

Insight:

DELIVERING VALUE TO STAKEHOLDERS

Insight: Delivering Value to Stakeholders

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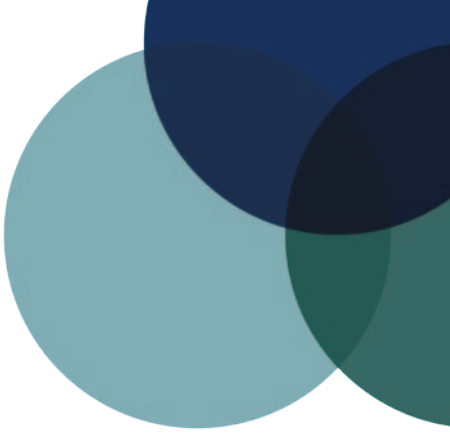
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FOREWORD

In early 2008, The IIA’s Board of Directors approved a new Strategic Plan, which centered on activities to gain universal recognition of the internal audit profession — from advocating the profession, to developing enhanced standards and certification programs, to providing top-notch member services, to leveraging the power of the global IIA. The board understood that to gain this recognition, internal auditors would need to demonstrate all the relevant components of a profession: adherence to a Code of Ethics and professional standards; mastery of a common body of knowledge; achievement of a certification process to demonstrate that mastery; meeting an ongoing continuing education requirement to maintain competence; and a focus beyond self-interest to a “common good.”

Many of the professional elements noted above have been in place for years, thanks to the efforts of The IIA and its volunteer leaders. For example, The IIA is recognized as the global standard-setting body for internal auditing. The concept of acting toward a “common good” needed further development, and so, a task force was formed to explore and develop a clear and concise description of internal audit’s value proposition or common good, which could then be communicated to key constituencies of the profession.

The task force was launched in April 2008, under the leadership of Denny Beran, the senior vice president of internal audit at jcpenny and a longstanding leader in the profession and in The IIA. The task force was asked to explore what internal auditors should deliver to their customers, based on growing expectations in an ever more challenging environment. In March 2010, the task force delivered its results, and its recommendations were subsequently endorsed by the board.

The illustration below depicts the task force’s overview on how internal audit delivers value and the approved Value Proposition.



**INTERNAL AUDITING =
ASSURANCE, INSIGHT,
AND OBJECTIVITY**

Governing bodies and senior management rely on Internal Auditing for objective assurance and insight on the effectiveness and efficiency of governance, risk management, and internal control processes.

As The IIA started communicating the new Value Proposition and plans were developed to support it, there was a realization that, although extensive reference material and information to support the Assurance and Objectivity categories existed, there was very little relating to insight. The IIA Research Foundation (IIARF) accepted the challenge to quickly develop a project to measure both stakeholder and chief audit executive (CAE) views of insight delivery by internal audit. The IIARF wanted a project that would measure the clarity and alignment around the definition of insight, as well as identify approaches and techniques to increase the delivery of insight. Beyond just summarizing survey results, The IIARF wanted a

useful report with practical ideas that CAEs who were interested in living up to the Value Proposition and increasing insight delivery could adopt. In April 2011, the project was launched, and Deloitte & Touche LLP (Deloitte & Touche), working with its research affiliate within Deloitte Services LP, was selected to assist with the research project.

We hope that this specific report offers helpful insights, actionable suggestions, and useful examples for internal audit leaders. We urge them to carefully read this report, understand the expectations and perceptions of key stakeholder constituents, self-assess how effective their internal audit organization is in meeting these expectations, and thoughtfully consider the relevance of the report's suggestions to their team. This report also contains relevant information for boards of directors, CEOs, chief financial officers (CFOs), and other key stakeholders to gain an enhanced understanding of the potential of the internal audit profession to deliver insights, what hindrances exist, and the key role they themselves play in enabling insight delivery.

ACKNOWLEDGMENTS

This research project was designated as sponsored research. We are fortunate that The IIA’s New York Chapter provided the funding, and that Deloitte & Touche contributed half of the professional time that was spent supporting the research.

We are also thankful for the active and ongoing contributions of several IIA global institutes who supported the research by advertising and distributing the survey within their regions, and by participating on the Steering Committee guiding the research activities. Those Institutes include IIA–Australia, IIA–Malaysia, IIA–The Netherlands, and IIA–South Africa. The Steering Committee members included the following individuals: Wayne Moore, Project Chairman; Urton Anderson, Nur Hayati Baharuddin, Jean Coroller, Don Espersen, Stephanie Koehn, Hans Nieuwlands, Xenia Parker, and Claudelle Von Eck.

We are particularly grateful to Patty Miller and Tara Smith from Deloitte & Touche for their critical help in completing this report. Additionally, we would like to thank Prasad Kantamneni, Sushant Gaonkar, and Pandarinath Illinda from Deloitte Services LP for their help in survey design and analysis. We sincerely appreciate the stakeholders and the CAEs who took the time to participate in the survey and to whom this report owes its content.

Some respondents graciously accepted our invitation to be interviewed, affording us the opportunity to document their verbally expressed input and insights that could not have been obtained any other way. We were fortunate to have many distinguished and successful board, executive, and internal audit leaders volunteer. The following chart lists the interviewees and highlights their roles.

Board Members		
Peter Browning	Acuity Brands, EnPro Industries, Inc., Lowe’s Companies, Inc., Nucor Corporation	United States
Geoff Rothschild	Committee of South African Stock Exchanges, Johannesburg Stock Exchange Limited	South Africa
Stephen Page	Liberty Media Holding Company, Inc., Lowe’s Companies, Inc., PACCAR	United States
Rashid Wally	Mango Airlines	South Africa
Executive Management		
Fred TH J. Arp	Telegraaf Media Groep	Netherlands
Gary Gan	Pacific Mutual Fund Bhd	Malaysia
Internal Audit Leaders		
Chris Bennecke	InvoCare	Australia
Harold Chiloane	Ekurhuleni Metropolitan Municipality	South Africa
Jenitha John	FirstRand	South Africa
John Lewis	Safeway Inc.	United States
Jim Molzahn	jcpenny	United States
Teresa Snedigar	Indiana Public Retirement System	United States
Lana Wynne	Merichem Company	United States

Last but not least, at The IIA's global headquarters in Altamonte Springs, Florida, United States, many staff members, especially Bonnie Ulmer and Selma Kuurstra, worked tirelessly and provided indispensable support and knowledge.

Pat Scipio
President, IIA Research Foundation

ABOUT THE AUTHORS

Patricia Miller, CIA, CISA, CPA, is an experienced internal audit partner in the Northern California Advisory Services practice of Deloitte & Touche. During her career with Deloitte & Touche, she has provided a broad array of services to clients, including business and audit risk and control evaluations, operational and information systems control evaluations, quality assessment reviews, and Sarbanes-Oxley readiness services. Patty has worked with large and small public clients in a variety of industries. She also leads the internal audit risk management function nationally, providing consultation on engagement quality and risk management, and on quality assurance activities.

Patty joined the Deloitte & Touche Audit & Enterprise Risk Services practice in 1997, following a 14-year career with Pacific Telesis and Pacific Bell where she held numerous management positions in diverse areas, including internal audit, billing systems, financial management and planning, process design and engineering, project and program management, and merger planning and integration.

Patty has been an active member of The Institute of Internal Auditors (IIA) for more than 20 years, and served as chairman of the Board of Directors for the global organization for the 2008–2009 year. She served as a member of the Executive Committee of the Board of Directors for seven years in the roles of senior vice chairman and vice chairman – Professional Practices, where she oversaw the development of IIA *Standards*, guidance, and quality assessment; and in the role of vice chairman – Professional Services, overseeing relationships with the global and North American affiliates, as well as academic and government auditor relations. She is also a past vice chair of the Standards Board and member of the Board of Regents, and served a term as president of the IIA–San Francisco Chapter. Patty is a frequent speaker at the local and global level on internal audit, governance, and control topics, and has co-authored research projects and articles for *Internal Auditor* magazine.

Tara Smith, CIA, is a senior manager at Deloitte & Touche, serving a range of clients with a primary focus in the oil & gas industry. She provides industry-specific internal audit services that include the development of the annual risk assessment and audit plan, execution of projects and communication of results, and executive management and audit committee reporting. Tara also has significant experience managing global projects. She has managed all engagement-related items for large global projects, including planning and execution, coordinating international resources, and ensuring standard global deliverables.

Tara has facilitated a number of internal trainings at Deloitte & Touche and is active in Deloitte & Touche's Women's Initiative, having served on several national committees. Before joining Deloitte & Touche in 2002, she provided internal audit services with Arthur Andersen's Business Process Risk Consulting practice and worked as a financial analyst for a global telecommunications company.

CHAPTER 1

EXECUTIVE SUMMARY



Introduction and Background

Insight is commonly defined as: “The capacity to gain an accurate and deep intuitive understanding of a person or thing.”¹ One of the key goals of the internal audit function is to provide its stakeholders with insights gleaned while performing assessments, both with respect to the implication of those assessments and providing recommendations. In fact, The Institute of Internal Auditors (IIA) views insight as a critical component of the recently developed Value Proposition for the profession.

The elements of the new internal audit Value Proposition include assurance, insight, and objectivity: “Governing bodies and senior management rely on internal audit for objective assurance and insight on the effectiveness and efficiency of governance, risk management, and internal control processes.” To date, however, there has been little research into how well the internal audit function is actually delivering on that goal.

Given the lack of research in this key element of the Value Proposition, and the desire to determine the current state of and expectations for insight delivery by internal audit, The IIA Research Foundation (IIARF) launched this research project.

Objectives of the Research Project

The goal of this project is to:

- Gain an understanding of how chief audit executives (CAEs) and key stakeholders view the current state of insight delivery.
- Identify, if possible, the key drivers of those CAEs who are successful in providing insight to their stakeholders.
- Provide examples for CAEs eager to enhance the delivery of insight by internal audit.

CAEs include those in the senior internal audit leadership role within an organization as well as internal audit partners/principals/directors in professional service firms, regardless of the specific title given to the leadership role. Key stakeholders are defined as members of audit committees or governing bodies, chief financial officers (CFOs), and CEOs.

Overview of the Approach and the Participants

The research approach includes three key elements:

- 1) A review of related research, including the 2010 Common Body of Knowledge (CBOK) study commissioned by The IIARF and a focused media/Internet search for related research projects or texts.
- 2) A survey of CAEs and stakeholders regarding their view of insight, internal audit delivery of insight, what enables or hinders the delivery of insight, and specific examples and approaches to the delivery of insight.
- 3) Selected follow-up interviews with those surveyed to further explore their experiences and points of view.

A literature review on internal auditing was conducted, which covered different responsibilities of internal audit, such as compliance activities, business improvement, enterprise risk assessment, and strategic risk mitigation. Literature on how internal audit can go beyond its current role and be a strategic advisor was also reviewed. The scope of the review was global and included white papers and surveys from trade journals and professional services and consulting firms.

One of the objectives of the research project was to gather global perspectives from both internal audit leaders and key stakeholders. Therefore, The IIARF solicited the assistance of several global institutes, including Australia, Malaysia, The Netherlands, and South Africa. With their assistance, the survey tool was distributed to the CAEs who were members of The IIA in North America as well as in each of the institutes noted above. These CAEs were asked to complete the survey and, further, to distribute a similar survey developed for stakeholders to the executives and board members within their organizations. Selected IIA internal committees and board members were asked to complete the survey and share it. The survey was also distributed to attendees at the Board Roundtable held during the IIA International Conference in Kuala Lumpur, Malaysia, in July 2011 and was shared with other professional organizations that serve board members. In addition, the survey was posted on selected corporate governance websites. The survey was available for seven weeks, from June 6, 2011, through July 22, 2011, to provide ample time to respond.

In total, there were 358 survey participants from 39 countries, grouped into five regions noted below. Approximately 72 percent of the participants were internal audit leaders and 28 percent were stakeholders (9 percent board members and 19 percent executives). Approximately 34 percent of the responses were from the Americas, 34 percent from Asia Pacific, 21 percent from Africa, 9 percent from Europe, and 2 percent from the Middle East.

To gain further information and examples of approaches used to deliver insight, interviews were conducted with 13 survey participants during August 2011: seven were CAEs, four were board members, and two were executives. The interview participants were judgmentally selected, with a predominance of those respondents who had more positive (“strongly agree/agree”) responses to the receipt of insight, or more negative (“strongly disagree/disagree”) responses. The researchers felt that they were more likely to receive examples of techniques from the CAEs and stakeholders who felt the most positive about their delivery or receipt of insight. Further, the researchers believed that a better understanding of potential gaps would come from those with more negative views.

Key Themes

Consistent Expectations for Insight

We asked the survey participants whether they agreed that internal audit should provide insight; to evaluate whether internal audit functions, in general, provide insight; to evaluate whether the internal audit function within their organization delivered insight, and finally, to state how frequently such insights are provided (e.g., always, occasionally, rarely, etc.).

The responses were consistently positive across stakeholders and internal audit leaders, and across types of organizations, industries, geographies, and size of internal audit functions regarding the definition and internal audit's related responsibility. Across all participants, 89 percent agreed with the definition in the Value Proposition, and 89 percent agreed that internal audit should provide insight as defined.

