The Austin Chapter Research Committee

Karin L. Hill, CIA, CGAP, CRMA, MBA, Chair
DeQuincy L. Adamson, CGAP
Cynthia G. Fish, CIA, CGAP
Mike Garner, CIA, CFE, MS-QSM
Steve Goodson, CIA, CISA, CCSA, CGAP, CLEA, CRMA
Kent B. Heath, CGAP
Will Koenig, CIA, CFE, CGAP
David J. MacCabe, CIA, CGAP, CRMA, MPA
# TABLE OF CONTENTS

Executive Summary.................................................................1

Introduction .............................................................................2

Methodology.............................................................................3

Results.....................................................................................4

Defining and Adding Value ......................................................4

Recruiting, Developing, and Retaining Talent .........................5

- Recruiting
- Developing and Retaining

Keeping up with the Times in Today’s Business Environment ..7

- Keeping Up With Changing Technology
- More Demand Than Resources
- Maintaining Organizational Relevance

Strengthening the Image of the Profession ...............................10

- Need to Promote the Internal Audit Profession
- Specific Opportunities

Call to Action...........................................................................13
EXECUTIVE SUMMARY

“We are not yet what we shall be, but we are growing toward it, the process is not yet finished, but it is going on, this is not the end, but it is the road.”

MARTIN LUTHER

Challenges to the internal audit profession continue to rise at an ever increasing pace. More importantly, our research indicates that these challenges provide additional opportunities to substantially improve the image and influence of the profession. As reflected in the survey comments and research, to take advantage of these opportunities internal audit professionals must be increasingly proactive in their approach.

This report includes the forward insights of some of the most informed thought leaders in our profession. These insights are supplemented with research focused in the areas of:

- recruitment, development, and talent retention;
- staying current in today’s business environment;
- defining and adding value; and
- strengthening the image of the profession.

As summarized in the Call to Action section of this report, a focus on specific areas can help us to take advantage of the opportunities that are in front of us. These include the areas of academia, incentives, technology, resources, promotional skills, and organizational relevance.
INTRODUCTION

The global pulse of internal audit is changing and leaders in the profession are taking charge to address modern challenges facing the profession. Global trends and challenges to the profession as identified in the IIA’s 2010 Common Body Of Knowledge (CBOK) Study and discussed in two of six resulting reports: Core Competencies for Today’s Internal Auditor and Imperatives for Change: The IIA’s Global Internal Audit Survey in Action, released in December 2010 and February 2011. The trends and challenges for the profession include:

- Governance models to gauge the “tone at the top,”
- Monitoring and delivering risk and control information to appropriate areas of the organization,
- Communicating effectively up, down and across the organization,
- Working smart with available resources that may be limited,
- Adapting to changing environments with outsourcing, in-sourcing, and co-sourcing,
- Leveraging technological advances and use of audit tools for real time and continuous auditing,
- Recruiting and retaining new talent as a career choice, and
- Providing education and special skill sets specific to the profession and the organization.

The IIA is aggressively adapting to keep up with the challenges facing the profession. Online training opportunities are proving to be particularly effective to reach a diverse group of professionals across geographical boundaries. The IIA recently offered an online webinar opportunity “Building a Better Internal Auditor: Key Competencies for 2013 and Beyond” (at no cost to members) which broke the IIA record for attendance. The IIA is also offering a new certification for Risk Management Assurance which is a fundamental result of the CBOK study.

Our survey posed two questions:

1) What are the top 3 challenges to the Internal Audit Profession, and

2) What can be done to enhance and influence the global image of internal audit as a profession?
Survey results identified three common themes around challenges facing the profession and provided many useful and creative thoughts on enhancing the image and profession of internal auditing. The themes included:

- defining and adding value to the organization in achieving its goals and objectives;
- recruiting, developing and retaining talent in the profession; and
- keeping up with the times due to new technologies and changing economic factors.

METHODOLOGY

The Institute of Internal Auditors Austin Chapter Research Committee conducted a survey in January 2013 of leading practitioners and academics to obtain ideas on the major challenges being experienced by the profession and suggestions on how to enhance the global image of internal auditing as a profession. The survey was sent by email to 57 internal auditing professionals in public and private sectors as well as academia. The Committee was gratified by the 70 percent response rate; with 40 responses received from colleagues in the United States, Australia, Belgium, China, Norway, and Sweden.

