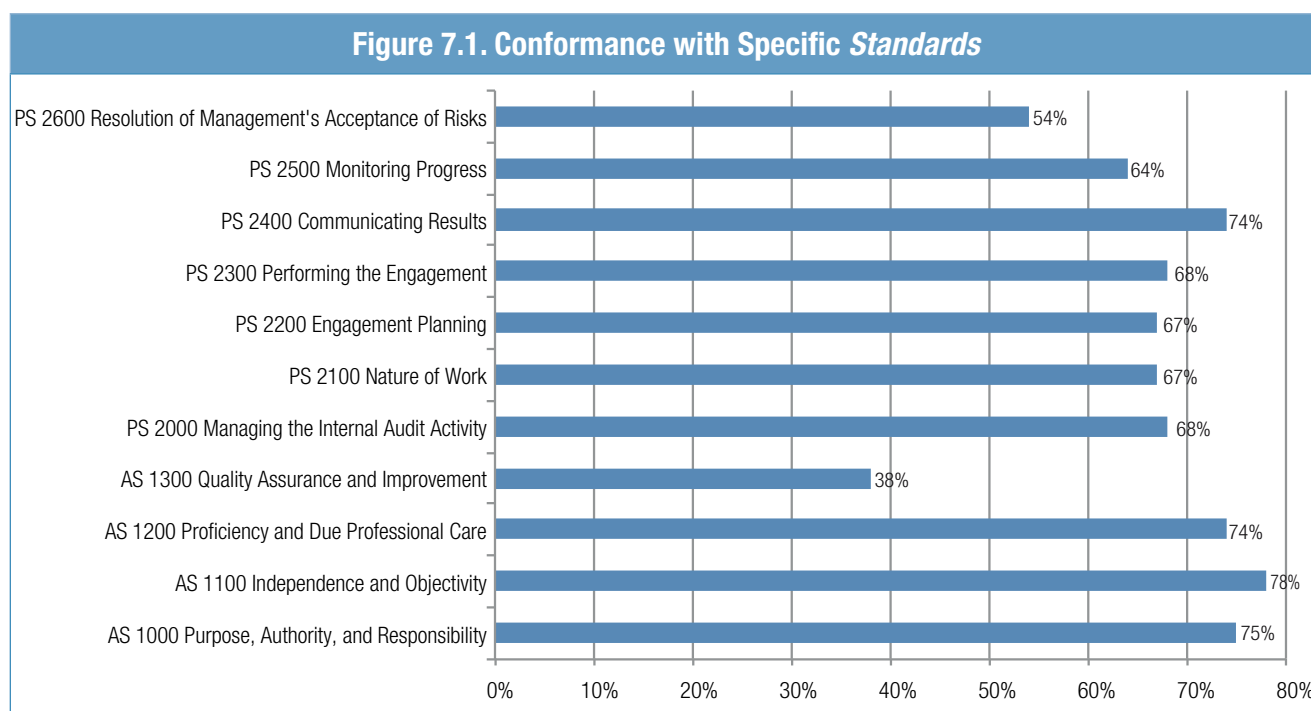
### **Key Findings**

1. Approximately one-third of respondents comply with the *Standards* only partially, not at all, or may not know if they are in conformance or not.
2. There is a positive trend toward an increasing general conformance of all *Standards* except for Standard 1300: Quality Assurance and Improvement Program.
3. There is an increased awareness in the profession that conformance with the *Standards* has a positive impact on performance.

4. The lack of formal organizational status is not considered to impair the quality of service if there is a high level of credibility.
5. Nonconformance with Standard 2600: Resolution of Senior Management’s Acceptance of Risks might be attributable to internal auditors being unwilling to be confrontational in disputing management’s acceptance of risks.
6. At the institute level, there is a growing need for national institutes to embark on an intensive and active dialogue with boards of directors and senior directors to promote the contribution that could be made by the institute and its *Standards*.

## CONFORMANCE WITH IIA STANDARDS

Figure 7.1 shows the results for the question, “If your internal audit activity follows any of the *Standards*, please indicate if you believe your organization complies with the *Standards*.” The percentages reported in this figure are those that agree with the statement “Our organization is in full conformance with the *Standards*.” Respondents who did not select this option may be categorized as being in partial conformance, not in conformance, or they do not know. Given the historical and current importance of the *Standards* to the profession and its status as the center of excellence and guidance for internal auditors globally, this raises a major issue: if a significant proportion of IIA members globally cannot declare conformance with the most important guidance published by The IIA, there is a need to identify the reasons.



Source: The IIA’s 2010 Global Internal Audit Survey (a part of the CBOK), question 33b: Your organization is in conformance with the *Standards*.

The *Standards* with the highest percentage of full conformance are Standard 1100: Independence and Objectivity and Standard 1000: Purpose, Authority, and Responsibility. The least complied with is Standard 1300: Quality Assurance and Improvement Program and Standard 2600: Resolution of Senior

Management's Acceptance of Risks. Standard 1300 is analyzed later in this chapter, as it has important implications for practitioners.

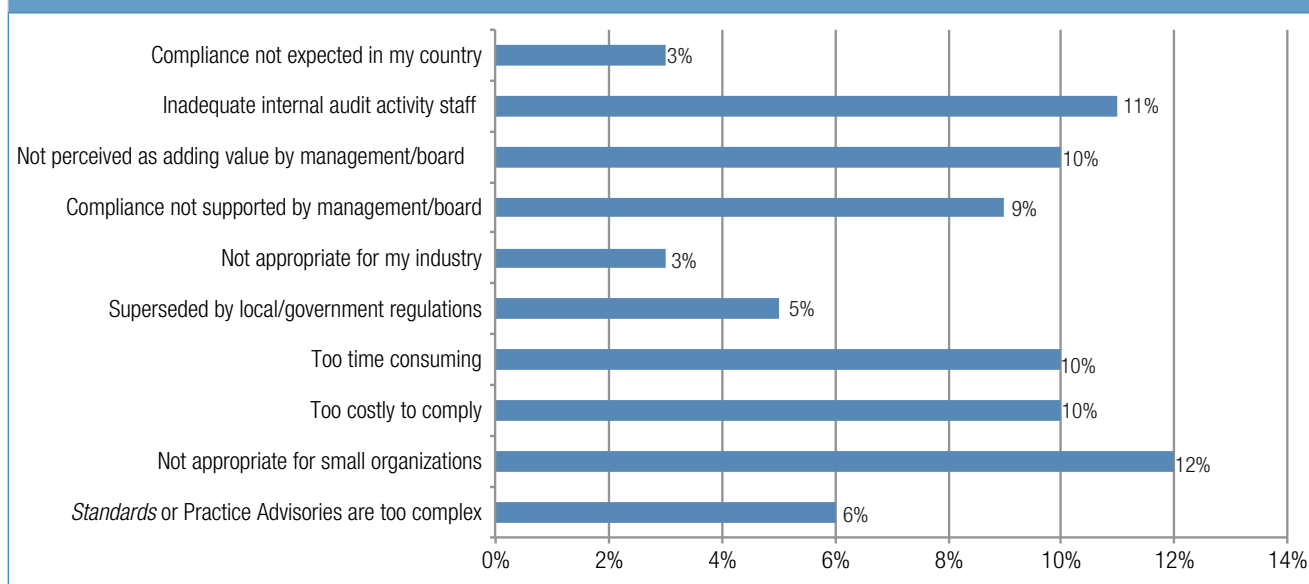
The average level of full conformance with all the *Standards* is 66%. This implies that approximately one-third of respondents complies with the *Standards* only partially, not at all, or may not know if they are in conformance or not.

Results show:

1. The United States and Canada has the highest percentage of respondents who stated that all of the *Standards* are used. Consequently, this is the region that shows the largest average percentage of respondents who indicate that they are in full conformance with the *Standards* (78%).
2. In contrast, Eastern Europe-Central Asia, Latin America/Caribbean, and Asia-Pacific reported the lowest average percentages of respondents who indicate they are in full conformance (57%, 57%, and 58% respectively).
3. There are significant differences among regions for all of the *Standards*.

When comparing the 2010 survey results with those of 2006, it is worth noting that there is a positive trend toward an increasing general conformance of all *Standards* except for Standard 1300: Quality Assurance and Improvement Program (figures 7.1 and 7.2). On the other hand, in Africa, Latin America/Caribbean, and the United States and Canada, the percentages for conformance of Standard 1300 decreased during the period analyzed. All other standards increased for all regions except for Standard 1000: Purpose, Authority, and Responsibility in the Middle East and Eastern Europe and Standard 2600: Resolution of Senior Management's Acceptance of Risks in Africa. Overall, the most common reason given for not using the *Standards* is that it is not appropriate for a small organization or because there is inadequate internal audit activity staff (figure 7.2).

Figure 7.2. Reasons for Not Using the *Standards*



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 35b: What are the reasons for not using the *Standards* in whole or in part?

Different reasons were given by regions for not using the *Standards*. For example, in Africa and Asia-Pacific, the highest percentage refers to “inadequate staff” (lacking in professional knowledge or experience), whereas for the United States and Canada, they are not perceived as adding value by management/board. In Western Europe, the *Standards* is not considered appropriate for small organizations (see figure 7.3).

The responses also show that organizations have increased their conformance with the *Standards* between 2010 and 2006. It is this positive trend that explains the decrease regarding the reasons for not using the *Standards*, as indicated in figure 7.2. This decrease is found for all regions.

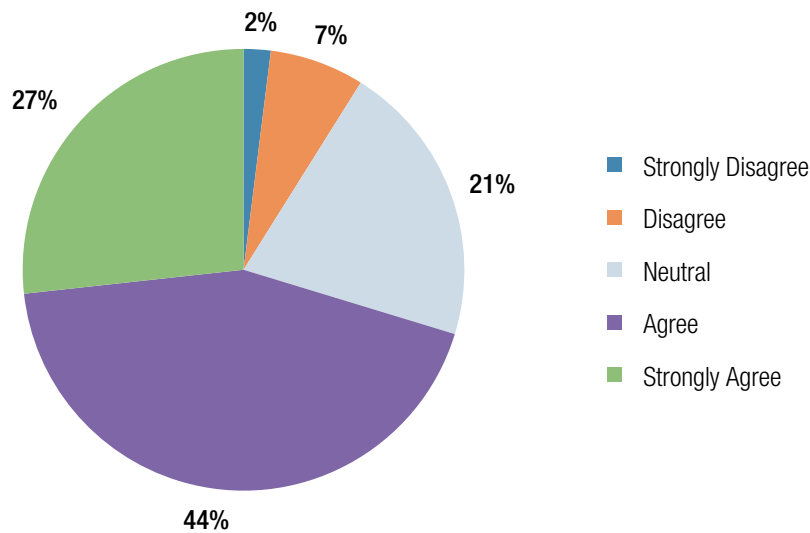
When comparing the answers associated with the internal auditor's full conformance with the *Standards* between 2006 and 2010, we are able to identify that:

- Interviewees believed that there is an increased awareness in the profession that conformance with the *Standards* has a positive impact on internal audit performance.
- Many interviewees highlighted the active role of their local institutes for the promotion of the *Standards* and the benefits that practitioners might gain from working in accordance with the *Standards*.

Further to the earlier statements about conformance, some interviewees drew our attention to the fact that nonconformance with the *Standards* cannot be solely attributed to their lack of suitability for small organizations, and that the main reason for not applying the *Standards* is that the board and the audit committee do not perceive this as adding value. This sentiment was expressed quite strongly by the interviewees in developed countries.

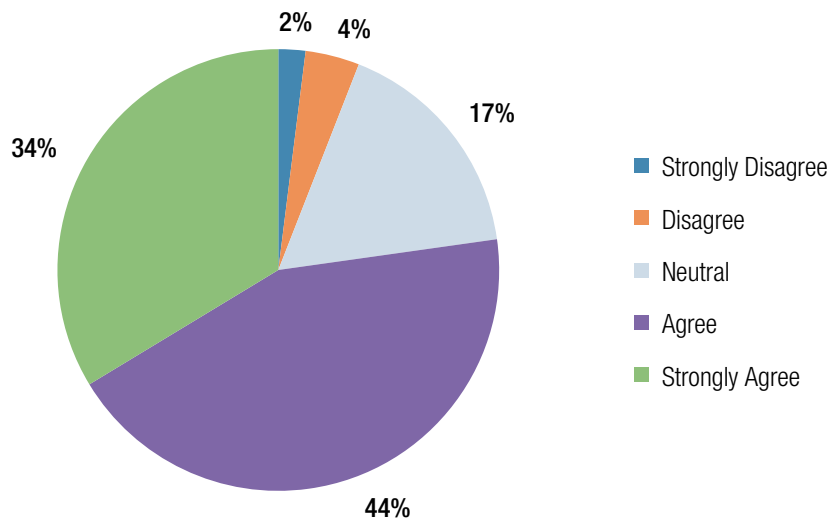
The majority of internal auditors Agree or Strongly Agree with the statement that conformance with The IIA's *Standards* and Code of Ethics is a key factor in adding value to the governance process (71% and 78% respectively). It should also be noted that this response rate also shows that nearly 30% do not agree fully with these statements (see figures 7.3 and 7.4).

Figure 7.3. Conformance with the *Standards* Adds Value to the Governance Process



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* is a key factor for your internal audit activity to add value to the governance process.

Figure 7.4. Conformance with The IIA's Code of Ethics Adds Value to the Governance Process



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Conformance with The IIA's Code of Ethics is a key factor for your internal audit activity to add value to the governance process.

For both statements, Africa was the region with the lowest percentage (less than 15%) for Strongly Disagrees, Disagree, or Neutral (see figures 7.4 and 7.5). We requested our interviewees to provide examples and reasons for nonconformance with the *Standards*. In Japan, a CAE pointed out two possible reasons for this unexpected high percentage of auditors that do not believe the *Standards* adds value: “a lack of knowledge of conformity with the *Standards* or a lack of recognition of the importance of it.” In Italy, a CAE highlighted



the fact that internal auditors may perceive conformance with the *Standards* as not adding value because nobody asks (the internal audit function) to comply with the *Standards*, so the internal audit departments are not aware of this need.

A CAE from the United Kingdom stated:

I would have answered that question in the same way to the extent the *Standards* are beatific. They are all about inputs, and adding value is all about outcome and quality of output. So if you look at the *Standards*, it is about the sort of expertise you have, it is about the methodology you have. It is sort of the access that you have. Those are essentially inputs into the process. If you talk about adding value, that is output and outcomes you create. I think that the IIA *Standards* are not expressed in those terms. So I can have all of the input and actually have no influence and add no value to the organization. To some extent we are producing guidelines for the financial services now, which are much more focused on outcome. I think it is a very different way of looking at *standards*. Secondly, the IIA guidelines are sort of a minimum standard. I thought that many people responding to this would say we are way past that.

Interviewees were invited to comment on their conformance or nonconformance with four specific IIA *Standards*: 1000, 1100, 1300, and 2600. Further detailed analysis of Standard 1300 is provided in appendix B.

## ATTRIBUTE STANDARDS

### ***AS 1100: Independence and Objectivity***

Most CAEs who were interviewed considered that an increase in awareness and conformance with Standard 1100 underlined the belief that the internal audit function has either adopted an audit charter or (as in China, for example) may not have an audit charter and their duties and responsibilities are defined by a company charter.

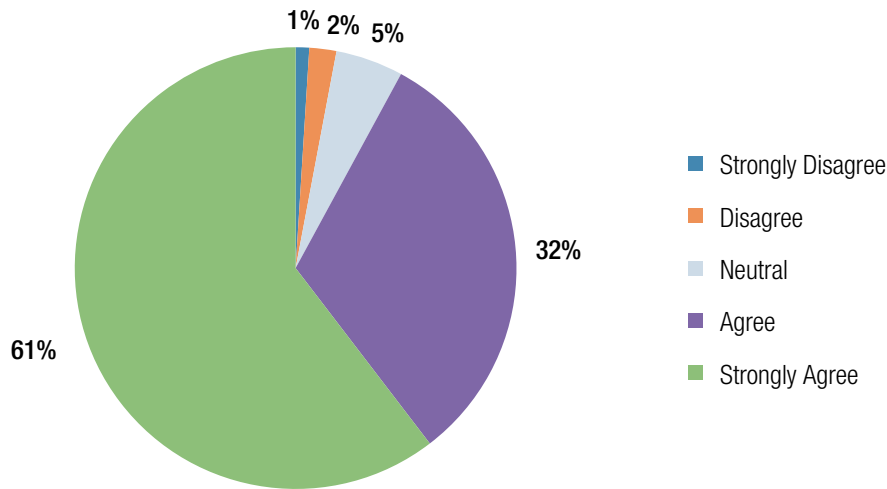
A CAE in Italy believed that the main reason for conformance with Standard 1000 is to clearly define the scope of internal audit activities:

What is “in” and what is “out” for the benefit of all the stakeholders, and to avoid unreasonable expectations or a misuse of the internal audit activity.

Explanations provided by interviewees for full conformance with Standard 1100 tended to converge on the premise that independence and objectivity are two fundamental attributes for the profession; so internal auditors place great emphasis on full conformance with that attribute. Conversely, in China (and some other countries), nonconformance with Standard 1100 is attributed to the fact that in some organizations, CAEs do not report to the board/audit committee but rather to the CFO or another executive director. Finally, it is worth noting that internal audit functions in organizations in both Japan and Australia generally comply with Standard 1100.

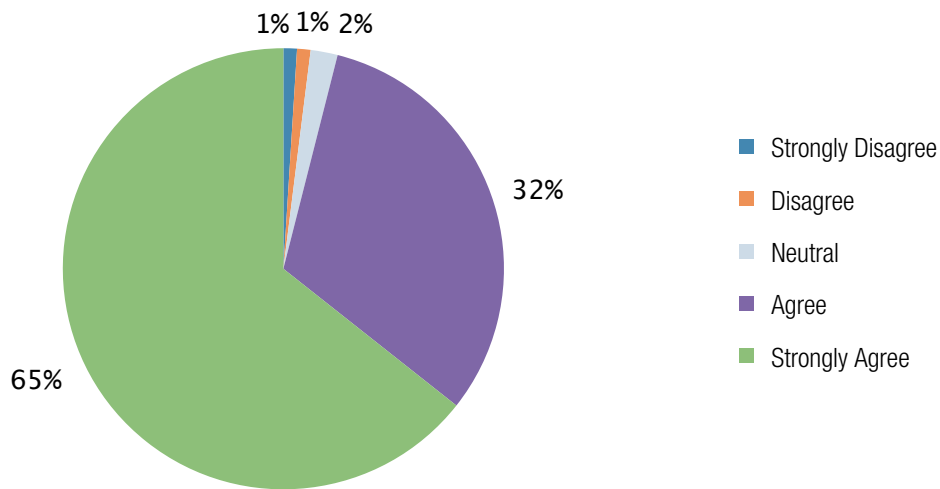
Analysis of the results for independence and objectivity as key contributory factors for internal audit adding value to the organization showed that more than 90% of participants Agree or Strongly Agree with the survey’s statements (see figures 7.5 and 7.6).

**Figure 7.5. Independence Is a Key Factor for Internal Audit to Add Value**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Independence is a key factor for your internal audit activity to add value.

**Figure 7.6. Objectivity Is a Key Factor for Internal Audit Activities to Add Value**



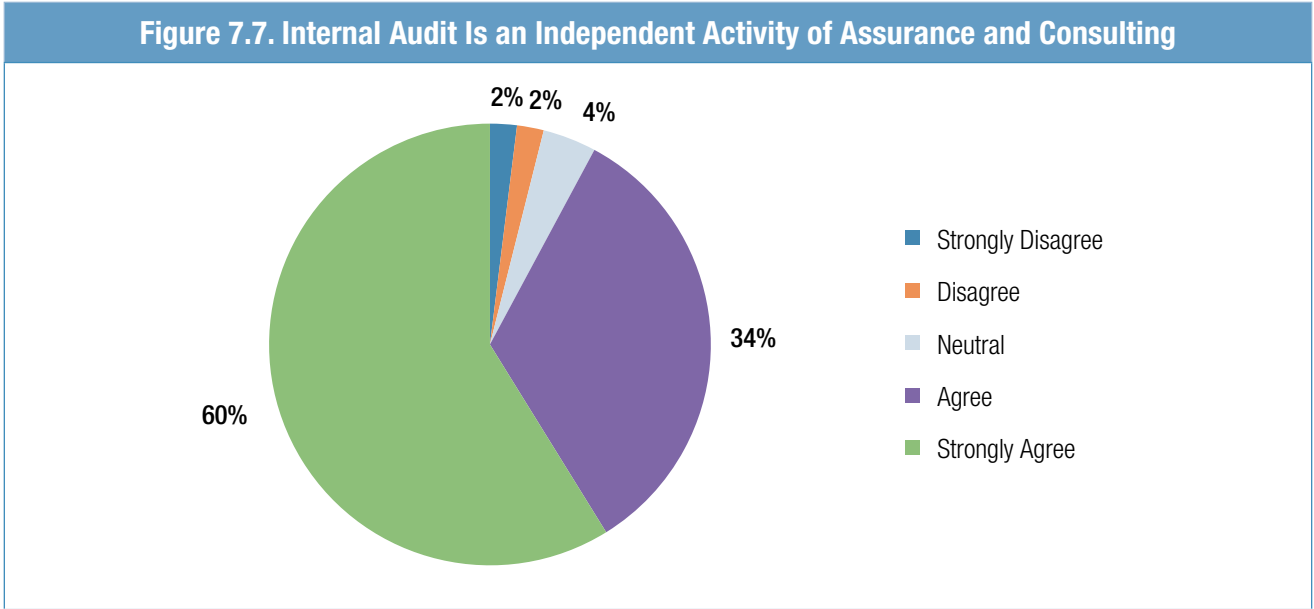
Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Objectivity is a key factor for your internal audit activity to add value.

The highest levels of agreement for both of these questions were found in Latin America/Caribbean. Across all regions, the levels of agreement were approximately 90%.

A comparison of responses regarding independence between 2006 and 2010 shows a general increase in the level of agreement that independence is a key contributing factor for internal audit functions adding value. Aggregating the responses for Agree and Strongly Agree in all the regions shows that there is an increase across all regions except for the Middle East, where it dropped slightly from 92% in 2006 to 88% in

2010 (see figure 7.5). The responses for objectivity (see figure 7.6) also clearly show a similar positive trend across all regions.

Analysis of the responses to the subsidiary statement “Your internal audit activity is an independent, objective, assurance and consulting activity” shows that the percentage of respondents that Agree or Strongly Agree is approximately 90% for all regions (see figure 7.7).



Source: The IIA’s 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Your internal audit activity is an independent objective assurance and consulting activity.

Furthermore, in all regions the percentage for Strongly Disagree, Disagree, and Neutral decreased when comparing 2010 with 2006 (see figure 7.7).

Audit committee members considered both independence and objectivity very critical for the capability of the internal audit function to add value for their organization/stakeholders. With respect to independence, a member of an audit committee in Australia stated:

An [internal audit function] is basically providing independent assurance to the business and you have to be independent.