Overview of Responses by Role

Role	Definition Accurate			IA Should Provide			In General, IA Provides			My IA Provides			Frequency Provided		
	S/A/A	Neutral	D/SD	S/A/A	Neutral	D/SD	S/A/A	Neutral	D/SD	S/A/A	Neutral	D/SD	A/F	O	R/N
Internal Audit	88%	9%	3%	90%	7%	3%	72%	19%	8%	81%	14%	6%	66%	28%	6%
Board	85%	3%	12%	86%	3%	10%	77%	10%	13%	79%	15%	6%	61%	39%	0%
Executives	94%	3%	3%	89%	6%	5%	57%	25%	18%	56%	20%	24%	38%	42%	20%
Overall Results	89%	8%	4%	89%	7%	4%	71%	19%	10%	76%	15%	9%	60%	32%	7%

S/A/A – Strongly Agree/Agree D/SD – Disagree/Strongly Disagree A/F – Always/Frequently O – Occasionally R/N – Rarely/Never

Gaps in Meeting Expectations

As indicated in the results above, even in self-reflection, internal audit leaders expressed a gap. Approximately 90 percent of them agreed that internal audit should deliver insight, but only 72 percent agreed or strongly agreed with the statement: “In general, I believe internal audit functions provide insights...” When evaluating their own organizations, the assessments were more positive on delivery, as 81 percent agreed that insight was actually provided, with 66 percent selecting “always” or “frequently.” Another 28 percent of CAEs selected “occasionally,” leaving only 6 percent of CAEs who selected “rarely” or “never” when describing insight delivery by their own function.

Contrast this to the stakeholders, who likewise agreed (86 percent for board members and 89 percent for executives) that internal audit should provide insight. Board members were more positive in their assessment of actual delivery: 77 percent agreed that, in general, internal audit provided insight and 79 percent agreed for their own organization, but only 61 percent selected “always” or “frequently” provided. Executives, on the other hand, were not as positive: only 57 percent indicated agreement that, in general, internal audit provided insight; only 56 percent agreed for their own organization; and only 38 percent selected “always” or “frequently.” However, another 42 percent acknowledged that “occasionally” insights were delivered, leaving 21 percent who selected “rarely” or “never.”

During the interviews, participants were asked why they thought this expectation gap existed. A common theme from stakeholders was that while most internal auditors have experience with finance and accounting, they lack the operational and general management experience necessary to truly “walk in management’s shoes” and fully understand the business strategies and related challenges that are fundamental and a precursor to providing insight. This challenge was recognized by all the CAEs we interviewed. The critical importance of internal audit having business knowledge and strong business acumen was emphasized by the CAEs and stakeholders who were interviewed.

Closing the Expectation Gap

The size of the gaps identified above is serious, especially given the expectation for insight to be delivered across industries, geographies, and types of organizations. The survey and our subsequent interviews revealed some useful suggestions for CAEs wishing to bridge those gaps. The survey demonstrated a relationship between certification and greater insight delivery. It also identified key factors and approaches that were consistently viewed as critical enablers to insight delivery — such as clear board and management expectations for value and insight delivery, a highly competent CAE, industry and organizational knowledge, use of senior-level auditors and specialists, and the consistent use of data analysis tools. The research results are further explored in chapter 3 of this report.

Conclusions

Effective internal audit leaders have known for a long time that, to be successful, internal audit is less about presenting audit results and more about engaging executives and board members in thoughtful consideration of current business challenges and in supporting the development of strategies to address the associated business risks. The CAE needs to be viewed as a highly competent leader, with an internal audit team that is respected for its understanding of the business and industry issues, has gained the trust of the organization that its motivation is to support organizational success, and has the absolute support of the executive team and board in a highly ethical and well-governed organization. These absolutes were reinforced in both the survey and interview results.

This research project provides new insights into specific practices that effective internal audit leaders implement to enable and maintain their success. As further explored in chapters 3 and 4, key leading practices include having a broad and diverse blend of skills within the internal audit team — by hiring, co-sourcing, or leveraging guest auditors — as personnel with significant industry and business knowledge is fundamental to delivering insights successfully. The auditor’s objective assessment is critical but insufficient. Beyond objectivity, auditors need to approach understanding issues and potential remediation activities from a *business* perspective. For example, textbook recommendations that do not address root cause, implementation cost, or the realities of competing business priorities quickly undermine an internal audit department’s efforts to add value and provide insight.

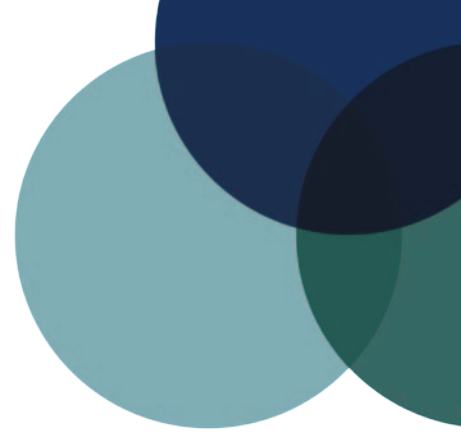
In the age of technology, the CAEs we interviewed all confirmed that data analysis tools need to be leveraged — to determine what to audit, to audit processes efficiently, and to monitor risks across business operations. These tools can support benchmarking across functions within an organization and consolidate and link data from different systems into a single analysis. Beyond just supporting internal audit, both of

these activities enable delivering insights to management and the board, and even providing new and ongoing management tools to assess operations.

To reinforce and reward the desired insight delivery behaviors, the CAEs' expectations for insight delivery need to be clearly stated, measured, and addressed in auditor performance assessments. And, whenever possible, the value of insights delivered should be estimated, tracked, and reported. Specific survey results, analysis of those results, and the explanations and recommendations from the individuals interviewed follow in chapter 3. Illustrative approaches of successful CAEs are summarized in chapter 4.

CHAPTER 2

RESEARCH METHODOLOGY



Introduction

This project was undertaken by The IIARF to assess the current state of insight delivery by internal audit, as viewed by CAEs and their stakeholders, defined primarily as members of audit committees or governing bodies, CFOs, and CEOs. This research explores expectations for insight delivery, concepts of what constitutes insight delivery, and the extent to which insights are delivered. In addition, the researchers sought to determine factors that would best facilitate insight delivery, as well as to glean key approaches and real examples from CAEs who are successful in delivering insight.

Approach to the Research

The research approach included three key elements:

- 1) A review of related research, including the 2010 Common Body of Knowledge (CBOK) study commissioned by The IIARF and a focused media/Internet search for related research projects or texts.
- 2) Surveys of key CAEs and stakeholders regarding their view of insight, internal audit delivering insight, what enables or hinders the delivery of insights, and specific examples and approaches.
- 3) Selected follow-up interviews with those surveyed to further explore their experiences and points of view.

Literature Search

A global literature review on internal auditing was conducted using the Internet. The review covered different areas of internal audit, such as compliance activities, business improvement, enterprise risk assessment, and strategic risk mitigation. Literature on how internal audit can go beyond its current role and act as a strategic advisor was reviewed, as were surveys on the state of the internal audit profession. The scope of the review was global and included white papers and surveys from trade journals and professional services and consulting firms.

The results of the literature search did not identify any specific white papers, survey results, or research that directly related to insight delivery by internal audit. However, the literary search did identify publications exploring internal audit's ability to elevate its position to a strategic role and an expectation gap between executive management and the internal audit function regarding internal audit's role as a strategic advisor. Those interested in more information on this topic may want to read an October 2010 paper, Executive Study on the Strategic Role of Internal Audit, published by Vonya Global.¹

Survey

The research survey was administered by The IIARF. To facilitate timely distribution and analysis, the IIARF solicited assistance from global IIA Institutes that could administer the survey in English. The final survey was distributed in the following regions/countries:

- Australia
- Malaysia
- North America
- The Netherlands
- South Africa

The survey tool was distributed to CAEs who were asked to complete the survey and, further, to share a similar survey developed for stakeholders with the executives and board members within their organizations. Selected IIA internal committee and board members were asked to complete the survey. The survey was distributed to attendees at a Board Roundtable held during the IIA International Conference in Kuala Lumpur, Malaysia, in July 2011, and was shared with certain professional organizations that serve board members. In addition, a link to the survey was posted on selected corporate governance websites. The survey was available seven weeks, from June 6, 2011, through July 22, 2011, to provide ample time to respond.

In total, there were 358 survey participants from 39 countries, grouped into five regions. Approximately 72 percent of the participants were internal audit leaders and 28 percent were stakeholders (9 percent board members and 19 percent executives).

Survey Participants by Region and Role

	All Responses		Internal Audit		Board		Executives	
	No.	%	No.	%	No.	%	No.	%
Americas	123	34%	100	39%	7	21%	16	24%
Asia Pacific	122	34%	108	42%	6	18%	8	12%
Europe	31	9%	26	10%	0	0%	5	8%
Africa	76	21%	19	7%	20	61%	37	56%
Middle East	6	2%	6	2%	0	0%	0	0%
Total	358	100%	259	100%	33	100%	66	100%
% of Total Responses			72%		9%		19%	

Interviews

To gain further information and examples of approaches used to deliver insight, phone interviews were conducted with survey participants who responded to our invitation contained in the survey. The interview participants were judgmentally selected, with a preference for those respondents who had more positive (“strongly agree/agree”) responses to the delivery (CAEs) or receipt (stakeholders) of insight, or stakeholders with more negative responses to the receipt (“strongly disagree/disagree”) of insight. This skewed selection approach was used to increase the likelihood of gaining:

- Examples of tried and tested approaches and techniques to delivering insight.
- A better understanding of gaps between stakeholder expectations for insight and their actual experience.

In total, 13 individuals were interviewed from a cross-section of types of organizations and geographic locations. The interviewees included seven CAEs (54 percent), two executives (15 percent), and four board members (31 percent).

Demographics of Research Participants

Survey Participants

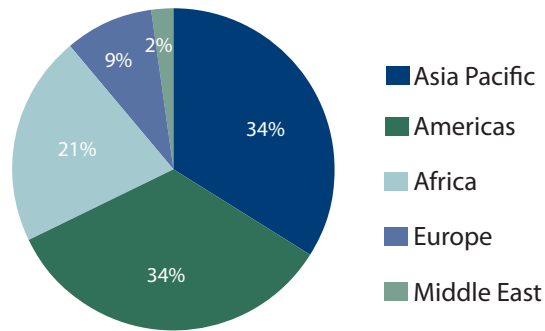
The following information provides the demographic breakout of the 358 participants by role, geographic region, type of organization, industry grouping, and size of internal audit function.*

Organizational Role

	Count	Percent
Board Members		
Audit committee chair	13	4%
Audit committee member	11	3%
Board of directors member	9	3%
	33	9%
Executives		
Chief executive officer (CEO)	22	6%
Chief financial officer (CFO)	20	6%
Chief risk officer (CRO)	5	1%
Other management position	19	5%
	66	18%
Internal Audit		
Chief audit executive (CAE) or equivalent	197	55%
Internal audit personnel other than CAE level	43	12%
Professional service provider	19	5%
	259	72%
Total	358	100%

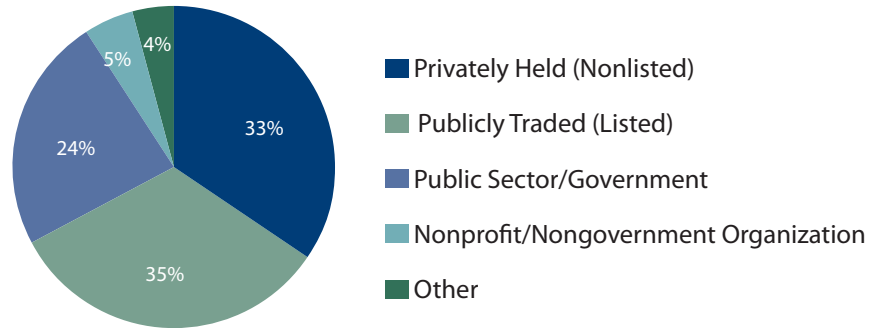
*Due to rounding, all percentages may not add up to 100 percent.

Geographic Breakout

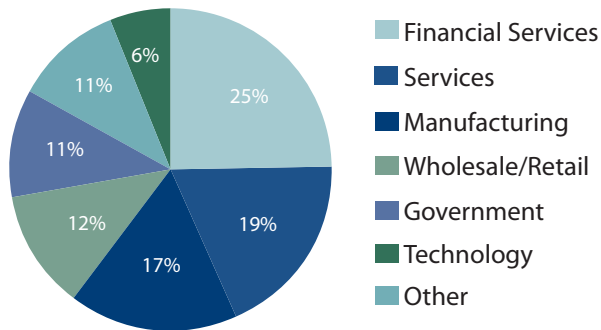


	Count	Percent
Asia Pacific		
Australia	70	20%
Malaysia	42	12%
Other	10	3%
	122	34%
Europe		
The Netherlands	22	6%
Other	9	3%
	31	9%
Middle East		
Other	6	2%
	6	2%
Africa		
South Africa	69	19%
Other	7	2%
	76	21%
Americas		
United States	90	25%
Canada	11	3%
Caribbean	3	1%
Other	19	5%
	123	34%
Total	358	100%

Type of Organization

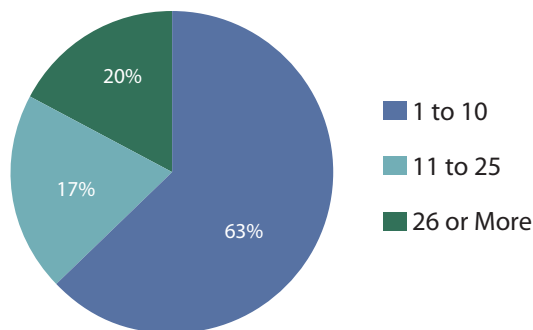


Industry Breakout

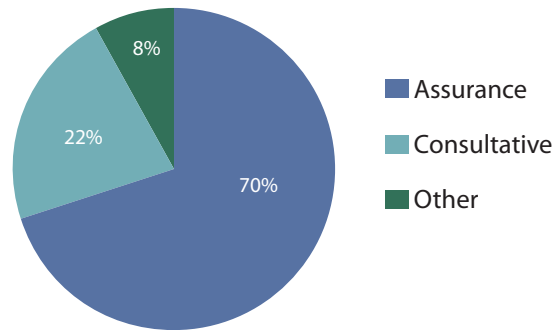


Internal Audit Demographics

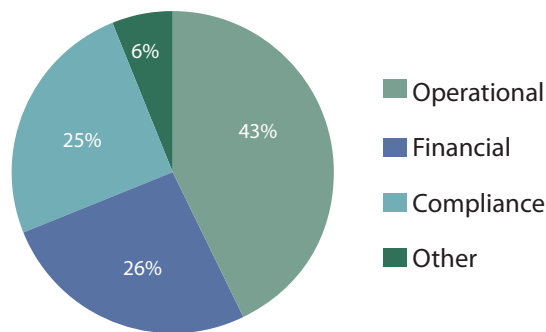
Size of Function



Relative Time on Internal Audit Service Categories



Relative Time on Risk Categories



Interview Participants

The following information provides the demographic breakout of the 13 interviewees by role, geographic region, and type of organization.

