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# *Reaching Greater Heights: Are You Prepared for the Journey?*

## 2013 State of the Internal Audit Profession Study

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# *Agenda*

- Introductions
- PwC's 2013 State of the Internal Audit Profession study
  - Heart of the matter
  - Examining the issues
  - The opportunity: defining greater heights
  - The path forward
- Panel discussion
- Questions and answers

## *At a glance*

- **9th** Annual State of the Internal Audit Profession Study
- Second year where we explored the impact of Internal Audit from the lens of a stakeholder
- Over 1700 respondents, Audit Committee Chairs, Board, CEOs, and CFOs, participated including 630 executive stakeholders
- Over 140 personal executive interviews conducted
- Focus areas included
  - Stakeholder's expectations of IA
  - Performance and value of IA's contribution
  - IA's contributions in emerging risk areas
  - Characteristics of IA functions



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# *Heart of the matter*

## ***Heart of the matter***

***Stakeholders want more and internal audit can deliver***

### **Internal audit continues to face challenges**

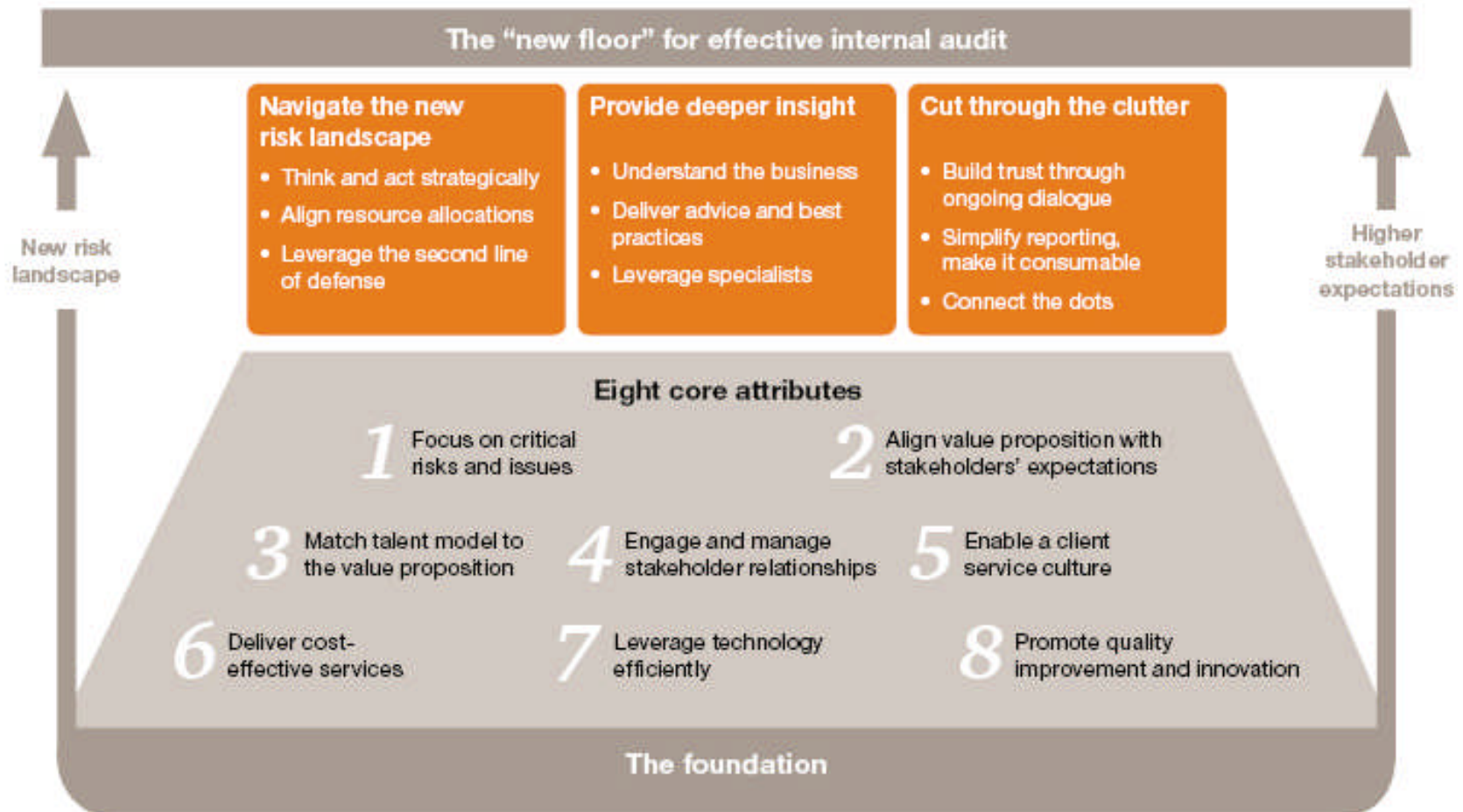
- Stakeholders are not aligned in their views on internal audit's value and performance
- Internal audit's capabilities are not keeping up - what was once leading practices are now the new floor
- Internal audit continues to struggle in maximizing its contribution, especially in less traditional areas