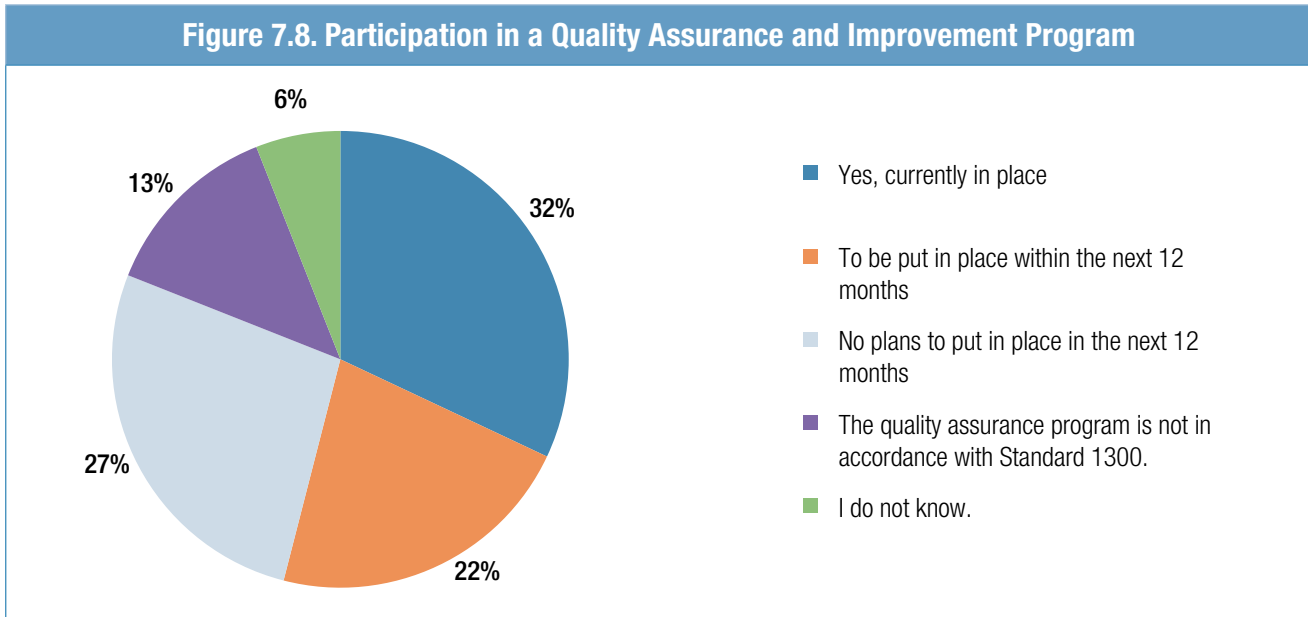
The same sentiment was expressed by an audit committee in the United Kingdom, who said:

...if they [internal auditors] don’t have the credibility then their opinion is worthless. A large part of it is actually ensuring that you have got that independence.

Finally, an audit committee member from Italy pointed out that independence and objectivity are the preconditions for the credibility of internal audit activities and for the trustworthiness of the information provided by internal auditors.

### Quality Assurance and Improvement Program (QA&IP)

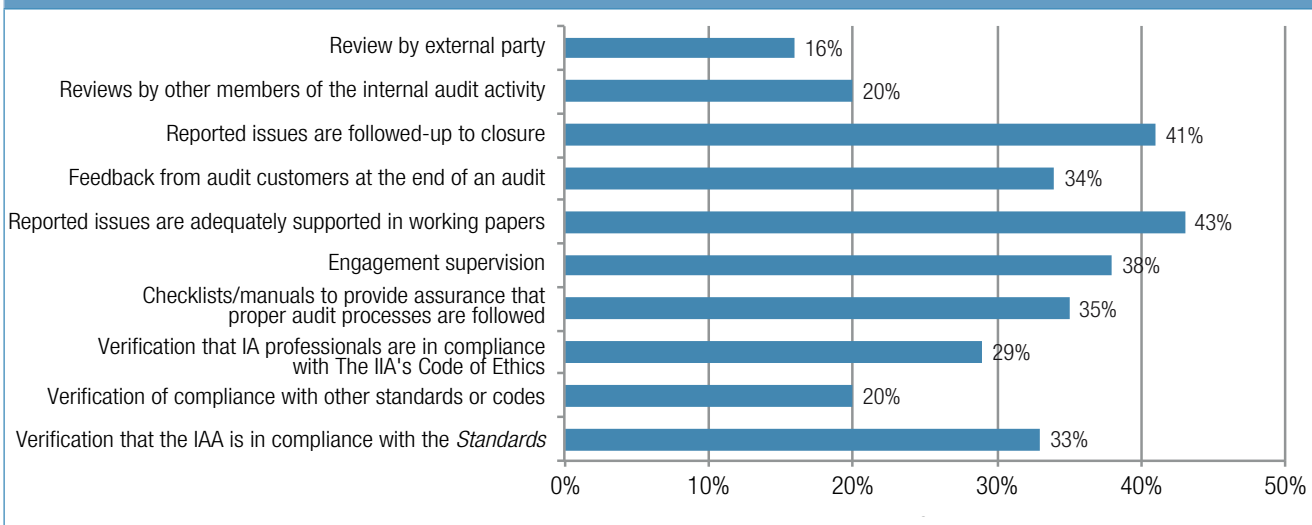
Figure 7.8 shows that globally, 32% of respondents in 2010 had a QA&IP currently in place. The highest percentage response (36%) was from the United States and Canada, and the lowest was from Asia-Pacific (25%) (see figure 7.9). Comparing these responses with those shown in figure 7.1 identified a discrepancy between those who said they are in full conformance (38%) and those saying the QA&IP is currently in place (32%). The only logical explanation is to assume that some respondents are working in organizations where there are plans to put a QA&IP in place within the next 12 months, and are taking the view that this means they are in full conformance.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 40c: Does your internal audit activity have a quality assessment and improvement program in place in accordance with Standard 1300: Quality Assurance and Improvement Program?

Responses to the questions about QA&IP activities (see figure 7.9) showed that the two most common actions to ensure good practice were for reported issues to be adequately supported in working papers (43%) and to be followed-up to closure (41%). There were also significant differences among regions.

**Figure 7.9. Participation in Activities Related to a Quality Assurance and Improvement Program**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOOK), question 38: For your internal audit activity, which of the following is part of your internal audit quality assessment and improvement program?

Comparing responses between 2010 and 2006 shows that the global average of the number of organizations that had a QA&IP in place decreased for most regions, including United States and Canada, Africa, Asia-Pacific, and Middle East (see figure 7.9). Motivations for the presence of a QA&IP differ between countries. In Italy and Japan, the most frequently cited reasons are that “nobody asks for it” and “CAEs do not want to ask for the funds for an external assessment” that could be perceived as a non-value-adding investment. In China, CAEs highlighted other factors such as the fact that a “QA&IP is quite a new issue in that country.” Indeed, the representative of The IIA in China states: “The IIA only started to promote QA&IPs since 2010.”

Nonconformance with internal audit *Standards*, including Standard 1300, is candidly expressed by a CAE in the United Arab Emirates who said:

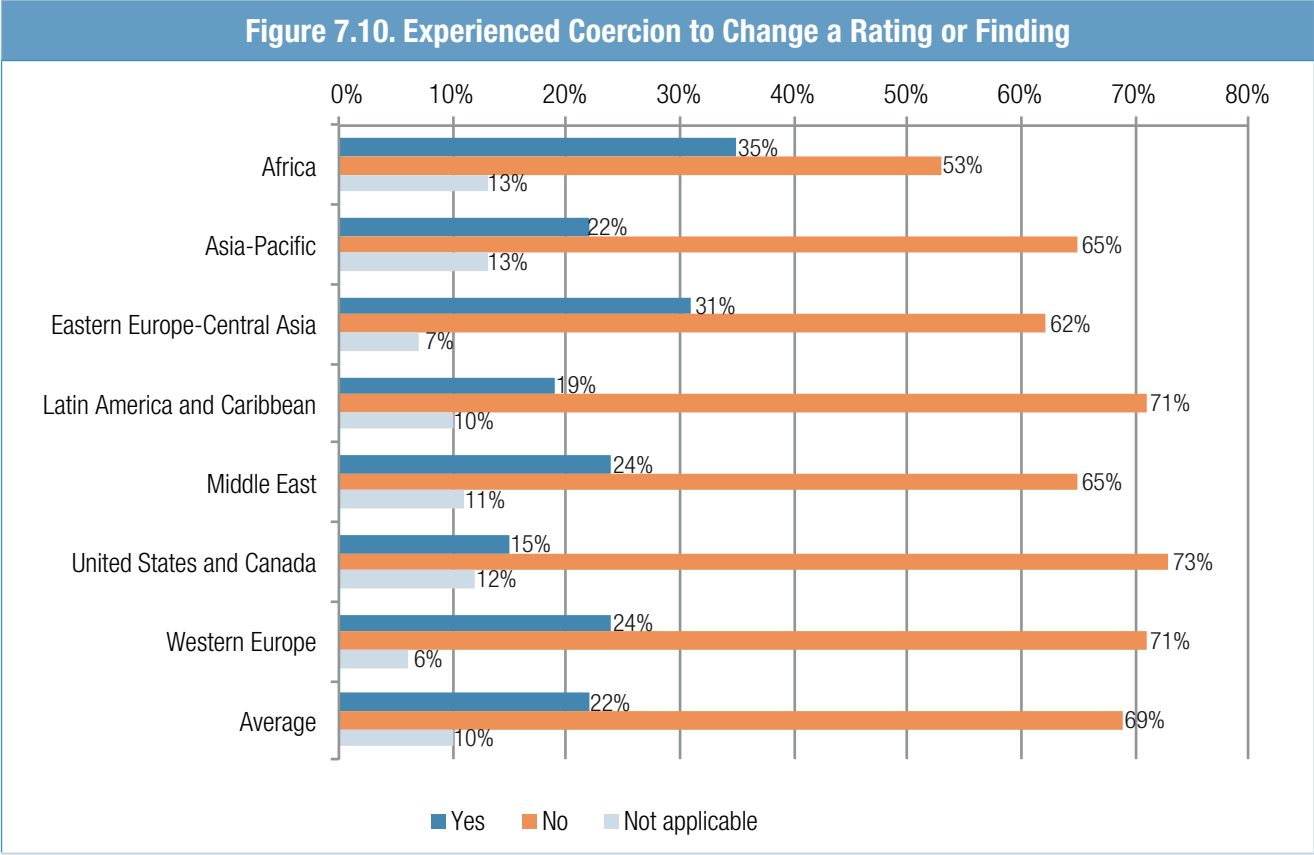
Conformance with the internal auditing *Standards* is not so visible to external stakeholders, and investing time and resources in this is therefore less of a priority.

## PERFORMANCE STANDARDS

The researchers strongly believe that the explanations provided for nonconformance with Standard 2600: Resolution of Senior Management's Acceptance of Risks highlight the dilemmas and challenges facing institutes and the profession. Interviewees in Italy and Australia drew our attention to the fact that nonconformance with Standard 2600 could be attributed to internal audit not seeking and not willing to be confrontational in disputing management's acceptance of risks.

This raises an important issue about internal auditors' credibility. If internal auditors are not always successful in gaining credibility, this could be the result of a number of perceived weaknesses within the internal audit function. The leadership of the internal audit function might not be respected, and this could be compounded if there is also a lack of credibility and internal auditors are presumed to have poor technical skills. This is an issue that must be addressed and, if necessary, corrected by institutes and practitioners if the profession is to thrive in the future.

Figure 7.10 shows that the likelihood of internal auditors being subject to coercion to change a rating or assessment or to withdraw a finding in an audit report is considered to be nonexistent by the majority of respondents (69%). The highest percentages of internal auditors who perceive themselves as being subject to coercion are found in Africa (35%) and Eastern Europe-Central Asia (31%).

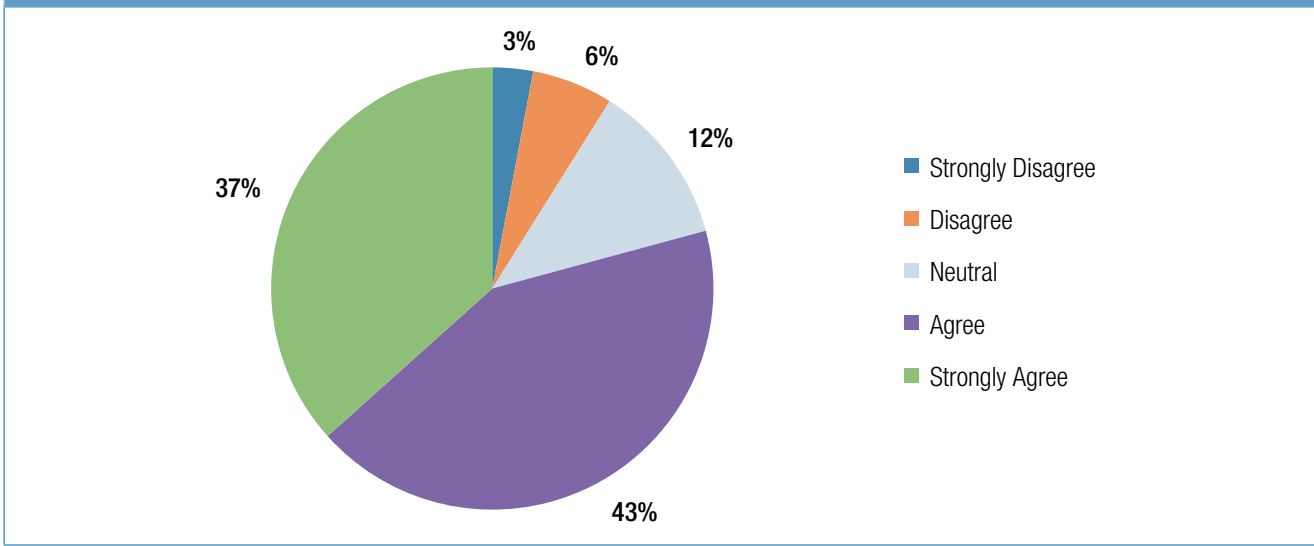


Source: The IIA’s 2010 Global Internal Audit Survey (a part of the CBOK), question 40c: Have you ever been subject to coercion (extreme pressure) to change a rating or assessment or to withdraw a finding in an internal audit report?

**STATUS VERSUS CREDIBILITY**

The majority of respondents (80%) believe that their status enables them to be effective in carrying out their activities in their organizations. There is also a sizeable minority (20%) who indicated that they Strongly Disagree, Disagree, or are Neutral regarding the statement “Internal audit has sufficient status in the organization to be effective” (see figure 7.11).

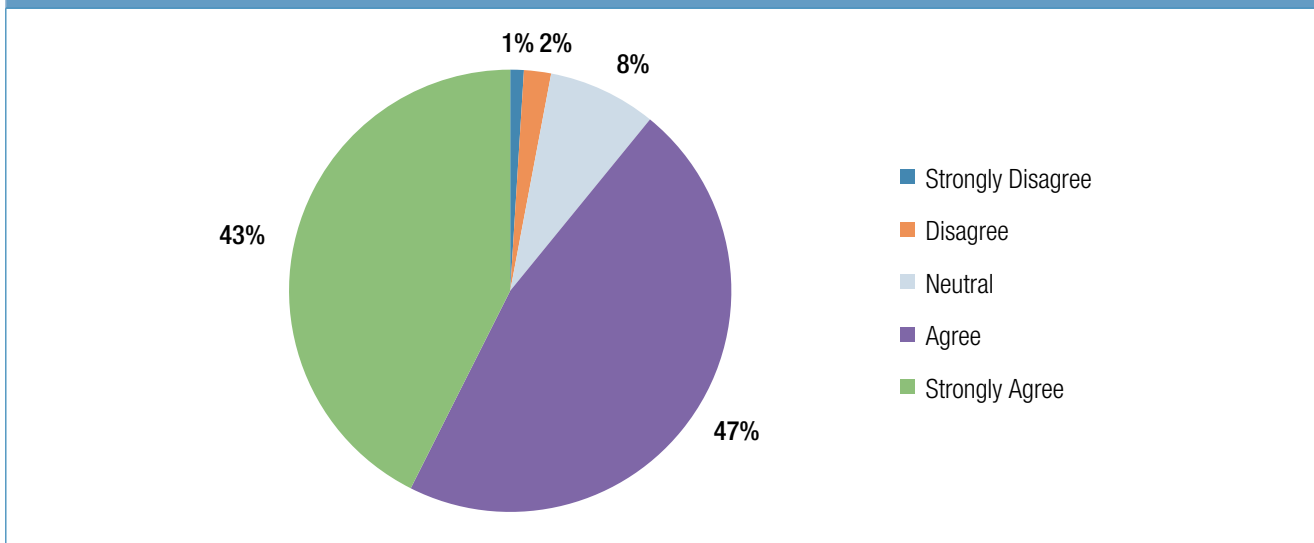
**Figure 7.11. Internal Audit Has Sufficient Status in the Organization to Be Effective**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Your internal audit activity has sufficient status in the organization to be effective.

Figure 7.12 highlights a very interesting phenomenon. We see that while 20% of respondents answered in the negative regarding the issue of internal audit status, this drops to only 10% in terms of internal audit credibility in their organizations. Put another way, respondents are telling us that while they may lack formal organizational status, the quality of their service and the positive responses of the users of these services give them a high level of credibility.

**Figure 7.12. Internal Audit Is Credible within the Organization**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Independence is a key factor for your internal audit activity to add value.

A good example is Latin America/Caribbean, where 5% Strongly Disagree or Disagree with the statement regarding their status in the organization, but this number completely disappears when credibility is measured. When comparing 2006 to 2010, the overall averages for Agree and Strongly Agree increase from 74% to 80% for internal audit function status, and from 83% to 90% for internal audit function credibility (see figures 7.11 and 7.12).

Interviewees from the United Kingdom, United States, Canada, and Australia gave a range of reasons to explain why internal audit functions do not always enjoy status or credibility in their organizations. They attributed this to the presence of different negative parameters associated with the function:

- The leadership that CAEs demonstrate
- The competency of internal auditors
- The nonprovision of assurance regarding risk management
- The importance that the board, the audit committee, and the CEO assign to the internal audit function

If internal audit functions are defined by these parameters, then the lack of sufficient status and credibility might be explained.

An audit committee member in the United States said:

I think sometimes [internal auditors] get hung up on status and level of reporting within an organization. I think it comes back to leadership. You can be a leader without a title if you want to.

Furthermore, a CAE in China indicated that:

In some organizations, internal auditors are working in a poor situation without an independent status because they report to the CFO or other line manager; they sometimes do not have a separate audit department or they have a small staff (2-3).

Lastly, an interviewee in Italy thought that these results may be due to the presence of “low-level people” in some internal audit functions, especially in those companies in which the CEO and senior manager do not consider the internal audit function to be a value-adding process.

### ***Implications for the Future***

The concluding statements set out clear future challenges for the institutes and practitioners. At the institute level, there is a growing need for national institutes to embark on an intensive and active dialogue with boards of directors and senior directors to promote the contribution that could be made by the institute and its *Standards*. Internationally, the role played by The IIA globally in the development and maintenance of COSO serves as an effective model. At a national level, an example is how IIA–UK and Ireland has taken the lead in promoting and enhancing the role of internal audit in the financial industry. National institutes could also work on developing the leadership of the profession, in particular those who believe that internal auditors can and should contribute positively to their organizations’ higher-level activities.



At the internal audit practitioner level, there is a need to encourage the recruitment and development of those who are willing to take a leadership role in raising the profile, credibility, and contribution of the internal audit function at a higher, strategic level. This might mean that CAEs in particular are drawn into discussions about management's acceptance of risk and education of audit committee members. It is likely that such debates would not be comfortable, but given the very strong message from the survey and interviews, the potential contribution of the internal audit function to risk and governance depends on credibility. Avoiding conflict carries the risk of missing opportunities to raise awareness of the importance of our work.



# ACTIVITIES, TOOLS, AND COMPETENCIES FOR INTERNAL AUDITORS

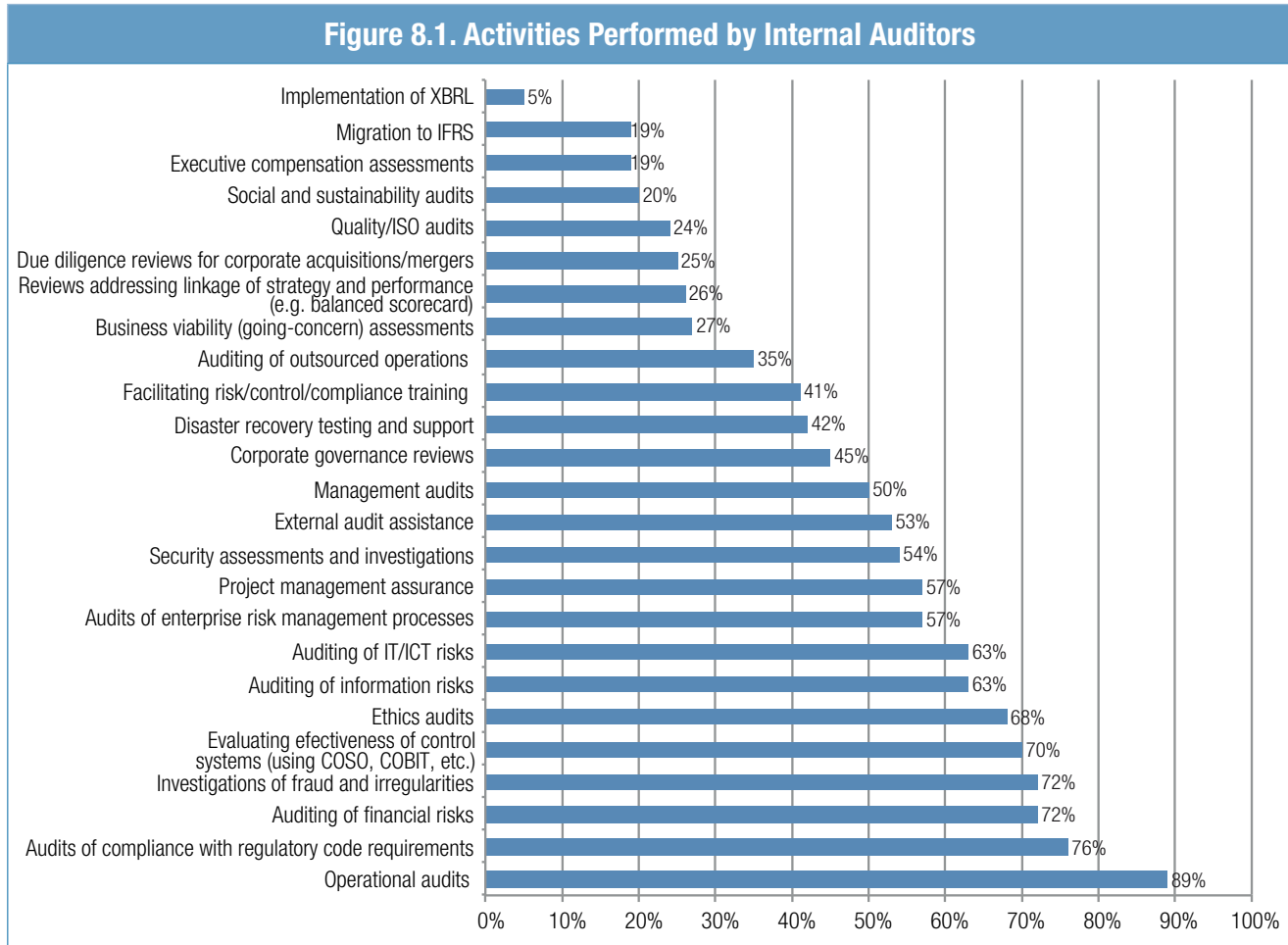
This chapter addresses the activities performed, the tools used by internal auditors, and the expected changes in the future. We also discuss the knowledge, skills, and competencies that internal auditors use in the work that they do now and expect to do in the future. The 2010 CBOK survey was designed to evaluate a wide range of skills and competencies. Given the global focus of the survey, the levels of maturity, and the range of diversity within the profession, it is natural that there is a wide range of responses. It should also be noted that technical and legislative issues can change rapidly and it is not always possible to make direct comparisons between what was reported in the 2006 survey and that of 2010. Where appropriate, some comparative findings are reported. We also investigate the behavioral and technical skills and the knowledge we need to develop to maintain our relevance and contribution to value-adding activities.

### *Key Findings*

1. Operational audits and audits of conformance with regulatory code requirements are the two most performed activities, while the least performed activity is the implementation of XBRL.
2. Internal auditors expect to make more contribution to strategy and to be involved with training audit committee members.
3. Behavioral skills, including leadership and acting as a catalyst for change, are issues that should be addressed by institutes and practitioners.

## ACTIVITIES

Figure 8.1 summarizes the results of respondents' answers to questions on the internal audit activities performed across all regions and illustrates further specific details.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 39: Please indicate whether your internal audit activity performs the following activities.