Interviewees by Role

CAEs	Board	Executives	Total
7	4	2	13
54%	31%	15%	100%

Interviewees by Region and by Type Organization

Americas	Asia Pacific	Europe	Africa	Total
6	2	1	4	13
46%	15%	8%	31%	100%

Publicly Traded	Private	Government	Not for Profit/ Other	Total
8	2	2	1	13
62%	15%	15%	8%	100%

CHAPTER 3

RESEARCH RESULTS

The first key area explored in this research was the **agreement among CAEs and stakeholders on the concept of insight and the expectation that internal audit should deliver insight**. To further specifically test the concept of insight, the researchers provided six different scenarios with varying levels of perceived insight delivery for the survey participants to react to — first determining whether they agreed that the scenario indicated insight. Further, we sought to **determine whether gaps existed between the expectation for and the delivery of insight**. Taking the six different scenarios, we asked participants to respond if they believed the scenario depicted a service that internal audit should deliver, whether it was a service that internal audit was delivering, and, if so, with what frequency.

Finally, we asked participants to select the top four (from a list of 10) **factors that might enable insight delivery** and the top four (from a list of 10) **approaches to delivering insight**. Examples of factors listed were board and management expectations for insight delivery, a strong control environment and “tone at the top,” and internal audit personnel with industry and organizational knowledge. Examples of approaches listed were the use of senior experienced auditors and subject matter specialists, including insight delivery in performance expectations and evaluations, and using benchmarking data in assessments and results reporting. Participants were also provided the opportunity to write in responses.

In selecting interview participants, we purposely sought out those CAEs and stakeholders with the strongest response to the insight delivery questions to better enable us to identify, if possible, the **key drivers of those who are successful** in providing insight and the **tools for other CAEs eager to enhance the delivery of insight** by their internal audit function. We also sought out stakeholders who offered more negative responses to better understand the cause of the expectation gaps they experienced.

Consistent View of Insight

Insight is commonly defined as: “The capacity to gain an accurate and deep intuitive understanding of a person or thing.”¹

In August 2010, The IIA defined insight as part of the development of a Value Proposition statement for internal audit. Communicated visually by three intersecting circles, the “value proposition” is based on the three core elements of value delivered by internal audit to an organization: assurance, insight, and objectivity.



INTERNAL AUDITING = ASSURANCE, INSIGHT, AND OBJECTIVITY

Governing bodies and senior management rely on Internal Auditing for objective assurance and insight on the effectiveness and efficiency of governance, risk management, and internal control processes.

The IIA has defined the Insight element of the Value Proposition as follows:

Insight = Catalyst, Analyses, and Assessments.

“Internal audit is a catalyst for improving an organization’s effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.”

“Insight is an end product or result from internal audit’s assurance and consulting work. Insight can involve ‘connecting the dots’ (i.e., identifying the entity-level root causes of control concerns, emerging risks, or significant opportunities to improve the entity’s governance process) to deliver value-added results to key internal audit stakeholders. Providing Insight may require many IA activities to improve their overall capability, staff competencies, and audit process/practices.”

We asked the survey participants to react to this definition and agree (or not) that it captured the essence of insight; agree (or not) that internal audit should provide insight; evaluate whether internal audit functions, in general, provide insight; evaluate whether the internal audit function within their organization delivered insight; and, finally, to state how frequently such insights are provided (e.g., always, occasionally, rarely, etc.).

The responses were consistently positive across stakeholders and internal audit leaders, and across types of organizations, industries, geographies, and size of internal audit functions regarding the definition and internal audit’s related responsibility. Across all participants, 89 percent agreed with the definition in the Value Proposition, and 89 percent agreed that internal audit should provide insight as defined.

Overview of Responses by Role

Role	Definition Accurate			IA Should Provide			In General, IA Provides			My IA Provides			Frequency Provided		
	SA/A	Neutral	D/SD	SA/A	Neutral	D/SD	SA/A	Neutral	D/SD	SA/A	Neutral	D/SD	A/F	O	R/N
Internal Audit	88%	9%	3%	90%	7%	3%	72%	19%	8%	81%	14%	6%	66%	28%	6%
Board	85%	3%	12%	86%	3%	10%	77%	10%	13%	79%	15%	6%	61%	39%	0%
Executives	94%	3%	3%	89%	6%	5%	57%	25%	18%	56%	20%	24%	38%	42%	20%
Overall Results	89%	8%	4%	89%	7%	4%	71%	19%	10%	76%	15%	9%	60%	32%	7%

SA/A – Strongly Agree/Agree D/SD – Disagree/Strongly Disagree A/F – Always/Frequently O – Occasionally R/N – Rarely/Never

The first indication of an expectation gap appears with the questions about internal audit’s delivery of insight and the frequency. Across all participants, the positive responses dropped to 71 percent when asked whether, in general, internal audit functions provided insight. When asked specifically about their organization, 76 percent had a positive response and 60 percent said internal audit “always” or “frequently” provided insight, with another 32 percent selecting “occasionally.”

Expectation Gaps

As indicated in the results above, even in self-reflection, internal audit leaders expressed a gap. Approximately 90 percent of them agreed that internal audit should deliver insight, but only 72 percent agreed or strongly agreed with the statement: “In general, I believe internal audit functions provide insights...” When evaluating their own organizations, the assessment was more positive on delivery, as 81 percent agreed that insight was actually provided, with 66 percent selecting “always” or “frequently.” Another 28 percent of CAEs selected “occasionally,” leaving only 6 percent of CAEs who selected “rarely” or “never” when describing insight delivery by their own function.

Contrast this to the stakeholders, who likewise agreed (86 percent for board members and 89 percent for executives) that internal audit should provide insight. Board members were more positive in their assessment of actual delivery: 77 percent agreed that, in general, internal audit provided insight and 79 percent agreed for their own organization, but only 61 percent selected “always” or “frequently.” Executives, on the other hand, were not as positive: only 57 percent indicated agreement that, in general, internal audit provided insight, only 56 percent agreed for their own organization, and only 38 percent selected “always” or “frequently.” However, another 42 percent acknowledged that “occasionally” insights were delivered, leaving 21 percent who selected “rarely” or “never.”

A possible explanation for the difference in the board view and the executive view of actual delivery of insight emerged during the interviews. In our discussions, board members were routinely more focused on “assurance” and the support internal audit provides them in meeting their fiduciary role. They described examples of insight as situations in which they received confirmation that important controls were functioning in areas of the business where they had minimal visibility. In contrast, the executives we

interviewed generally seemed to view assurance as “table stakes” and expected more from internal audit to reach the level of delivering insight. The examples of insight provided were uniformly based on internal audit personnel who possessed a strong knowledge of the business and had the experience and confidence to offer sound perspectives on business issues and potential solutions.

A snapshot of the results showing the drop in actual delivery when evaluated by internal audit, board members, and executives follows:

Perceived Gap in Insight Delivery by Role

	Should Deliver	In General, IA Delivers	My IA Delivers	Frequently Delivers
	SA/A	SA/A	SA/A	A/F
Internal Audit	90%	72%	81%	66%
Board	86%	77%	79%	61%
Executives	89%	57%	56%	38%
Overall Result	89%	71%	76%	60%

SA/A – Strongly Agree/Agree

A/F – Always/Frequently

The magnitude of the expectation gap becomes even clearer as the responses to six scenarios (as presented in the survey tool) are explored. We asked the participants to evaluate whether the following six situations met the definition of insight, whether internal audit should perform these activities, and whether they actually did.

1. Root Cause and Action Plan

“In the course of executing an audit, the internal auditor identifies an issue, determines why the issue has occurred, and works with management to develop an action plan that addresses that root cause.”

2. Judgment in Reporting

“The CAE reports the results of the internal audits and consulting activities for the period to executive management and the board, and demonstrates judgment in what is presented (level of detail, which issues to discuss, as well as in sharing his/her point of view on the significance of the issue).”

3. Risk Themes

“The CAE shares his/her view on the significant risks facing the organization, such as common issues crossing several individual audits, concerns raised as he/she meets with individuals in the organization, or emerging industry issues.”

4. Management Risk Summary

“The CAE solicits input from management on key risks within its organization, and summarizes and categorizes what was heard.”

5. Unmitigated Risk Viewpoint

“The CAE discusses the organization’s approach to enterprise risk management with the audit committee of the board of directors and shares concerns on areas where he/she believes the risk, after considering risk mitigation activities, is still too high.”

6. Executive Performance Feedback

“The CAE provides comments to the audit committee of the board of directors or certain executives regarding the performance of senior leaders in the business, based upon internal audit activities performed within the organization.”

Specifically, stakeholders were asked to assess: a) whether the situation was an example of providing insight; b) whether the situation was an expected behavior of internal audit in their organization; and c) whether they experienced the behavior in their interactions with internal audit.

Internal audit leaders were asked to assess: a) whether the situation was an example of providing insight; b) whether the situation was an expected behavior of internal audit in their organization; and c) whether their internal audit function demonstrated the behavior.

The researchers developed scenarios where varying levels of insight were demonstrated. For example, scenario 1, **Root Cause and Action Plan**, describes the fairly typical practice of identifying the cause of audit findings to develop effective recommendations; scenario 4, **Management Risk Summary**, describes compiling managements’ views of risk without any additional analysis or judgment applied by the CAE; and scenario 5, **Unmitigated Risk Viewpoint**, describes the CAE evaluating, judging, and “going on the record” with his or her viewpoint, which was contrary to management’s view.

The results are summarized in the chart below. There is a stark difference between how executives evaluated and how CAEs self-evaluated their performance.

Perceived Gap in Insight Delivery by Role and by Insight Scenario

	Internal Audit			Board			Executives		
	Should Demonstrate	Does Demonstrate	Experience Gap	Expect	Experience	Experience Gap	Expect	Experience	Experience Gap
Root Cause and Action Plan	94%	87%	8%	91%	85%	6%	92%	61%	32%
Judgment in Reporting	93%	87%	6%	97%	82%	15%	95%	61%	35%
Risk Themes	97%	78%	19%	97%	76%	21%	95%	64%	32%
Management Risk Summary	82%	76%	7%	91%	85%	6%	88%	62%	26%
Unmitigated Risk Viewpoint	87%	58%	29%	91%	64%	27%	89%	55%	34%
Executive Performance Feedback	47%	25%	22%	77%	48%	29%	64%	30%	33%

Experience gap is calculated as the difference between what was expected and what was actually experienced.

Executives consistently viewed the delivery of insight significantly below their expectations across all scenarios provided. The “gap” in expectation, calculated as the difference between the percentage believing internal audit should deliver the insight described (“agree/strongly agree”) and those saying they actually experienced it (“always/frequently”), ranged from a 26 percent to 35 percent drop-off in the percentage of positive responses.

During the interviews, participants were asked why they thought this expectation gap existed. A common theme from stakeholders was that while most internal auditors have experience with finance and accounting, they lack the operational and general management experience necessary to truly “walk in management’s shoes” and fully understand the business strategies and related challenges — a fundamental precursor to providing insight.

This challenge was recognized by all of the CAEs interviewed. For example, **Harold Chiloane, CAE for Ekurhuleni Metropolitan Municipality** in South Africa, stated that *“internal audit knowledge is not enough. Internal auditors need to have business knowledge so that they can engage with management, while protecting their independence. To be effective in providing insight, internal audit needs to demonstrate both knowledge of the business and an appreciation of where it is headed.”*

The largest expectation gap occurred around item 5, **Unmitigated Risk Viewpoint**, which suggested that the CAE would evaluate the organization’s enterprise risk management efforts and report areas where the unmitigated risk was perceived to be too high. Approximately 90 percent of stakeholders agreed that internal audit should be doing this, and this result is completely consistent with IIA Standard 2120 on Risk Management: *“The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes”* and with IIA Standard 2600 on the Resolution of Senior Management’s Acceptance of Risks: *“When the chief audit executive believes that senior management has accepted a level of residual risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive must report the matter to the board for resolution.”*

Unfortunately, only 69 percent of the stakeholders agreed that internal audit was delivering on this expectation. Similarly, only 73 percent of the CAEs assessed that internal audit was delivering on this expectation to evaluate ERM. Compliance with Standard 2600 was also assessed in the 2010 CBOOK study and the results were equally disappointing: respondents indicated that only 53 percent of organizations were in full compliance with Standard 2600.

However, there was good news on this area in the CBOOK 2010 study. Respondents reported that over the next five years they believe they will spend the most time on: a) corporate governance reviews; b) audits of ERM processes; c) reviews of the linkage between strategy and company performance; d) ethics audits; and e) the migration to International Financial Reporting Standards (IFRS). ERM is one of the top emerging focus areas, consistent with an August 2010 survey sponsored by The IIA Audit Executive Network. In this survey, respondents were also asked to indicate areas of increased focus in the next year. Again, risk management was at the top.