### **Key takeaways**

- Alignment must be achieved amongst stakeholders and CAEs on internal audit's role in the organization, what internal audit value means and where internal audit should be focused
- Internal audit must break the cycle of inaction and improve its performance on eight core attributes

***Our research has revealed internal audit functions performing at a high level provide a distinctively different level of service***

# The new floor



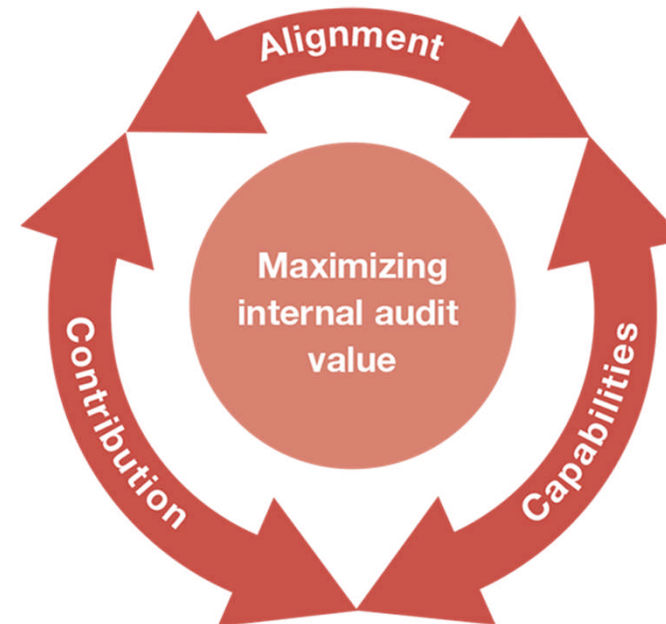
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## *Examining the issues*

## ***Examining the issues***

***Our survey data revealed the circular nature of the internal audit challenges***

The issues of stakeholder alignment, a challenged capability foundation and sub-optimal internal audit contribution are tightly interwoven



***Internal audit must break the cycle of inaction and increase its capabilities or risk being marginalized in comparison to other risk functions***



## ***Examining the issues***

### ***Stakeholders are not aligned in their views on internal audit's value and performance***

#### **Value**

At the most fundamental level, stakeholders have significantly different views of internal audit value

*79% of board members see significant value, while only 44% of management do*

#### **Performance**

This year's research confirms that strong performance in the eight core attributes directly correlates to greater value.

*56% of the board ranks IA performance as strong, while 37% of management do*

#### **Critical Risks**

Stakeholders are not aligned on critical risks facing the organization which creates challenges for internal audit in addressing those critical risks

*60% of the board members believe risks are well managed vs. 52% of management*

***Board members' views on value versus performance do not reconcile – 79% see significant value, yet only 56% view performance as strong – a 23% difference***

# *Examining the issues*

## *Internal audit capabilities are not keeping up*

How well is internal audit performing in each of the following areas?