These results indicate that overall, the top five activities performed in 2010 across all regions are:

- Operational audits (89%)
- Audits of conformance with regulatory code requirements (76%)
- Auditing of financial risks (72%)
- Investigation of frauds and irregularities (72%)
- Evaluating effectiveness of control systems (using COSO, Control Objectives for Information and Related Technology [COBIT], etc.) (70%)

The five least performed activities performed in 2010 are:

- Implementation of XBRL (5%)

- Migration to the International Financial Reporting Standards (IFRS) (19%)
- Executive compensation assessment (19%)
- Social and sustainability audit (20%)
- Quality/International Organization for Standardization (ISO) audit (24%)

While statistical tests of results per region indicated significant differences in the activities performed among the seven geographical areas, it is interesting to note that there are also similarities. For example, when taking into account the ranking of activities in each region (see figure 8.2), in the United States and Canada and in Western Europe, the top five activities correspond with those that are shown as the global average and follow exactly the same ranking. In Africa, the top five activities are the same as those reported in United States and Canada and Western Europe, with only a slight difference in the ranking order. To summarize:

- In all regions, operational auditing is ranked first and the implementation of XBRL is ranked last.
- Conformance audit is positioned in the top five activities for all regions apart from the Middle East, while migration to IFRS and executive compensation are ranked in the five least performed activities in six regions.
- Ethics audits rank in the top five activities for the majority of regions (Asia-Pacific, Eastern Europe-Central Asia, Latin America/Caribbean, and Middle East).

The apparent dominant position of operational and conformance auditing was supported by most of our interviewees. Analysis of comments provided by interviewees regarding the top five reported activities showed that nearly all of them support the conclusion that operational auditing and conformance are the audit engagements most likely to be carried out by internal auditors.

A different interpretation was given by a CAE in China, who stated that while it was a fact that conformance is in the top five activities in some organizations, it is also likely that operational auditing is outside the agenda of internal audit. This is because in state-owned companies, the internal audit function is traditionally more focused on financial and conformance issues, investigation of fraud and/or irregularities, and other special projects such as accountability auditing.<sup>10</sup>

The opinions of the interviewees also diverged when considering the auditing of financial risks. While their overall belief was that in many nonfinancial organizations the percentage for this activity is a much lower priority for the internal audit function, CAEs working for financial institutions considered this activity to be one of the most performed in 2010 and also predicted that it will remain in the top five activities for the near future at least.

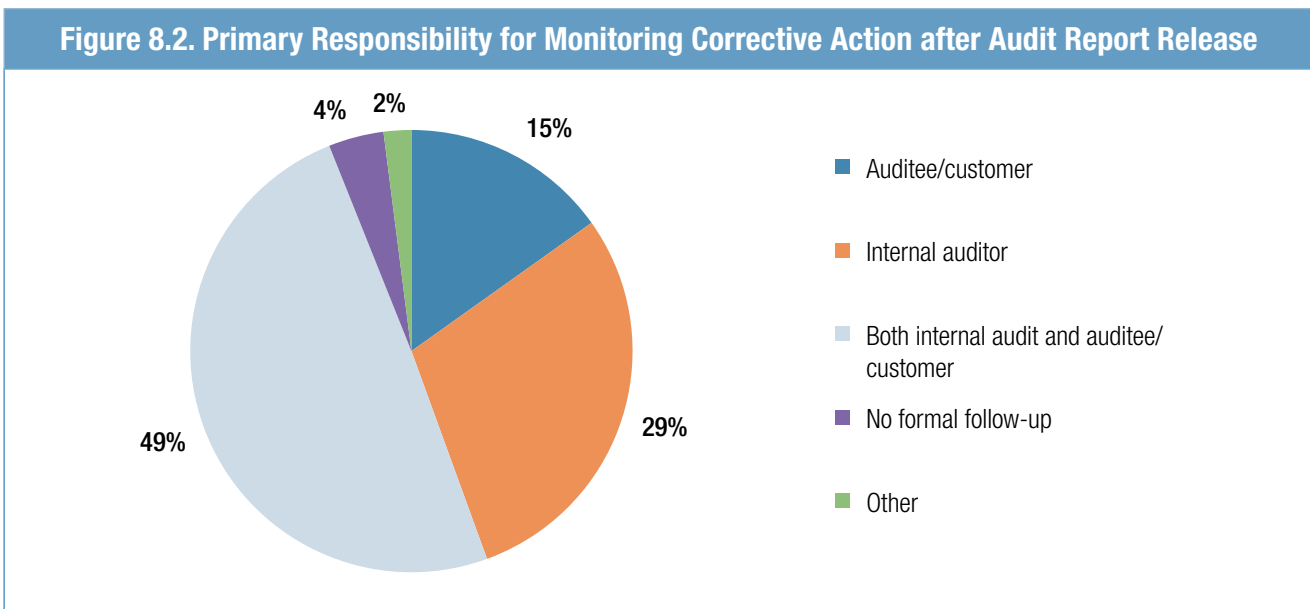
One interviewee in the United Arab Emirates explained the significant position given to “investigation of frauds and irregularities” in responses to the survey as the result of “the increase of frauds in this country due to the reported number of cases” and the presence of ethics audits as the result of “the absence of ethical codes.” To put this opinion in context, corporate governance guidance has a relatively short history in the Middle East, and there is also a strong tradition of family owned enterprises where formal internal control systems may not be present. But reputation and integrity are highly important issues, and recent (2013) initiatives have been developed to raise the awareness of business ethics.

Finally, an interviewee in the United Kingdom commented:

I think reputation is an area that is of current major worry and that is not on the list. Your reputation is critical these days. So auditing the things that affect reputation are not on that list and that is a puzzle. There is no prospect of looking at strategic-level things. The nearest you get is to look at regulatory code requirements. The relevance of the corporate plan is the vision of the organization as a measurable accomplishment.

### Monitoring Corrective Actions

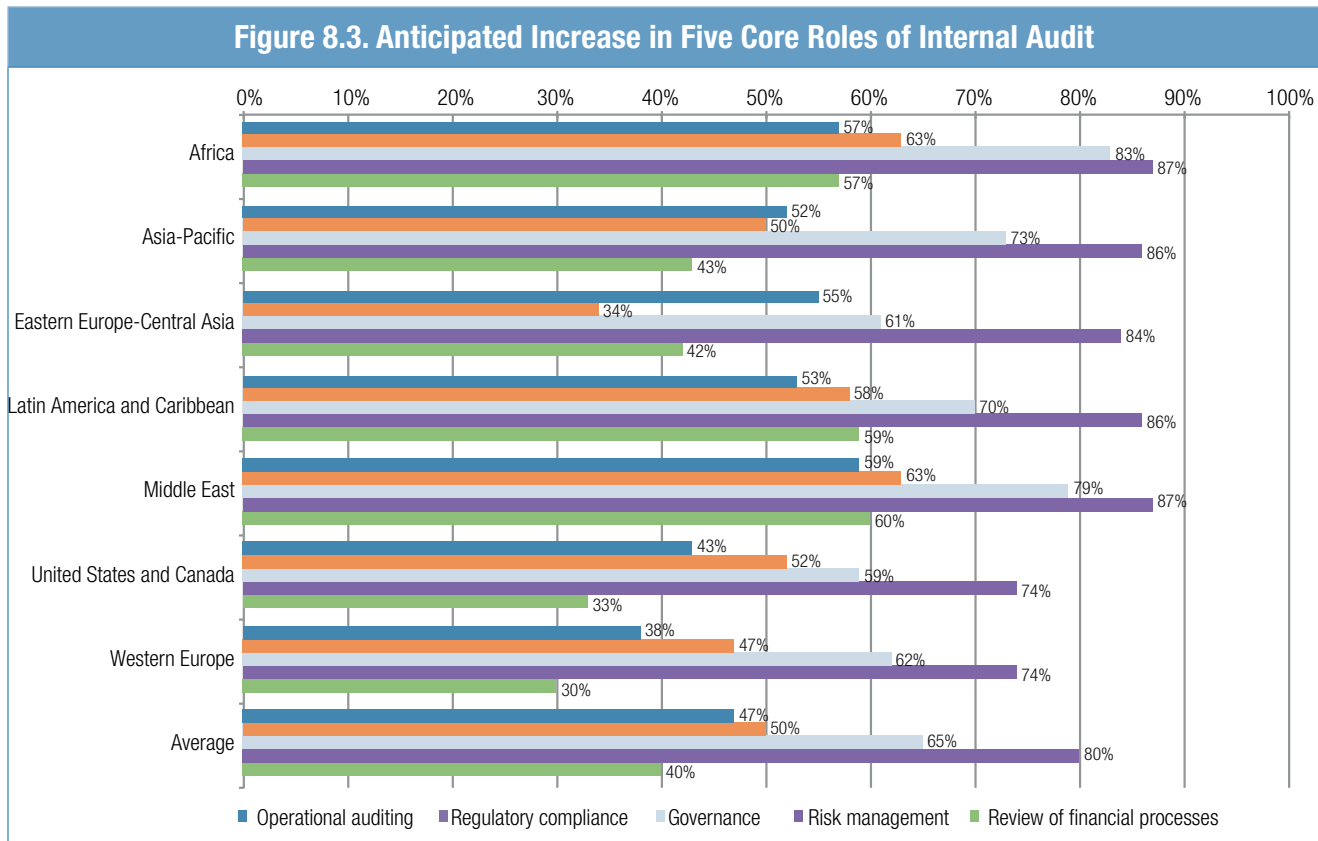
Where procedures exist to monitor corrective actions (follow-up), the highest percentage opinion regarding the person with the responsibility to monitor the corrective actions recommended by internal auditors and agreed with management is both the internal auditor and the auditee (49%) (see figure 8.2). Latin America/Caribbean has the highest percentage (15%) among the regions where formal follow-up procedures do not exist.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 42: After the release of an audit report with findings that need corrective action, who has the primary responsibility to monitor that corrective action has been taken?

## Expected Changes in Internal Audit Activities

Analysis of the expected changes in five roles of the internal audit function per region is shown in figure 8.3.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 47: Do you perceive likely changes in the following roles of the internal audit activity over the next five years?

Figure 8.3 shows that:

- The highest expectation of an increase in the review of financial processes was reported by the Middle East (60%), Latin America/Caribbean (59%), and Africa (57%). The overall average was 40%.
- The lowest expectation of an increase in the internal audit function's role in risk management was reported by the United States and Canada and Western Europe (both 74%). The overall average was 80%.
- The lowest expected increase in the internal audit function's role in governance was reported by the United States and Canada (59%), Eastern Europe-Central Asia (61%), and Western Europe (62%). The overall average was 65%.
- The highest expected increase in regulatory conformance was reported by Africa (63%), the Middle East (63%), and Latin America/Caribbean (58%). The average response was 50%.

- The highest expected increase in operational auditing was reported by the Middle East (59%), Africa (57%), Eastern Europe-Central Asia (55%), and Latin America (53%). The overall average was 47%.

These results indicate that the changing roles of the internal audit function in the next five years will not follow a uniform trend across the world. To some extent, this could be related to the relative age and maturity of the profession in the defined regions. In regions where the internal audit profession is younger (Africa,<sup>11</sup> Latin America/Caribbean,<sup>12</sup> and the Middle East<sup>13</sup>), the internal audit function is expected to evolve during the next five years toward roles that are already well established in more mature regions. In Western Europe<sup>14</sup> and the United States and Canada,<sup>15</sup> where the profession has been established for a longer period, the role of the profession in risk management and governance is more established than in other regions. The interviews support this interpretation of these trends. Both CAEs and IIA representatives expected the role of the internal audit function in risk management and corporate governance to increase in the next five years.

An audit committee member in Australia specifically highlighted the fact that the traditional focus of the internal audit function has always been on internal controls and that has developed into more of a risk management approach. “(...) I think this is historical... A modern approach is a top-down approach: corporate governance, risk management, and internal control. The corporate governance mechanism influences risk management and how effectively that is done. If you have a good risk management framework, then that influences the internal controls that are required.”

A different opinion emerged from interviews in China. Interviewees there highlighted their expectation that internal auditors will be more involved in the evaluation and improvement of the overall internal control system that exists in their organizations. Risk management will be part of this exercise. This expectation is based on the premise that internal audit activities may have involved some financial aspects of a company’s operations (like financial revenue and expenses), but they are now evolving toward the evaluation of internal control in support of senior management attempts to drive and establish enterprisewide internal control and risk management systems.

Possible reasons for the low priority given to the review of financial processes (in Western Europe and Australia) were investigated with interviewees. A major factor reported was that after the imperative in the early years of the century to comply with Sarbanes-Oxley and other codes and guidance, interviewees felt that the need to carry out this type of review was reduced. Now that organizations are Sarbanes-Oxley compliant, the internal auditors have a lesser need to look at the internal control over financial reporting.

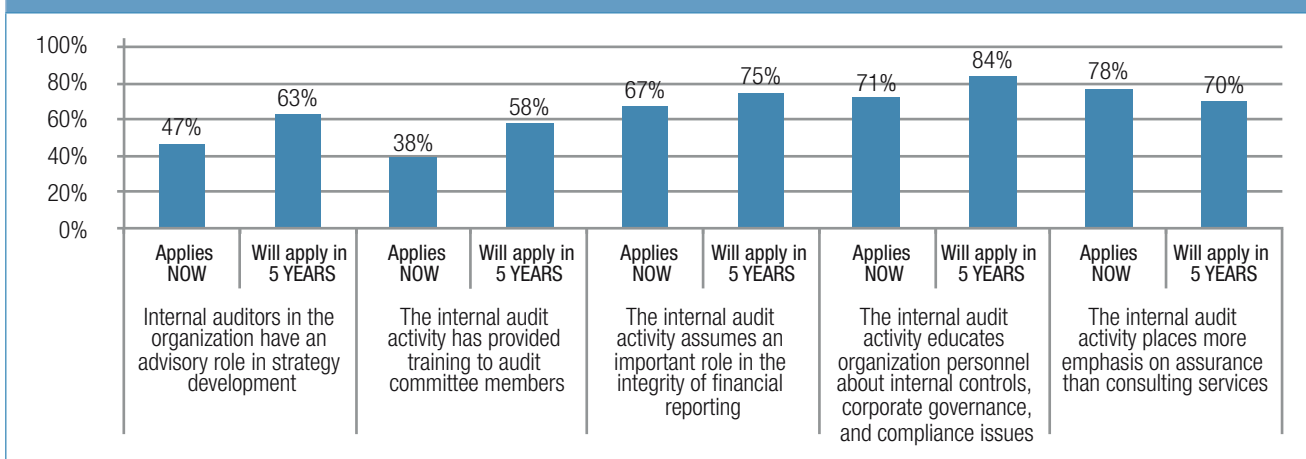
### ***Contribution to Senior Management Activities***

Further analysis of the five additional internal audit roles is presented in figure 8.4.

Results at the regional level are shown in table 8.5 in appendix B.

It can be seen that a larger proportion of respondents expect to become more involved in strategy development in the next five years in the Middle East (27% increase) and in Latin America/Caribbean (23% increase). Conversely, this expectation is much lower in regions where the profession is well established, such as the United States and Canada, where 13% of the respondents expect to become involved if they currently are not. In Western Europe, the increase is 15%.

**Figure 8.4. Anticipated Change in Additional Internal Audit Activities**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 48: Please indicate if the following statements apply to your organization now, in the next five years, or will not apply in the foreseeable future.

The largest increase in the proportion of respondents that expect the internal audit function to provide training for audit committee members in the next five years can be found in the Middle East (44% increase) and Africa (31% increase). The high expectations in these regions might be linked to the important improvements (current and expected) in the governance and internal control contexts of organizations in this region. The smallest increase (5%) in the proportion of respondents that expect the internal audit function to provide a role in the integrity of financial reporting was found in the United States and Canada.

With respect to the balance of assurance and consulting, during the next five years, results show that the largest decrease in the proportion of respondents who believe that “the internal audit activity places more emphasis on assurance than consulting services” can be found in Asia-Pacific (13% decrease) and the United States and Canada (10% decrease).

Further analysis of the expected changes in the top five roles that the internal audit function roles will play per region shows that the highest percentage of respondents expecting corporate governance reviews and ethics audits to be performed in the next five years (if currently not performed) came from the Middle East (39% and 30% respectively), Latin America/Caribbean (30% and 23% respectively), and Eastern Europe-Central Asia (29% and 25% respectively). The overall average response was 23% for corporate governance reviews and 19% for ethics audits.

Similar results can be found when looking at the expected increase in social and sustainability audits. It should be noted that these are issues where the most significant changes in the governance and internal control contexts are expected, so it is understandable that internal audit function activities will also be reoriented to governance and ethics. This can also be linked to the higher percentage of respondents from Eastern Europe-Central Asia (28%) and the Middle East (26%). The frequency of respondents expecting to perform social and sustainability audits in the next five years (if not currently performed) is also higher than average from respondents in the Middle East (30% compared to an overall average of 19%), with a lower than average response from internal audit practitioners located in the United States and Canada (14%).

The lowest percentage of respondents who expect that reviews addressing the linkage between strategy and performance will be performed in the next five years (if not currently performed) came from the United States and Canada (17%) and Western Europe (18%). This can be linked to a previous finding that showed that in countries where the profession is more highly established, practitioners have a lesser aspiration to play



a role in strategy development. Alternatively, they may already be playing such a role and their aspirations have already been met.

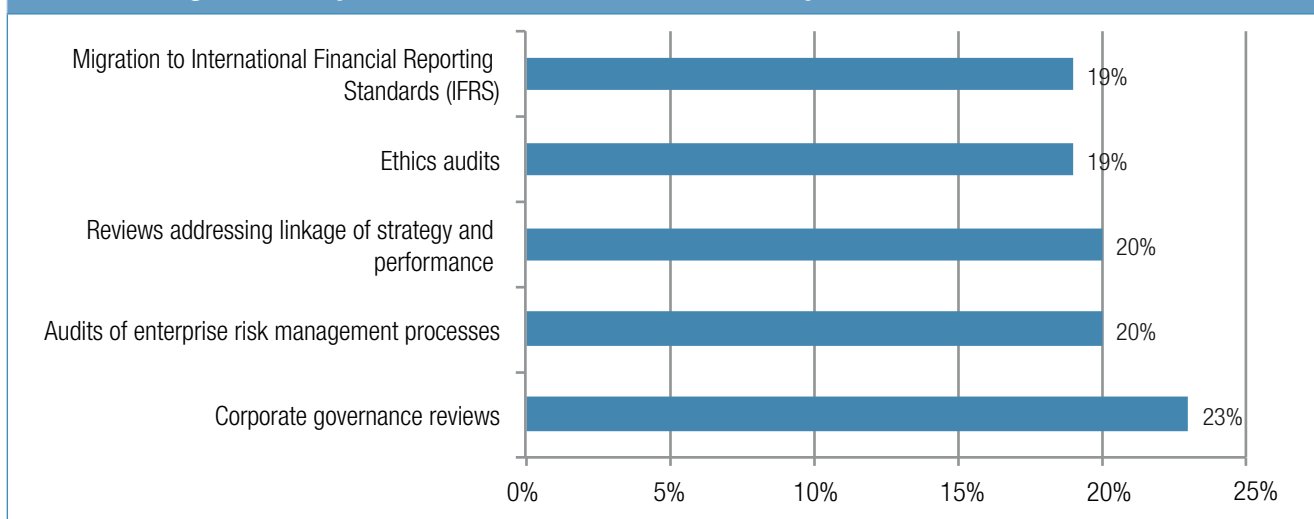
The expected involvement of the internal audit function in the migration to IFRS is highest in the Middle East (27%), the Asia-Pacific region (26%), Latin America/Caribbean (24%), and the United States and Canada (22%) but lower than the overall average of 19% in Western Europe (9%). This might be explained by the fact that in Western Europe, the implementation of IFRS is already relatively advanced (effective since January 2005).

Finally, the increase in the proportion of respondents expecting to be involved in disaster recovery testing and support is higher than the average figure of 18% in Eastern Europe-Central Asia (24%), the Middle East (21%), and Latin America/Caribbean (21%).

An audit committee member from the United States proposed a potential normative role for internal auditors to play in order to support the audit committee members to discharge their duties and responsibilities:

Audit committees have a lot of responsibilities and the only way they can really execute on that in a qualitative manner is to really understand the organization, understand the control environment, understand the strengths and the opportunities, and be able to put both in a strategic and tactical way. So I think it is absolutely critical that the internal audit department, the head of internal audit, anyone in the department is viewed as an advisor and educator for the audit committee.

**Figure 8.5. Top Five Internal Audit Activities Anticipated in the Next Five Years**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 39: Please indicate whether your internal audit activity is anticipated to perform the following (...)

Many interviewees working in Western Europe, United States and Canada, and Japan expected audits of enterprise risk management (ERM) to become more important, and in the future for it to be in the list of the top five activities performed by the internal audit function. This result is consistent with the positive trend expected in these regions/countries regarding the increase in the contribution of internal audit in risk management.

CAEs also believe that operational auditing, auditing of financial risks, and the investigation of fraud and irregularities will remain in the top five activities performed. Some of them also believe that operational

auditing will increase in importance because they expect senior managers to ask for internal audit to provide more assurance and consulting to improve operations.

CAEs in Japan believe that internal auditors will be seen as business partners, providing services to senior management and helping to improve organizational performance.

It is interesting to note that expectations of the interviewees regarding conformance auditing differ. Some in Italy and Japan do not include conformance in the top five, while others keep it in the top activities to be performed because of the need to balance the satisfaction of senior management for business improvement with meeting regulatory requirements.

In China, CAEs expect that the evaluation of the effectiveness of the internal control system will probably become the first activity in the upcoming five years, due to many organizations needing to improve their control activities. Conformance auditing will also remain in the top five, as will the investigation of fraud and irregularities and the accountability auditing activities performed in state-owned companies and in governments.

## TOOLS AND TECHNIQUES

The top five tools adopted by internal auditors in the performance of auditing activities as reported in CBOK 2010 are presented in figure 8.6. A more detailed view for the different regions is provided in figure 8.7.

The top five tools used overall are:

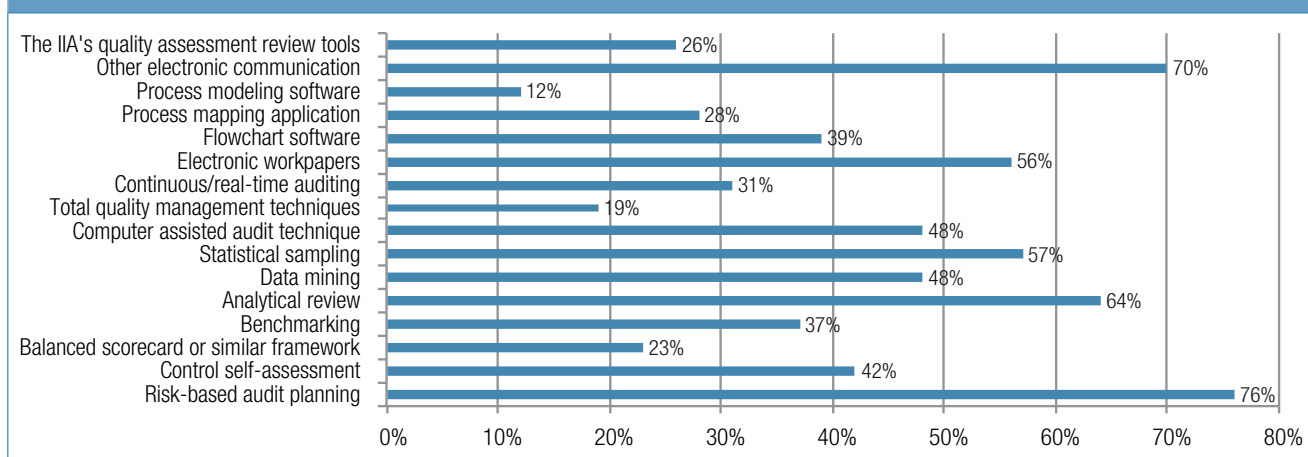
- Risk-based audit planning (76%)
- Other electronic communication (e.g., Internet, email) (70%)
- Analytical review (64%)
- Statistical sampling (57%)
- Electronic working papers (56%)

The bottom five tools used in 2010 were:

- Process modeling software (12%)
- Total quality management (TQM) techniques (19%)
- Balanced scorecard or similar framework (23%)
- The IIA's quality assessment review tools (26%)
- Process mapping application (28%)

We can see that tools preferred by CAEs are pure internal auditor tools and those that are least preferred are those used by senior managers (for example, balanced scorecards). This should be seen as a significant potential opportunity for CAEs to speak the same language as the top management by using their key metrics and tools wherever possible.