IIA Audit Executive Network August 2010 ERM Responses

Areas of Increased Focus	Positive Response
Completeness of Risk Management Process	69%
Appropriate Identification of Risks	75%
Assessment of Risk Management Process	69%

So, the good news is: The focus on ERM processes is increasing.

In looking at the other expectation gaps noted above, one might conclude that internal audit is best at doing the least valuable activities! The best performance of insight per the stakeholders is item 4, **Management Risk Summary**. Unfortunately, this is also the category *least* identified as insightful as it suggests that internal audit is merely summarizing and reporting what it was told. This also seems to indicate that the participants did differentiate between the varying levels of insight indicated in the six scenarios.

Perhaps not surprisingly, the last scenario, **Executive Performance Feedback**, got the widest range of results. The scenario is described as follows: “The CAE provides comments to the audit committee of the board of directors or certain executives regarding the performance of senior leaders in the business, based upon internal audit activities performed within the organization.” Although not universal, many audit committees do look to internal audit to provide an objective view of whether key members of the management team demonstrate ethical, compliant, and effective management behaviors.

Clearly, this is a very sensitive area for both the feedback provider — the CAE — and the subject of the feedback — the executive. Even so, 77 percent of the board members “agreed” or “strongly agreed” that internal audit should provide these insights, but only 48 percent said they “always” or “frequently” experienced it. That result appears to be explained by the fact that only 47 percent of the CAEs responded they “agreed” (or “strongly agreed”) they should provide this information. The focus of the feedback — the executives — were likewise not enthusiastic. Only 64 percent responded they “agreed” or “strongly agreed” that internal audit should provide this insight. One board member that was interviewed hypothesized that CAEs are reluctant to share this feedback with the board due to the direct administrative reporting relationship to an executive within the organization. If CAEs report to the CFO or CEO, even with a “dotted line,” they may be understandably reluctant to provide specific performance feedback on the same executive who will evaluate their own performance. Furthermore, once an issue is discussed with the board, even in private, they are obligated to act upon it — making it unlikely that a private discussion remains private or anonymous.

Closing the Expectation Gap

Clearly, the gaps identified above are serious, especially given the almost universal expectation for insight to be delivered across industries, geographies, and types of organizations. The survey and our subsequent interviews reveal some useful suggestions for CAEs wishing to bridge those gaps. The survey demonstrated a relationship between certification and insight delivery. It also identified key factors and approaches that were consistently viewed as critical enablers to insight delivery, such as clear board and management expectations for value and insight delivery, a highly competent CAE, industry and organizational

knowledge, use of senior-level auditors and specialists, and the consistent use of data analysis tools. The research results are further explored in the rest of this section.

The researchers pondered whether certification, level of education, size of the function, or relevant focus of the internal audit function (e.g., assurance or consultative, financial, operational, or compliance) would affect the assessment of insight delivery. In other words, would more highly educated or certified teams deliver insights more frequently than their less-educated or less-certified peers? And, if so, could a strategy be for CAEs to modify their hiring or training practices, increase their requirements for certification, or consider increasing time allocated to consultative or operational auditing?

In evaluating the demographic data, we did find a statistically valid **relationship between certification and insight delivery.**² Those CAEs with more than 50 percent of their team holding a certification were also more likely to “strongly agree” or “agree” that their internal audit organization delivered insights, and that they did so more frequently. For those CAEs with more than half their team holding professional certifications, 88 percent responded they “strongly agreed” or “agreed” with the statement, “The internal audit function in my organization actually provides insight as defined above.” And 78 percent responded that these insights were provided “always” or “frequently.” For those CAEs with less than half their team holding professional certifications, the response to these questions was significantly lower, with only 76 percent responding positively on delivering insight and 61 percent on frequency. This is demonstrated in the table below.

Relationship Between Certification, Education, Focus, and Insight Delivery

	The internal audit function in my organization actually provides insight as defined above.				How frequently are insights being provided now by the internal audit function in your organization?			
	SA/A		N/D/SD		A/F		O/R/N	
	No.	% SA/A	No.	% N/D/SD	No.	% A/F	No.	% O/R/N
50% or less certified	57	76%	18	24%	46	61%	29	39%
51% or more certified	106	88%	14	12%	94	78%	26	22%
50% or less post grad degree	101	83%	21	17%	84	69%	38	31%
50% or more post grad degree	62	85%	11	15%	56	77%	17	23%
Low consultative focus	59	87%	9	13%	50	74%	18	27%
Med consultative focus	55	82%	12	18%	46	69%	21	31%
High consultative focus	51	82%	11	18%	46	74%	16	26%
Low operational focus	26	81%	6	19%	22	69%	10	31%
Med operational focus	90	81%	21	19%	80	72%	31	28%
High operational focus	49	91%	5	9%	40	74%	14	26%

SA/A – Strongly Agree/Agree D/SD – Disagree/Strongly Disagree A/F – Always/Frequently O – Occasionally R/N – Rarely/Never

Perhaps surprisingly, and as shown in the table above, no such statistically valid relationship was identified between high delivery of insight and those organizations with highly educated staffs, a focus on consultative services, or a focus on operational objectives.

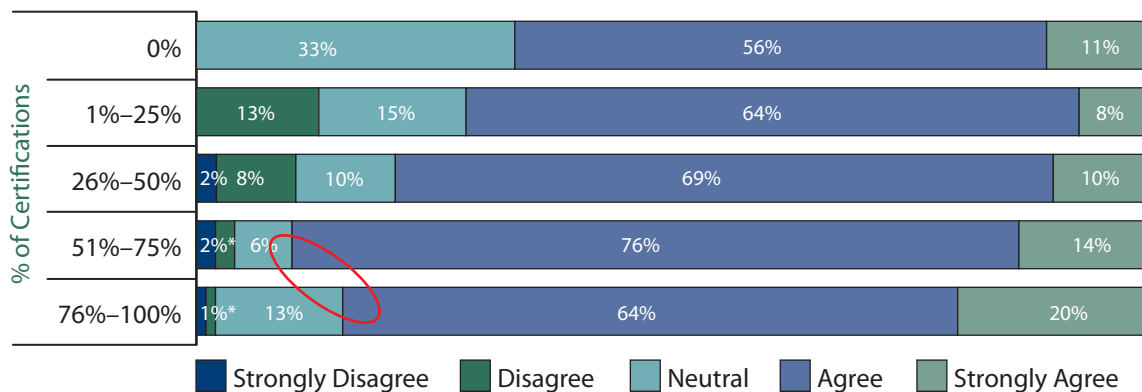
In the survey, internal audit participants were asked to estimate the percentage of time devoted in their audit plan to assurance, consultative, or other activities (totaling 100 percent), as well as the percentage of time devoted to financial, operational, compliance, or other risk areas (totaling 100 percent). We arranged the responses from lowest to highest for consultative percentage, and the same for operational risk focus, and the answers were divided into thirds to break for low, medium, and high in the chart above. For time spent on consultative activities, the mean was 22 percent and the average was 20 percent; when divided for this analysis, less than 15 percent was low, 15–25 percent was medium, and 26 percent and above was high. For time spent in operational risk areas, the mean was 43 percent and the average was 40 percent; when divided for this analysis, less than 30 percent was low, 30–50 percent was medium, and 51 percent and above was high. However, those CAEs responding with a high proportion of time spent consulting actually had a smaller percentage agreeing that their organization provided insights than those with a low proportion of consultative time. And although 91 percent of those with a high focus on operational objectives responded positively (compared to 81 percent for a medium or low focus), the frequency difference was relatively small (74 percent responding “always” or “frequently” versus 72 percent of those CAEs with a “medium” focus on operational objectives).

However, the relationship between certification and insight delivery is compelling — and one that CAEs should consider in developing their policies to promote certification. The following graphs again illustrate that those CAEs with more than 50 percent of their team holding a certification were more likely to “strongly agree” or “agree” that their internal audit organization delivered insights, and that they did so more frequently.

Additional Analysis

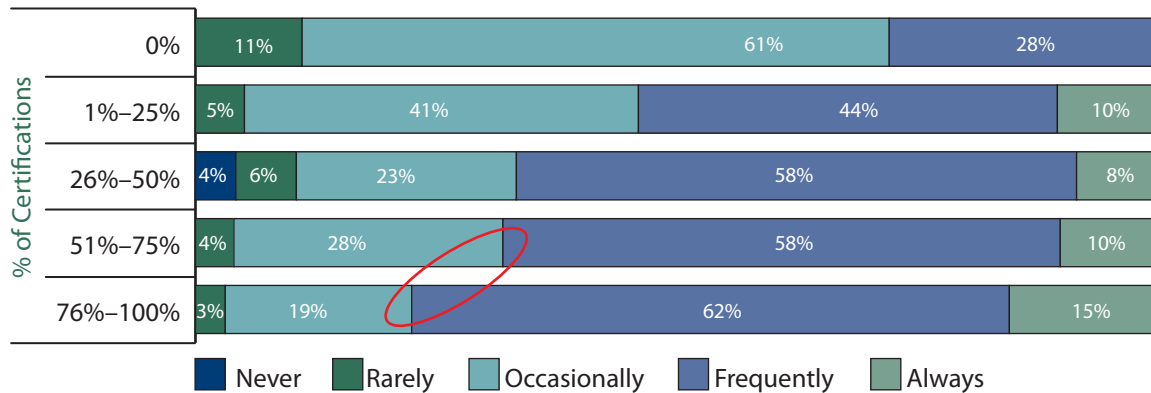
Relationship Between Certification and Insight Delivery

Q. The internal audit function in my organization actually provides insight as defined above.



*Percentage applies to both bars.

Q. How frequently are insights being provided now by the internal audit function in your organization?



Key Factors Enabling Insight Delivery

In addition to the apparent positive impact of certification on delivering insight, the survey provided another rich data source for CAEs seeking to close the expectation gap and increase their delivery of insight. The survey gathered perspectives on both factors and successful approaches used to enable insight delivery. The results, coupled with the information gleaned through the interviews, provide helpful information for CAEs to consider as they strive to deliver insight. The following two sections identify the most highly valued factors that *enable* insight delivery and the activities that *facilitate* insight delivery.

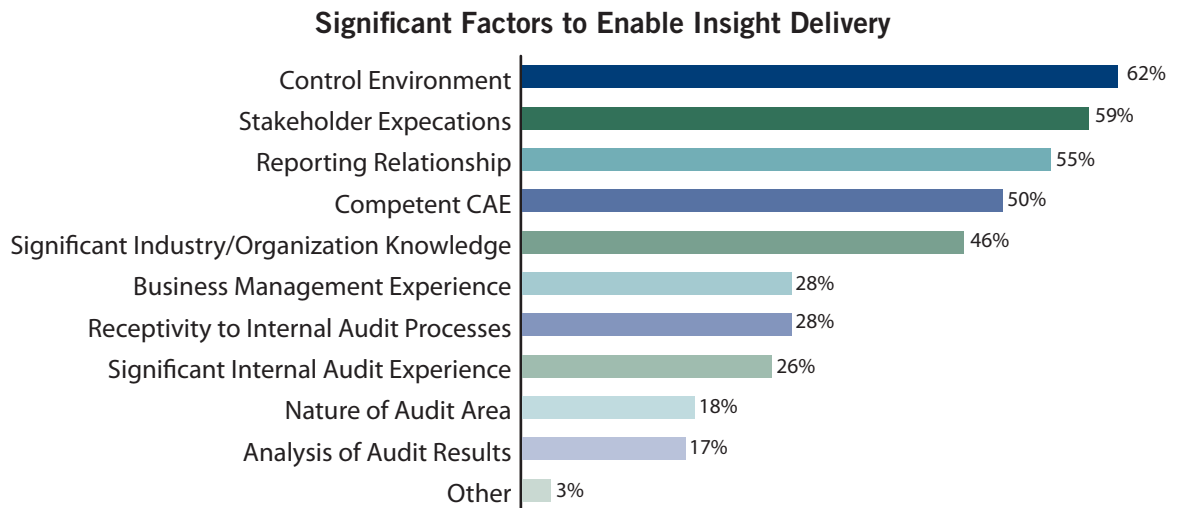
First, we asked participants to select **factors that may enable insight delivery** from a prepared list. Participants were given the 10 factors shown below and asked to select their top four. They could also write in other key factors if they were not on the list provided.

The 10 factors for enabling insight delivery that were provided are listed below, with a shortened name in parenthesis for use in the following charts and graphs:

1. *Strong control environment and “tone at the top” in the organization* (**Control Environment**).
2. *Board and management expectations for value delivery from the internal audit function* (**Stakeholder Expectations**).
3. *CAE reporting relationship that supports independence of the internal audit function* (**Reporting Relationship**).
4. *Highly competent CAE* (**Competent CAE**).
5. *Internal audit personnel with significant internal audit experience* (**Significant Internal Audit Experience**).
6. *Internal audit personnel with business management experience outside of internal audit* (**Business Management Experience**).
7. *Internal audit personnel with significant industry and organizational knowledge* (**Significant Industry/Organization Knowledge**).

8. *Nature of the area being audited, such as degree of risk, complexity* (**Nature of Audit Area**).
9. *Receptivity of auditees to the internal audit process and results* (**Receptivity to Internal Audit Processes**).
10. *Sufficient amount of time spent on analysis of the results of the internal audit project* (**Time Spent on Analysis**).

In general, there is consistency in the top five selected factors across types of organizations, geographies, and size of internal audit functions. A display of the factors and their relative ratings, based on the selection of top four factors by all participants, is summarized below.