*Our survey revealed promoting quality improvement, leveraging technology and obtaining right talent as three key focus areas*

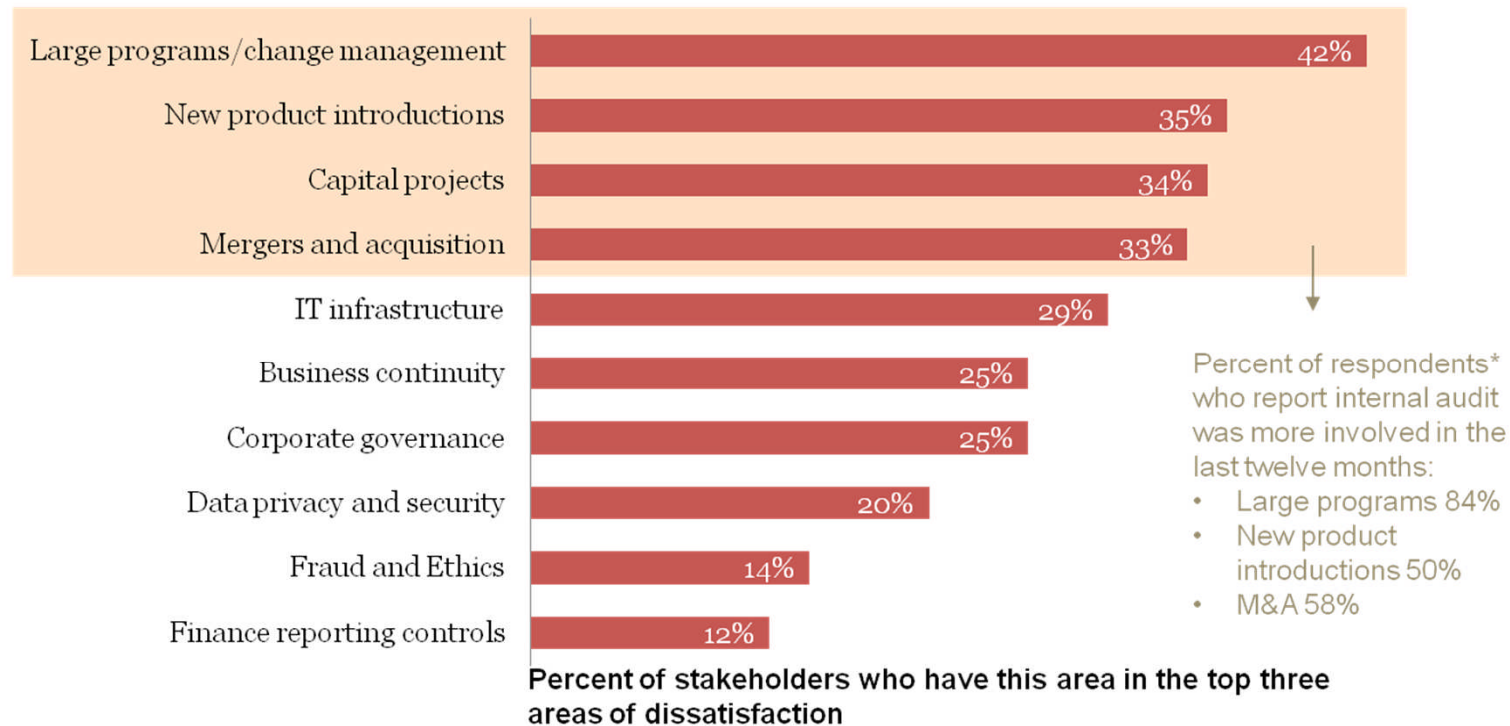
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# *Diskusija 1!*

# Examining the issues

## Internal audit continues to struggle in maximizing its contribution in areas outside of its traditional focus

Survey respondents were asked to rank their top three areas of least satisfaction with internal audit