The Austin Chapter Research Committee members express our appreciation to the leaders who shared their thoughts and ideas.
RESULTS

Defining and Adding Value

The responding thought leaders reflected the need for internal auditing to provide value to the organization that is clearly defined and understood by all relevant persons both inside and outside the organization. This can be accomplished by promoting the real value of measurable competitive advantage from the expertise, professionalism, insight, and experience that internal audit brings to the organization.

The need to define and add value was clearly emphasized through such survey comments as:

- demonstrating value and worth;
- influencing the organizational response to the major organizational challenges;
- visible organizational relevance;
- providing visional organizational leadership that demonstrates benefit to the organization;
- adding visible value to the organization;
- maintaining relevance;
- providing timely communication and assurance that is valued by auditees, management, and the board;
- demonstrating reductions in risks and associated costs through timely and relevant measuring, packaging, and reporting;
- delivering organizational level “insights”;
- demonstrating and promoting to executive management and the board the potential of internal audit to add value to the organization;
- facilitating into general practice the insight component of the value proposition;
- continuing to sell the value of internal audit; and
- providing discernible value to organizational management.

The committee’s limited research into the significance of defining and adding value indicated that one of the ways internal audit can add value is to focus predominately on those areas that will add true value to the organization. Then emphasize and promote the measurable positive impact that internal audit provided to these areas.

An example of a value-added target occurs when internal audit can demonstrate how it addressed operational activities that consumed time, materials, and funds but created little or no value within the organization. These areas could include rework (addressing why it is not
done right the first time); unnecessary layers of approval; reports that are not read and serve no useful purpose; and non-productive meetings.

Other examples of value-added targets include more emphasis being placed on the importance of the evaluation of risks and organizational risk management operations; auditing organizational governance; and emphasizing and evaluating capability maturity models.

Our survey of leading audit professionals and our associated research and analysis reflects that clearly defining and adding value to the organization is both a major challenge and an opportunity for enhancing the influence and the associated image and recognition of the internal auditing profession.

Recruiting, Developing, and Retaining Talent

Many of the world’s most successful and prominent businesses and professions have a very distinctive asset that can be directly attributable to their success and longevity. They believe that their most beneficial asset is their people – their employees – and the value that is added by the talents they possess. In any profession it is difficult to replicate such intrinsic skills even with extensive training, which is why it is ever so important that the audit profession foster an environment that assists in recruiting, developing, and retaining its future leaders.

Many of the thought leaders who responded to our request identified recruiting, developing, and retaining quality individuals as one of the profession’s toughest challenges – specifically in attracting a diverse talent pool that can keep up with the changing workplace demographics and consist of educated and qualified candidates.

Prevalent among the survey responses were the concerns of future auditors’ ability to obtain a proficient understanding and general knowledge of the core functions and competencies of internal audit once they have entered the profession. This is also a prevalent issue for the audit profession as we try to attract talented individuals to internal audit as their chosen profession.

An internet search of “what is internal audit” provided links to the IIA and other relevant discussions on sites such as Wikipedia.com. One of the other top ten entries included “an ongoing appraisal of the financial health of a company’s operations by its own employees”¹ as a summary of what internal auditors do. This result further emphasizes the importance of improving not only the general public’s knowledge but also the form and substance of information provided on the internal audit profession and what it has to offer as a career.

¹ http://www.investorwords.com/2559/internal_audit.html#ixzz2KnkrWxoU
The following is a discussion of areas of concern regarding recruiting, developing, and retaining talent as identified by our survey respondents.

**Recruiting**

Stepping stones are significant points of movement along the road of an individual’s life in which once it is obtained or in their view mastered, beacons the question of “what’s next?” Many recent graduates or middle career professionals see internal audit as a “stepping stone” profession, a step along their way to other opportunities within their career, rather than a career itself. Their thought is that their accumulation of experience within the profession will transpire into an increased probability of their movement into another occupation or role.

Craig Kinton, Dallas City Auditor, noted “While some college programs focus on internal auditing as a career opportunity, many schools are focused on pushing accounting students toward ‘the firms’.” This supports the notion that many (1) overlook the audit profession in favor of accounting experience at a private firm or (2) come to internal audit to gain the experience and “big picture” knowledge of their organization and its individual functions only to leave for other opportunities as they present themselves.