Clearly, a **strong control environment and tone at the top is viewed as a key factor** in ensuring that internal audit operates in an environment where results (sometimes negative) and assessments (sometimes contrary to management’s view) can be provided openly and received as welcomed insights by management and the board. The third most popular factor selected — the CAE reporting relationship that supports the independence of the function — also supports this view. Having access to the audit committee was also identified during the CBOK study last year as one of the most important factors to the perceived contribution of the internal audit activity.

Pragmatically, the results reflect the reality that “what gets measured gets done,” as the second most prevalent factor was having **clear board and management expectations for value delivery**.

Without question, a **competent CAE was viewed universally as a key factor** to the function providing insight. Only with a competent CAE, demonstrating the leadership to create a value-adding vision for the function, and the willingness to confront and, sometimes challenge, tough issues, will insight be routinely delivered.

The last top five factor — selected 46 percent of the time — was “**Internal audit personnel with significant industry and organizational knowledge**.” This reflects the reality that business insight is not possible without knowledge of the business! Auditors who try to apply textbook answers to real business challenges will find themselves given lip service or, worse, being ignored by their clients. The importance of this factor was

echoed numerous times through the interviews performed. CAEs, board members, and executives all stressed the importance of understanding the business in order to provide insight. **Jenitha Johns, CAE for FirstRand**, expressed it succinctly: “*Exceptional business acumen is key — if you don’t understand how the business ticks, then how can you possibly add value?*” This result is also consistent with the CBOK study of last year.

When the key factors selected are analyzed in different groupings, there are a few differences of interest. For example, one difference was identified between factors highly rated by stakeholders versus internal audit leaders. Internal audit leaders included “receptivity of auditees to internal audit processes and results” as one of the top factors to enable insight, while neither board members nor executives did so. Another outlier was identified in evaluating the selected factors across industry groupings. The manufacturing, wholesale/retail, and technology industries all included “internal audit personnel with business management experience outside of internal auditing” as one of the top factors to enable insight, compared to other industries that did not include this in the top factors.

A comparison of the top factors across all categories of respondents is presented below. The percentage of respondents who selected each factor is identified to the right of each factor.

Factors Enabling Insight – Based on Role

All Respondents		Board		Executives		Internal Audit	
Supporting Factors		Supporting Factors		Supporting Factors		Supporting Factors	
Control Environment	62%	Control Environment	79%	Stakeholder Expectations	59%	Reporting Relationship	63%
Stakeholder Expectations	59%	Stakeholder Expectations	55%	Control Environment	56%	Stakeholder Expectations	61%
Reporting Relationship	55%	Reporting Relationship	45%	Significant Industry/Org Knowledge	50%	Control Environment	60%
Competent CAE	50%	Significant Industry/Org Knowledge	42%	Competent CAE	45%	Competent CAE	54%
Significant Industry/Org Knowledge	46%	Competent CAE	42%	Reporting Relationship	45%	Significant Industry/Org Knowledge	45%
Business Management Experience	28%	Business Management Experience	36%	Business Management Experience	41%	Receptivity to IA Processes	30%

The top factors, broken out by other categories, including type of organization, geographic region, and size of the internal audit function, follow. There is general consistency for the highest factors, but there are some interesting outliers in each chart. For example, CAEs rated reporting relationship as the highest factor, selecting it 63 percent of the time. Although it was also in the top five factors selected by board and executives, it was significantly lower in the list, with 45 percent selecting it. On further analysis, this result varied depending on the size of the internal audit function, as depicted below. Perhaps understandably, smaller internal audit functions (total size of 1–10) most highly rated the importance of a reporting relationship that reinforced their independence, critical role, and level of authority.

Factors Enabling Insight – Based on Size of Audit Function

All Respondents		Internal Audit		1-10		11-25		26+	
Supporting Factors		Supporting Factors		Supporting Factors		Supporting Factors		Supporting Factors	
Control Environment	62%	Reporting Relationship	63%	Reporting Relationship	65%	Control Environment	66%	Stakeholder Expectations	65%
Stakeholder Expectations	59%	Stakeholder Expectations	61%	Control Environment	61%	Significant Industry/Org Knowledge	61%	Control Environment	58%
Reporting Relationship	55%	Control Environment	60%	Stakeholder Expectations	58%	Reporting Relationship	55%	Significant Industry/Org Knowledge	48%
Competent CAE	50%	Competent CAE	54%	Competent CAE	55%	Stakeholder Expectations	55%	Competent CAE	48%
Significant Industry/Org Knowledge	46%	Significant Industry/Org Knowledge	45%	Significant Industry/Org Knowledge	39%	Competent CAE	45%	Reporting Relationship	46%
Business Management Experience	28%	Receptivity to IA Processes	30%	Receptivity to IA Processes	29%	Receptivity to IA Processes	27%	Receptivity to IA Processes	40%

The results of the top five factors selected, broken out by other demographic categories, are provided below.

Factors Enabling Insight – Based on Type of Organization

All Respondents		Publicly Traded		Private		Public Sector		Non-Profit	
Supporting Factors		Supporting Factors		Supporting Factors		Supporting Factors		Supporting Factors	
Control Environment	62%	Control Environment	65%	Control Environment	64%	Control Environment	64%	Stakeholder Expectations	61%
Stakeholder Expectations	59%	Stakeholder Expectations	59%	Stakeholder Expectations	55%	Stakeholder Expectations	62%	Reporting Relationship	55%
Reporting Relationship	55%	Reporting Relationship	53%	Competent CAE	53%	Reporting Relationship	62%	Significant Industry/Org Knowledge	55%
Competent CAE	50%	Competent CAE	52%	Reporting Relationship	53%	Significant Industry/Org Knowledge	44%	Competent CAE	52%
Significant Industry/Org Knowledge	46%	Significant Industry/Org Knowledge	46%	Significant Industry/Org Knowledge	44%	Competent CAE	41%	Control Environment	42%
Business Management Experience	28%	Receptivity to IA Processes	29%	Business Management Experience	34%	Receptivity to IA Processes	28%	Receptivity to IA Processes	29%

Factors Enabling Insight – Based on Region

All Respondents		APAC		Europe		Middle East		Africa		Americas	
Supporting Factors		Supporting Factors		Supporting Factors		Supporting Factors		Supporting Factors		Supporting Factors	
Control Environment	62%	Reporting Relationship	59%	Control Environment	68%	Control Environment	83%	Control Environment	66%	Stakeholder Expectations	63%
Stakeholder Expectations	59%	Control Environment	57%	Stakeholder Expectations	65%	Reporting Relationship	83%	Stakeholder Expectations	59%	Control Environment	63%
Reporting Relationship	55%	Stakeholder Expectations	52%	Reporting Relationship	45%	Competent CAE	67%	Competent CAE	49%	Reporting Relationship	58%
Competent CAE	50%	Competent CAE	51%	Significant Industry/Org Knowledge	42%	Significant Industry/Org Knowledge	67%	Reporting Relationship	47%	Competent CAE	53%
Significant Industry/Org Knowledge	46%	Significant Industry/Org Knowledge	47%	Significant Internal Audit Experience	35%	Stakeholder Expectations	50%	Significant Industry/Org Knowledge	47%	Significant Industry/Org Knowledge	43%
Business Management Experience	28%	Receptivity to IA Processes	32%	Competent CAE	35%	Significant Internal Audit Experience	17%	Business Management Experience	37%	Receptivity to IA Processes	28%

In the interviews, the researchers asked all the participants to identify key factors that were necessary for internal audit to deliver insight. Universally, the participants identified strong communication skills. The comments spanned verbal and written communications; a poised and confident presentation; an articulate discussion of business issues; and a persuasive recording of issues, implications, and recommendations. One audit committee chair put his advice to CAEs very succinctly: *“Be more assertive. Speak up. Participate. Share your viewpoint.”* And **Chris Bennecke, group internal audit manager at Invocare**, an Australian company that owns and operates funeral homes, cemeteries, and crematoria, explained: *“The key to bridging the gap across all levels of a company is through communication. If your communications are not sensitive, straightforward, and comprehensive, you will always have trouble. If your internal audit report isn’t simple, smart, able to get the right message across, and addressed to the right people, you can’t be successful. I think communications and marketing internal audit, through effective reporting, are absolutely key.”*

Several individuals also commented that internal auditors must demonstrate that they understand the end goal of internal audit is to help improve the business, not to catch mistakes. There was recognition that communicating sensitive or negative audit results requires a delicate approach. Over the course of the interviews, several stakeholders acknowledged the traditional (but, in some cases, still relevant) perception of internal audit as a “watchdog” or “police officer,” not as a “member of the team.” CAEs are challenged to present findings in a positive, clear, constructive, and persuasive manner, while not watering down issues. Ideally, effective communications between internal audit, the board, and executive management will result in a more cooperative and effective approach to solving organizational problems. **Peter Browning, audit committee member** at Lowe’s Companies, Inc., Acuity Brands, EnPro Industries, Inc., and Nucor Corporation, put it simply: *“Internal audit should communicate bad news well. Have a constructive focus on making the business better.”*

We encouraged the survey participants to write in factors as well. There were a few themes that emerged in the write-in responses:

- The importance of internal audit having a close ongoing involvement and relationship with management and operations was mentioned frequently.
- The belief there was a potential lack of agreement among practitioners in the true mission of the internal audit organization to help the organization succeed versus just pointing out issues.
- The importance of maintaining an open mind in assessing issues and opportunities to drive more value and leverage prior business experience.
- An internal audit quality control process that ensures the output has substance, is fully supportable, and gets at the right issues is fundamental.

Clearly, from the survey selections and write-in responses across all types of respondents, there is a shared belief that the following factors are critical if internal audit is to provide insight:

- The tone at the top of the organization, creating an environment where executive leadership and operating management are fully open to improvement recommendations.
- An audit team with sufficient practical skill and business/industry background to provide a pragmatic bridge between an audit process and the business management of risk.
- Independence of the internal audit function so that it has the authority and is empowered to escalate issues.
- Clearly communicated and understood expectations from stakeholders and the CAE, for value and insight delivery from the internal auditors.
- Clear, constructive, and confident communication of issues identified and associated recommendations.

Activities Facilitating Insight Delivery

We also asked participants to select **activities that might facilitate the delivery of insight by internal auditors** from a prepared list. Participants were given 10 activities and asked to select their top four. They could also write in other key activities if they were not included on the list provided.

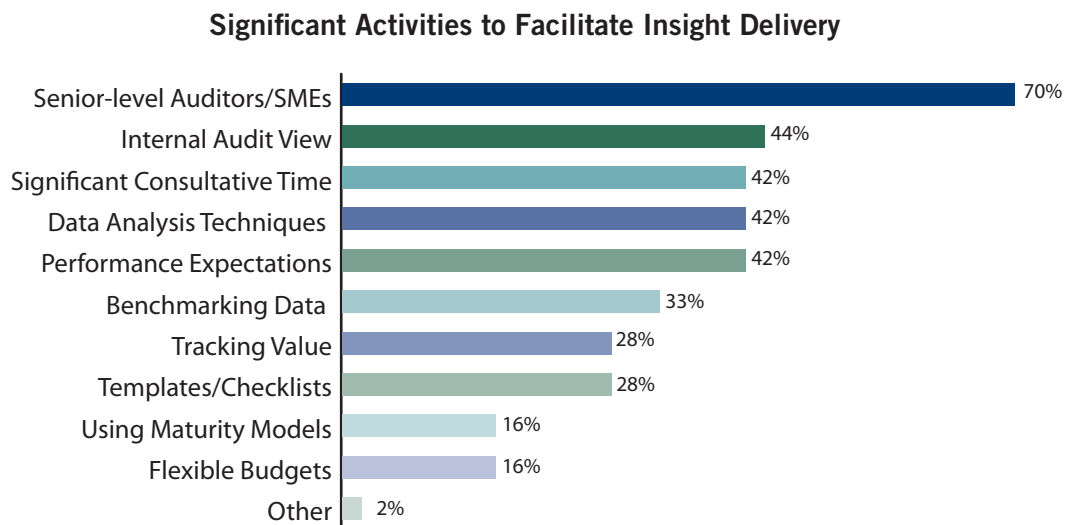
The 10 activities for facilitating insight delivery that were provided are listed below, with a shortened name in parenthesis for use in the following charts and graphs:

1. *Internal audit teams have senior experienced auditors and subject matter experts* (**Senior-level Auditors/SMEs**).
2. *Including insight delivery in performance expectations and evaluations* (**Performance Expectations**).
3. *Providing flexible budgets for internal audit projects* (**Flexible Budgets**).
4. *Including significant consultative time in the annual audit plan* (**Significant Consultative Time**).

5. *Developing report templates or checklists that reinforce the delivery of insights (Templates/Checklists).*
6. *Tracking, reporting, and, if possible, estimating the value of insights delivered by internal audit (Tracking Value).*
7. *Using data analysis techniques in assessments and results reporting (Data Analysis Techniques).*
8. *Using benchmarking data in assessments and results reporting (Benchmarking Data).*
9. *Using maturity models in assessments and results reporting (Using Maturity Models).*
10. *Providing internal audit viewpoints in assessments and results reporting (Internal Audit View).*

In general, the activities selected were consistent across types of organizations, geographies, and size of internal audit functions. However, the relative importance did differ.

Across all responses, the display below illustrates the activity list and the relative ratings.



Across all categories of respondents, the use of **senior-level auditors and specialists** was consistently viewed as a key activity to facilitate insight delivery. Apparently, both stakeholders and CAEs acknowledge and appreciate the importance of deep, relevant experience in understanding the business issues and delivering useful insights.

Likewise, **data analysis** stands out as an approach all stakeholders viewed as fundamental to insight delivery. Similarly, including **significant consulting time** in the plan and having the delivery of insight as part of **performance expectations** were in the top activities.

