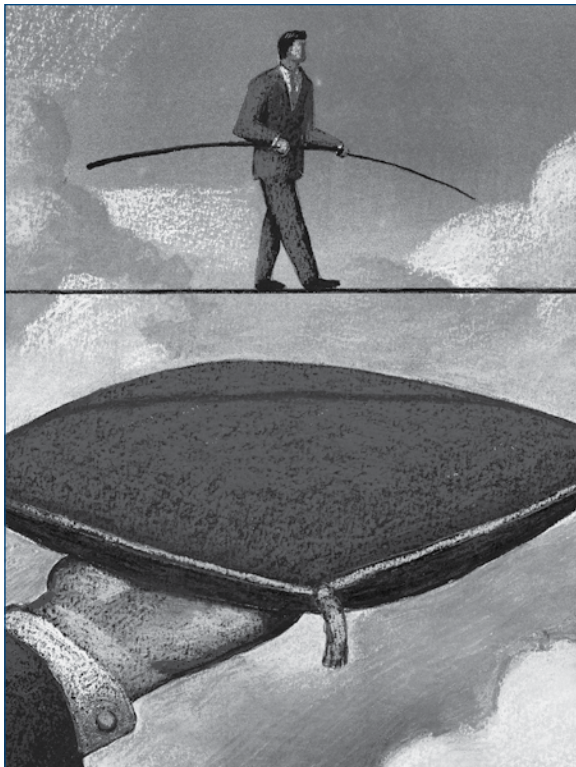


## REST ASSURED

Serving on an audit committee is one of the most challenging, prestigious, and fulfilling roles a business professional can play. It provides the opportunity to give back by sharing knowledge gained and lessons learned firsthand. And yet, the job's inherent responsibilities can result in a very serious case of sleep deprivation. The results of the KPMG Audit Committee Institute's most recent Public Company Audit Committee Member Survey reveal that today's audit committee members have quite a bit to



keep them up at night. So how can internal auditing best support this governing body? This issue of *Tone at the Top* addresses some of the top concerns expressed in the survey and explores how internal auditing plays a critical role in helping audit committees rest assured they're able to fulfill their governance responsibilities effectively.

With full plates and a limited amount of time to hash out concerns, audit committee members have to do an excellent job of setting priorities and clarifying expectations throughout 2012. In a nutshell, most of the 250 audit committee members who participated in the survey feel pretty good these days about their oversight of financial accuracy and integrity. However, they feel their organizations need to improve the strategic planning process and do a better oversight job in regard to technology risk. Respondents are not at all sure organizational strategies are sufficient to keep pace with technology changes and innovations, the increasingly global landscape, and sweeping regulatory reforms.

Many modern audit committee members feel the need to have face time with key people in the organization. They want to spend more time with the chief risk officer, chief information officer, and mid-level management, as well as business-unit leaders. They want to hear more reports about the organization's risk and control environment and to become more comfortable with the crisis response plan. In addition, they understand that they must devote significant time to legal and regulatory compliance risk, the US Foreign Corrupt Practices Act (FCPA), the UK Bribery Act, and the impact of the U.S. Securities Exchange Commission's whistleblower program.

## IT Risk and Emerging Technologies

As a result of the varied financial, legal, and strategic issues associated with information technology, those at the organization's top are paying close attention to IT risk and data governance. Today's concerns include concepts such as cloud computing, social media, and mobile technology — all of which may have been unheard of just a few years ago. And cyber-security was cited in the survey as the No. 2 systemic risk that today's organizations must confront.

Respondents ranked the quality of information they receive about IT risk the lowest of all categories; so assumingly audit committees desire better data and assurance of data reliability. In addition, only 61 percent are satisfied with the way things are going in regard to their IT risk oversight processes.

Enter the internal auditors. According to The Institute of Internal Auditors (IIA), internal auditing should provide the support and assurance audit committee members need in order to feel secure about how the committee is overseeing IT risk. When the internal auditors assess IT risks, they can present a comprehensive and objective view of the organization's vulnerabilities to technology risks. This ensures the data presented to the audit committee paints a true picture of what might be at risk. They also can make recommendations for internal control improvements and oversight enhancement.

## Risk Management

Approximately 42 percent of survey respondents said their risk management system requires “substantial work.” This number indicates a gap in organizations' proficiency in, or attention to, managing and overseeing risks. Audit committees need and want to hear more good, bad, and ugly information about the significant risks facing the business, the control environment, and ideas for enhancement and mitigation.

Internal auditors can provide significant comfort to the audit committee when they apply a risk-based approach to their audit plan. They can advance the organization's control environment by advocating enterprisewide risk management (ERM) and helping those at the top understand ERM's processes, nuances, and true value.

## Legal/Regulatory Compliance

Changing laws and regulations frequently result in audit committee discomfort, as members consider the consequences of overlooking new requirements. Survey participants indicate they feel a need to devote more attention to public policy initiatives, reforms, and concerns.

Internal auditors can help in this area by fulfilling their roles as educators. They can ensure audit committee packets contain comprehensive background information and that meeting agendas include time for questions, clarification, and discussion.

Several questions audit committees should ask the internal auditors are:

- What is the corporate culture in regard to compliance issues?
- Does the organization have in place processes to become aware of new regulations, research them sufficiently to determine applicability, and take action, as necessary?
- What new or pending laws and regulations should we know about in order to fulfill our oversight role?
- Does the organization have a whistleblower program in place? If so, how does it work and what have been the results?
- What is the organization doing to ensure compliance with all laws and regulations?