**Figure 8.6. Tools and Techniques Currently Used by Internal Auditors**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 43a: Indicate the extent the internal audit activity uses the following audit tools or techniques on a typical audit engagement.

One possible reason for the low use of The IIA's quality assessment tools is that only 31% of organizations had a QA&IP already in place in 2010 (discussed in chapter 7).

By ranking the tools used in each region (see figures 8.6 and 8.7), it can be seen that there are similarities between geographical areas:

- In the United States and Canada, Western Europe, and Africa, the same top five tools are most used, and these are also ranked in the same order.
- In all the regions, the risk-based audit plan is ranked first while process modeling software is ranked last.
- In all the regions, other electronic communication and analytical review are positioned in the top three tools, while TQM techniques and the balanced scorecard and similar frameworks are in the least five used tools.
- Within the top five activities in each region, the outliers are control self-assessment for Asia-Pacific, CAATs in the Middle East, and data mining in Eastern Europe.

The majority of the interviewees indicated their agreement with the survey's results regarding the top five audit tools used by auditors in the performance of the audit work.

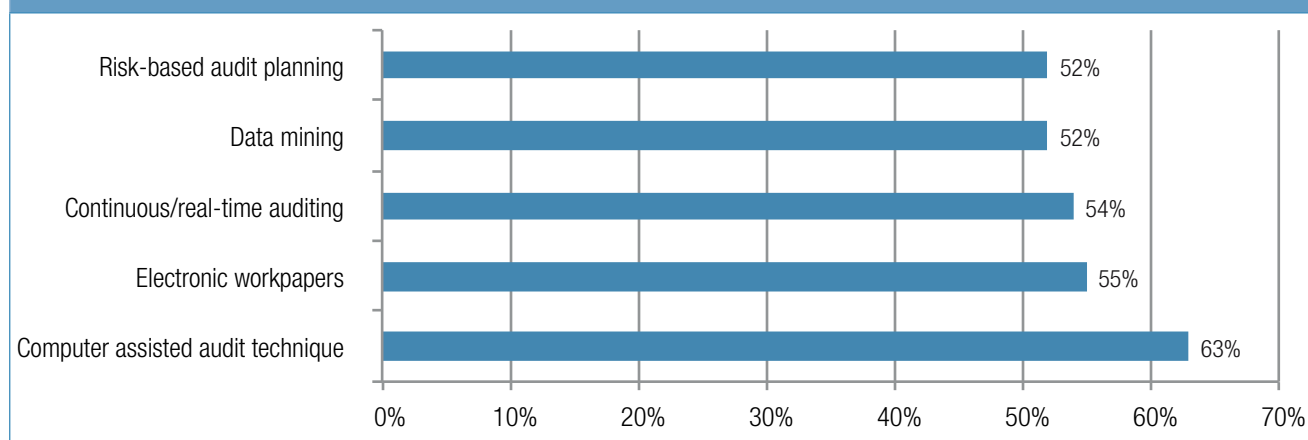
An interviewee in Italy stated that a risk-based audit plan is in the top five because "it is recommended by the professional standards," electronic communication and electronic workpapers are part of the day-by-day work performed by internal auditors, while analytical review and statistical sampling are two traditional tools used to perform the audit engagements.

Despite the general agreement, caution is needed when looking at the regions. For example, one of the interviewees in Australia explained the presence of control self-assessment (CSA) techniques in the top five tools used in the region by the sizeable number of organizations that are using CSA, involving managers in the evaluation of the control activities as a vehicle for helping managers better understand their control environment and their responsibilities for managing it. This practice does not appear to be as widespread in China and Japan.

Figure 8.7 shows that the top five tools and techniques to be used in the next five years differ significantly among regions. In particular:

- The highest proportion of respondents who expected to use CAATs was reported in the Middle East (73%), Latin America/Caribbean (71%), and the United States and Canada (65%). The lowest expectation was from respondents in the Asia-Pacific region (58%). The overall average was 63%.
- The highest proportion of respondents who expected to use electronic workpapers was reported by the Middle East (60%). The lowest expectation was from respondents in the United States and Canada (26%), Western Europe (32%), the Asia-Pacific region (32%), Africa (38%), and Eastern Europe-Central Asia (45%). The overall average was 55%.
- The highest proportion of respondents who expected to use continuous/real-time auditing was reported from Latin America/Caribbean (67%) and the United States and Canada (62%). The lowest expectation was from respondents in Eastern Europe-Central Asia (42%), Asia-Pacific (49%), and Western Europe (46%). The overall average was 54%.
- The highest proportion of respondents who expected to use data mining was reported from the Middle East (66%) and the United States and Canada (64%). The lowest expectation was from respondents in Eastern Europe-Central Asia (33%), Latin America/Caribbean (48%), and Asia-Pacific (45%). The overall average was 52%.
- The highest proportion of respondents who expected to use risk-based audit planning was from the Middle East (75%), Latin America/Caribbean (72%), Africa (62%), and Asia-Pacific (55%). The lowest expectation was from respondents in Western Europe (45%) and the United States and Canada (44%). The overall average was 52%.

**Figure 8.7. Top Five Tools and Techniques Anticipated to Be Used in the Next Five Years**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 43a: Indicate the extent the internal audit activity plans to use the following audit tools or techniques on a typical audit engagement.

The opinions of interviewees regarding these results differed slightly from the overall results of the survey. In all regions, interviewees predicted a more intensive use of CAATs to improve the analysis of a large amount of data and to enhance the effectiveness and efficiency of auditing activities. In particular, CAEs in Italy and the United Arab Emirates foresaw a growing use of CAATs with the implementation of continuous auditing. The integration of CAATs and continuous auditing with audit planning would allow auditors to continuously update their plans in response to any new risks that might emerge. This view is supported by a CAE in Japan who asserted that in the future, CAATs coupled with continuous auditing will replace statistical sampling in the top five tools and techniques used by internal auditors.

Finally, it is considered that risk-based audit plans will remain in the top five tools and techniques. Interviewees believed that if plans were based on the analysis of the key risks associated with the strategic plans of the organization, this would enable CAEs to ensure a better alignment of their audit plans with organizational needs.

## COMPETENCIES AND SKILLS

The research team believes that the survey shows internal auditors' general competencies are underpinned by their understanding and mastery of specific areas of knowledge. These areas were identified by the respondents as:

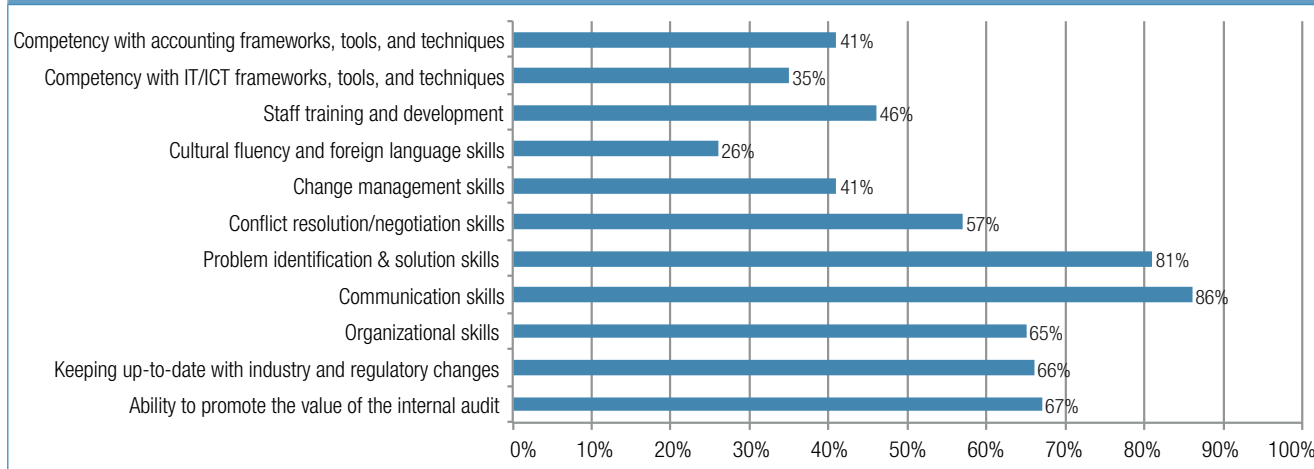
- Auditing (84%)
- Internal audit standards (76%)
- Ethics (64%)
- Fraud awareness (61%)
- Enterprise risk management (58%)

Further details are illustrated in figures 8.8 and 8.9.

The top five general competencies rated as very important by respondents globally shown in figure 8.8 are:

- Communication skills (86%)
- Problem identification and solution skills (81%)
- Ability to promote the value of the internal audit (67%)
- Keeping up-to-date with industry and regulatory changes (66%)
- Organizational skills (65%)

**Figure 8.8. General Competencies Rated as Very Important**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 46: Please mark the five most important of the following competencies for each level of professional rank to perform their work.

Figure 8.8 shows the ranking of the top five competencies within regions. It is interesting to note that:

- Respondents from Western Europe, Africa, United States and Canada, and Middle East indicate the same top five competencies to be very important. Furthermore, in Western Europe and Africa, these competencies are also ranked in the same order.
- Communication skills are ranked first in all regions.

The outliers (in Latin America and Caribbean) show that staff training is in the top five competencies. A possible reason for this result can be found when taking into account the results associated with how organizations compensate for missing skills. Chapter 6 shows that this region has the highest percentage for reducing the area of coverage to compensate for missing skills.

Conflict resolution is in the top five competencies selected by respondents from Asia-Pacific. This might be explained by the region having the highest percentage of internal auditors being subject to coercion in the performance of audit activities (see chapter 7).

### **Skills: Behavioral Skills**

With respect to the behavioral skills rated as very important by the participants, figure 8.9 shows that overall the top five are:

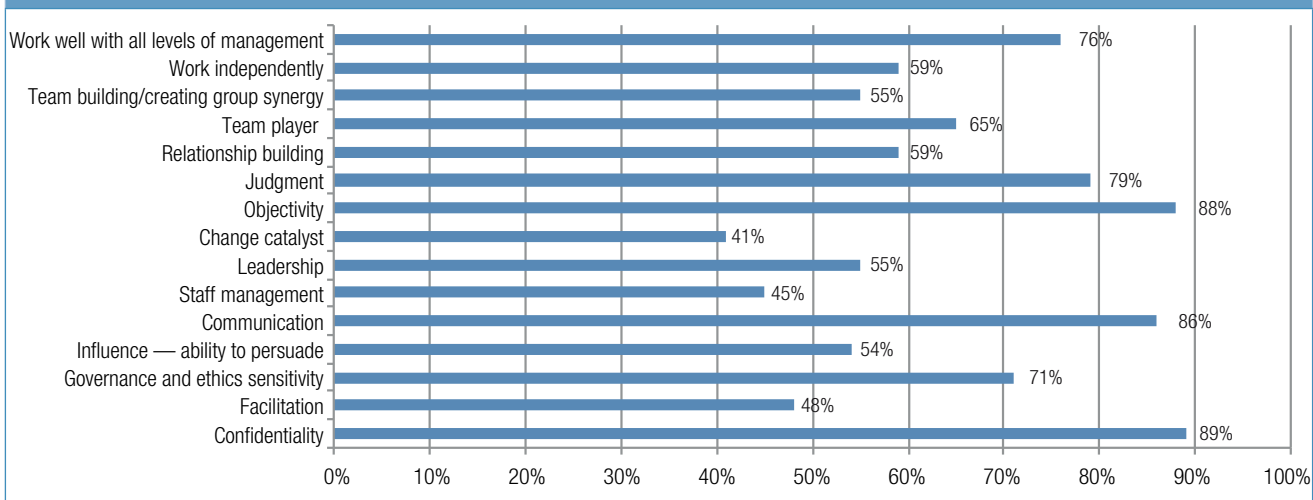
- Confidentiality (89%)

- Objectivity (88%)
- Communication (86%)
- Judgment (79%)
- Work well with all levels of management (76%)

The bottom six rankings are:

- Change catalyst (41%)
- Staff management (45%)
- Facilitation (48%)
- Influence – ability to persuade (55%)
- Leadership (55%)
- Team building (55%)

**Figure 8.9. Behavioral Skills Rated as Very Important**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 44a: Please indicate the importance of the following behavioral skills for you to perform your work at your position in the organization.

The ranking for the top five behavioral skills per region (see figure 8.9) shows that:

- In all regions except Latin America and Caribbean, confidentiality, objectivity, and communication are ranked in the top three positions.
- No other regions show the same order.

The outlier for behavioral skills is governance and ethics sensitivity. This is positioned in the top five behavioral skills for Asia-Pacific, Eastern Europe-Central Asia, Latin America/Caribbean, and the Middle East. If this result is linked with the activities most performed in the regions, it is interesting to note that ethics audits are in the top five activities in Latin America/Caribbean and Middle East.

Analysis of the bottom five behavioral skills (see table 8.17 in appendix B) inferred from the average of all respondents shows results that the researchers believe to be worrisome and in need of further investigation. For example, change catalyst is at the bottom of the list; in our opinion, this is a very poor perception by the respondents of the role internal auditors should play as a change agent in the organization. The lowest score among the regions is shown by Western Europe and Asia-Pacific. The same concern needs to be expressed for leadership where respondents show that they do not consider leadership to be a high priority for internal audit professionals, given the lowest level of agreement shown by Eastern Europe-Central Asia and Western Europe.

Behavioral skills are not a straightforward issue. CAEs interviewed in Australia, Italy, and the United States expressed their disagreement that confidentiality and objectivity should be in the list of such skills. In their opinion, they are not skills but principles that should be considered as an absolute given. Furthermore, most of them considered communication as the most important skill.

This was clearly articulated by an Australian CAE:

I could have the most technically proficient auditor undertake and evaluate the most complex situation, but if they are not able to articulate, influence, collaborate, to me communication skills are paramount through that.

Another view came from China where it is interesting to analyze the relationship that exists between objectivity and effectiveness of communication. A CAE asserted that objectivity is the most important behavioral skill, followed by confidentiality, because it is crucial for building a relationship with the auditee: establishing trust, which then makes flows of communication easier and more effective.

A CAE from the United Kingdom with a team of 250 auditors perceived the most important behavioral skills to be team management:

Yes, I think all of those [are] important. I sort of noted down as I read it that there were two things that were absent for me that are important, one is team, how you work effectively in a team. You take my own organization and I have 250 people wandering around the organization with the right to look at everything trying to put their noses into anything they want to. How do I harvest those effectively, the feedback from those 250 people ... to do that effectively, you need a very strong team player who can communicate effectively, very well within the team.

### **Skills: Technical Skills**

Overall the top five technical skills shown in figure 8.10 as rated very important by the respondents are:

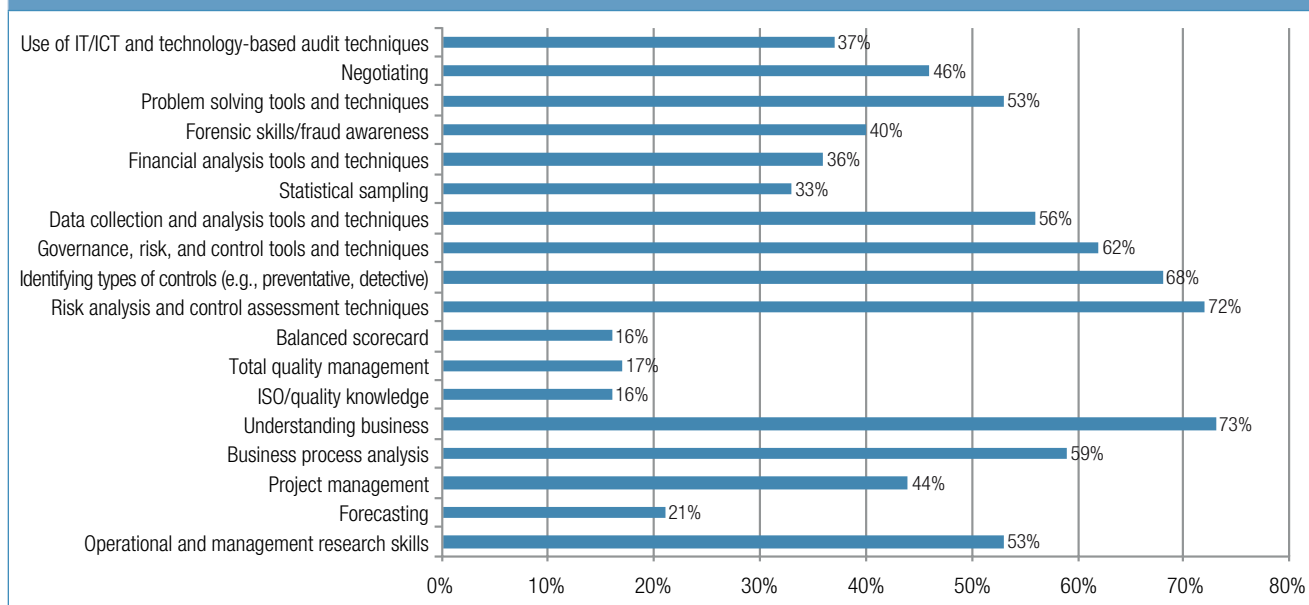
- Understanding business (73%)
- Risk analysis and control assessment techniques (72%)
- Identifying types of controls (68%)
- Governance, risk, and control tools and techniques (62%)
- Business process analysis (59%)



The bottom five are:

- TQM (17%)
- ISO/quality knowledge (16%)
- Balanced scorecard (16%)
- Forecasting (21%)
- Statistical sampling (33%)

**Figure 8.10. Technical Skills Rated as Very Important**



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 45a: Please indicate the importance of the following technical skills for you to perform your work at your position in the organization.

Considering the results per region, statistical tests indicate that significant differences among the seven geographical areas exist for the technical skills analyzed.

The rank given to technical skills in each region (see tables 8.19 and 8.20 in appendix B) shows that:

- Risk analysis and identifying types of controls are the only technical skills that are in the top five for every region.
- Latin America/Caribbean is the only region in which understanding business is not in the top five.
- In the United States and Canada, problem-solving techniques are in the top five.

The bottom five technical skills are represented by statistical sampling, forecasting, total quality management, ISO/quality knowledge, and balanced scorecard. Africa, Asia-Pacific, Latin America/Caribbean, and the United States and Canada show a very similar ranking order.

Interviewees were asked to explain the survey's results: all the CAEs believed that they provide an exact representation of the technical skills internal audit functions should possess in all the countries analyzed.

The interviews highlighted their agreement with the logical sequence that exists between the three most important technical skills: understanding the business, risk analysis, and internal control. To be effective, internal auditors need to understand the key business objectives, focus their analysis on the top business risk, and help the organization identify and resolve the weaknesses of the control system.

### ***Expected Changes for the Next Five Years***

The interviewees were asked to indicate if they expected these skills to change in the next five years and to explain their answers. Their responses show that significant changes are expected. One CAE considered business acumen (a broad knowledge of the company's operations and its related risks) and analytical and critical thinking to become one of the top five skills, replacing judgment and confidentiality. Another CAE indicated that the capability to understand what the leaders want will become part of the top five behavioral skills.

Interviewees in Japan and Russia included in their lists of the top five skills to emerge in the next five years the ability to act as advisor and provider of consulting services to management. This opinion reflects the fact that senior managers are asking the internal audit function to perform more consulting work than was the case in the past.

Interviewees in Australia, Japan, and United Arab Emirates maintained that the internal auditor's IT skills will become more important due to a greater use of technologies such as cloud computing, e-commerce, and social media. This increase in IT skills needed by internal auditors can be linked to a more extensive use of CAATs, such as data mining, business intelligence, and predictive analysis.

### ***Implications for the Future***

It is clear from the survey that IT/IS competencies and skills will continue to be an area that will challenge practitioners, although specific technical knowledge is not as important as the ability to work within the new paradigm of network and cloud computing. Equally important is the need to ensure that internal auditors are able to communicate with managers and develop their management skills so that there is a genuine link between what we do and the contribution to our enterprises.

Paradoxically, despite management skills being placed high in changes expected over the next five years, specific management tools such as TQM and the balanced scorecard do not seem to be given a high priority. This may be more of a reflection of current business attitudes than their being of no interest to internal auditors. If management thinking changes in time, these areas may be considered to be more important in the future.

# HOW INTERNAL AUDITORS ADD VALUE

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How internal audit functions add value to their enterprises is arguably the most important issue facing the profession. Even in economically stable times the perception that internal audit is an unjustified expense that has no clear and measurable benefit can have a significant impact on staffing, development, and focus of the internal audit function. In times of economic crisis, it is even more important for internal auditors to demonstrate and prove that their activities in risk, assurance, governance, and consulting make a positive contribution to their enterprises.

The value that internal audit functions add was measured through an evaluation of risk, governance, and internal control systems using both quantitative and qualitative data from the surveys of 2010 and 2006 and interviews with experts.

### *Key Findings*

1. Nearly 10% of participants do not perceive that they bring a systematic approach to evaluating internal control.
2. 20% of respondents indicated they do not consider that they bring a systematic approach to corporate governance.
3. The meaning of corporate governance and the role that the internal audit function should play in corporate governance is not always clear to practitioners. (This is a key message, whereas the first two are not really convincing and the following one refers to something vague.)
4. More than 90% of respondents believe that the internal audit function adds value.

This chapter examines the value created by the internal audit function based on the analysis of responses provided by internal auditors and internal audit service providers to the survey's questions and a comparison across all regions. It is important to stress at the outset of this chapter that across all seven regions, an overwhelming majority (93%) Agree or Strongly Agree with the statement that internal audit is a value-adding activity in their organization.

Participants were asked to indicate their level of agreement (or disagreement) with 15 statements included in the questionnaire. To improve the readability of this chapter, the statements have been grouped into thematic subsections as follows:

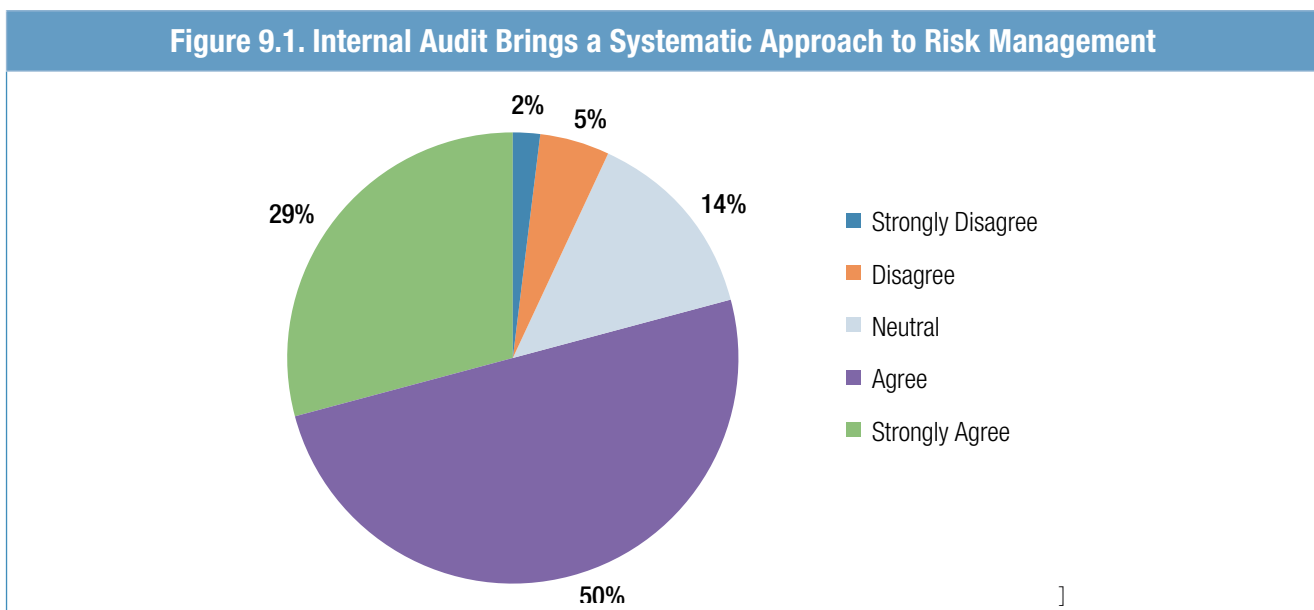
- Internal audit activities that bring a systematic approach to the evaluation of risk management, internal control, and corporate governance
- Value-added internal auditing

## A SYSTEMATIC APPROACH TO EVALUATING RISK MANAGEMENT AND INTERNAL CONTROL

### Risk Management

Almost 80% of respondents Agreed or Strongly Agreed with the statements that internal auditors bring a systematic approach to evaluating risk management and corporate governance activities. More than 90% Strongly Agreed and Agreed that they have a systematic approach to internal controls.