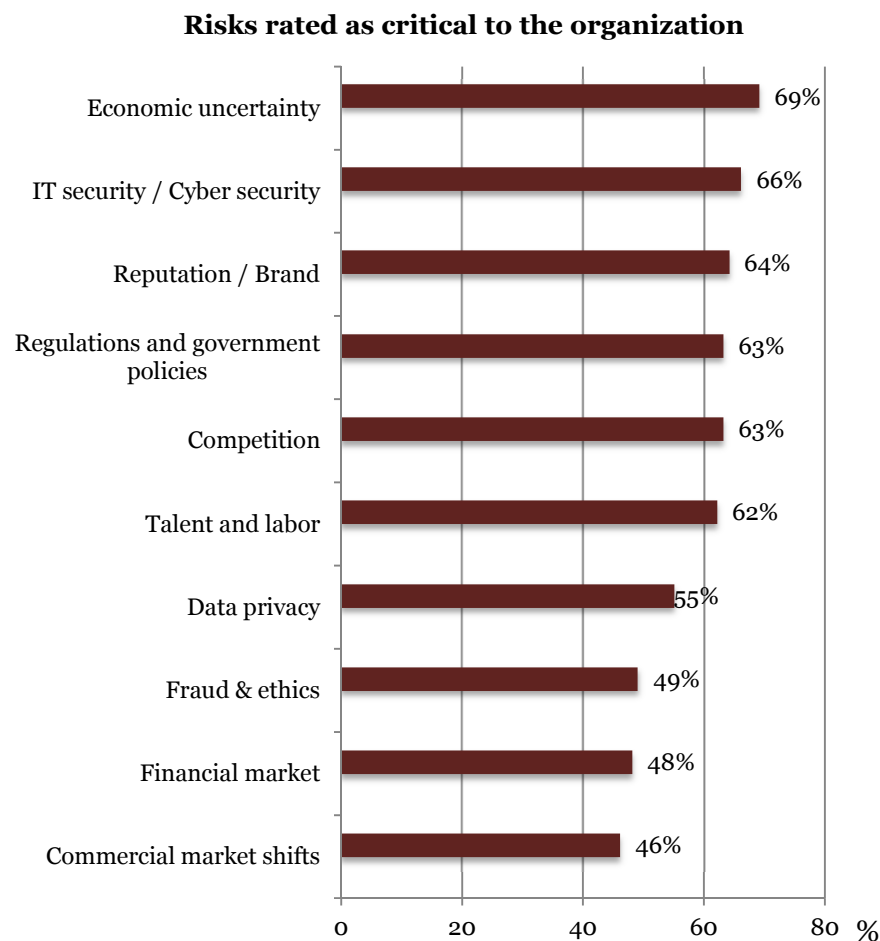


\*Respondents = subset of total who reported the risk presented more of a threat in the next year than in the past year

**Increased internal audit focus has not translated into greater stakeholder satisfaction**

## ***Aligning to the most critical risks***

Internal audit should continue to assess the role it can play in traditionally “non-auditable” risk areas