## Growth, Strategy, and Innovation Risk

Corporate strategy was ranked third-highest among the issues to which audit committees want to devote more time. Many see their organizations as somewhat stagnant and lacking innovation to grow. Participants expressed a need to identify risks, establish controls, and implement monitoring, as related to growth.

When the internal auditors are invited to the strategy table, they can add significant value to their organizations. They can provide an additional viewpoint and make recommendations and suggestions that may help management and the board to look proactively at the potential for growth, think innovatively about tomorrow, and prepare strategically for the future.

## Audit Committee Effectiveness

Half of the survey participants believe their self-assessments do little to enhance their effectiveness. They also cite a number of areas in which they might become more effective, including:

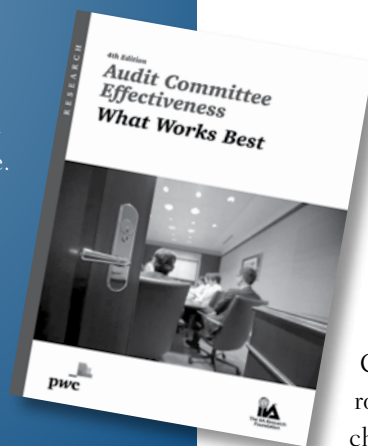
- Assessing chief financial officer performance and succession planning.
- Linking strategy and risk.
- Staying up-to-date on developments that could affect the organization.
- Encouraging the expression of differing views.
- Focusing the agenda on the most important issues.

### *Audit Committee Effectiveness — What Works Best, 4th Edition*

Since 2005, this publication has been one of The IIA Research Foundation's most sought-after works. Recently, the 4th Edition of the book was released as a practical guide to best practices for enhancing audit committee performance and effectiveness, including:

- Insights and points of view from audit committee members, financial reporting experts, governance specialists, and internal audit directors.
- Trends and surveys for better understanding of good financial reporting.
- Steps for enhanced transparency.
- Tips for enhancing fraud prevention oversight.
- Guidance for identifying process changes for improved audit committee performance.

*Audit Committee Effectiveness — What Works Best, 4th Edition* is available from The IIA Research Foundation Bookstore at [www.theiia.org/Bookstore](http://www.theiia.org/Bookstore).



## Providing Objective Insight and Assurance

The IIA and its Research Foundation devote much attention to the relationship internal auditors have with their audit committee and others at the top. IIA efforts include conducting surveys and research studies, collecting and sharing leading practices, designing educational programs, and providing internal audit guidance. The IIA helps ensure that governing bodies and senior management can rely on their internal auditors to provide objective assurance and insight on the effectiveness and efficiency of an organization's governance, risk management, and internal control processes. Read The IIA Research Foundation's new report on how governing bodies and internal auditors view internal auditing's ability to provide insight. *Insight: Delivering Value to Stakeholders* can be downloaded for free from [www.theiia.org/bookstore](http://www.theiia.org/bookstore).

## Audit Committee Resources

The Institute of Internal Auditors provides several resources to help audit committees understand their roles regarding oversight of internal auditing. To download The IIA's resources for audit committees, visit [www.globaliia.org/standards-guidance/topics/Pages/Audit-Committees-and-Boards-of-Directors.aspx](http://www.globaliia.org/standards-guidance/topics/Pages/Audit-Committees-and-Boards-of-Directors.aspx).

Continue the conversation about audit committee roles and responsibilities via The IIA's social media channels. Visit [www.theiia.org/socialmedia](http://www.theiia.org/socialmedia).



# TONE *at the* TOP

NONPROFIT ORGANIZATION  
U.S. POSTAGE  
PAID  
THE INSTITUTE OF  
INTERNAL AUDITORS

247 Maitland Ave.  
Altamonte Springs, FL 32701-4201 USA

## About *Tone at the Top*

*Tone at the Top* provides executive management, boards of directors, and audit committees with concise, leading-edge information on issues such as ethics, internal control, governance, and the changing role of internal auditing. It delivers relevant and timely guidance regarding the role and responsibilities for internal auditing. Email your comments about *Tone at the Top* to [PR@theiia.org](mailto:PR@theiia.org) or call +1-407-937-1247.

## About The IIA

With more than 170,000 members in 165 countries, The Institute of Internal Auditors is internationally recognized as the global voice and standard-setting body for the internal audit profession. [www.globaliia.org](http://www.globaliia.org)

## Complimentary Subscriptions

You, your colleagues, and your audit committee and board members receive complimentary subscriptions to *Tone at the Top*. Visit [www.globaliia.org/knowledge/Pages/Tone-at-the-Top.aspx](http://www.globaliia.org/knowledge/Pages/Tone-at-the-Top.aspx) or call +1 (407) 937-1111.

## New Year — New Look. More for You!

For the past two decades, *Tone at the Top* has been exploring a wide range of risk, control, and governance matters facing governing bodies and internal auditors. During that time, the world and the internal audit profession have changed a lot—and we're changing, too. We're excited to unveil a new look for *Tone at the Top*, as well as an increased distribution frequency. Instead of our quarterly publication, you can now look forward to reading new issues in February, April, June, August, October, and December. To view our online archive, visit: [www.globaliia.org/knowledge/Pages/Tone-at-the-Top.aspx](http://www.globaliia.org/knowledge/Pages/Tone-at-the-Top.aspx).