Similarly, nearly 80% of respondents Agreed or Strongly Agreed with the statement that internal audit brings a systematic approach for evaluating the effectiveness of the risk management process. A significant number of respondents (21%) indicated that they Strongly Disagree, Disagree, or are Neutral with this statement.



Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. "Your internal audit activity brings a systematic approach to evaluate the effectiveness of risk management."

A small increase from 77% to 79% can be seen when comparing the results of the 2006 and 2010 survey (see table 9.1 in appendix B). A closer analysis of figure 9.1 shows that only 7% of respondents disagree with this statement, with a further 14% neither agreeing nor disagreeing. Possible reasons for a low contribution were provided by interviewees. For example, in Italy and Japan, they highlighted the fact that the noncontribution of internal auditors to a systematic approach to evaluating risk management could be the lack of specific knowledge regarding risk management, especially when certain types of technical or financial risks are addressed. An interviewee in Australia considered that in cases such as these, organizations may ask for support from another function or have an external consultant perform this assessment.

Other explanations were that in some countries (for example, Greece), nonfinancial service sectors are low in the "maturity scale" of risk management. A CAE in Italy thought that it is difficult "for internal audit to get their hands around something that is low in maturity."

## ***The Second and Third Lines of Defense***

Some CAEs considered that other units exist (for example, in financial institutions) that act “as a second line of defense,” responsible for evaluating the effectiveness of the activities introduced to mitigate risks. In this case, internal auditors may not be involved in the evaluation of some types of risk. Other interviewees expressed the opinion that the internal audit function is in fact “the third level of defense” and that risk management units act as the second level. This approach is a feature of an increasingly number of large, nonfinancial companies in Western Europe, United States and Canada, and South Africa.

The responses that gave reasons why internal auditors in some countries and some sectors are not involved with risk activities highlight a need for institutes at the international and national level to raise awareness of the potential contribution of internal auditors through the development of training programs and other initiatives to help them acquire the knowledge they need to become actively involved in risk management. Furthermore, we believe very strongly that internal auditors passively acting as a third line of defense reduces our role to inspection and conformance, as made clear by a CAE from Russia who said, “Internal auditors may be acting as an inspector.”

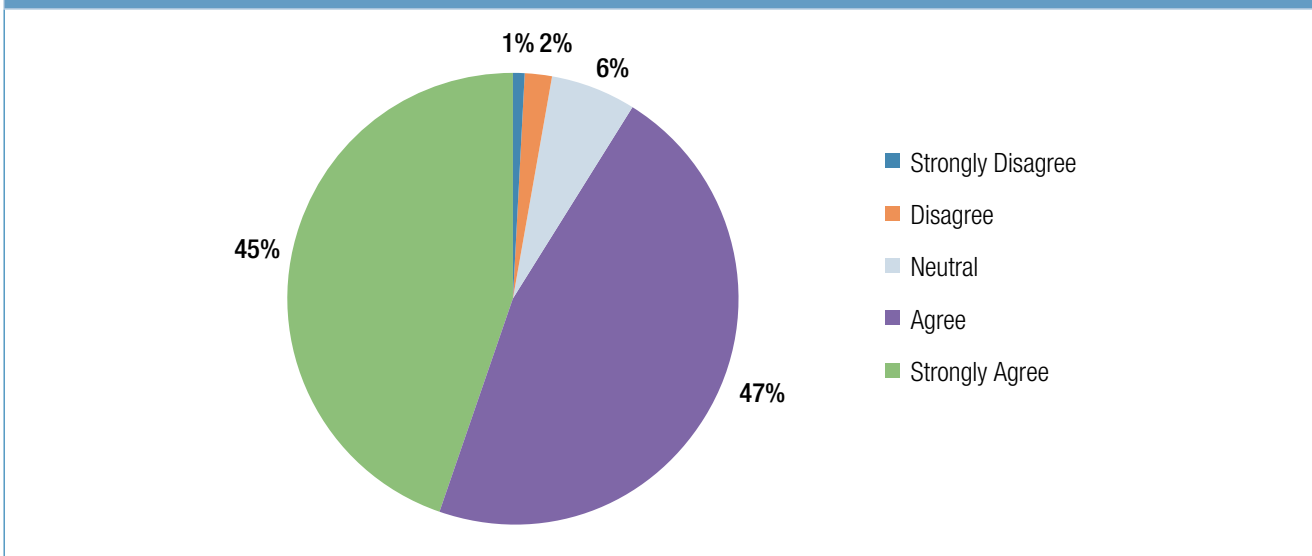
Therefore, there are two alternatives: first, we can accept the role as a third line of defense and positively accept management taking full responsibility for its risk management activity; second, to fulfill an effective role in value-adding activities, internal auditors who lack the specific skills to take part in this activity need to develop them, or internal audit functions must find another way to participate through consultancy.

## ***Internal Controls***

Figure 9.2 shows that an overwhelming majority of internal auditors agreed that the internal audit function brings a systematic approach to evaluating the effectiveness of internal controls. When comparing the responses from the 2010 and 2006 CBOK studies (see table 9.2 in appendix B), we found a positive trend where the percentages for Agree and Strongly Agree move upwards from 89% to 92%. Similar moderate increases were identified in all the regions except for the Middle East, where the percentage increases substantially more, from 84% to 98%.

Despite the very strong positive response, there are still nearly 10% of participants who do not perceive that they bring a systematic approach to evaluating internal control. The percentage for Strongly Disagree, Disagree, and Neutral in Asia-Pacific raise negative/nonpositive responses (16%). Further analysis needs to be conducted to explore the reasons for this response.

**Figure 9.2. Internal Audit Brings a Systematic Approach to Internal Control**



*Source:* The IIA’s 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. “Your internal audit activity brings a systematic approach to evaluate the effectiveness of internal controls.”

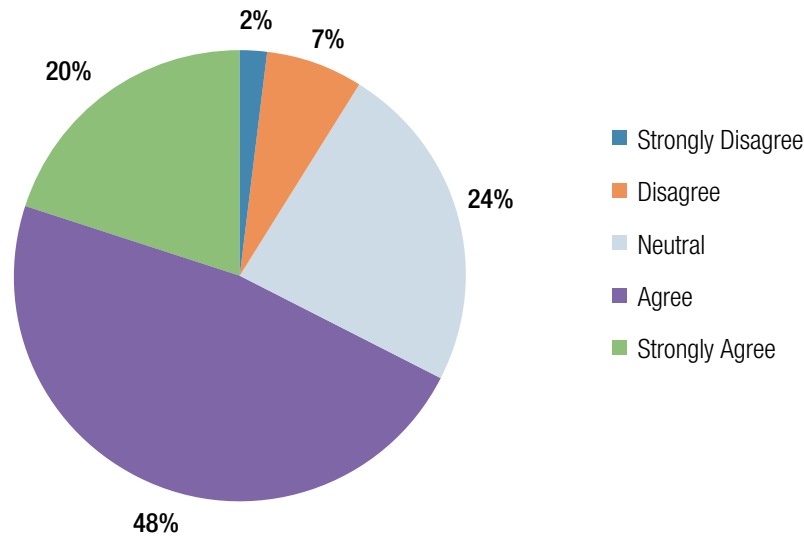
In the follow-up interviews, the general reaction to the fact that 8% of respondents disagreed or were neutral in their responses to the statement on internal auditors bringing a systematic approach to internal control was surprising. The majority of the interviewees considered that a negative response above zero would be unexpected given that the internal control system is considered to be the traditional area of activity for the internal audit function; and most of them were unable to explain this result. Those CAEs who tried to provide an explanation thought that this might be due to the small size of the internal audit function, which might not enable the possibility of evaluating the effectiveness of the internal control systems in all parts of the organization.

A specific interpretation was found for China. An interviewee there stated that this result may be due to the fact that before 2011 in China, there was not a “local” framework that could be used by the internal audit function to use during evaluation of the internal control system. In the case of a state-owned company, regulation required the internal auditor to focus on the assessment of single operations rather than on an overall view of the company’s control activities. This last finding may help to explain why the lowest percentage for Agree and Strongly Agree was found in the Asia-Pacific region.

## **A SYSTEMATIC APPROACH TO EVALUATING CORPORATE GOVERNANCE**

Figure 9.3 shows that 68% of respondents state that they Agree and Strongly Agree with the statement that internal auditors bring a systematic approach to evaluate the effectiveness of the governance process.

**Figure 9.3. Internal Audit Brings a Systematic Approach to Corporate Governance**



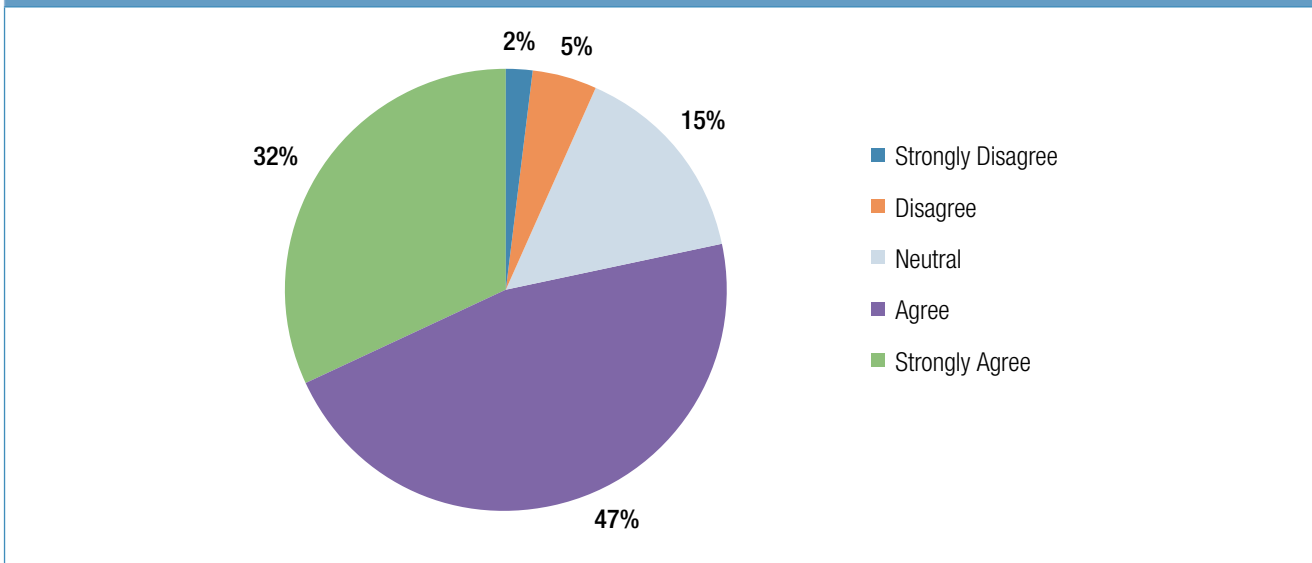
Source: The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. "Your internal audit activity brings a systematic approach to evaluate the effectiveness of governance processes."

It shows a small increase between 2006 and 2010, from 66% to 68%. This also reflects the same pattern across the region with the exception of the Middle East where the increase is more marked (63% to 74%). This is similar to our previous finding regarding the same region for internal control and risk management (74% to 87%).

Nearly one-third of participants stated that they Strongly Disagreed, Disagreed, or were Neutral with this statement. Differences between regions are not significant.

Respondents were asked to address two additional subsidiary statements. The first was "Your internal audit activity is an integral part of the governance process by providing reliable information to management." The majority of respondents Agreed or Strongly Agreed (79%).

**Figure 9.4. Internal Audit is an Integral Part of Providing Reliable Information to Management**

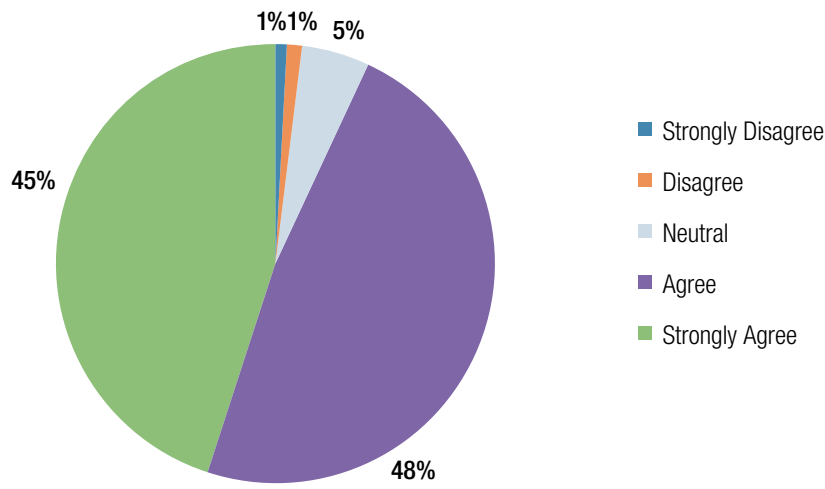


*Source:* The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. "Your internal audit activity is an integral part of the governance process by providing reliable information to management."

Nevertheless, in all the regions, approximately 20% of respondents indicated that they Strongly Disagree, Disagree, or are Neutral with respect to this statement. The comparison between 2010 and 2006 does not highlight any significant difference (see figure 9.4). For the second subsidiary statement, more than two-thirds of respondents Agreed or Strongly Agreed that one way to add value to the governance process is through direct access to the audit committee.



**Figure 9.5. Internal Audit Adds Value to the Governance Process through Direct Access to the Audit Committee**



*Source:* The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. "One way your internal audit activity adds value to the governance process is through direct access to the audit committee (or equivalent)."

Figure 9.5 shows a marked increase in the average (from 62% to 69%) across all seven regions for respondents who Agreed or Strongly Agreed with this statement, though the average increase masks certain anomalies between the regions. The United States and Canada increases from 68% in 2006 to 85% in 2010, while the reverse is true in Eastern Europe-Central Asia, where it drops from 75% to 60%. The lowest percentages in 2010 are found in Asia-Pacific and Eastern Europe-Central Asia, the regions with the highest percentage of respondents working in an organization where the audit committee has not yet been generally established (see chapter 4).

## THE ROLE THAT THE INTERNAL AUDIT FUNCTION SHOULD PLAY IN CORPORATE GOVERNANCE

Some insights into understanding why approximately one-third of internal auditors are not using a systematic approach to evaluating corporate governance were provided by interviewees. Their explanations stressed the lack of clear guidance about two concepts:

- The meaning of corporate governance
- The role that internal audit should play in corporate governance

Regarding the definition of corporate governance, many CAEs highlighted that this is a very broad concept and therefore many corporate governance topics are out of the internal audit function's mandate. This is because, according to the legal requirements existing in their countries, many corporate governance issues fall into the domain of other actors. This was underlined by one interviewee in China, who stated that corporate governance issues are quite a new concept because:

Ten years before, it was not common for Chinese companies to have the local governance structure.

Thus, once corporate governance structures are more consolidated, it is likely that the internal audit function may have more chances to get involved in this area.

Interviewees in the United States and Italy explained the internal audit function's lack of involvement in corporate governance by the fact that in numerous organizations, the board of directors, the audit committee, and the CEO generally do not involve the internal audit function in "high-level decisions." This may be because they see internal auditors solely as a function that provides them with the assessment of controls at the tactical and operational levels. Furthermore, regarding the role that the internal audit function should play in corporate governance, one interviewee suggested that the role remains unclear, attributing this to the lack of available guidance, which in turn does not favor the involvement of internal auditors in this area.

The lowest percentage found in the 2010 survey regarding direct access to the audit committee as a way to add value to the corporate governance process was in Asia-Pacific. Two interviewees in China explained that in some listed companies, the audit committee was established relatively recently; at the time of the study (2010), it is likely there were not well-established reporting relationships between the CAE and the audit committee. In their opinion, this situation will evolve in the coming years, and for the future, they think that a more effective relationship will enhance the effectiveness of the corporate governance process.

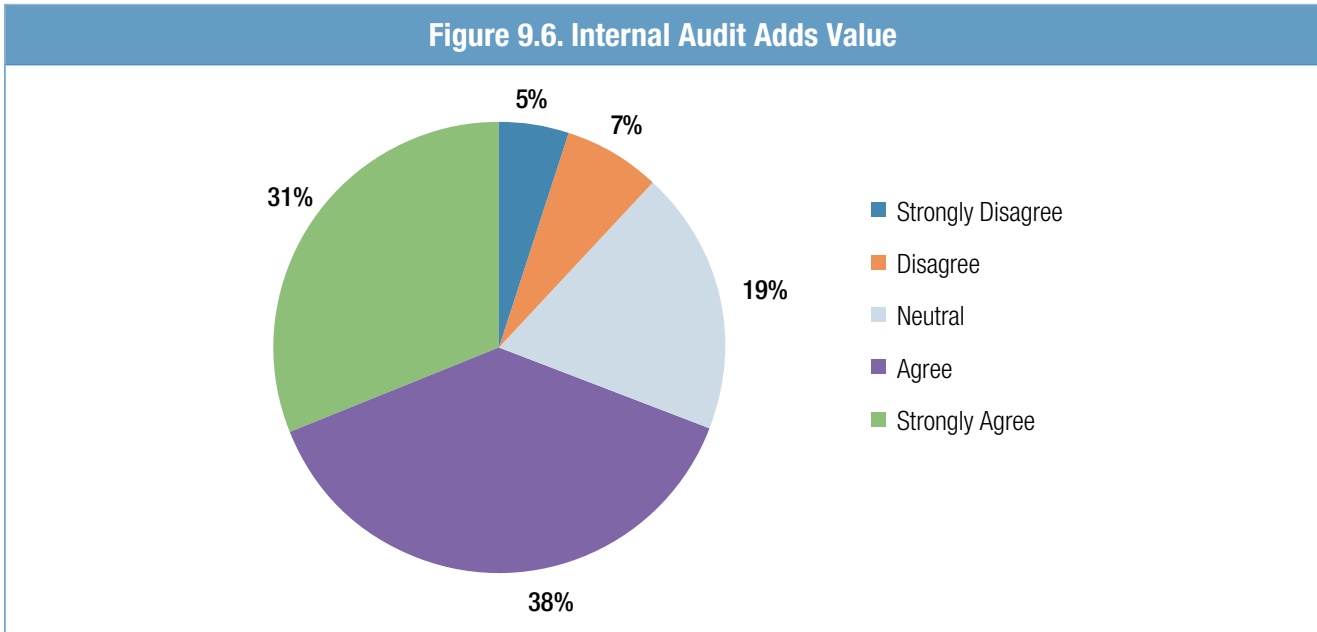
A CAE in Japan indicated as a potential reason for such a low percentage the possibility that:

Some internal auditors might not have sufficient knowledge of corporate governance ... they cannot effectively support the audit committee or a corresponding body.

Interviews in Australia, Italy, and South Africa showed that the value the board gained through its audit committee having a close interface with internal audit was illustrated by the fact that audit committee members with direct access and a close relationship with the CAE gained the opportunity to know better the status of the effectiveness of internal controls and risk management. Through this, they fulfilled the part of their responsibilities that concern corporate governance.

## INTERNAL AUDIT AND ADDED VALUE

Globally, more than 90% of respondents supported the statement, “The internal audit function adds value.” At the regional level, there is a slightly lower percentage (86%) for Asia-Pacific.



*Source:* The IIA's 2010 Global Internal Audit Survey (a part of the CBOK), question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. “Your internal audit activity adds value.”

Overall, the comparison between 2010 and 2006 indicates a positive trend as the global average increases for respondents who Agree and remains stable for Strongly Agree (see figure 9.6). The comparison is statistically significant for Eastern Europe-Central Asia, United States and Canada, and Western Europe/Central Asia.

Regarding the positive trend found between 2010 and 2006 for the internal audit function adding value, interviewees consider this finding as a result of two main factors: the greater importance assigned to corporate governance, risk management, and internal control, and the unfavorable economic climate that has dominated the world economies since 2007. These two factors have generally led the board, through its audit committee and senior managers, to demand additional audit services.

At a regional and national level, these factors seem to assume different importance when analyzed. For example, in China, recent changes in corporate governance requirements are playing a fundamental role in supporting the transition of the internal audit function from a near accounting and conformance-oriented activity to a function that is enlarging its services to management, including internal control and risk management. In other countries such as Italy, Greece, and Japan, CAEs claim to be adding more value to the organization because they have expanded their services to meet the different expectations of many stakeholders.

In advanced economies such as Australia and the United States, the internal audit function perceives that it can add more value because the economic crisis has led senior management to expect more from internal auditors, especially when it relates to consulting.

A CAE from the United States and Canada summarizes this point succinctly:

More people are advocating for internal audit, so it is creating better communication. I think internal audit is relying less on conformance and more on advisory and they are adding value that way.

### ***Implications for the Future***

The future implications of this chapter are as follows:

- National institutes should address issues such as promoting the profession, creating training and development programs for developing the leaders of the profession, and considering running technical programs regarding the internal audit role in risk management and corporate governance.
- At an international level, there is a need to ensure that practitioners understand that the standards emphasize output and outcome elements at least as much as input and processes, and to ensure communication with regulators to promote the contribution that internal audit can make to governance through the work that they do on internal control and risk management.
- The actions of CAEs are crucial for gaining the status and credibility in their organizations that will enable the work of internal auditors to be considered essential for adding value to the organizations they serve.
- Individual internal auditors must understand the importance of continuous, professional, personal development and ensure that they commit to career-long development.

# CONCLUSIONS

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In this chapter, we identify and amplify the major implications of our findings for organizations and their internal audit activities. We also discuss the implications for the profession and its future roles at national, regional, and global institute levels in their drive to help professional internal auditors succeed in meeting increased organizational expectations.

### *Implications for the Future*

#### **Human Resources in Internal Auditing**

The research results confirm a continuing increase in the practice of organizations recruiting new graduates into the internal audit function and using it as a training ground for future managerial positions. This policy is positive for the profession and for the internal audit function. After gaining internal audit experience, recruits can become ambassadors and promoters of internal control and governance across their organizations. In addition, some of these individuals might return to the internal audit function in future years as senior auditors and managers. They will have knowledge and experience of not only the specific operations in which they have worked, but also a wider understanding of their organization's culture, strategy, and risks.

Recruitment of internal auditors should not be limited to entry at staff level. Given the likelihood of rotation throughout a career, one must also consider the importance of management experience and developing important general skills in risk management and corporate governance. The evidence from CBOK 2010 shows that specific CPD is not seen as a major factor in the development of internal auditors' skills and knowledge if this can be partially compensated for by the development of effective general managerial skills.

Gender is and will remain a significant issue and is likely to become part of a wider agenda of diversity.<sup>16</sup> Organizations will need to continue to address these issues to ensure that the function is suitably qualified to perform internal audit work. The organization's policy and that of the internal audit function should incorporate guidance to reflect diversity in the organization and in the context in which internal auditors operate.

Previous surveys found that staff were recruited from the accounting and finance professions. This is no longer the case, and we believe this trend will continue. We believe that internal auditors must upgrade their skills and knowledge in domains such as culture, strategy, risk, and governance to serve and add value to their organizations.