As shown in the chart that follows, all parties *except* the board selected providing **internal audit viewpoints** in the top five. One of the continuing discussion points in the profession is providing “opinions” on the state of controls and internal audit results for the board and executives — but only 33 percent of the board members surveyed selected this activity as a top factor.

Activities Facilitating Insight – Based on Role

All Respondents		Board		Executives		Internal Audit	
Approach		Approach		Approach		Approach	
Senior-level Auditors/SMEs	70%	Senior-level Auditors/SMEs	73%	Senior-level Auditors/SMEs	68%	Senior-level Auditors/SMEs	71%
Internal Audit View	44%	Significant Consultative Time	55%	Performance Expectations	47%	Internal Audit View	46%
Significant Consultative Time	42%	Performance Expectations	52%	Internal Audit View	47%	Data Analysis Techniques	43%
Data Analysis Techniques	42%	Data Analysis Techniques	39%	Templates/ Checklists	39%	Significant Consultative Time	41%
Performance Expectations	42%	Tracking Value	39%	Significant Consultative Time	36%	Performance Expectations	37%
Benchmarking Data	33%	Benchmarking Data	36%	Benchmarking Data	35%	Benchmarking Data	30%

As noted above, stakeholders and CAEs selected **benchmarking**. When the data is analyzed based on size of the internal audit function (as follows), it is interesting to note that the larger functions selected benchmarking, not the smaller groups (1–10 auditors). Presumably, resource limitations are at play in this selection. The largest functions also selected the use of maturity models, a similar technique that shows relative results.

Activities Facilitating Insight – Based on Size of Audit Function

All Respondents		Internal Audit		1-10		11-25		26+	
Approach		Approach		Approach		Approach		Approach	
Senior-level Auditors/SMEs	70%	Senior-level Auditors/SMEs	71%	Senior-level Auditors/SMEs	68%	Senior-level Auditors/SMEs	80%	Senior-level Auditors/SMEs	71%
Internal Audit View	44%	Internal Audit View	46%	Internal Audit View	46%	Significant Consulting	52%	Data Analysis Techniques	52%
Significant Consultative Time	42%	Data Analysis Techniques	43%	Significant Consulting	44%	Data Analysis Techniques	48%	Internal Audit View	50%
Data Analysis Techniques	42%	Significant Consulting	41%	Data Analysis Techniques	43%	Benchmarking Data	39%	Benchmarking Data	42%
Performance Expectations	42%	Performance Expectations	37%	Performance Expectations	40%	Tracking Value	36%	Performance Expectations	40%
Benchmarking Data	33%	Benchmarking Data	30%	Templates/ Checklists	30%	Performance Expectations	34%	Using Maturity Models	27%

The top activities, broken out by other categories, including type of organization and geographic region, follow. There is general consistency for the highest factors, but there are some interesting outliers in each of the charts below.

Activities Facilitating Insight – Based on Type of Organization

All Respondents		Publicly Traded		Private		Public Sector		Non-Profit/Other	
Approach		Approach		Approach		Approach		Approach	
Senior-level Auditors/SMEs	70%	Senior-level Auditors/SMEs	77%	Senior-level Auditors/SMEs	68%	Senior-level Auditors/SMEs	68%	Senior-level Auditors/SMEs	61%
Internal Audit View	44%	Data Analysis Techniques	46%	Internal Audit View	49%	Significant Consulting	46%	Including Insight Delivery	48%
Significant Consultative Time	42%	Performance Expectations	41%	Significant Consulting	48%	Internal Audit View	46%	Internal Audit View	45%
Data Analysis Techniques	42%	Internal Audit View	39%	Performance Expectations	40%	Data Analysis Techniques	44%	Significant Consulting	45%
Performance Expectations	42%	Benchmarking Data	36%	Data Analysis Techniques	37%	Including Insight Delivery	42%	Data Analysis Techniques	42%
Benchmarking Data	33%	Significant Consulting	34%	Tracking Value	31%	Benchmarking Data	34%	Tracking Value	35%

Activities Facilitating Insight – Based on Region

All Respondents		APAC		Europe		Middle East		Africa		Americas	
Approach		Approach		Approach		Approach		Approach		Approach	
Senior-level Auditors/SMEs	70%	Senior-level Auditors/SMEs	76%	Senior-level Auditors/SMEs	84%	Senior-level Auditors/SMEs	83%	Senior-level Auditors/SMEs	67%	Senior-level Auditors/SMEs	63%
Internal Audit View	44%	Internal Audit View	44%	Internal Audit View	48%	Data Analysis Techniques	83%	Performance Expectations	50%	Data Analysis Techniques	49%
Significant Consultative Time	42%	Data Analysis Techniques	44%	Data Analysis Techniques	35%	Performance Expectations	50%	Internal Audit View	46%	Significant Consulting	46%
Data Analysis Techniques	42%	Significant Consulting	42%	Templates/Checklists	35%	Benchmarking Data	50%	Significant Consulting	45%	Internal Audit View	43%
Performance Expectations	42%	Performance Expectations	37%	Benchmarking Data	32%	Internal Audit View	50%	Tracking Value	36%	Performance Expectations	42%
Benchmarking Data	33%	Benchmarking Data	31%	Performance Expectations	32%	Significant Consulting	33%	Templates/Checklists	32%	Benchmarking Data	37%

In the interviews, board members consistently identified the importance of internal auditors having strong information technology (IT) **knowledge and experience**. In the age of large enterprise systems, with growing interest in cloud computing and high expectations for strong security but known vulnerabilities, board members indicated that IT skills within internal audit are essential and valued. They acknowledged that board members typically have minimal IT experience; therefore, they rely heavily on IT internal audit to help determine IT risks and the potential implications of IT control weaknesses. Areas subject to audit, such as the processes supporting completion of an IT implementation, budget, time, and milestone tracking, and whether a new IT program will operate as intended, both from a functional and control perspective, all offer insight that the board highly values.

As in the prior section, we encouraged the survey participants to write in activities. Several of the write-in comments took exception to the “tools” listed — such as data analysis, templates and checklists, maturity models, and benchmarking — noting that insight comes from experience, not from a tool. For example, one participant stated: *“The above are mechanical and provide nothing to insight which is a leadership skill related to wealth of knowledge and experience...”*

There was also commentary regarding the suggestion that insight could be “measured” or “tracked.” For example: *“To me, insight is baked into the quality of my work and is not necessarily a tangible nugget to be tracked and counted.”*

The researchers agree that to provide insights, the auditor must have relevant knowledge and perspective, as well as the leadership and courage, when needed, to share that perspective. However, based on the results of the survey and the interviews, it would appear that many CAEs and stakeholders agree that the use of tools, such as data analysis and benchmarking, enables the experienced eye to glean new knowledge about a situation or issue, share that “insight” with stakeholders in a meaningful way, and provide the persuasive evidence supporting a positive change recommendation.

CHAPTER 4

ILLUSTRATIVE APPROACHES

During the interview discussions, the researchers asked the participating CAEs to share how they enable or increase insight delivery. Summaries of a few of the more unique or compelling examples are provided below.

Assessing Internal Audit Performance

Several interviewees indicated the importance of a qualitative review of the effectiveness of the internal audit function and a push for continuous improvement. **Jenitha John is CAE of FirstRand Limited** (FirstRand), one of the largest financial institutions in South Africa. The internal audit department at FirstRand has approximately 220 employees. Ms. John cited her specific use of “postmortem reviews” to analyze internal audit’s performance in the aftermath of an identified operating loss. When an organizational loss occurs, the root cause of the loss is analyzed, and the most recent internal audit performed in that area is evaluated. Did the audit indicate the weaknesses that led to the loss? If not, why not? In the event the internal audit did not successfully identify a potential problem, the audit process is assessed to determine whether the audit scope and program should have identified the weakness. Was this a flaw in the risk assessment process? Or in the test design? Or in the test execution or analysis of results? The intent of this performance assessment process is to identify learning opportunities from a real business loss, reinforce a continuous improvement mindset, and leverage an important opportunity to enhance future value in the internal audit organization. This assessment may lead to additional training for the auditors involved or a reconsideration of audit methods and policies. The post-mortem review of internal audit serves to make steady continuous improvements to the internal audit function as well as to its understanding of the real risks facing the business.

Combined Assurance Forum

With the global expansion of organizations, the accelerating pace of change and technological advancement, the increase in more stringent jurisdictional regulatory and legal requirements, and the increasing complexity of business models, the need for a coordinated and intelligent approach to risk management has never been greater. **Jenitha John** described one way that FirstRand addresses this challenge of coordinating risk management. FirstRand has created a Combined Assurance Forum, composed of key risk management players from the organization, including the chief risk officer (CRO), the head of compliance and ethics, the chief information officer (CIO), group CFOs from each subsidiary, and the CAE. The external auditor also participates. The CAE leads forum meetings each quarter, in which these individuals discuss risks facing the organization, negative risk events and the root causes, the outcomes of various assurance and mitigation activities over the previous quarter, and identification of gaps in assurance and monitoring activities. If gaps are identified, the forum discusses where to assign the risk monitoring/assessment responsibility and determines how best to communicate risk issues to executive management and, if appropriate, the board. Clearly, internal audit is a respected and pivotal participant in this forum, and it benefits from the perspectives and knowledge gained in these discussions while sharing insights from the internal audit perspective with the other participants.

Stakeholder Engagement

The survey results indicate the importance of a reporting relationship that supports the independence of the internal audit function. Approximately 55 percent of the respondents selected “CAE Reporting Relationship That Supports Independence of the Internal Audit Function” as one of the top factors enabling insight delivery, making it the third highest factor selected overall. Among just the internal audit survey participants, 63 percent selected it as the top-rated factor.

The reporting relationship needs to allow internal audit to operate in an environment where results (sometimes negative) and assessments (sometimes contrary to management’s view) can be provided openly. The reporting relationship lays the foundation upon which effective CAEs develop, nurture, and maintain respected and trusted relationships with executives and the board. Our interviews identified the importance of the CAE’s relationship and engagement with board members, executives, and management, and some tips on how to achieve this level of support.

Jenitha John described how she has been able to engage with board members and executives at FirstRand. Ms. John talks directly, at least twice a month, with the audit committee chairman. She also meets with the audit committee chairman in person at least quarterly and monthly with the CEO and chief operating officer (COO). She stressed the importance of these discussions both from a learning perspective — being informed on emerging issues and challenges facing the organization and concerns from the executive and board perspective — as well as from the perspective of demonstrating that internal audit is a credible, informed, and valuable organization focused on helping the organization achieve its objectives.

Ms. John has a standing invitation to attend and does attend the Group Executive Committee meetings with the CEO and direct reports. She suggested that although it can be challenging and a bit intimidating, internal audit must be persistent in asking to be involved and then clearly demonstrate its business acumen. Simply attending the meetings is not enough. To gain respect and, ultimately, support from these key stakeholders, the CAE must speak up, express his or her views, and have an opinion.

IT Expertise and Data Analytics

Due to the current economic constraints facing many organizations, management faces more challenges in managing inventories, delivering quality products and services, maintaining customer service, and meeting a reasonable profit target — generally with a reduced number of personnel. The ability of internal audit to develop effective and useful operating and financial information — providing insight into operational results — has been valuable and much appreciated at **jcpenny**, according to **Jim Molzahn, associate audit director**. As one of America’s leading retailers, jcpenny, which has its headquarters in Plano, Texas, operates more than 1,100 department stores throughout the United States and Puerto Rico.

Mr. Molzahn shared that the audit department has recruited several internal auditors directly from the IT department and formed an audit technology group (ATG). These IT professionals have added significant value — not just to internal audit, but also to management. Given their extensive and

combined knowledge of the various systems in operation at jcpenney, these IT audit professionals have been able to create new analyses, selecting, comparing, and correlating data from various sources. By “connecting the dots” in a new way and providing new insights to management, ATG is seeking to better control inventory costs or ensure adequate levels to meet customer demand. Once the analyses are created, the reports are available to management and to internal audit on an ongoing basis — dramatically reducing the time to analyze information and thus increasing the efficiency with which management adjusts to an ever-changing environment.

Mr. Molzahn cited that *“often the internal auditors will come to ATG and explain what they want, but ATG is able to sit down with them and show them what they really need. Their knowledge and expertise helps to prevent a lot of false starts.”* The complex environment of IT also demonstrates that, with current IT expertise, internal audit can gain the respect and appreciation of both management and the board.

Many internal audit departments are already using data analytics to analyze complete populations of data and develop more efficient and reliable testing approaches. Beyond that, at jcpenney, internal audit is demonstrating how to use some of the same skills to help management more efficiently and effectively run the business.

Benchmarking

Many organizations have similar operations across regions or even around the world — be it various retail stores, sales locations, manufacturing sites, or distribution centers. Do they all operate consistently? Comply with policies? Achieve or surpass operating targets? Deliver against financial objectives?

Jim Molzahn shared how the department has been able to use automation and technology to benchmark and communicate various store operating factors and results to deliver insight to management at jcpenney. The team uses a web delivery tool to share store audit results and management action plans with store management at the local, district, and regional level. Standard queries and analyses are executed periodically as part of the store audit function. The results are summarized and dashboards created. Exceptions to company standards or variances (beyond agreed-upon standard deviations) are reported and compared across stores. Each store manager can document and update remediation plans directly within the web delivery tool. The store audit results and management remediation plans are available for review by district managers. These automated testing results also allow internal audit to more effectively plan future audits.

Clearly, the use of automated testing, coupled with an efficient web-based delivery tool, allows internal audit to obtain greater coverage with fewer resources, while providing management with benchmarking data that directly attributes to improved operational results.