The potential value derived from new talent being inserted into the audit profession is only realized if such talent can be retained long enough to truly tap the treasures of the individuals. There is a need to communicate not only the value that internal audit provides to its corresponding organization but also the value it provides to the careers of those that are in the profession. Professor Gerrit Sarens from Louvain University in Belgium pointed out the importance for the profession to “Develop a clear career path for people in internal auditing (similar to external auditing), make internal auditing an attractive career path.” By doing such we may be able to present the benefits that audit has to offer as a long-term career path.

Complimentary to Professor Sarens’ comment, Frank Berry, Chief Audit Executive (CAE) for the Virginia Retirement System, suggested “Compensation needs to be set and maintained at a level to attract the very best people entering into the work forces” as an idea of what could be done to enhance the profession’s image.

Furthermore, internal audit should rethink and approach recruiting by asking how can we tap the interests, experience, education, and skills of an evolving workforce and apply these skills to internal audit in ways previously unthought-of or overlooked? Ryan Babin, CAE, Louisiana State Employees’ Retirement System, noted the “availability of individuals with the necessary talents and skills to be effective internal auditors and keep up with the changing landscape of the profession” as one of the top challenges to the internal audit profession and added “national media and offering more curricula on the college and possibly high school level” as ways to address it.
Developing and Retaining

Thought leaders were clear that along with recruiting quality individuals into the internal audit profession, the follow up challenge was to develop and retain them in the field. These challenges ranged from identifying which skills to develop to ensuring internal auditors receive the right quantity of quality training to establishing a career path and create a succession plan. This ultimately cultivates into high turnover of and lost time and investment into individuals, low commitment and job satisfaction on behalf of individuals, and job-hopping between professions without reaching the potential talent of the individual.

Martin Krone, President, International Law Enforcement Auditors’ Association (ILEAA), noted that government auditors were finding it hard to meet the training requirements (80 CPEs every two years) due to tight budgets and time constraints.

Luis Escalante, Executive Director, Intergovernmental Audit Forum, U.S. Government Accountability Office, stated that “auditors must become more efficient” and to do so will require evaluating and streamlining their processes. He also stated that “use of technology to complete training – web-based desk top technology makes this easier to achieve.”

Keeping up with the Times in Today’s Business Environment

Different versions of “keeping up with the times” were cited as challenges by respondents. To meet the definition of internal auditing and provide assurance, internal audit functions must always be on the lookout for industry trends and skill sets that are required to add value. Responses in this area were further divided into three categories: keeping up with changing technology; more demand than resources; and maintaining organizational relevance.

Keeping up with Changing Technology

Activity in today’s business environment depends on high-speed information processing. Internal audit must possess a keen understanding of the organizational “business acumen” and build relationships with the organization’s management and key staff members to understand the technologies utilized.

Several respondents identified technology as a major challenge for the profession. Contreras, CAE for the Texas Commission on Environmental Quality, noted the challenge of the “evolving risks associated with technology; the use of social media in conducting business; the risks with protecting personally identifying information (PII)/financial/medical information.”
Another respondent, Edmundo Calderon, Chief Internal Auditor, City of El Paso, directed his comments toward the constant changes that occur by identifying the challenge as needing to keep up with “technology and the controls involved with new systems.”

Luis Escalante identified the need to “assure staff is highly skilled and trained” and noted that this is easier to achieve by using technology to complete training.

And former IIA Chairman of the Board, Denny Beran responded that internal audit needs to “become a data wizard and utilize technology to help management achieve their business objectives.”

Philip Smith’s article in the August 2008 issue of the Internal Auditor titled “IT Skills for Internal Auditors” discusses two areas of knowledge for internal auditors: IT software packages that help auditors organize and perform work along with the use of integrated audit tools, and the technologies that support the business as a whole. Nelson Gibbs, a senior internal audit manager with Deloitte in Los Angeles was quoted as saying, “It would be difficult to know everything about a business in great detail, so it would be even more difficult to know everything about these software packages.” Internal auditors need to have a basic knowledge of the software applications, operating systems, security controls, and vulnerabilities to business operations, and how the technologies support the business.

In a special report published September 2012, by the Institute of Internal Auditors (IIA), authors Michael Gowell and Richard Anderson note that “given the pace of change, internal audit groups will find it difficult to keep current in the technology arena...” To bridge the gap, continuing education is an essential component for internal audit to maintain its relevancy in the face of technological changes.