Based on our findings, we believe there is a need to develop effective training programs to ensure that internal auditors develop or possess the skills they need to successfully perform their internal audit activities. The global and national institutes could provide an important contribution by publishing, organizing, and presenting educational and training materials and activities that help practitioners improve their level of knowledge and skills. Certification for professional internal auditors is still a very high priority, and there is a long way to go before the profession is largely comprised of certified internal auditors through global CIA and national qualifications (for example, the IIA-UK and Ireland CPIIA and CMIIA, and the Netherlands RO). The IIA should champion a formal system of CPD where it does not yet exist at the global, regional, and national levels, and encourage greater participation where it does exist.

Finally, internal auditors are expected to become much more involved in consulting activities. Their professional education and certification therefore should include more diverse professional experience and skills in those topics that are so closely related to the business model(s) of their organizations.

Although it was not possible to infer from our study a single clear answer as to who is responsible for the appointment of the CAE, The IIA's drive to encourage boards to make the appointment is commendable. This practice gives a clear signal that the internal audit function is taken seriously by senior management and also provides assurance of the function's independence.

The findings of the study also highlight that CAEs report functionally to the board. This strong position does not extend to administrative reporting to that level, and this might demonstrate a potential weakness and conflict of interest. The IIA, at all levels, is thus presented with a continuing challenge to help improve this situation. Evaluating the internal audit function through the use of metrics, such as the percentage of the audit plan completed, is ineffective because it does not capture the new parameters associated with the function where it needs to respond to a fast-changing risk environment. Using a 360° style of evaluation, where all who are involved in the audit process (that is, both auditees and the internal audit function) are included, is considered to be more effective.

### **Board Charters and Ethical Guidance**

A lesson learned from the 2008 financial crisis was that there was inadequate focus on the implementation of ethical behavior in many organizations. Within this context, the figures depicting the current implementation of rules and guidelines for board and audit committee charters, as well as corporate ethics, may be too low, especially in the regions of the Middle East, Latin America, Eastern Europe, and Africa (except for South Africa). Developing a higher awareness of the importance of this guidance should be championed by The IIA and through specific initiatives by national institutes in support of this process. Addressing the wider audience of board members and senior management in organizations can be achieved by The IIA partnering with organizations that represent directors and other professional bodies.

### **Risk Management**

When comparing the results of the CBOK 2010 and 2006 surveys across all regions, we were able to identify a high level of stability in the use of internal audit risk assessment. However, we found room for further development and improvement as the figures for 2010 indicate that a quarter of respondents have not yet adopted a risk assessment methodology to determine the areas to audit and to define their audit priorities. The trend toward risk-based auditing means that internal auditors need to be more responsive to risk issues and less focused on rigid, inflexible, long-term audit planning. Despite the continuing efforts by The IIA to emphasize the importance of basing internal audit activity plans on risk, there are still regions where this is not yet the default position. National institutes should support the use of risk-based audit planning and prioritize the promotion of this activity through initiatives such as training programs, local events, and publications to support its development.

### **Corporate Governance Codes and Guidance**

Due to the increasing growth of corporate governance codes and guidance, it is likely that listed companies will continue to be the major sector where audit committees are found. Despite a perceived lack of impact in the past by international and national institutes, they should continue to strive to take the initiative to promote the benefits of audit committees having a positive relationship with internal audit functions. In

addition, they should encourage non-listed companies, government agencies, and other public sector organizations to introduce and develop audit committees.

### **Dialogue with the Board and the Audit Committee**

Although the relationship between audit committees and CAEs is mostly considered very positive and constructive, internal auditors should not be complacent and should ensure that they continuously and actively manage this interface. CAEs should also recognize the importance of providing audit committees with effective communications regarding the overall quality of internal controls in financial, operational, and conformance systems in their organizations. Furthermore, The IIA should become actively involved in the education of audit committee members at international and national levels.

There is a growing need for national institutes to embark on an intensive and active dialogue with boards of directors and senior directors to promote the positive contribution that could be made by The IIA and its *Standards* to the state of internal controls, risk, and governance in their organizations. Internationally, the role played by The IIA in the development and maintenance of COSO serves as an effective model in that context. At a national level, an example can be found in how IIA–UK and Ireland has taken the lead in promoting and enhancing the role of internal audit in the financial industry.

### **Aligning Internal Audit with Corporate Strategies**

A significant challenge for the profession can be inferred from the survey and interviews, and it centers on changing the expectations of boards of directors and senior managers on the depth and breadth of internal audit services. This requires internal auditors to raise their profile and organizational status so that they can join the top table and become much more involved in strategic matters. We believe that this is an issue that global and national institutes and current and future CAEs must try to manage.

National institutes should also work on developing the leadership of the profession, in particular those who believe that internal auditors can and should contribute positively to their organizations' higher strategic-level activities. In addition, at the internal audit practitioner level there is a need to encourage the recruitment and development of those who are willing to take a leadership role in raising the profile, credibility, and contribution of the internal audit function. This might mean that CAEs in particular are drawn into discussions about managements' acceptance of risk and education of audit committee members. It is likely that such debates will be uncomfortable, but given the very strong message from the survey and interviews, the potential contribution of the internal audit function to risk and governance depends on credibility. Avoiding conflict carries the risk of missing opportunities to raise awareness of the importance of our work.

It is clear from the survey that IT/IS competencies and skills will continue to be an area that will challenge practitioners, although specific technical knowledge is not as important as the ability to work within the new paradigm of networks and cloud computing. Equally important is the need to ensure that internal auditors are able to communicate with managers and senior directors, and to develop their management skills so that there is a genuine link between what we do and the contribution to our organizations. Finally, behavioral skills, including leadership and acting as change agents, are issues that should, as a matter of great urgency, be addressed by institutes and practitioners.

In conclusion:

- National institutes should address issues such as promotion of the profession and establishment of training and development programs for developing leaders of the profession. Additionally, national institutes need to explore the provision of

technical programs associated with internal audit's role in risk management and corporate governance.

- At the international level, there is a need to ensure that practitioners understand that the standards emphasize output and outcome elements at least as much as input and processes. International institutes need to develop effective communication with regulators to promote the contribution that internal audit can make to governance through the work that it does on enhancing internal control and risk management.

Finally, the actions of CAEs are crucial and essential for gaining the status and credibility of internal audit in their organizations. This will enable internal audits to be seen as an essential function for adding value to the organizations it serves. Similarly, individual internal auditors must also understand the importance of continuous professional development as an important element in their commitment to their career-long professional development and to the effectiveness of their contribution to their organizations.



### COUNTRIES IN THE SEVEN GEOGRAPHICAL REGIONS

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*Note:* These seven regions were developed as part of the 2010 projects for the Global Internal Audit Common Body of Knowledge (CBOK). The groupings were carefully defined to bring together political states with similar economic histories and current economic conditions because these factors would impact the nature of internal audit activities in those states.

#### 1. The Africa region includes:

Algeria	Madagascar
Angola	Malawi
Benin	Mali
Botswana	Mauritania
Burkina Faso	Mauritius
Burundi	Morocco
Cameroon	Mozambique
Cape Verde	Namibia
Central African Republic	Niger
Chad	Nigeria
Comoros	Rwanda
Congo	São Tomé and Príncipe
Congo, Dem. Rep. of	Senegal
Djibouti	Seychelles
Equatorial Guinea	Sierra Leone
Eritrea	Somalia
Ethiopia	South Africa
Gabon	Sudan
Gambia	Swaziland
Ghana	Tanzania
Guinea	Togo
Guinea-Bissau	Tunisia
Ivory Coast	Uganda
Kenya	Zambia
Lesotho	Zimbabwe
Liberia	

## 2. The Asia-Pacific region includes:

Afghanistan	Maldives
Australia	Marshall Islands
Bangladesh	Micronesia
Bhutan	Mongolia
Brunei	Nauru
Burma (Myanmar)	Nepal
Cambodia	New Zealand
China	Pakistan
Chinese Taiwan	Palau
East Timor	Papua New Guinea
Fiji	Philippines
Hong Kong, China	Samoa
India	Singapore
Indonesia	Solomon Islands
Japan	Sri Lanka
Kiribati	Thailand
Korea, North	Tonga
Korea, South	Tuvalu
Laos	Vanuatu
Malaysia	Vietnam

## 3. The Europe and Central Asia region includes:

Albania	Macedonia
Armenia	Moldova
Azerbaijan	Montenegro
Belarus	Poland
Bosnia and Herzegovina	Romania
Bulgaria	Russia
Croatia	Serbia
Czech Republic	Slovakia
Estonia	Slovenia
Georgia	Tajikistan
Hungary	Turkey
Kazakhstan	Turkmenistan
Kyrgyzstan	Ukraine
Latvia	Uzbekistan
Lithuania	

#### 4. The Latin America and Caribbean region includes:

Antigua and Barbuda	Guatemala
Argentina	Guyana
Aruba	Haiti
Bahamas	Honduras
Barbados	Jamaica
Belize	Mexico
Bermuda	Nicaragua
Bolivia	Panama
Brazil	Paraguay
Chile	Peru
Colombia	Puerto Rico
Costa Rica	St. Kitts and Nevis
Curacao	St. Lucia
Cuba	St. Vincent and the Grenadines
Dominica	Suriname
Dominican Republic	Trinidad and Tobago
Ecuador	Turks & Caicos
El Salvador	Uruguay
Grenada	Venezuela

#### 5. The Middle East region includes:

Bahrain	Libya
Egypt	Oman
Iran	Qatar
Iraq	Saudi Arabia
Israel	Syria
Jordan	United Arab Emirates
Kuwait	Yemen
Lebanon	

#### 6. The United States and Canada region includes:

United States	Canada
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#### 7. The Western Europe region includes:

Andorra	France
Austria	Germany
Belgium	Greece
Cyprus	Iceland
Denmark	Ireland
Finland	Italy

## Appendix B

### SURVEY TABLES

#### CHAPTER 2

**Table 2.1. Level of Formal Education**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average
Secondary/high school education	1%	1%	17%	1%	0%	1%	8%	4%
Undergraduate diploma/technical certificate or associate degree	6%	6%	1%	2%	2%	2%	6%	4%
Bachelor's/diploma in business	48%	36%	18%	8%	32%	46%	16%	29%
Bachelor's/diploma in fields other than business	11%	21%	7%	6%	17%	9%	8%	11%
Master's/graduate degree/diploma in business	31%	25%	34%	59%	36%	34%	44%	37%
Master's/graduate diploma other than business	3%	9%	20%	22%	11%	7%	15%	12%
Doctoral degree (PhD or higher)	0%	1%	4%	3%	3%	1%	3%	2%
Total	100%	100%	100%	100%	100%	100%	100%	100%

*Note:* 2010 survey question number 3: Your highest level of formal education completed. p-value <.01

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 2.2. Academic Major**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Internal auditing	38%	15%	28%	63%	32%	4%	26%	23%	<.001
External auditing	24%	9%	8%	28%	24%	3%	17%	13%	<.001
Accounting	76%	50%	21%	50%	68%	65%	32%	49%	<.001
Finance	33%	20%	28%	29%	33%	20%	26%	24%	<.001
General business/management	21%	19%	27%	29%	22%	21%	32%	25%	<.001
Economics	15%	14%	35%	7%	13%	8%	25%	16%	<.001
Law	10%	10%	8%	4%	11%	2%	11%	7%	<.001
Computer science/information systems	10%	8%	7%	8%	9%	9%	10%	9%	.076
Mathematics/statistics	8%	4%	5%	2%	6%	2%	6%	4%	<.001
Engineering	1%	6%	8%	5%	5%	2%	5%	4%	<.001
Other science or technical field	1%	4%	3%	1%	1%	2%	3%	2%	<.001
Arts or humanities	1%	4%	3%	1%	2%	6%	6%	4%	<.001
Other	6%	5%	5%	5%	3%	7%	6%	6%	.004

Note: 2010 survey question number 4: Your academic major(s).

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 2.3. Professional Experience**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Internal auditing	89%	89%	93%	96%	89%	95%	94%	93%	<.001
External auditing	35%	30%	18%	49%	42%	39%	32%	35%	<.001
Management	31%	34%	29%	38%	29%	40%	33%	35%	<.001
Accounting	44%	41%	31%	49%	44%	43%	29%	39%	<.001
Finance	29%	24%	32%	29%	31%	22%	24%	25%	<.001
IT/ICT	7%	12%	8%	9%	9%	10%	13%	11%	<.001
Engineering	1%	7%	6%	5%	4%	2%	4%	4%	<.001
Other	9%	13%	18%	11%	7%	15%	22%	16%	<.001

Note: 2010 survey question number 7: Specify your professional experience.

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 2.4. Professional Certification**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Certified Internal Auditor (CIA)	32%	45%	20%	19%	43%	40%	25%	32%	<.001
Certified Government Audit Professional (CGAP)	2%	1%	5%	2%	0%	3%	1%	2%	<.001
Certification in Control Self-Assessment (CCSA)	8%	4%	2%	4%	4%	4%	5%	4%	<.001
Certified Financial Services Auditor (CFSA)	2%	2%	1%	1%	1%	4%	1%	2%	<.001
Other internal auditing (such as MIIA [UK & Ireland]/PIIA)	1%	4%	2%	1%	1%	0%	13%	4%	<.001
Other government auditing/finance (such as CIPFA/CGFM)	1%	1%	2%	1%	1%	1%	1%	1%	<.001
Other risk management/control self-assessment (such as CRM)	1%	1%	1%	1%	2%	1%	2%	1%	.008
Other specialized financial auditing (such as CIDA/CBA)	0%	0%	1%	1%	2%	2%	1%	1%	<.001
Management/general accounting (such as CMA/CIMA/CGA)	5%	3%	2%	3%	7%	5%	3%	4%	<.001
Public accounting/chartered accountancy (such as CA/CPA/ACCA/ACA)	16%	24%	9%	13%	32%	33%	13%	21%	<.001
Accounting - technician level (such as CAT/AAT)	5%	2%	1%	2%	2%	0%	3%	2%	.044
Certified financial analyst (such as CFA)	1%	1%	1%	0%	1%	1%	1%	1%	.003
Information Technology (IT)/Information and Communication Technology (ICT)/security (such as CISM/CISSP/CSP/CDP)	1%	3%	1%	2%	3%	3%	3%	2%	<.001
Information systems auditing (such as CISA/QiCA)	5%	12%	4%	5%	14%	14%	10%	10%	<.001
Fraud examination (such as CFE)	3%	4%	4%	3%	10%	11%	3%	6%	<.001
Advanced or senior professional status (such as FCA/FCCA/FCMA)	4%	5%	1%	2%	5%	1%	3%	2%	<.001
Other	12%	13%	21%	12%	14%	13%	15%	14%	<.001
None	13%	9%	20%	19%	6%	8%	17%	13%	<.001

Note: 2010 survey question number 6: Your professional certification(s).

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

## CHAPTER 3

**Table 3.1. Corporate Governance Policies Existing in the Organization—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Board/supervisory committee charter	59%	N/A	78%	N/A	55%	N/A	50%	N/A	57%	N/A	75%	N/A	69%	N/A	68%	N/A
Corporate governance code	46%	64%	61%	57%	36%	39%	44%	47%	42%	46%	56%	60%	57%	55%	53%	55%
Corporate ethics policy/code of ethics	67%	82%	76%	69%	66%	63%	74%	61%	69%	78%	86%	87%	73%	70%	77%	77%
Long-term strategic plan for the organization	66%	78%	61%	59%	61%	61%	68%	70%	51%	68%	70%	73%	72%	70%	67%	69%
Audit committee charter	60%	74%	52%	49%	39%	26%	53%	49%	54%	48%	75%	74%	58%	53%	60%	58%

*Note:* 2010 survey question number 16: Which of the following exist in your organization? 2006 survey question number 18: Which of the following documents exist in your organization?

*Source:* The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 3.2. Internal Auditing Policies Existing in the Organization—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Internal audit charter	78%	85%	86%	81%	88%	74%	64%	62%	79%	76%	81%	78%	82%	73%	81%	76%
Mission statement for the internal audit activity	59%	70%	54%	70%	43%	36%	58%	60%	66%	56%	70%	65%	52%	62%	58%	62%
Internal audit strategy	59%	N/A	50%	N/A	40%	N/A	52%	N/A	61%	N/A	55%	N/A	51%	N/A	52%	N/A
Internal audit operating manual	65%	66%	69%	68%	68%	63%	63%	66%	70%	60%	66%	68%	69%	65%	67%	66%
Internal audit risk assessment	65%	79%	65%	66%	68%	63%	66%	69%	73%	70%	83%	78%	76%	72%	74%	72%
Long-term audit plan	48%	56%	45%	38%	42%	43%	38%	33%	52%	48%	44%	43%	48%	42%	45%	43%
Annual internal audit plan	84%	85%	88%	88%	91%	82%	81%	85%	84%	74%	85%	84%	89%	88%	86%	85%

Note: 2010 survey question number 16: Which of the following exist in your organization? 2006 survey question number 18: Which of the following documents exist in your organization?

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 3.3. Frequency of Updating the Audit Plan—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Multiple times per year	31%	42%	25%	31%	35%	39%	22%	21%	28%	53%	48%	41%	40%	36%	37%	37%
Every year	66%	53%	73%	67%	63%	57%	7%	76%	67%	47%	49%	54%	57%	60%	60%	59%
Every two years	0%	2%	1%	0%	0%	1%	1%	1%	5%	0%	1%	1%	1%	1%	1%	1%
More than every two years	1%	0%	0%	0%	1%	0%	10%	0%	0%	0%	0%	0%	0%	1%	1%	0%
No audit plan	2%	3%	1%	1%	1%	3%	0%	3%	0%	0%	1%	4%	2%	3%	1%	3%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: 2010 survey question number 23a: How frequently do you update the audit plan? 2006 survey question number 25a.

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.



## CHAPTER 4

**Table 4.1. Responsibility of Appointing CAEs**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average
Board/supervisory committee	5%	11%	13%	6%	3%	5%	9%	8%
Chairman of the board/supervisory committee	2%	6%	5%	4%	6%	3%	6%	5%
CEO/president/head of government agency	14%	15%	20%	9%	7%	12%	21%	15%
Audit committee/committee chairman	14%	8%	10%	7%	8%	15%	11%	11%
Chief operating officer (COO)	1%	2%	1%	1%	0%	2%	2%	2%
Chief financial officer (CFO)/vice president of finance	4%	4%	3%	1%	0%	11%	7%	7%
Other	2%	1%	4%	3%	0%	3%	4%	3%

The number of respondents for this question is 10,912; however, most respondents did not select any alternative and thus the percentages do not add up to 100%.

*Note:* Survey question 17a: Who is involved in appointing the chief audit executive (CAE) or equivalent? (Please mark all that apply.)

*Source:* The IIA's 2010 Global Internal Audit Survey CAE Questionnaire.

**Table 4.2. Administrative Report of CAE**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average
Audit committee or equivalent	29%	30%	25%	50%	67%	41%	29%	34%
General/legal counsel	1%	1%	2%	1%	0%	6%	3%	3%
Chief executive officer (CEO)/president/head of government agency	55%	53%	55%	37%	33%	21%	51%	42%
Chief financial officer (CFO)	5%	7%	4%	2%	0%	23%	10%	11%
Chief operating officer (COO)	1%	2%	4%	0%	0%	1%	2%	2%
Chief risk officer (CRO) or equivalent	3%	3%	1%	2%	0%	2%	1%	2%
Controller/financial director	2%	1%	0%	1%	0%	2%	0%	1%
Other	4%	3%	9%	7%	0%	4%	4%	5%
Total	100%	100%	100%	100%	100%	100%	100%	100%

*Note:* Survey question 9: Where do you administratively report (direct line) in your organization? p-value <.001

*Source:* The IIA's 2010 Global Internal Audit Survey CAE Questionnaire.

**Table 4.3. Evaluating the Performance of CAEs**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average
Board/supervisory committee	2%	4%	9%	4%	2%	3%	6%	4%
Chairman of the board/supervisory committee	1%	6%	5%	3%	5%	2%	5%	4%
CEO/president/head of government agency	16%	16%	19%	10%	7%	11%	20%	15%
Audit committee/committee chairman	16%	8%	11%	7%	8%	15%	13%	12%
Senior management	8%	8%	9%	3%	2%	10%	10%	8%
Auditee/customer	6%	2%	6%	2%	2%	3%	6%	4%
Supervisor	1%	2%	5%	2%	0%	5%	4%	3%
Peers	3%	1%	3%	2%	0%	2%	3%	2%
Subordinates	3%	1%	2%	2%	1%	1%	2%	2%
Self	4%	3%	8%	2%	1%	4%	5%	4%
Not evaluated	1%	0%	1%	1%	0%	1%	1%	1%

The number of respondents for this question is 10,912; however, most respondents did not select any alternative and thus the percentages do not add up to 100%.

*Note:* Survey question 20: Who evaluates your performance?

*Source:* The IIA's 2010 Global Internal Audit Survey CAE Questionnaire.

**Table 4.4. Methods Used to Evaluate Performance**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average
Balanced scorecard	9%	4%	6%	4%	6%	3%	5%	4%
Assurance of sound risk management/internal control	8%	9%	13%	5%	4%	7%	11%	9%
Surveys/feedback from the board, audit committee, senior management	12%	11%	13%	7%	6%	9%	17%	11%
Customer/auditee surveys from audited departments	10%	9%	12%	7%	7%	9%	11%	10%
Recommendations accepted/implemented	12%	10%	20%	10%	9%	9%	15%	12%
Cost savings/avoidance from recommendations implemented	6%	7%	9%	5%	7%	5%	5%	6%
Number of management requests for assurance or consulting projects	8%	7%	8%	4%	4%	6%	6%	6%
Reliance by external auditors on the internal audit activity	9%	6%	8%	5%	3%	10%	12%	9%
Budget to actual audit hours	6%	6%	8%	5%	6%	7%	7%	7%
Percentage of audit plan completed	15%	14%	19%	12%	8%	13%	16%	14%
Completion of mandated coverage	12%	8%	8%	4%	6%	6%	8%	7%
Cycle time from entrance conference to draft report	6%	4%	6%	2%	4%	4%	5%	4%
Cycle time - report turnaround (end of fieldwork to final report)	6%	5%	6%	3%	5%	5%	7%	5%
Number of significant audit findings	9%	8%	13%	6%	6%	5%	7%	7%
Timely closure of audit issues	7%	10%	13%	6%	6%	7%	7%	8%
Absence of regulatory or reputation issues and significant failures	2%	4%	6%	2%	3%	4%	4%	4%
No formal performance measurement of the internal audit activity	4%	8%	8%	4%	3%	5%	7%	6%

Not all respondents completed this question, and in some cases, respondents selected more than one answer.

Note: survey question 22: How does your organization measure the performance of the internal audit activity?

Source: The IIA's 2010 Global Internal Audit Survey CAE Questionnaire.



## CHAPTER 5

**Table 5.1. Appropriate Access to the Audit Committee—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Yes	90%	89%	91%	92%	80%	87%	88%	88%	84%	100%	95%	94%	87%	89%	90%	92%

*Note:* 2010 survey question n. 21a: Do you believe that you have appropriate access to the audit committee? 2006 survey question n. 23.