Ekonomiskā nenoteiktība

IT drošība / kiberdrošība

Reputācija

Normatīvie akti un politika

Konkurence

Personāls

Datu privātums

Krāpšanās un ētika

Finanšu tirgus

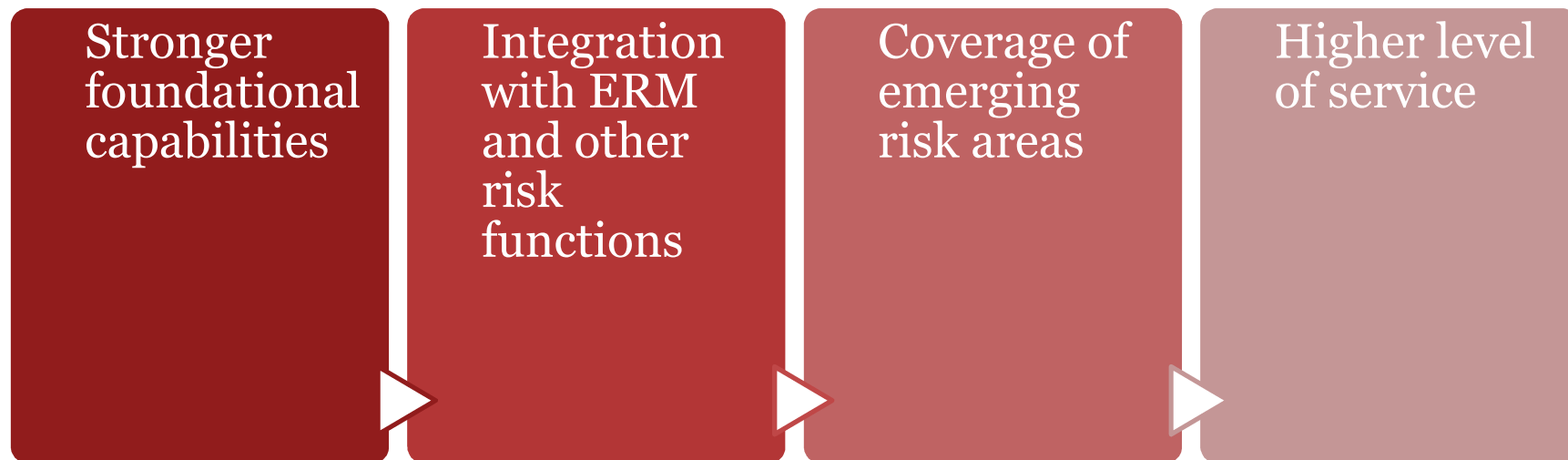
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# *The opportunity*

## ***The opportunity - defining greater heights***

***Our survey identified a subset of organizations represented by the top 5% of the respondent base as “high performing”***



***The high performing internal audit functions stood out from their peers in their contribution and value to the organization***

# *The opportunity – defining greater heights*

## *Profile of the top 5%*



Percent of respondents who responded internal audit is performing well

***The top internal audit functions are demonstrating significantly stronger foundational capabilities***



# The opportunity – defining greater heights

## Profile of the top 5%

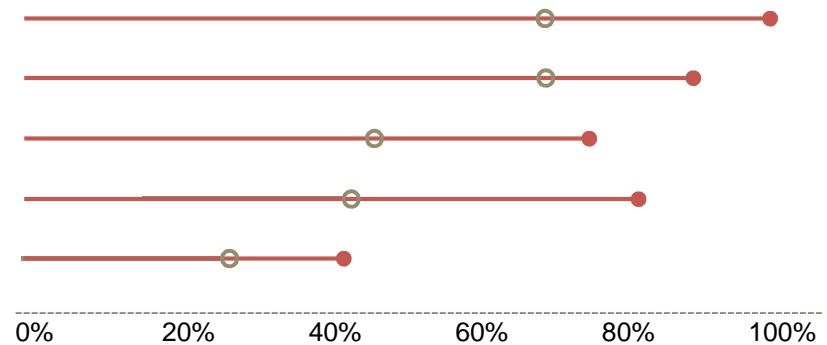
The Organization works together across the various functional areas to create an integrated view of risk