More Demand than Resources

A survey of internal auditors from 70 companies, conducted in 2009 by Deloitte, indicated that there was a disparity among internal auditors, audit committees, and executive management regarding the size of internal audit functions. Specifically, “The majority of the Internal Auditors

---

2 August 2008 edition of the Internal Auditor: “IT Skills for Internal Auditors” by Philip Smith - Two Areas of Knowledge, pg. 46
http://www.wde4u.com/pdf/Internal_Auditor_August_2008_IT_Challenges.pdf


4 “The changing role of Internal Audit,” pg.8
believe that the future size will increase” (60%) “whereas Audit Committee members seem more cost sensitive and most of them are convinced that the size will remain similar” (54%). “Approximately half of the Executive Management” (45%) “thinks the size of the Internal Audit team will remain stable, the other half expects the size to increase (55%).”

Seemingly in line with Deloitte’s survey results, some of the survey respondents noted the difficulties meeting the demand with current resources.

Bill Taylor, Information Security Officer for Common Use Infrastructures, University of Texas System, identified the challenge as “maintaining appropriate skill sets and resources to appropriately address all significant organization high risks” and on that same line Marcia Buchanan of the GAO’s Intergovernmental Audit Forum put it as meeting the “increasing demand for internal audits without sufficient resources to complete [the work] in a timely manner (doing more with less).”

Mark Funkhouser, Director, The Governing Institute, sees the challenge as “gaining and keeping adequate resources – managing the political dynamics of the budget process without knuckling under to, or being run over by, the powers that control resource decisions.”

In addition to sufficiency, Steve Harding, Consultant and President of P2E, responded “Resource sufficiency and use – e.g., balancing in sourcing with outsourcing; staffing levels; outsourcing budgets.”

**Maintaining Organizational Relevance**

How does internal audit continue to maintain its relevance with business processes changing and evolving on a continual basis? The key remains to align the internal audit plan with the organization’s business objectives to address risks that are of most importance.

In a July 2012 whitepaper, Ernst & Young⁵ suggested that the audit plan is no longer an annual process. “The audit plan must be refreshed regularly (e.g., quarterly) and with triggering events.” However, a survey conducted by Forbes Insights of “chief audit executives (CAEs), C-suite executives, and board members” indicates “40% of CAEs surveyed still rely on an annual refresh process” for the internal audit plan.

While none of the respondents to our survey specifically discussed the audit plan, several did identify **relevance to the organization** as a top challenge.

Greg Hollyman, Chief Internal Auditor, Australian Taxation Office and Chair of the IIA Public Sector Committee, and Greg Beck, CAE, Missouri State Employees Retirement System, noted

---

⁵ “The future of internal audit is now - Increasing relevance by turning risk into results,” pg. 17
“keeping up to date with latest developments and changes and interpreting how those may impact the organization” and “staying ahead of the curve on industry functions and the jargon that goes along with those functions” respectively.

The CAE for the Texas Commission on Environmental Quality and the Chair for the Texas State Agency Internal Audit Forum, Carlos Contreras, identified the challenge as “ensuring the IA profession evolves as business processes change and boundaries are eliminated. The profession needs to be able to meet the challenges received as a result of ongoing change.”

Ryan Babin, CAE, Louisiana State Employees Retirement System, recognized that “Since internal audit is a valued member of the management team there is an ever increasing opportunity to provide assurance on a more timely, and relevant basis.” He also noted that “the profession generally doesn’t tap into this value because the techniques and capabilities haven’t evolved.”

Finally, Tania Stegemann, Internal Audit Operations Manager at Rio Tinto summed it up by focusing on the actions needed by saying “New risks – auditors will need different skill sets (not just financial or compliance skills) to ensure the audit activity is focused on the right things – greater emphasis on auditing strategic risks staying relevant in the face of changing global economic conditions.”

**Strengthening the Image of the Profession**

Respondents expressed significant interest in **improving the image** of internal audit as a profession. Respondents believe that the IIA has a significant role to play in improving that image and suggested various approaches such as advertising campaigns, legislating IA requirements, building relationships with regulators, and focusing on increasing awareness of the profession in the education system.

“IA continues to be perceived as the step daughter of public accounting.” That is the strong opinion of Flerida Rivera-Alsing, the Chief Audit Executive for the Florida State Board of Administration.