*Source:* The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 5.2. Frequency of the Reporting to the Audit Committee or Senior Management**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average
On request	7%	6%	9%	9%	15%	6%	7%	7%
Annually	21%	37%	34%	34%	27%	50%	48%	42%
Periodically	72%	57%	57%	57%	58%	44%	45%	51%
Total	100%	100%	100%	100%	100%	100%	100%	100%

*Note:* 2010 survey question n. 21 c: How often do you provide the written report? p-value <.001

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

## CHAPTER 6

**Table 6.1. Method of Managing Missing Skills**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Reduce areas of coverage	4%	1%	5%	11%	5%	6%	5%	5%	<.001
More reliance on audit software	6%	2%	4%	7%	0%	3%	2%	3%	<.001
Borrowing staff from other departments	3%	4%	6%	4%	3%	5%	7%	5%	.006
Co-sourcing/outsourcing	28%	7%	4%	14%	23%	22%	21%	17%	<.001
No missing skill sets	2%	1%	5%	6%	0%	5%	6%	5%	<.001
Other	2%	2%	6%	5%	0%	3%	4%	3%	.002

*Note:* 2010 survey question number 28: What method is your organization employing to compensate for missing skill sets? Number of respondents: 2,808  
*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 6.2. Anticipated Budget Changes for Co-Sourcing/Outsourcing Activities in Next 5 Years—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010*	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010*	2006	2010*	2006	2010*	2006
Increase	22%	37%	28%	35%	23%	32%	24%	35%	31%	35%	24%	30%	27%	36%	26%	33%
Remain the same	61%	39%	64%	58%	67%	62%	63%	57%	51%	41%	63%	55%	62%	56%	61%	56%
Decrease	17%	24%	8%	7%	9%	6%	13%	9%	18%	24%	13%	15%	11%	8%	13%	12%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

*Note:* 2010 survey question number 30a: How do you anticipate that your budget for co-sourced/outsourced activities will change in the next five years? 2006 survey question number 31.

*Source:* The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 6.3. Sources of Recruitment**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Universities	24%	8%	14%	32%	39%	29%	23%	22%	<.001
Employment agencies	57%	42%	37%	36%	69%	47%	35%	41%	<.001
Internal transfers from within your organization	43%	54%	48%	45%	36%	50%	58%	52%	<.001
Professional affiliations network/referrals	24%	28%	36%	40%	49%	63%	30%	40%	<.001
External audit firms	17%	15%	15%	33%	31%	27%	28%	24%	<.001
Other	30%	23%	47%	25%	15%	27%	26%	28%	<.001

Note: 2010 survey question number 26b: What sources does your organization use to recruit audit staff?

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 6.4. Staff Hiring Incentives**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Relocation expenses	16%	6%	7%	7%	8%	14%	18%	12%	<.001
Signing bonus	13%	2%	1%	9%	15%	10%	9%	7%	<.001
Stock options/restricted stock	5%	7%	1%	6%	0%	8%	4%	6%	<.001
Accelerated raises	7%	6%	5%	4%	18%	2%	4%	4%	<.001
Vehicle provided	15%	5%	12%	14%	13%	1%	14%	9%	<.001
Transportation allowance	41%	14%	16%	18%	39%	4%	12%	13%	<.001
Referral finder fee	1%	3%	2%	0%	3%	11%	3%	4%	<.001
Tuition reimbursement	43%	17%	32%	28%	39%	37%	22%	28%	<.001
Other	12%	11%	13%	21%	15%	7%	12%	11%	<.001
None offered	32%	61%	51%	49%	39%	52%	51%	52%	<.001

Note: 2010 Survey question number: 26a Is your organization offering any special incentives to hire/retain internal audit professionals?

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 6.5. Method Used in Staff Evaluation**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Chief audit executive (CAE) review/feedback	74%	77%	69%	77%	87%	77%	76%	76%	.1
Audit management review/feedback	44%	36%	33%	29%	44%	47%	28%	36%	<.001
Supervisor/lead auditor review	48%	32%	26%	47%	36%	41%	32%	36%	<.001
Customer/auditee feedback	46%	32%	41%	38%	33%	50%	38%	41%	<.001
Peers/subordinates assessment	21%	20%	26%	24%	18%	17%	12%	18%	<.001
Self-assessment	31%	47%	55%	40%	41%	44%	35%	42%	<.001
Other	8%	7%	13%	8%	5%	5%	8%	7%	.007

*Note:* 2010 Survey question number 31: What method of staff evaluation do you use?

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

## CHAPTER 7

**Table 7.1. Full Compliance with Each Attribute Standard—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
AS 1000 Purpose, Authority, and Responsibility	72%	62%	73%	57%	64%	57%	60%	60%	70%	69%	87%	69%	76%*	62%	75%	64%
AS 1100 Independence and Objectivity	73%	66%	74%	63%	60%	62%	70%	68%	67%	74%	89%	71%	82%*	67%	78%	68%
AS 1200 Proficiency and Due Professional Care	66%	61%	64%	57%	63%	53%	66%	66%	82%	60%	86%	69%	75%*	61%	74%	64%
AS 1300 Quality Assurance and Improvement	38%	40%	34%	30%	36%	35%	31%	39%	32%	29%	43%	47%	40%*	35%	38%	41%

*Note:* 2010 survey question number 33b: Your organization is in compliance with the *Standards*. 2006 survey question number 38.

*Source:* The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.



**Table 7.2. Full Compliance with Each Performance Standard—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
PS 2000 Managing the Internal Audit Activity	65%	57%	58%	54%	60%	51%	58%	57%	69%	56%	80%	64%	70%	55%	68%	59%
PS 2100 Nature of Work	64%	56%	57%	53%	58%	47%	61%	58%	67%	51%	80%	65%	66%	54%	67%	58%
PS 2200 Engagement Planning	72%	59%	59%	47%	61%	56%	59%	58%	67%	54%	80%	64%	65%	56%	67%	59%
PS 2300 Performing the Engagement	71%	62%	56%	47%	61%	51%	58%	58%	78%	60%	81%	67%	68%	57%	68%	61%
PS 2400 Communicating Results	72%	70%	61%	55%	67%	57%	69%	63%	73%	62%	85%	70%	74%	63%	74%	65%
PS 2500 Monitoring Progress	59%	52%	58%	44%	54%	47%	57%	49%	61%	54%	74%	60%	65%	49%	64%	54%
PS 2600 Resolution of Management's Acceptance of Risks	47%	50%	44%	39%	41%	32%	41%	38%	56%	40%	73%	58%	52%	40%	54%	48%

Note: 2010 survey question number 33b: Your organization is in compliance with the *Standards*. 2006 survey question number 38.

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 7.3. Reasons for Not Using the IIA *Standards*—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Standards or Practice Advisories are too complex	3%	3%	8%	11%	5%	7%	5%	5%	1%	2%	2%	3%	9%	9%	6%	6%
Not appropriate for small organizations	5%	6%	14%	14%	9%	9%	5%	8%	3%	11%	12%	9%	15%	13%	12%	10%
Too costly to comply	4%	6%	14%	19%	12%	11%	9%	10%	5%	7%	12%	7%	8%	9%	10%	9%
Too time-consuming	5%	10%	10%	18%	12%	13%	9%	11%	9%	13%	9%	10%	12%	14%	10%	12%
Superseded by local/government regulations or standards	5%	4%	5%	15%	8%	17%	10%	16%	1%	7%	2%	8%	6%	11%	5%	10%
Not appropriate for my industry	1%	2%	3%	6%	3%	4%	5%	3%	0%	4%	2%	4%	3%	4%	3%	4%
Compliance not supported by management/board	11%	12%	6%	11%	10%	16%	9%	15%	9%	13%	8%	9%	11%	15%	9%	12%
Not perceived as adding value by management/board	6%	9%	8%	11%	12%	16%	8%	12%	2%	11%	13%	10%	10%	17%	10%	12%
Inadequate internal audit function staff	17%	17%	17%	21%	8%	16%	4%	8%	8%	11%	9%	11%	10%	12%	11%	13%
Compliance not expected in my country	3%	5%	4%	8%	6%	10%	6%	19%	1%	29%	1%	1%	3%	6%	3%	5%

Note: 2010 survey question number 35b: What are the reasons for not using the *Standards* in whole or in part? 2006 survey question number 40.

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 7.4. Compliance with the IIPPF is a Key Factor for Your Internal Audit Activity to Add Value to the Governance Process—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	2%	2%	2%	2%	2%	1%	2%	3%	2%	3%	4%	2%	2%	2%	3%
Disagree	1%	3%	4%	6%	3%	4%	3%	4%	5%	2%	11%	6%	7%	6%	7%	6%
Neutral	9%	11%	24%	23%	20%	22%	9%	16%	13%	6%	24%	21%	22%	23%	21%	21%
Agree	43%	39%	51%	48%	46%	44%	39%	37%	39%	40%	38%	39%	45%	45%	44%	42%
Strongly Agree	46%	45%	19%	21%	29%	28%	48%	41%	41%	50%	25%	30%	24%	24%	27%	28%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	101%	100%

Note: 2010 survey question number 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Compliance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* is a key factor for your internal audit activity to add value to the governance process. 2006 survey question number 26c.

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 7.5. Compliance with The IIA Code of Ethics is a Key Factor for Your Internal Audit Activity to Add Value to the Governance Process—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	2%	2%	2%	2%	2%	1%	3%	3%	2%	2%	4%	2%	2%	2%	3%
Disagree	2%	2%	3%	5%	1%	3%	3%	3%	3%	2%	3%	3%	6%	5%	4%	4%
Neutral	6%	10%	19%	21%	15%	20%	9%	14%	13%	6%	16%	17%	21%	21%	17%	18%
Agree	44%	36%	53%	46%	46%	44%	35%	32%	28%	40%	40%	39%	43%	42%	44%	40%
Strongly Agree	47%	50%	22%	26%	36%	31%	52%	48%	54%	50%	39%	37%	29%	30%	34%	35%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	101%	100%

Note: 2010 survey question number 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Compliance with The IIA's Code of Ethics is a key factor for your internal audit activity to add value to the governance process. 2006 survey question number 26c.

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 7.6. Independency as a Key Factor for Internal Audit to Add Value—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	2%	2%	1%	2%	2%	0%	3%	3%	0%	2%	4%	1%	1%	1%	2%
Disagree	1%	3%	2%	3%	1%	4%	0%	1%	3%	4%	2%	2%	1%	2%	2%	2%
Neutral	4%	9%	5%	7%	7%	10%	2%	4%	8%	4%	5%	8%	4%	6%	5%	7%
Agree	32%	32%	48%	44%	33%	40%	17%	23%	26%	29%	31%	34%	28%	32%	32%	34%
Strongly Agree	62%	54%	43%	45%	57%	45%	81%	69%	62%	63%	60%	52%	66%	59%	61%	55%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: 2010 survey question number 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Independence is a key factor for your internal audit activity to add value. 2006 survey question number 26c.

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 7.7. Objectivity is a Key Factor for Internal Audit to Add Value—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	2%	2%	1%	1%	1%	1%	2%	3%	4%	2%	3%	1%	1%	1%	2%
Disagree	0%	1%	2%	1%	0%	2%	0%	1%	0%	0%	0%	1%	0%	1%	1%	1%
Neutral	2%	7%	3%	6%	4%	7%	0%	3%	5%	6%	2%	5%	2%	3%	2%	5%
Agree	36%	34%	48%	47%	36%	43%	19%	25%	21%	23%	28%	35%	27%	31%	32%	35%
Strongly Agree	61%	56%	46%	45%	59%	47%	80%	69%	72%	67%	68%	56%	71%	65%	65%	57%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: 2010 survey question number 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Objectivity is a key factor for your internal audit activity to add value. 2006 survey question number 26c.

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 7.8. Internal Audit is an Independent Activity of Assurance and Consulting—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010*	2006	2010*	2006	2010*	2006	2010*	2006	2010*	2006	2010*	2006
Strongly Disagree	2%	2%	2%	2%	1%	1%	1%	3%	0%	4%	2%	4%	1%	1%	2%	3%
Disagree	2%	4%	2%	3%	1%	5%	1%	3%	3%	6%	2%	3%	2%	3%	2%	3%
Neutral	5%	8%	7%	8%	7%	6%	1%	3%	5%	6%	2%	6%	2%	5%	4%	6%
Agree	30%	35%	48%	48%	42%	45%	25%	34%	34%	29%	29%	37%	30%	43%	34%	40%
Strongly Agree	61%	51%	41%	39%	49%	43%	72%	57%	58%	55%	65%	50%	67%	48%	60%	48%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

*Note:* 2010 survey question number 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Your internal audit activity is an independent objective assurance and consulting activity. 2006 survey question number 26c.

*Source:* The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 7.9. Quality Assurance and Improvement Program**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average
Yes, currently in place	30%	25%	29%	28%	28%	36%	34%	32%
To be put in place within the next 12 months	37%	17%	27%	27%	38%	23%	18%	22%
No plans to put in place in the next 12 months	20%	33%	24%	31%	28%	26%	27%	27%
The quality assurance program is not in accordance with Standard 1300	6%	15%	14%	9%	5%	13%	15%	13%
I do not know	6%	9%	6%	4%	0%	2%	6%	6%
Total	100%	100%	100%	100%	100%	100%	100%	100%

*Note:* 2010 survey question number 40c: Does your internal audit activity have a quality assessment and improvement program in place in accordance with Standard 1300: Quality Assurance and Improvement Program? p-value <.0.01

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 7.10. Quality Assurance and Improvement Program—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010*	2006	2010*	2006	2010	2006	2010	2006	2010	2006	2010*	2006	2010*	2006	2010*	2006
Yes, currently in place	30%	42%	25%	27%	29%	24%	28%	24%	28%	29%	36%	41%	34%	29%	32%	34%
To be put in place within the next 12 months	37%	30%	17%	20%	27%	28%	27%	28%	38%	37%	23%	21%	18%	21%	22%	22%
No plans to put in place in the next 12 months	20%	15%	33%	28%	24%	25%	31%	28%	28%	22%	26%	17%	27%	29%	27%	23%
The quality assurance program is not in accordance with Standard 1300	6%	4%	15%	9%	14%	12%	9%	10%	5%	5%	13%	5%	15%	9%	13%	7%
I do not know	6%	9%	9%	16%	6%	11%	4%	10%	0%	7%	2%	16%	6%	12%	6%	14%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: 2010 survey question number 38: For your internal audit activity, which of the following is part of your internal audit quality assessment and improvement program? 2006 survey question number 44.

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 7.11. Internal Audit Has Sufficient Status in the Organization to Be Effective—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	5%	3%	2%	3%	1%	1%	3%	0%	2%	3%	4%	2%	3%	3%	4%
Disagree	7%	8%	7%	6%	9%	4%	4%	7%	0%	4%	5%	7%	5%	9%	6%	8%
Neutral	16%	14%	17%	20%	11%	17%	7%	11%	8%	13%	12%	14%	10%	14%	12%	14%
Agree	40%	39%	47%	49%	42%	54%	36%	37%	54%	47%	43%	40%	44%	45%	43%	42%
Strongly Agree	35%	34%	27%	23%	35%	24%	53%	42%	39%	34%	38%	35%	39%	29%	37%	32%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Note: 2010 survey question number 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Your internal audit activity has sufficient status in the organization to be effective. 2006 survey question number 26c.

Source: The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

**Table 7.12. Internal Audit is Credible within the Organization—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	1%	2%	2%	1%	1%	1%	0%	2%	0%	4%	2%	4%	1%	1%	1%	2%
Disagree	2%	6%	3%	3%	2%	4%	0%	2%	3%	0%	2%	3%	1%	3%	2%	3%
Neutral	8%	15%	15%	15%	11%	17%	3%	6%	3%	10%	7%	10%	5%	13%	8%	12%
Agree	53%	44%	56%	54%	48%	54%	31%	40%	40%	38%	43%	41%	47%	50%	47%	46%
Strongly Agree	36%	33%	24%	27%	38%	24%	66%	50%	55%	48%	47%	42%	46%	33%	43%	37%
Total	100%	100%	100%	100%	100%	100%	100%	100%	101%	100%	101%	100%	100%	100%	101%	100%

*Note:* 2010 survey question number 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit: Independence is a key factor for your internal audit activity to add value. 2006 survey question number 26c.

*Source:* The IIA's 2010 Global Internal Audit Survey and The IIA's Common Book of Knowledge (CBOK) 2006 CAE and Practitioner Questionnaire.

## CHAPTER 8

**Table 8.1. Internal Audit Activities Performed**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Corporate governance reviews	52%	47%	40%	39%	38%	44%	50%	45%	<.001
Audits of compliance with regulatory code requirements	73%	72%	74%	75%	63%	79%	78%	76%	<.001
Evaluating effectiveness of control systems (using COSO, COBIT, etc.)	70%	60%	65%	68%	60%	75%	73%	70%	<.001
Business viability (going concern) assessments	30%	32%	32%	21%	33%	25%	24%	27%	<.001
Due diligence reviews for corporate acquisitions/mergers	23%	20%	22%	26%	28%	31%	23%	25%	<.001
Ethics audits	37%	65%	76%	66%	66%	64%	73%	68%	<.001
Audits of enterprise risk management processes	61%	60%	58%	57%	49%	46%	66%	57%	<.001
Auditing of financial risks	80%	72%	61%	58%	77%	79%	75%	72%	<.001
Operational audits	86%	89%	87%	87%	86%	90%	91%	89%	<.001
Project management assurance	58%	54%	48%	44%	66%	59%	63%	57%	<.001
Auditing of information risks	59%	62%	46%	56%	68%	66%	67%	63%	<.001
Security assessments and investigations	52%	52%	49%	44%	62%	59%	55%	54%	<.001
Auditing of IT/ICT risks	59%	53%	50%	55%	65%	70%	71%	63%	<.001
Disaster recovery testing and support	45%	40%	27%	32%	47%	52%	40%	42%	<.001
Investigations of fraud and irregularities	75%	69%	60%	70%	71%	76%	75%	72%	<.001
Reviews addressing linkage of strategy and performance (e.g., balanced scorecard)	36%	26%	19%	25%	29%	23%	29%	26%	<.001
Executive compensation assessments	17%	13%	20%	19%	21%	25%	16%	19%	<.001
Social and sustainability audits	29%	21%	14%	20%	25%	17%	22%	20%	<.001
Quality/ISO audits	25%	30%	23%	28%	38%	20%	22%	24%	<.001
External audit assistance	55%	44%	48%	53%	41%	64%	47%	53%	<.001
Management audits	57%	50%	39%	61%	54%	53%	44%	50%	<.001
Facilitating risk/control/compliance training	46%	43%	33%	42%	40%	40%	40%	41%	<.001
Auditing of outsourced operations	31%	31%	28%	30%	33%	36%	44%	35%	<.001
Migration to IFRS	23%	19%	21%	26%	26%	14%	20%	19%	<.001
Implementation of XBRL	5%	6%	3%	6%	7%	7%	3%	5%	<.001

Note: 2010 survey question number 39: Please indicate whether your internal audit activity performs the following activities.

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.



**Table 8.2. Top Five Most Performed Activities Ordered Per Rank**

	Average	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Operational audits	1	1	1	1	1	1	1	1
Audits of compliance with regulatory code requirements	2	4	2	3	2		2	2
Auditing of financial risks	3	2	3	5		2	3	3
Investigations of fraud and irregularities	4	3	4		3	3	4	4
Evaluating effectiveness of control systems	5	5		4	4		5	5
Ethics audits			5	2	5	5		
Auditing of information risks						4		

Note: 2010 survey question number 39: Please indicate whether your internal audit activity performs the following activities.

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.3. Top Five Least Performed Activities Ordered Per Rank**

	Average	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Business viability (going concern) assessments					22			
Reviews addressing linkage of strategy and performance (e.g., balanced scorecard)				23	21		21	
Due diligence reviews for corporate acquisitions/mergers	20	22	22			21		
Quality/ISO audits	21	21					22	22
Social and sustainability audits	22		21	24	23	23	23	21
Executive compensation assessments	23	24	24	22	24	24		24
Migration to IFRS	24	23	23	21		22	24	23
Implementation of XBRL	25	25	25	25	25	25	25	25

Note: 2010 survey question number 39: Please indicate whether your internal audit activity performs the following activities.

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.4. Responsibility to Monitor Corrective Actions**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average
Auditee/customer	17%	13%	14%	21%	12%	9%	19%	15%
Internal auditor	25%	35%	35%	22%	30%	30%	28%	29%
Both internal audit and auditee/customer	52%	49%	46%	38%	51%	56%	48%	49%
No formal follow-up	4%	2%	2%	15%	4%	2%	2%	4%
Other	2%	1%	2%	5%	4%	2%	2%	2%
Total	100%	100%	100%	100%	100%	100%	100%	100%

*Note:* 2010 survey question number 42: After the release of an audit report with findings that need corrective action, who has the primary responsibility to monitor that corrective action has been taken? p-value <.001

**Table 8.5. Additional Internal Audit Activities Roles**

	Now	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
	Five years from now									
Internal auditors in the organization have an advisory role in strategy development	Applies now	62%	54%	48%	57%	53%	44%	36%	47%	<.001
	Will apply in five years	80%	70%	70%	80%	80%	57%	51%	63%	<.001
The internal audit activity has provided training to audit committee members	Applies now	46%	37%	22%	43%	34%	48%	29%	38%	<.001
	Will apply in five years	77%	54%	49%	71%	78%	64%	47%	58%	<.001
The internal audit activity assumes an important role in the integrity of financial reporting	Applies now	77%	70%	50%	68%	59%	74%	58%	67%	<.001
	Will apply in five years	87%	76%	67%	80%	80%	79%	67%	75%	<.001
The internal audit activity educates organization personnel about internal controls, corporate governance, and compliance issues	Applies now	82%	71%	51%	74%	79%	82%	60%	71%	<.001
	Will apply in five years	94%	83%	78%	89%	88%	91%	76%	84%	<.001
The internal audit activity places more emphasis on assurance than on consulting services	Applies now	84%	78%	75%	74%	78%	82%	77%	78%	<.001
	Will apply in five years	75%	65%	70%	68%	69%	72%	70%	70%	<.001

Note: 2010 survey question number 48: Please indicate if the following statements apply to your organization now, in the next five years, or will not apply in the foreseeable future.

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.



**Table 8.6. Expected Changes in Top Five Internal Audit Activities to Be Performed in Next Five Years**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Corporate governance reviews	25%	21%	29%	30%	39%	21%	20%	23%	<.001
Audits of enterprise risk management processes	18%	19%	28%	20%	26%	22%	18%	20%	<.001
Reviews addressing linkage of strategy and performance	22%	21%	24%	24%	32%	17%	18%	20%	<.001
Ethics audits	21%	18%	25%	23%	30%	17%	18%	19%	<.001
Migration to International Financial Reporting Standards (IFRS)	20%	26%	16%	24%	27%	22%	9%	19%	<.001

*Note:* 2010 survey question number 47: Do you perceive likely changes in the following roles of the internal audit activity over the next five years?

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.7. Tools and Techniques**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Risk-based audit planning	70%	69%	73%	72%	74%	81%	79%	76%	<.001
Control self-assessment	35%	47%	47%	47%	41%	39%	42%	42%	<.001
Balanced scorecard or similar framework	29%	21%	19%	26%	31%	23%	22%	23%	<.001
Benchmarking	40%	27%	45%	35%	39%	40%	37%	37%	<.001
Analytical review	62%	58%	61%	68%	66%	68%	64%	64%	<.001
Data mining	35%	36%	56%	55%	47%	50%	51%	48%	<.001
Statistical sampling	51%	49%	61%	60%	46%	58%	60%	57%	<.001
Computer-assisted audit technique	43%	39%	41%	56%	54%	52%	48%	48%	<.001
Total quality management techniques	21%	18%	17%	26%	30%	18%	15%	19%	<.001
Continuous/real-time auditing	30%	33%	33%	42%	31%	30%	25%	31%	<.001
Electronic workpapers	43%	37%	54%	60%	51%	62%	63%	56%	<.001
Flowchart software	29%	26%	35%	42%	42%	49%	36%	39%	<.001
Process mapping application	23%	18%	26%	49%	26%	25%	31%	28%	<.001
Process modeling software	11%	7%	9%	20%	12%	10%	14%	12%	<.001
Other electronic communication	62%	58%	66%	71%	64%	77%	75%	70%	<.001
The IIA's quality assessment review tools	33%	20%	22%	24%	33%	33%	23%	26%	<.001

*Note:* 2010 survey question number 43a: Indicate the extent the internal audit activity uses the following audit tools or techniques on a typical audit engagement.

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.8. Top Five Tools and Techniques Per Ranks**

	Average	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Risk-based audit planning	1	1	1	1	1	1	1	1
Other electronic communication	2	2	2	2	2	3	2	2
Analytical review	3	3	3	3	3	2	3	3
Statistical sampling	4	4	4	4	4		5	5
Electronic workpapers	5	5			5	5	4	4
Data mining				5				
Computer-assisted audit technique						4		
Control self-assessment			5					

Note: 2010 survey question number 43a: Indicate the extent the internal audit activity uses the following audit tools or techniques on a typical audit engagement.