Internal Audit Mission and Focus

John Lewis is the senior vice president of internal audit for Safeway Inc. (Safeway). Safeway, headquartered in Pleasanton, California, is one of the leading food and drug retailers in North America with more than 1,725 stores. Mr. Lewis stressed that the starting point for any CAE wishing to deliver

value and insight to his or her organization is to have a clear mission and focus for the department. Mr. Lewis has implemented six core strategies for the internal audit department at Safeway, which are summarized below:

1. **Establish a baseline audit process.** The first of the core strategies is to establish a standard internal process and methodology. The baseline audit process includes a risk-based collaborative approach whereby internal audit provides assurance to the company in the areas of compliance, finance, operations, and IT. This baseline audit process helps to ensure consistency and repeatability across audits.
2. **Identify and validate internal audit customers' expectations and requests.** The second core strategy is to establish the audit committee, senior management, and external auditors as stakeholders in the internal audit efforts. Mr. Lewis enlists these stakeholders' input into the risks to be audited by leading an ERM facilitated workshop. Similar to Jenitha John's comments, Mr. Lewis views this interaction with executives and the board to be critical — not only to gain an understanding of their perspectives but also to provide a forum for internal audit to demonstrate its business acumen and ability to provide insights. Time is also allocated in the Safeway annual internal audit plan to allow for special projects. Included in this core strategy is the use of stakeholder satisfaction surveys, which provide a feedback channel for improvement opportunities in the audit process and results.
3. **Establish a business partner relationship with the audit customer as if you had market competition.** The next core strategy describes instilling the concept of customer service throughout the audit process — acting as if you had competition and your audit customers had a choice of provider.
4. **Develop effective communication strategies that impel management to take action.** Building upon the previous core strategy, the fourth core strategy focuses on effective communication. This strategy suggests keeping audit customers apprised of any issues and opportunities early and often throughout the audit process, issuing concise summaries to executives and creating a dashboard for the status of follow-up issues identified. This strategy reinforces that the importance of communication throughout the entire year and within each audit project is critical to ensuring stakeholders remain informed and engaged.
5. **Integrate IT into the audit process.** The fifth core strategy emphasizes the importance of integrating IT into each audit, with the goal of moving toward a continuous audit approach so that internal audit can quickly react to risks as they are identified. Continuously monitoring the risks within the organization allows internal audit to adjust project scopes as needed to keep internal audit aligned with emerging risk areas.
6. **Train and mentor personnel to ensure continued success.** The last core strategy focuses on the audit team, as it is impossible to provide useful, insightful internal audit services with an ill-prepared, poorly trained, or unmotivated team. Each member of Safeway's Internal Audit Department is required to develop individual development plans that help map their careers. Internal audit personnel are encouraged to participate in formalized rotational programs within

the organization, and the internal audit department also encourages Safeway employees to rotate through internal audit. Annual evaluations are given and employees are measured against their specific goals. The department attends various training programs throughout the year and audit employees are required to obtain professional certifications.

The core strategies summarized above reinforce that having a clear mission for internal audit that is focused on value delivery in alignment with business strategies, treating your customers *as* customers, having clear and consistent processes and a well-trained and equipped team, and leveraging technology are all essential to delivering insight — as measured by your stakeholders.

Quantifiable Results and Recommendations

Does management understand the true implication of your audit result? Are the recommendations on point, realistic, and cost-effective from management's perspective? **John Lewis** emphasized the criticality of quantifying issues and working with management to evaluate the cost/benefit of implementing suggested recommendations — even when it extends the time required to complete the audit. Quantifying issues and recommendations allows management to truly evaluate the cost/benefit of suggested action plans and helps justify the business case to support the implementation cost. It also helps persuade what might otherwise be a reluctant management team to make a change. And if internal audit is not acting as a catalyst to positive change but just issuing audit results, what is the point?

Mr. Lewis elaborated on his practice of quantifying results and recommendations with an example. Rather than indicating in a report that internal audit identified a 20 percent error rate in a certain process, internal audit should, to the best of its ability, quantify the impact of a 20 percent error rate, including extrapolating a result to the total population. If the report instead indicated that the 20 percent error rate has led to an estimated US \$20 million in excess operating costs, and it would cost approximately US \$1 million to implement the suggested remediation, management can clearly understand the return on investment that would be obtained by remediating the identified issues. Taking the time to write a meaningful report ensures that not only is the information presented as accurately as possible, but also that the stakeholder can make reasonable decisions based on information provided in the report, which can immediately add value to the organization. Mr. Lewis also stressed that, as management participates in evaluating the implication of the findings and the potential implementation cost, it is “on board” with the estimates in the issued report.

Aligning Internal Audit Activities with Stakeholder Strategies

If the activities of internal audit are not risk-based and aligned with the strategies and objectives of the organization, delivering insight in areas of interest to management and the board would certainly be a more challenging task! **Chris Bennecke**, is group internal audit manager of **Invocare**, an Australian company that owns and operates funeral homes, cemeteries, and crematoria in Australia, New Zealand, and Singapore. Mr. Bennecke discussed his use of automated tools to help align internal audit to those risks that could impact the achievement of organizational strategies. He uses semiannual automated self-assessment surveys that are sent to all management levels and field management. Through these tailored surveys, Mr. Bennecke is able to accomplish several goals simultaneously:

1) communicate the most current direction of executive management and the board; 2) provide education about the expectations, or targets in the field, informing line management of the criteria against which they will be graded; and 3) identify offices or areas where significant differences exist between actual and expected results. Differences between the expectations of executives and line management immediately show areas to be addressed and identify where communication may be breaking down between groups.

This self-assessment survey also directly impacts Mr. Bennecke's audit planning process, as the information collected is immediately correlated against the audit plan and, if appropriate, the plan is adjusted. This process has allowed him to give much broader assurance to his stakeholders than he could achieve by executing a limited number of internal audit projects and computer-assisted analysis alone.

The approaches described above demonstrate the importance of gaining strong relationships with and support from stakeholders; aligning expectations and goals with stakeholders and within the internal audit organization; developing competent, credible, and respected internal auditors; measuring auditor performance and creating a learning environment; and embracing IT tools and techniques. It is the hope of the research team that these leading practices are helpful to internal audit leaders around the world who are looking to truly embody the Value Proposition and live up to all three elements — assurance, objectivity, and insight.

CHAPTER 5

RESEARCH CONCLUSIONS

This research project affirmed what was expected and what the developers of the internal audit Value Proposition already knew: There is a high expectation among practicing internal audit leaders and key stakeholders — at both the board and executive level — for internal audit to deliver insight. Regardless of region, role, industry, type of organization, or size of audit function, the percentage of respondents who agreed that internal audit should provide insight, as defined, was approximately 90 percent.

However, the research also affirmed that internal audit is not consistently meeting that expectation. In self-reflection, CAEs “agreed” or “strongly agreed” that, in general, internal audit provides insight 72 percent of the time, and that their own function did so 81 percent of the time. Board responses were similar, with 77 percent “agreeing” or “strongly agreeing” with the general statement, and 79 percent “agreeing” or “strongly agreeing” when asked about the internal audit function at their organization. Perhaps it is human nature to always want more, and so a drop from an average 89 percent expectation to a range of 72 percent to 81 percent in insight “delivery” does not overly concern the reader. The eye-opening drop is that only 57 percent of executives “agreed” or “strongly agreed” that internal audit generally provided insights, with 56 percent agreeing that the internal audit function in their organization provided insights. Further, all three categories of respondents reported the frequency of insight delivery was less than desired — assuming internal audit would strive for more than occasional or rare delivery. The percentages responding that insights were provided “always” or “frequently” were 66 percent for CAEs, 61 percent for board members, and 38 percent for executives.

Why Does the Gap Exist?

The interviews helped shed some light on why there is a difference of opinion between board and executive stakeholders, and why internal audit functions do not meet expectations more frequently. The key causes of the expectation gap are summarized below:

- **Board expectations versus executive expectations.** Board members value the assurance on internal controls and risk management that internal audit provides. They particularly value assurance on IT areas of the organization where, as board members, they generally have minimal hands-on experience. To executives, such assurance is “table stakes” and does not rise to the level of insight. Executives associate insight with new information, a new way to approach an issue, or a useful and novel recommendation to enhance an operation. Most internal auditors are good at delivering controls assurance; fewer are good at delivering new information, approaches, or novel business enhancements. Hence, the more significant disconnect with executive responders.
- **Financial background versus business experience.** Internal audit positions are often predominately filled by ex-accountants, financial auditors, or individuals trained in finance and accounting disciplines. The lack of operating or general management experience was

viewed as a hindrance to providing true operational insights. Basically, “you don’t know what you don’t know,” and if you do not understand the business you cannot hope to provide an insightful recommendation to help solve a business issue. This lack of experience can also contribute to a lack of credibility, which may cause management to reject an internal audit analysis or recommendation — and certainly not view it as insightful.

- ❑ **Leadership and communication skills.** Even the most important risk or the best idea needs to be communicated — and communicated clearly, completely, succinctly, and persuasively — to be accepted and acted upon. The need for a highly competent CAE with strong leadership and communication skills was identified as a key requirement, which, unfortunately, is not always met.
- ❑ **Internal audit as a catalyst to positive change.** Finally, a key message from the interviewees was the criticality that both the CAE and his or her internal auditors understand their role as change agents and not as “police officers.” Misunderstanding the mission can lead to internal audit producing reports with control findings, rather than collaborating on reports with business solutions.

Implications for Internal Audit

In the survey, the researchers asked respondents to select the **top four factors that enable insight** and the **top four approaches to facilitate insight delivery**. The answers were, again, very consistent across regions, types of organizations, industries, roles, and size of internal audit functions. The top five factors and the top five approaches are noted below, with the percentage of respondents selecting each.

Factors to Enable Insight Delivery		Approaches to Facilitate Insight Delivery	
Strong control environment and ‘tone at the top’ in the organization	62%	Internal audit teams have senior experienced auditors and subject matter specialists	70%
Board and management expectations for value delivery from the internal audit function	59%	Providing internal audit viewpoint in assessments and results reporting	44%
CAE reporting relationship that supports independence of the internal audit function	55%	Including significant consultative time in the annual audit plan	42%
Highly competent CAE	50%	Using data analysis techniques in assessments and results reporting	42%
Internal audit personnel with significant industry and organizational knowledge	46%	Including insight delivery in performance expectations and evaluations	42%

Perhaps the importance of a strong control environment and appropriate and supportive reporting relationship are obvious and go hand-in-hand. To be effective, internal audit must function in an organization that is open to hearing bad news and correcting issues — one where internal audit has the requisite authority to take on tough issues and knows it will be supported if and when its views differ from those of management.

The results also reinforce the old adage that “what gets measured gets done.” The criticality of clear expectations — what stakeholders expect of the CAE, as well as what the CAE expects of internal audit team members — stands out.

The strong message of the importance of industry and organizational knowledge, coupled with experience, is reinforced as well. And the ability to provide new information or a new approach to an issue is often derived from effective use of data analytics. The interviewees’ point that internal audit needs to embrace its role as a change catalyst is definitely dependent on the CAE allowing for significant consultative time within the annual plan. Finally, an internal audit function must be assertive and confident to express its view of the state of controls, risk management, and governance — even when there is room for improvement.

Several successful strategies and approaches are described in chapter 4, based on discussions with many CAEs. The same themes emerge: the smart use of data analytics; the criticality of understanding expectations, demonstrating leadership, and business acumen; and the right mission of the internal audit function. In addition, internal audit leaders shared approaches to clearly and effectively align the department on key strategies, coordinate risk management activities with other risk oversight functions, monitor activities across the breadth of the organization, assess internal audit’s performance, and engage and convince stakeholders to execute a needed change.

CHAPTER 6

NEXT STEPS FOR CHIEF AUDIT EXECUTIVES



We imagine the CAE who has reached this point may be left with the question, “What steps can I take to capitalize on the findings contained in this research?” To that end, the research team offers these final suggestions:

1. **Meet with your key stakeholders** — now and routinely going forward — to confirm your understanding of expectations and, if needed, to set (or at least influence) the reasonableness of those expectations. Or in how you view delivering insights and how the audit committee or, perhaps more likely, the executive team does? If so, discuss these differences and reach agreement on a reasonable timeline and approach to closing the gap. The following suggestions will help.
2. **Consider the importance of reporting relationships** and sufficient organizational independence. Do you have a relationship with the chair of the audit committee (outside of the formal meetings) with a true open door for sensitive discussions? Is your administrative reporting relationship to a senior executive who provides the right tone and support? If there is a disconnect between where you report and where you should report, this is another important discussion topic for the stakeholder meeting.
3. **Align the internal audit mission** and focus with the agreed expectations. The researchers believe that if you consider the six core strategies offered by **John Lewis, CAE at Safeway Inc.** in chapter 4, you will be well on your way.
4. **Refocus your internal audit approach** to agree with the mission:
 - Policies and procedures. Consider whether your current policies reinforce the delivery of insight or not. For example, do you have strict audit budgets (or report deadlines) that cannot be exceeded, even if extra audit or collaborative time might lead to a more robust quantification of the issue, the root cause, and/or the benefit of a proposed solution? The objective is not to issue a report — it is to be a catalyst to positive change.
 - Staffing strategy. Do you have sufficient organizational, industry, and IT knowledge within your team? Do you have auditors who have true business management experience? Or is your team weighted toward accounting specialists who may struggle to consider issues from operating management’s viewpoint? Remember a key lesson from the research is that executives view insight delivery differently than board members, expecting internal audit personnel to have strong business acumen and the confidence to offer reasoned perspectives on business issues.