IA creates an integrated view of risk across the organization

IA is well or extremely well coordinated with ERM

IA is well or extremely well coordinated with other risk groups

IA is involved in emerging risk areas



● Top 5%

○ Others

Percent of respondents who believe internal audit is well aligned with risk

**The high performing internal audit functions have achieved greater integration with ERM and other risk functions**

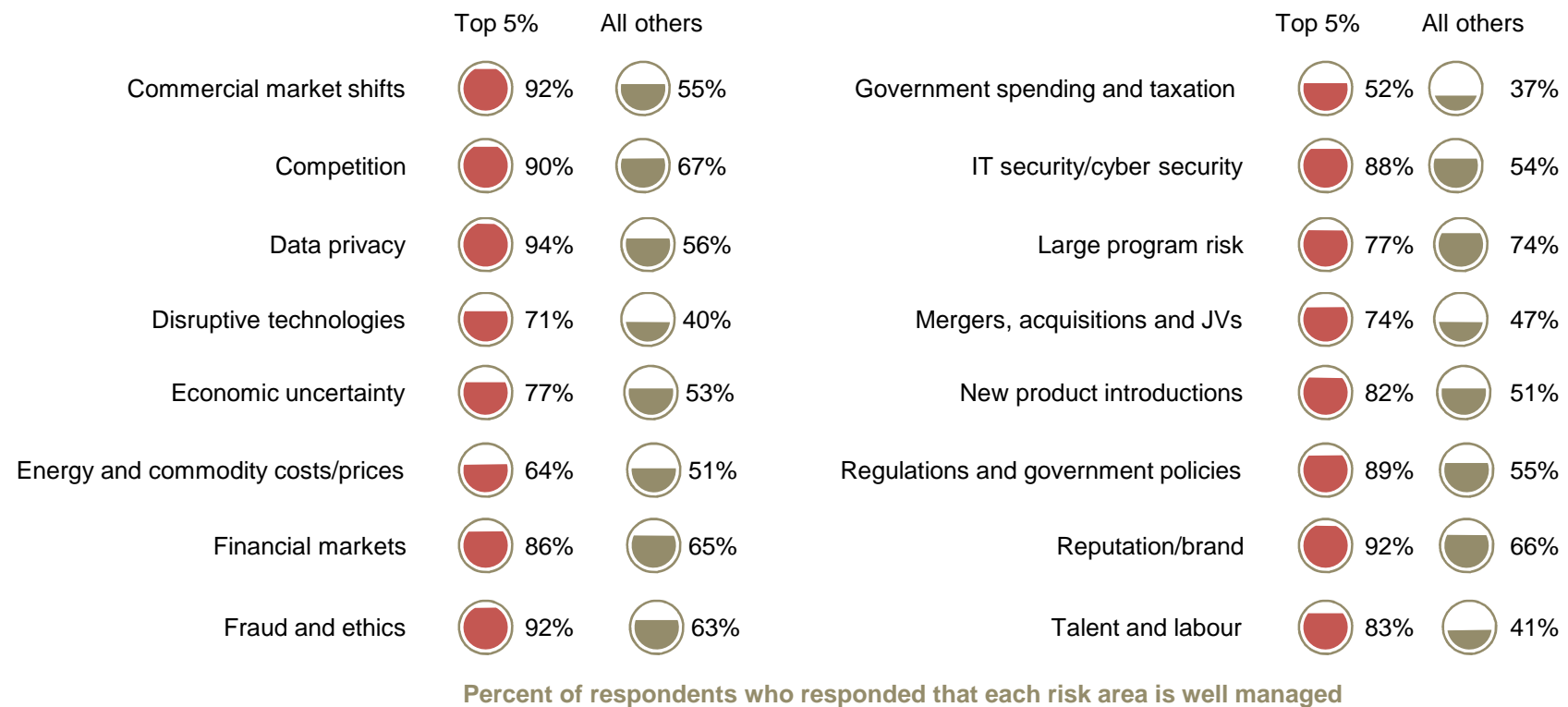
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# ***Diskusija 2!***