Professor Gerrit Sarens from Louvain University in Belgium echoes that opinion, stating that IA needs to be “recognized as ‘a real profession’.”

The challenge is to get “policy makers to understand what exactly internal auditors do and why our functions are important to an organization,” according to Greg Beck.

A significant number of respondents (23 of 40) focused on the need to advocate for the Internal Audit profession in order to improve its image as a profession.
**Need to Promote the Internal Audit Profession**

Many respondents highlighted the IIA’s role in promoting the profession.

Richard Chambers, IIA President and CEO, advances the idea that it is important to “advocate the value of internal auditing and the International Professional Practices Framework (IPPF) to internal and external stakeholders.”

Kevin Barthold, City Auditor for San Antonio, Texas, states that the IIA needs “to be in front of the public, business leaders and government leaders and share our successes, offer our input, and show the value that we can bring.”

According to Rivera-Alsing, “The IIA must ‘sell’ the profession to all important stakeholders. ’You cannot and will not do well without me,’ should be the IA mantra.”

**Specific Opportunities**

Respondents provided specific suggestions for advocating the value of the IA profession.

The IIA needs “some type of public image push,” Greg Beck CAE of the Missouri State Employees Retirement System suggested “Maybe a one page ad in the Wall Street Journal or USA Today.”

State of Ohio CAE Joe Bell suggests, “Requiring legislation to support uniform internal audit standards will help to promote a consistent methodology and voice for the profession.”

University of Texas Professor Urton Anderson seems to agree, suggesting that public companies should be required to disclose “information about the internal audit function in the proxy statement or annual report.” Anderson went on to state that “If the IAF [internal audit function] is truly a significant support of organizational governance that stakeholders would value information about the reporting structure of the IAF, that it follows professional standards, what is its scope and what are its resources?”

Former IIA Chairman of the Board, Denny Beran, believes that resources need to be invested “to develop relationships with regulatory bodies and other professional organizations to ensure they have a clear understanding of the value that a well-qualified internal auditing staff can provide.”

Some respondents suggested promoting Internal Audit as a career as early as elementary school. According to Dallas City Auditor Craig Kinton, “The AICPA did a study many years ago that showed that many of the best and brightest students were making career decisions into the medical, engineering or law professions at a very early age.” Kinton suggests that
“developing programs that would raise awareness of internal auditing as a profession for school age children could have a positive impact on the image of the profession.”

Kinton also suggested focusing on higher education “by having initiatives to get university programs more interested in pursuing internal auditing as a field of study in and of itself. This might include sponsored research, endowed chairs for internal audit instruction, [and] practitioners in the classroom to generate excitement in career opportunities.”

Kennesaw State University professor Sri Ramamoorti’s responses supported Kinton’s position. Ramamoorti suggests “instituting mentoring programs within organizations, and within the profession, starting with college and university students interested in internal auditing careers.”

Not all respondents believe the internal audit profession can be on par with other professions. One respondent sums it up this way, “Unfortunately, Joe Public doesn’t interact with the internal audit profession, so I am not sure if it will ever be as common as a lawyer, doctor, etc. In the end, some people will always have a negative image when they hear the word ‘audit’.”
CALL TO ACTION

“If everything seems under control, you’re not going fast enough.”

— Mario Andretti

Based on the insights of many thought leaders of our profession and additional research discussed in this report; we have identified numerous specific actions that can help the profession to address the challenges and take advantage of the opportunities that are in front of us.

• Increase the emphasis on preparing and implementing an academic and training structure that will provide the needed incentives, education, and tools for students seeking to enter the profession.
• Utilize and develop techniques and capabilities to provide assurance on a more timely and relevant basis.
• Develop and provide recruiting tools and incentives to attract those with talent and passion to enter and remain in the profession.
• Develop a structure that would assist in organizational understanding and identifying future organizational needs;
• Use current, and develop future, education and training structures designed to better understand and access available and future technological advances.
• Develop the resources needed to address expected increased demands.
• Utilize current and develop more advanced promotional skills and processes that would better reflect the value of the accomplishments of internal audit activities to those within and outside the organization.
• Facilitate the development of legislation that will acknowledge and promote the value of a standards-based, assertive, and professional internal audit program to the areas of governance; risk evaluation and management; and strategic planning within an organization.
• Develop standards and guidance that would assist internal audit in effectively promoting organizational effectiveness through governance; risk evaluation and management; and strategic planning.