- Use of technology and tools. Can your organization expertly capture, massage, compare, contrast, and display data to turn it into useful intelligence? Can your organization provide comparative information across locations and functions to highlight leading practices or trends? The chapter 4 examples shared by **Jim Molzahn, associate audit director at jcpenny**, may help.
 - Success metrics. Is your organization tracking, reporting, and, when possible, estimating the value of insights delivered by internal audit? Consider the double benefit of being able to clearly communicate examples to your stakeholders (a little “marketing” is good!), while also reinforcing with each internal auditor, on each audit, that insight delivery is a performance expectation and a key department focus area. And follow the lead of **Jenitha John, CAE at First Rand**, as described in chapter 4, in getting something good out of something bad by using losses in your business as learning opportunities to enhance internal audit practices.
5. **Critically assess your leadership skills and communication style.** As CAE, are you a role model? Are you willing to tackle tough issues tactfully and articulately, while demonstrating that your drive is to help the organization succeed and not for personal glory? Do you reinforce and coach your internal audit leadership team to the same end? Does your internal audit team view the internal audit role as one of an objective business partner or as a compliance cop?

Armed with the results of the assessment described above — and the recommendations from the survey and interviews — any CAE wishing to lead an internal audit function viewed as supportive, valuable, and insightful can succeed!

SURVEY INSTRUMENT INSIGHT AS A KEY ELEMENT OF INTERNAL AUDIT VALUE



The survey consists of five sections:

Section I. Demographics (last five questions to be answered only by CAEs/Internal Audit staff)

Section II. Defining Insight

Section III. Illustration of Concepts (contains two sections: one for CAEs/Internal Audit Staff and one for Board and Executive Members)

Section IV. Supporting or Inhibiting Factors

Section V. Approaches to Enabling the Delivery of Insights

Section I. Demographics

Please indicate from what perspective (**based on your primary role**, if you have more than one) you are responding to in this survey. Choose only **one** role:

- Audit committee chair
- Audit committee member
- Board of directors' member
- CEO
- Chief financial officer (CFO)
- Chief risk officer (CRO)
- Other board or management position; please specify: _____
- Chief audit executive (CAE), director of internal audit, or equivalent
- Internal audit personnel other than CAE level
- Professional service provider

Note: If you selected "Professional service provider," please respond to the survey questions based on the activities of a key client.

For the role selected in the previous question, in which country or region do you **primarily** work (e.g., if you live in country X, but you work in country Y or, as may be the case for board or committee members, select where the headquarters for your organization is located)?:

- Australia
- Canada
- Caribbean
- Malaysia
- Singapore
- South Africa
- The Netherlands
- United States
- Other, please specify: _____

Is your organization:

- Privately held (nonlisted)
- Publicly traded (listed)
- Public sector/government
- Nonprofit/nongovernment organization
- Other, please specify: _____

Which category best describes your organization's primary industry?

- Aerospace and defense
- Agriculture/forestry/fisheries
- Communication/telecommunication services
- Construction/engineering/architecture
- Consumer packaged goods
- Consulting services
- Distribution
- Educational services
- Energy/oil and gas
- Financial services/banking/real estate
- Gaming/lotteries
- Health services
- Hospitality/entertainment/restaurant
- Insurance carriers/agents
- Local government
- National/federal government
- Manufacturing
- Mining
- Nonprofit sector
- Pharmaceuticals
- Public accounting/accounting services
- State/provincial government

- Technology
- Transportation
- Utilities
- Wholesale/retail
- Other

Following five questions answered by CAEs and Internal Audit Managers only:

What is the size of the internal audit function (full-time equivalent resources, including cosourcing equivalent time) in your organization?

- 1–10
- 11–25
- 26–50
- More than 50

What is the approximate percentage of time devoted in your audit plan to the following types of services? (Your answers should sum to 100 percent.)

Assurance _____
 Consultative _____
 Other _____

If you answered “Other,” please specify what service:

Other service: _____

Approximate percentage of time devoted in your audit plan to each of the following risk areas? (Your answers should sum to 100 percent.)

Financial _____
 Operational _____
 Compliance _____
 Other _____

If you answered “Other,” please specify what risk area:

Other risk area: _____

What is the percentage of internal audit function personnel holding one or more professional certifications?

- 0%
- 1%–25%
- 26%–50%
- 51%–75%
- 76%–100%

What is the percentage of internal audit function personnel with a post-graduate degree?

- 0%
- 1%–25%
- 26%–50%
- 51%–75%
- 76%–100%

Section II. Definition of Insight

Insight is commonly defined as: “The capacity to gain an accurate and deep intuitive understanding of a person or thing.” Often, internal audit aspires to deliver insights in performing assessments and providing recommendations. The IIA views insight as a critical component of the recently developed Value Proposition depicted below. The elements of the new Internal Audit Value Proposition include assurance, insight, and objectivity.



INTERNAL AUDITING = ASSURANCE, INSIGHT, AND OBJECTIVITY

Governing bodies and senior management rely on Internal Auditing for objective assurance and insight on the effectiveness and efficiency of governance, risk management, and internal control processes.

The Value Proposition defines insight as noted below:

Insight = Catalyst, Analyses, and Assessments.

Internal audit is a catalyst for improving an organization’s effectiveness and efficiency by providing insight and recommendations based on analyses and assessments of data and business processes.

Insight is an end product or result from internal audit’s assurance and consulting work. Insight can involve “connecting the dots” (i.e., identifying the entity-level root causes of control concerns, emerging risks, or significant opportunities to improve the entity’s governance process) to deliver value-added results to key internal audit stakeholders. Providing insight may require many internal audit functions to improve their overall capability, staff competencies, and audit processes and practices.

Please indicate your level of disagreement or agreement with the following statements on insight:

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
The above definition captures the essence of insight.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internal audit should provide insight as defined above.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
In general, I believe internal audit functions provide insights as defined above.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please indicate your level of disagreement or agreement: The internal audit function in my organization actually provides insight as defined above.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree

How frequently are insights being provided now by the internal audit function in your organization?

- Never
- Rarely
- Occasionally
- Frequently
- Always

Please provide any additional comments here:

Section III. Illustration of Concepts — CAEs/Internal Audit Managers

The following questions will introduce activities and concepts that may be exhibited by internal audit functions. Please respond to these questions based on the best of your knowledge.

Concept #1: In the course of executing an audit, the internal auditor identifies an issue, determines why the issue has occurred, and works with management to develop an action plan that addresses the root cause.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **should** demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **does** demonstrate this behavior.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #2: Internal audit leadership reports the results of the internal audits and consulting activities for the period to executive management and the board and demonstrates judgment in what is presented (e.g., level of detail, which issues to discuss, and in sharing his or her point of view on the significance of the issue).

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **should** demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **does** demonstrate this behavior.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #3: Internal audit leadership shares his or her view on the significant risks facing the organization, such as common issues crossing several individual audits, concerns raised as he or she meets with individuals in the organization, or emerging industry issues.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **should** demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **does** demonstrate this behavior.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #4: Internal audit leadership solicits input from management on key risks within their organization and summarizes and categorizes what was heard.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **should** demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **does** demonstrate this behavior.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #5: Internal audit leadership discusses the organization's approach to enterprise risk management with the audit committee and shares concerns on areas where he or she believes the risk is still too high, after considering risk mitigation activities.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **should** demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **does** demonstrate this behavior.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #6: Internal audit leadership provides comments to the audit committee or certain executives regarding the performance of senior leaders in the business, based on internal audit activities performed within the organization.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **should** demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

My organization's internal audit function **does** demonstrate this behavior.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Please provide any additional comments you may have:

Section III. Illustration of Concepts — Board and Executive Members

The following questions will introduce activities and concepts that may be exhibited by internal audit functions. Please respond to these questions based on the best of your knowledge.

Concept #1: In the course of executing an audit, the internal auditor identifies an issue, determines why the issue has occurred, and works with management to develop an action plan that addresses the root cause.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I expect the internal audit function in my organization to demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I experience this behavior in my interactions with the internal audit function in my organization.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #2: Internal audit leadership reports the results of the internal audits and consulting activities for the period to executive management and the board and demonstrates judgment in what is presented (e.g., level of detail, which issues to discuss, and in sharing his or her point of view on the significance of the issue).

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I expect the internal audit function in my organization to demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I experience this behavior in my interactions with the internal audit function in my organization.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #3: Internal audit leadership shares his or her view on the significant risks facing the organization, such as common issues crossing several individual audits, concerns raised as he or she meets with individuals in the organization, or emerging industry issues.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I expect the internal audit function in my organization to demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I experience this behavior in my interactions with the internal audit function in my organization.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #4: Internal audit leadership solicits input from management on key risks within their organization and summarizes and categorizes what was heard.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I expect the internal audit function in my organization to demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I experience this behavior in my interactions with the internal audit function in my organization.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #5: Internal audit leadership discusses the organization's approach to enterprise risk management with the audit committee and shares concerns on areas where he or she believes the risk is still too high, after considering risk mitigation activities.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I expect the internal audit function in my organization to demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I experience this behavior in my interactions with the internal audit function in my organization.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Concept #6: Internal audit leadership provides comments to the audit committee or certain executives regarding the performance of senior leaders in the business, based on internal audit activities performed within the organization.

This is an example of providing insight.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I expect the internal audit function in my organization to demonstrate this behavior.

- Strongly disagree
- Disagree
- Neutral
- Agree
- Strongly agree
- Don't know

I experience this behavior in my interactions with the internal audit function in my organization.

- Never
- Rarely
- Occasionally
- Frequently
- Always
- Don't know

Please provide any additional comments you may have:

Section IV. Supporting or Inhibiting Factors

Please consider the following factors that may be supportive to the delivery of insight by internal auditors. Based on your perspective and experience, please identify **up to four** factors that you believe are the **most** important and, ideally, should be in place to support internal audit's delivery of insight:

- Strong control environment and tone at the top in the organization
- Board and management expectations for value delivery from the internal audit function
- Chief audit executive (CAE) reporting relationship that supports independence of the internal audit function
- Highly competent CAE
- Internal audit personnel with significant internal audit experience
- Internal audit personnel with business management experience outside of internal auditing
- Internal audit personnel with significant industry and organizational knowledge
- Nature of the area being audited, such as degree of risk and complexity
- Receptivity of auditees to internal audit processes and results
- Sufficient amount of time spent on analyzing the results of the audit project
- Other, please describe: _____

Please provide any additional comments here:

Section V. Approaches to Enabling the Delivery of Insights

Please consider the following activities, which may facilitate the delivery of insight by internal auditors. Based on your perspective and experience, please select **up to four** activities you believe to be **most** important and, ideally, should be in place to facilitate insight delivery by internal auditors:

- Internal audit teams have senior-level auditors and subject-matter experts
- Including insight delivery in performance expectations and evaluations
- Providing flexible budgets for internal audit projects
- Including significant consultative time in the annual audit plan
- Developing report templates or checklists that reinforce the delivery of insights
- Tracking, reporting, and, if possible, estimating the value of insights delivered by internal audit
- Using data analysis techniques in assessments and results reporting
- Using benchmarking data in assessments and results reporting
- Using maturity models in assessments and results reporting
- Providing internal audit's view or opinion on the results of assessments
- Other, please describe: _____

Please provide any additional comments here:

We thank you for your participation!

Would you like to receive a copy of the research report upon its completion?

Yes, please send me a copy using this email address: _____

No

As part of our research project, may we contact you with additional or follow-up questions regarding the topic of this survey?

Yes, contact me using the information I will provide on the next page of this survey

No

NOTES

Chapter 1 Executive Summary

¹ *Oxford-American Dictionary.*

Chapter 2 Research Methodology

¹ http://www.vonyaglobal.com/Executive_Study_Strategic_Role_Internal_Audit.html.

Chapter 3 Research Results

¹ *Oxford-American Dictionary.*

² For providing insight, this relationship is statistically significant (chi-square=5.12, 1 d.f., P=0.024). For frequency, this relationship is also statistically significant (chi-squared=6.59, 1 d.f., P=0.010).

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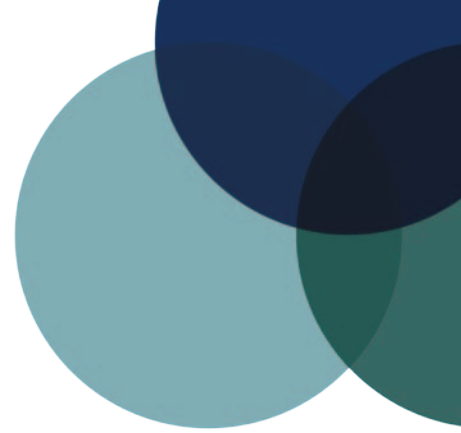
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INSIGHT: DELIVERING VALUE TO STAKEHOLDERS

Insight is commonly defined as: “The capacity to gain an accurate and deep intuitive understanding of a person or thing.” The Institute of Internal Auditors (IIA) considers insight an end product or result from internal audit’s assurance and consulting work, and it views insight as a critical component of the value proposition of internal auditing, which was developed in 2008. This report shares results from a study conducted by The Institute of Internal Auditors Research Foundation (IIARF) to research how effectively internal audit is delivering on the goal of providing insight to its stakeholders.

Insight: Delivering Value to Stakeholders offers helpful insights, actionable suggestions, and useful examples for internal audit leaders. We urge them to carefully read this report, understand the expectations and perceptions of key stakeholder constituents, self-assess how effective their internal audit organization is in meeting these expectations, and thoughtfully consider the relevance of the report’s suggestions to their team.

This report also contains relevant information for boards of directors, CEOs, chief financial officers (CFOs), and other key stakeholders to gain an enhanced understanding of the potential of the internal audit profession to deliver insights, what hindrances exist, and the key role they themselves play in enabling insight delivery.

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