# The opportunity – defining greater heights

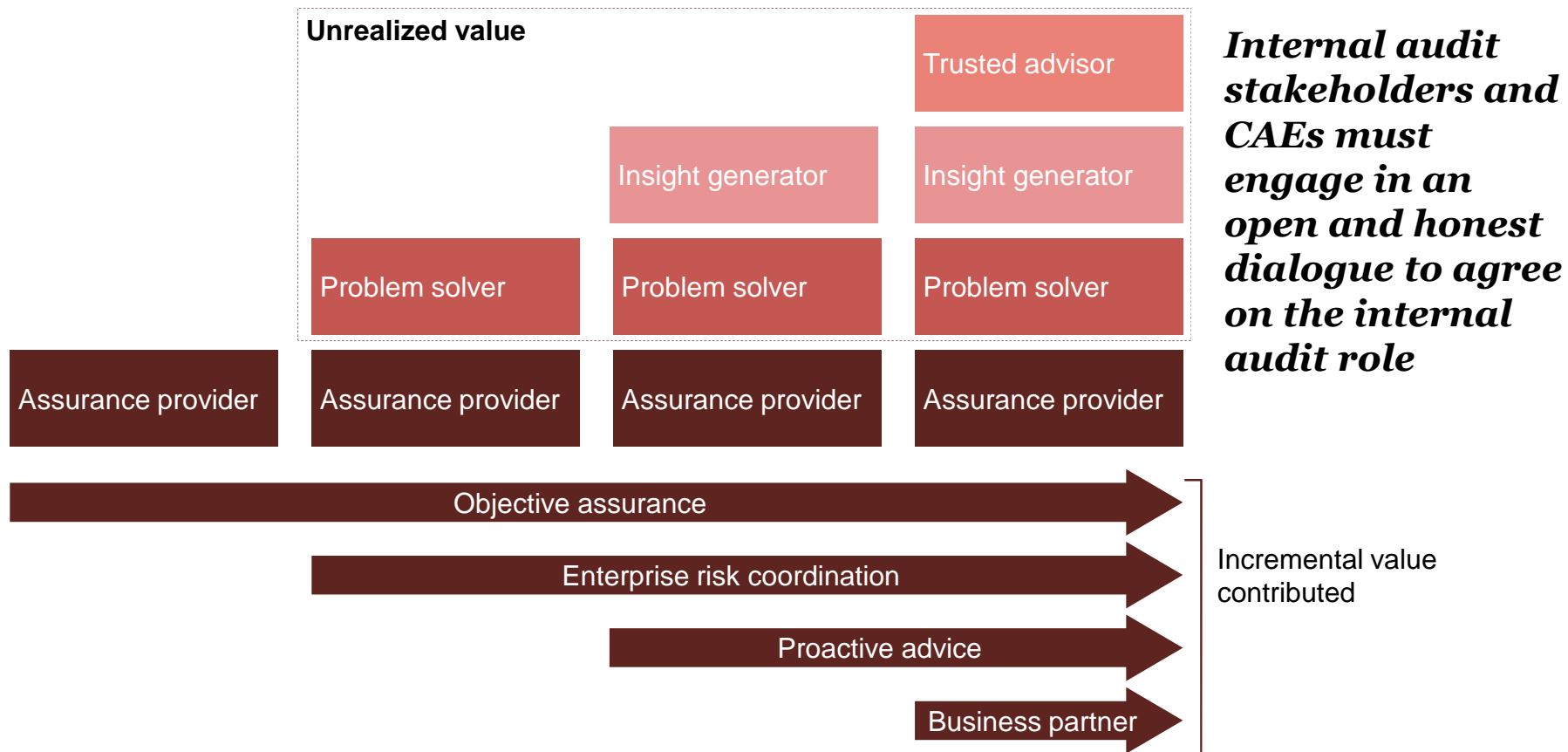
## Profile of the top 5%

**The top 5% internal audit functions are providing better coverage of emerging risk areas and achieving stakeholder satisfaction**



# *The Opportunity – defining greater heights*

*Internal audit functions fall across a spectrum of value delivery*



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# *The path forward*

## ***The path forward***

***Our survey identified need for urgent action on part of stakeholders and CAEs alike***

### ***Audit Committee: Ask More***

- Ask yourself if your expectations of internal audit are high enough
- Ask if critical business risk coverage is aligned with your views on risk
- Ask if internal audit has a strategic plan and resources to deliver
- Ask if you are enabling internal audit to be what it should be

### ***Management: Expect More***

- Expect internal audit to perform at a higher level and bring more value
- Expect internal audit to have a stronger enterprise-wide risk assessment process
- Expect internal audit to deliver value for the investment but recognize the need to invest
- Expect a robust dialogue with internal audit and provide candid feedback

### ***CAEs: Deliver More***

- Deliver high quality on foundational areas
- Deliver a strategic vision that aligns with stakeholder expectations
- Deliver value for investment
- Deliver proactively

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***Thank you***

The 2013 State of the Internal Audit Profession Study may be found at:  
[www.pwc.com/us/2013internalauditstudy](http://www.pwc.com/us/2013internalauditstudy)

E-mail us questions at: [2013SOPIAStudy@us.pwc.com](mailto:2013SOPIAStudy@us.pwc.com)

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