2013: Time to Seize the Opportunity
### 2013 Global Survey Demographics

**Conducted February 2013**
- 5th consecutive year
- 37% of organizations earn $1 billion USD or more in annual revenue
- 63% of respondents work in public or private companies

**1700 Responses**
- 74% of respondents are audit managers or above
- 63% are CAEs

**Geographic Distribution of Survey Respondents**
- 33% North America
- 29% Europe
- 17% Latin America
- 9% Asia Pacific
- 9% Africa
Four Key Trends Emerging in 2013

1. Elevating Our Stature
2. Standing Our Ground
3. Doing More With More
4. Changing Our Game
Internal Audit’s Stature

• Often reflected by:
  – How internal audit is perceived
  – How the function is used
  – To whom the chief audit executive (CAE) reports

• Reporting relationships
  – Administrative reporting relationship
  – Functional reporting relationship

• Has consistently migrated upward over the past decade

Source: The IIA Audit Executive Center
Internal Audit Administrative Reporting Relationships

- Chief Executive Officer (CEO) – 43%
- Chief Financial Officer (CFO) – 21%
- Audit Committee (AC) – 9%
- Board of Directors (BoD) – 8%
- General Council – 3%
- Chief Compliance Officer – 1.5%
- Other – 14.5%

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center"
Internal Audit Administrative Reporting Relationships

CEO – 33%
CFO – 37%

CEO – 50%
CFO – 13%

CEO – 51%
CFO – 12%

CEO – 56%
CFO – 22%

CEO – 52%
CFO – 12%

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center"
Internal Audit Functional Reporting Relationships

- CEO – 18%
- Full BoD – 12%
- CFO – 6%
- Other 10%
- Audit Committee – 54%

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center"
Internal Audit Functional Reporting Relationships

AC – 73%
Full BoD – 3%
CEO – 10%

AC – 41%
Full BoD – 21%
CEO – 22%

AC – 37%
Full BoD – 20%
CEO – 28%

AC – 77%
Full BoD – 2%
CEO – 11%

AC – 62%
Full BoD – 7%
CEO – 21%

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center"
Standing Our Ground
Standing Our Ground

- Our stakeholders look to us for:
  - Objective assurance on risk and controls
  - Insight on business risks
  - Advise and assistance as warranted

- Stakeholders also look for us to:
  - Demonstrate courage
  - Deliver difficult news when warranted
  - Call it like it is
  - Not change or conceal results under duress

- Survey indicates we are “standing our ground”
Have Any of the Following Ever Attempted to Unduly Influence an Internal Audit Report?

<table>
<thead>
<tr>
<th>Business Function/Role</th>
<th>Respondents Answering “Yes”</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Management</td>
<td>20%</td>
</tr>
<tr>
<td>Chief Executive Officer</td>
<td>12%</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>12%</td>
</tr>
<tr>
<td>Legal or General Counsel</td>
<td>5%</td>
</tr>
<tr>
<td>Full Board of Directors</td>
<td>4%</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>4%</td>
</tr>
<tr>
<td>Chief Compliance Officer</td>
<td>4%</td>
</tr>
<tr>
<td>Chief Risk Officer</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center
23% of Respondents Believed Internal Audit Would Be More Independent if It Reported to:

<table>
<thead>
<tr>
<th>Report to:</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Audit Committee</td>
<td>52%</td>
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<td>Chief Executive Officer</td>
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<tr>
<td>Full Board of Directors</td>
<td>18%</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>1%</td>
</tr>
<tr>
<td>Legal or General Counsel</td>
<td>1%</td>
</tr>
<tr>
<td>Other/Unsure</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center
The Pulse of the Profession
Doing More With More
Positioned for Success

- Financial crisis impact on internal audit resources was swift and noteworthy in the areas of
  - Staffing
  - Budgets
- By 2011, more than 40% of internal audit functions reported reduced staffing
- After a sluggish recovery, 2013 is poised to be the strongest year since 2007
The Outlook for Global Internal Audit Resources is Strong

• **Budgets:**

<table>
<thead>
<tr>
<th></th>
<th>Increase</th>
<th>Stable</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>33%</td>
<td>55%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Change from 2012–2013

• **Staffing:**

<table>
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<th>Increase</th>
<th>Stable</th>
<th>Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>22%</td>
<td>69%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Change from 2012–2013

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center"
The Outlook for Global Internal Audit Budgets by Region

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center
The Outlook for Global Internal Audit Staffing by Region

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center
Changing Our Game
Changing Our Game

• Rebalancing of internal audit plans has been ongoing for several years. Driven by:
  – Changing risks and expectations
  – Compliance burdens
  – Risk management assurance
  – Technology

• Requisite skills must evolve and broaden to address emerging risks

• Successful CAEs must have prescience: the ability to “see around corners”
Distribution of Typical Internal Audit Coverage in 2013

Fraud – 5%
Risk Management Assurance - 7%
Strategic/Business – 5%
IT – 9%
Compliance (COMP) – 14%
Other – 11%
Operational (OP) – 28%
Financial (FIN) – 21%

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center"
Distribution of Typical Internal Audit Coverage in 2013

OP - 27%
FIN - 27%*
COMP - 15%

OP - 29%
FIN - 18%
COMP - 13%

OP - 27%
FIN - 19%
COMP - 14%

OP - 31%
FIN - 15%
COMP - 14%

OP - 29%
FIN - 19%
COMP - 12%

* Inclusive of Sarbanes-Oxley work

Source: "The Pulse of the Profession: © 2013 The IIA Audit Executive Center
# Requisite Skills For Internal Auditing Continue to Evolve

<table>
<thead>
<tr>
<th>Skill</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analytical/critical thinking</td>
<td>72%</td>
</tr>
<tr>
<td>Communication skills</td>
<td>54%</td>
</tr>
<tr>
<td>Risk management assurance</td>
<td>44%</td>
</tr>
<tr>
<td>IT (general)</td>
<td>41%</td>
</tr>
<tr>
<td>Data mining and analytics</td>
<td>37%</td>
</tr>
<tr>
<td>Accounting</td>
<td>33%</td>
</tr>
<tr>
<td>Industry-specific knowledge</td>
<td>32%</td>
</tr>
<tr>
<td>Business acumen</td>
<td>29%</td>
</tr>
</tbody>
</table>

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