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.9. Bottom Five Tools and Techniques Per Ranks**

	Average	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Flowchart software		12						
Benchmarking					12			
Continuous/real-time auditing						12	12	12
Process mapping application	12	14	14	12		15	13	11
The IIA's quality assessment review tools	13		13	13	15			13
Balanced scorecard or similar framework	14	13	12	14	13	13	14	14
Total quality management techniques	15	15	15	15	14	14	15	15
Process modeling software	16	16	16	16	16	16	16	16

Note: 2010 survey question number 43a: Indicate the extent the internal audit activity uses the following audit tools or techniques on a typical audit engagement.

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.10. Top Five Tools and Techniques to Be Used in the Next Five Years**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Computer-assisted audit technique	63%	58%	61%	71%	73%	65%	61%	63%	<.001
Electronic workpapers	38%	32%	45%	52%	60%	26%	32%	55%	<.001
Continuous/real-time auditing	56%	49%	42%	67%	57%	62%	46%	54%	<.001
Data mining	50%	45%	33%	48%	66%	64%	52%	52%	<.001
Risk-based audit planning	62%	55%	48%	72%	75%	44%	45%	52%	<.001

*Note:* 2010 survey question number 43a: Indicate the extent the internal audit activity uses the following audit tools or techniques on a typical audit engagement.

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.



**Table 8.11. Area of Knowledge Rated as Very Important By Respondents**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Business management	65%	43%	32%	54%	49%	46%	34%	44%	<.001
Financial accounting	66%	42%	45%	61%	58%	44%	30%	44%	<.001
Finance	63%	34%	42%	54%	50%	28%	29%	36%	<.001
Managerial accounting	51%	34%	37%	54%	46%	26%	27%	34%	<.001
Business law and government regulation	57%	38%	39%	52%	45%	35%	27%	38%	<.001
Economics	28%	11%	30%	21%	20%	9%	11%	14%	<.001
Understanding of quality frameworks	47%	26%	21%	32%	37%	26%	15%	25%	<.001
Ethics	81%	59%	51%	85%	76%	73%	45%	64%	<.001
Fraud awareness	76%	55%	47%	80%	63%	66%	49%	61%	<.001
IT/ICT	55%	32%	28%	55%	46%	29%	34%	36%	<.001
Governance	76%	49%	37%	63%	61%	47%	49%	51%	<.001
Enterprise risk management	81%	59%	56%	75%	67%	48%	56%	58%	<.001
Strategy and business policy	68%	38%	33%	57%	61%	39%	39%	43%	<.001
Auditing	91%	72%	84%	95%	91%	89%	76%	84%	<.001
Internal auditing standards	90%	66%	81%	91%	87%	78%	64%	76%	<.001
Changes to professional standards	79%	45%	59%	72%	71%	60%	42%	56%	<.001
Marketing	24%	12%	7%	16%	19%	7%	5%	10%	<.001
Organization culture	55%	37%	32%	45%	55%	49%	34%	42%	<.001
Organizational systems	70%	38%	38%	50%	56%	46%	33%	43%	<.001
Technical knowledge for your industry	71%	45%	41%	65%	55%	56%	40%	51%	<.001

*Note:* 2010 survey question number 46b: How important are the following areas of knowledge for satisfactory performance of your job in your position in the organization?

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.





**Table 8.12. Area of Knowledge Rated as Very Important Per Ranks**

	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average
Auditing	1	1	1	1	1	1	1	1
Internal auditing standards	2	2	2	2	2	2	2	2
Ethics	3	3	5	3	3	3	6	3
Fraud awareness	6	5	6	4	6	4	4	4
Enterprise risk management	4	4	4	5	5	8	3	5
Changes to professional standards	5	7	3	6	4	5	7	6
Governance	7	6	12	8	7	9	5	7
Technical knowledge for your industry	8	8	9	7	11	6	8	8
Business management	12	9	15	14	14	11	11	9
Financial accounting	11	10	7	9	9	12	14	10
Strategy and business policy	10	12	14	10	8	13	9	11
Organizational systems	9	11	11	16	10	10	13	12
Organization culture	16	14	16	17	12	7	10	13
Business law and government regulation	14	13	10	15	17	14	16	14
IT/ICT	15	17	18	11	15	15	12	15
Finance	13	15	8	12	13	16	15	16
Managerial accounting	17	16	13	13	16	17	17	17
Understanding of quality frameworks	18	18	19	18	18	18	18	18
Economics	19	20	17	19	19	19	19	19
Marketing	20	19	20	20	20	20	20	20

*Note:* 2010 survey question number 46b: How important are the following areas of knowledge for satisfactory performance of your job in your position in the organization?

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.13. General Competencies Rated as Very Important By the Respondents**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Ability to promote the value of the internal audit	87%	62%	60%	83%	79%	67%	59%	67%	<.001
Keeping up-to-date with industry and regulatory changes	86%	57%	60%	85%	73%	68%	58%	66%	<.001
Organizational skills	80%	52%	54%	72%	67%	78%	55%	65%	<.001
Communication skills	94%	77%	82%	88%	83%	93%	81%	86%	<.001
Problem identification and solution skills	89%	76%	80%	84%	78%	86%	76%	81%	<.001
Conflict resolution/negotiation skills	70%	55%	56%	71%	62%	56%	49%	57%	<.001
Change management skills	58%	36%	32%	60%	49%	43%	29%	41%	<.001
Cultural fluency and foreign language skills	34%	25%	29%	47%	46%	13%	27%	26%	<.001
Staff training and development	69%	42%	42%	75%	61%	43%	33%	46%	<.001
Competency with IT/ICT frameworks, tools, and techniques	61%	33%	30%	57%	53%	28%	28%	35%	<.001
Competency with accounting frameworks, tools, and techniques	71%	38%	36%	60%	62%	42%	25%	41%	<.001

*Note:* 2010 survey question number 46: Please mark the five most important of the following competencies for each level of professional rank to perform their work.

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.14. Top Five General Competencies Rated as Very Important Per Ranks**

	Average	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Communication skills	1	1	1	1	1	1	1	1
Problem identification and solution skills	2	2	2	2	3	3	2	2
Ability to promote the value of the internal audit	3	3	3	3	4	2	5	3
Keeping up-to-date with industry and regulatory changes	4	4	4	4	2	4	4	4
Organizational skills	5	5				5	3	5
Conflict resolution/negotiation skills			5	5				
Staff training and development					5			

*Note:* 2010 survey question number 46: Please mark the five most important of the following competencies for each level of professional rank to perform their work.

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.15. Behavioral Skills Rated as Very Important By the Respondents**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Confidentiality	97%	79%	82%	97%	94%	90%	92%	89%	<.001
Facilitation	55%	40%	44%	60%	53%	52%	39%	48%	<.001
Governance and ethics sensitivity	83%	64%	63%	91%	77%	73%	60%	71%	<.001
Influence — ability to persuade	63%	55%	56%	58%	69%	50%	52%	54%	<.001
Communication	91%	78%	85%	88%	83%	91%	83%	86%	<.001
Staff management	71%	39%	34%	65%	63%	49%	30%	45%	<.001
Leadership	80%	48%	36%	76%	70%	63%	38%	55%	<.001
Change catalyst	53%	36%	43%	57%	51%	40%	31%	41%	<.001
Objectivity	92%	80%	89%	92%	80%	88%	89%	88%	<.001
Judgment	80%	72%	77%	85%	73%	83%	78%	79%	<.001
Relationship building	66%	54%	50%	61%	66%	70%	49%	59%	<.001
Team player	81%	55%	59%	80%	75%	71%	54%	65%	<.001
Team building/creating group synergy	75%	50%	46%	73%	70%	59%	41%	55%	<.001
Work independently	73%	47%	56%	57%	71%	64%	57%	59%	<.001
Work well with all levels of management	88%	58%	71%	80%	80%	86%	72%	76%	<.001

*Note:* 2010 survey question number 44a: Please indicate the importance of the following behavioral skills for you to perform your work at your position in the organization. p-value <.0.01

*Source:* The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.16. Top Five Behavioral Skills Rated as Very Important Per Ranks**

	Average	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Confidentiality	1	1	2	3	1	1	2	1
Objectivity	2	2	1	1	2	3	3	2
Communication	3	3	3	2	4	2	1	3
Judgment	4		4	4	5		5	4
Work well with all levels of management	5	4		5		4	4	5
Governance and ethics sensitivity		5	5		3	5		

Note: 2010 survey question number 44a: Please indicate the importance of the following behavioral skills for you to perform your work at your position in the organization. p-value <.0.01

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.17. Bottom Five Behavioral Skills Rated as Very Important Per Ranks**

	Average	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Relationship building		12			11	12		
Work independently			12		14			
Leadership			11	14				13
Team building/creating group synergy	11			11			11	11
Influence — ability to persuade	12	13			13	11	13	
Facilitation	13	14	13	12	12	14	12	12
Staff management	14	11	14	15	10	13	14	15
Change catalyst	15	15	15	13	15	15	15	14

Note: 2010 survey question number 44a: Please indicate the importance of the following behavioral skills for you to perform your work at your position in the organization. p-value <.0.01

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.18. Technical Skills Rated as Very Important By the Respondents**

	Africa	Asia-Pacific	Eastern Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe	Average	p-value
Operational and management research skills	66%	44%	67%	65%	59%	53%	44%	53%	<.001
Forecasting	37%	21%	35%	40%	32%	10%	16%	21%	<.001
Project management	59%	37%	32%	54%	44%	56%	29%	44%	<.001
Business process analysis	69%	55%	60%	71%	65%	61%	51%	59%	<.001
Understanding business	89%	69%	73%	66%	83%	77%	71%	73%	<.001
ISO/quality knowledge	35%	16%	17%	33%	25%	11%	9%	16%	<.001
Total quality management	41%	17%	17%	34%	27%	14%	8%	17%	<.001
Balanced scorecard	35%	15%	13%	36%	23%	11%	9%	16%	<.001
Risk analysis and control assessment techniques	84%	64%	63%	84%	80%	72%	72%	72%	<.001
Identifying types of controls (e.g., preventative, detective)	83%	60%	60%	81%	81%	70%	63%	68%	<.001
Governance, risk, and control tools and techniques	80%	56%	55%	77%	77%	61%	57%	62%	<.001
Data collection and analysis tools and techniques	73%	49%	59%	72%	71%	57%	43%	56%	<.001
Statistical sampling	46%	29%	33%	53%	45%	30%	23%	33%	<.001
Financial analysis tools and techniques	55%	32%	41%	54%	56%	34%	21%	36%	<.001
Forensic skills/fraud awareness	57%	37%	37%	57%	49%	41%	29%	40%	<.001
Problem-solving tools and techniques	68%	47%	46%	58%	58%	66%	34%	53%	<.001
Negotiating	59%	45%	46%	59%	54%	39%	45%	46%	<.001
Use of IT/ICT and technology-based audit techniques	58%	31%	31%	61%	54%	30%	33%	37%	<.001

Note: 2010 survey question number 45a: Please indicate the importance of the following technical skills for you to perform your work at your position in the organization. p-value <.001

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.19. Top Five Technical Skills Rated as Very Important Per Ranks**

	Average	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Understanding business	1	1	1	1		1	1	2
Risk analysis and control assessment techniques	2	2	2	3	1	3	2	1
Identifying types of controls (e.g., preventative, detective)	3	3	3	4	2	2	3	3
Governance, risk, and control tools and techniques	4	4	4		3	4	5	4
Business process analysis	5		5	5	5			5
Data collection and analysis tools and techniques		5			4	5		
Operational and management research skills				2				
Problem-solving tools and techniques							4	

Note: 2010 survey question number 45a: Please indicate the importance of the following technical skills for you to perform your work at your position in the organization. p-value <.0.01

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

**Table 8.20. Bottom Five Technical Skills Rated as Very Important Per Ranks**

	Average	Africa	Asia-Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Project management				14		14		
Forensic skills/fraud awareness								
Use of IT/ICT and technology-based audit techniques				15				
Financial analysis tools and techniques								14
Statistical sampling	14	14	14		14		14	
Forecasting	15	16	15		15	15	18	15
Total quality management	16	15	16	16	17	16	15	18
ISO/quality knowledge	17	17	17	17	18	17	16	16
Balanced scorecard	18	18	18	18	16	18	17	17

Note: 2010 survey question number 45a: Please indicate the importance of the following technical skills for you to perform your work at your position in the organization. p-value <.0.01

Source: The IIA's 2010 Global Internal Audit Survey CAE and Practitioner Questionnaire.

## CHAPTER 9

**Table 9.1. Internal Audit Brings a Systematic Approach to Risk Management—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	2%	2%	1%	3%	1%	1%	2%	0%	4%	1%	4%	1%	2%	2%	3%
Disagree	6%	6%	5%	5%	5%	7%	2%	5%	8%	4%	5%	4%	3%	5%	5%	5%
Neutral	15%	14%	24%	18%	15%	18%	14%	13%	5%	18%	14%	14%	11%	15%	15%	15%
Agree	42%	47%	51%	53%	44%	48%	44%	45%	54%	47%	51%	45%	54%	50%	50%	47%
Strongly Agree	36%	31%	18%	23%	33%	26%	39%	35%	33%	27%	28%	33%	31%	28%	29%	30%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: 2010 Survey question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. "Your internal audit activity brings a systematic approach to evaluate the effectiveness of risk management." 2006 survey question 26c.

Source: The IIA's 2010 Global Internal Audit Survey CAE Questionnaire, 2006 CAE and Practitioner Questionnaire.

**Table 9.2. Internal Audit Brings a Systematic Approach to Internal Control—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	2%	2%	1%	2%	0%	0%	2%	0%	2%	1%	3%	1%	1%	1%	2%
Disagree	1%	2%	4%	3%	2%	5%	1%	2%	0%	4%	1%	2%	1%	2%	2%	2%
Neutral	7%	8%	10%	12%	7%	9%	4%	4%	3%	10%	4%	6%	4%	7%	6%	7%
Agree	43%	48%	53%	54%	51%	53%	43%	46%	49%	49%	40%	43%	49%	51%	46%	47%
Strongly Agree	48%	40%	31%	30%	37%	33%	53%	46%	49%	35%	53%	46%	45%	39%	45%	42%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	99%	100%	100%	100%	100%	100%

Note: 2010 Survey question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. "Your internal audit activity brings a systematic approach to evaluate the effectiveness of internal controls." 2006 survey question 26c.

Source: The IIA's 2010 Global Internal Audit Survey CAE Questionnaire, 2006 CAE and Practitioner Questionnaire.



**Table 9.3. Internal Audit Brings a Systematic Approach to Corporate Governance—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	3%	2%	2%	3%	2%	2%	3%	3%	4%	1%	4%	1%	2%	2%	3%
Disagree	6%	9%	8%	8%	7%	8%	6%	5%	5%	4%	8%	6%	8%	10%	7%	7%
Neutral	24%	20%	28%	26%	19%	25%	18%	23%	18%	29%	25%	22%	24%	26%	24%	24%
Agree	45%	44%	47%	47%	48%	46%	47%	44%	46%	44%	49%	44%	49%	46%	48%	45%
Strongly Agree	24%	24%	16%	17%	22%	19%	28%	25%	28%	19%	18%	24%	19%	16%	20%	21%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: 2010 Survey question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. “Your internal audit activity brings a systematic approach to evaluate the effectiveness of governance processes.” 2006 survey question 26c.

Source: The IIA’s 2010 Global Internal Audit Survey CAE Questionnaire, 2006 CAE and Practitioner Questionnaire.

**Table 9.4. Internal Audit Activity is an Integral Part of the Governance Process by Providing Reliable Information to Management—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	3%	2%	3%	2%	2%	2%	3%	0%	2%	2%	3%	1%	2%	2%	3%
Disagree	2%	4%	3%	5%	5%	4%	3%	5%	10%	6%	3%	4%	7%	6%	5%	5%
Neutral	12%	13%	18%	13%	12%	18%	12%	14%	5%	17%	14%	13%	15%	16%	15%	15%
Agree	48%	46%	51%	45%	47%	50%	41%	43%	39%	46%	48%	44%	47%	47%	47%	46%
Strongly Agree	36%	34%	26%	34%	34%	27%	42%	36%	46%	29%	33%	36%	30%	29%	32%	31%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	101%	100%

Note: 2010 Survey question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. “Your internal audit activity is an integral part of the governance process by providing reliable information to management.” 2006 survey question 26c. Source: The IIA’s 2010 Global Internal Audit Survey CAE Questionnaire, 2006 CAE and Practitioner Questionnaire.

**Table 9.5. One Way to Add Value to the Governance Process is Through Direct Access to the Audit Committee—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	5%	3%	4%	4%	7%	1%	4%	8%	0%	4%	2%	6%	7%	10%	5%	7%
Disagree	5%	9%	9%	13%	12%	6%	5%	9%	3%	6%	3%	7%	10%	10%	7%	9%
Neutral	13%	15%	30%	27%	21%	18%	15%	23%	23%	26%	10%	19%	22%	24%	19%	22%
Agree	45%	36%	37%	36%	31%	48%	31%	32%	46%	36%	45%	37%	37%	35%	38%	35%
Strongly Agree	32%	37%	20%	20%	29%	27%	45%	28%	28%	28%	40%	31%	25%	21%	31%	27%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	101%	100%	100%	100%

Note: 2010 Survey question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. “One way your internal audit activity adds value to the governance process is through direct access to the audit committee (or equivalent).” 2006 survey question 26c.

Source: The IIA’s 2010 Global Internal Audit Survey CAE Questionnaire, 2006 CAE and and Practitioner Questionnaire.

**Table 9.6. Internal Audit Adds Value—Comparison 2010–2006**

	Africa		Asia-Pacific		Eastern Europe-Central Asia		Latin America and Caribbean		Middle East		United States and Canada		Western Europe		Average	
	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006	2010	2006
Strongly Disagree	2%	2%	2%	1%	1%	1%	1%	2%	0%	4%	2%	4%	1%	1%	1%	2%
Disagree	2%	3%	2%	2%	1%	2%	1%	1%	5%	2%	1%	1%	0%	2%	1%	2%
Neutral	6%	11%	10%	10%	6%	10%	2%	3%	0%	8%	3%	6%	6%	6%	5%	7%
Agree	46%	45%	56%	52%	43%	49%	32%	39%	40%	33%	42%	38%	54%	51%	48%	44%
Strongly Agree	45%	39%	30%	35%	50%	38%	64%	55%	55%	53%	53%	51%	39%	40%	45%	45%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Note: 2010 Survey question 25b: Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit. “Your internal audit activity adds value.” 2006 survey question 26c.

Source: The IIA’s 2010 Global Internal Audit Survey CAE Questionnaire, 2006 CAE and and Practitioner Questionnaire.

## NOTES



1. The term master's degree refers to a postgraduate qualification that is academic in nature, as opposed to a master's in business administration (MBA), which has a more generalist and practical focus. This section is based only on master's degrees.
2. The NYSE corporate governance rules state that listed companies must comply with the standards regarding corporate governance as codified in this Section 303A of the listed company manual. A similar provision is included in the Corporate Governance Requirements for companies listed on the NASDAQ.
3. Examples of a department director include chief operating officer and head of legal services.
4. Overall, the responses from South Africa represent 47% percent of the total responses from the Africa region.
5. The King Reports can be found (with many other corporate governance codes) at [www.ecgi.org](http://www.ecgi.org).
6. Since 2003, the establishment of an audit committee has been mandatory for the top 500 companies listed on the Australia Stock Exchange, but many listed companies (and also the largest non-listed companies) have voluntarily done so.
7. In China, the process of reform of the corporate governance system for listed companies started a decade ago. Regarding the audit committee, the standards of corporate governance for listed companies issued in 2002 by the China Securities Regulatory Commission recommends to the board of directors the establishment of an audit committee that should consist of a majority of independent directors. The interviewees highlight that according to them, not all the listed companies have an audit committee, even though most of them have introduced one in the last five years.
8. In Italy, non-listed companies do not have an audit committee because its functions are exercised by another control body (Collegio Sindacale) appointed during the shareholders' meeting.
9. Furthermore, a frequent relationship between the CAE and the audit committee is supported by the document called Basic Standard for Enterprise Internal Control, which became effective in 2011 for companies listed to Shanghai Stock Exchange. This standard underlines the responsibility of the audit committee regarding the examination of the company's internal control system. As a result of these changes, today in listed companies it is more likely than in the past that the CAE is invited to attend the audit committee meetings to discuss those concerns regarding the internal control system.
10. Accountability auditing is the auditing of the principal leading persons of government departments to ascertain if they perform, during their terms of office, their economic accountabilities with respect to government and financial revenues, expenditures, and relevant economic activities of their districts, departments, or units.
11. In Africa, the countries of Algeria, Botswana, Cameroon, Ethiopia, Kenya, and Malawi established their local IIA institute less than 15 years ago.
12. In the Latin America/Caribbean region, the countries of Chile, Guatemala, Haiti, Honduras, and Paraguay established their local IIA institute less than 10 years ago.

13. In the Middle East, the countries of Egypt, Lebanon, and Oman established their local IIA institute less than 10 years ago.
14. Most Western European countries established their local IIA institute more than 25 years ago.
15. The profession has the longest history in this region given that The IIA was founded in the United States in 1941.
16. Diversity concerns age, gender, sexual orientation, language, ethnicity, professional affiliation and experience, and disability.

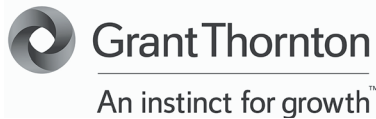
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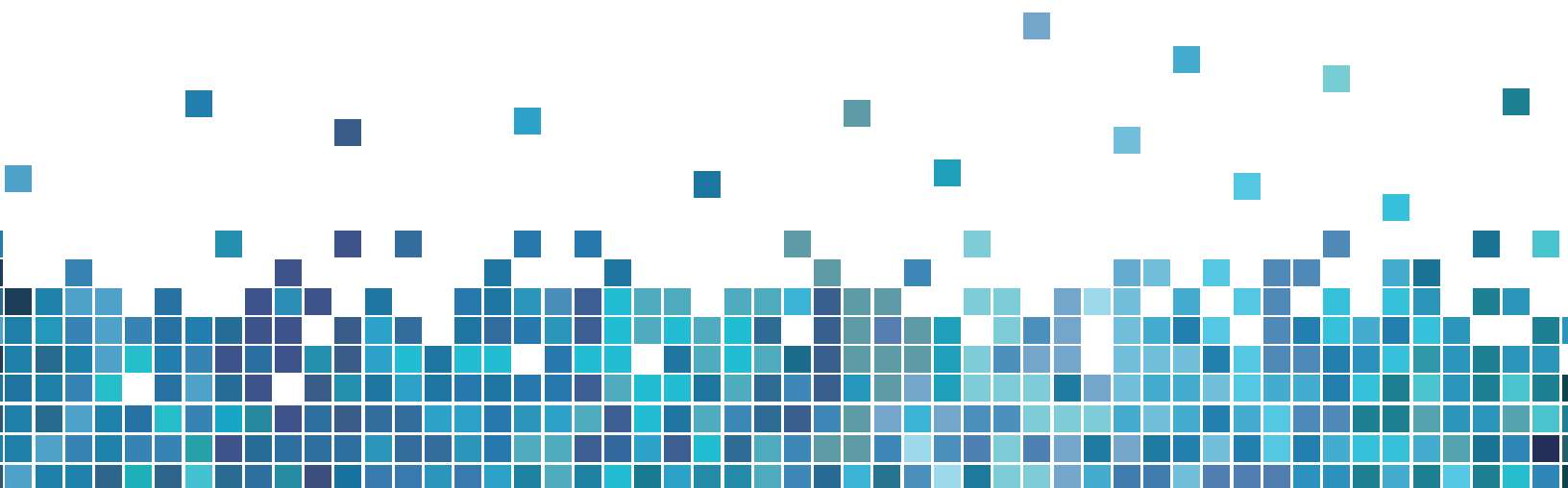
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