A View from the Top

When it comes to relationships between those at the top and the internal auditors, they must be built on trust so that the internal auditors are viewed as collaborators. Specifically, the internal audit activity should be viewed as adding value and should be staffed with internal audit professionals who have the appropriate experience, knowledge, and relationships with management in other parts of the organization.

Internal auditors should participate in adequate training and professional development activities where they can collaborate with and learn from others. The organization should inventory the specific skills and expertise of the internal audit staff and ensure plans are in place to address any gaps necessary to cover the company’s risk profile. Management must be engaged throughout the audit process to ensure the internal auditors fully understand the operations and strategic initiatives. And the internal audit activity should conduct its work in conformance with The IIA’s Definition of Internal Auditing, Code of Ethics, and International Standards for the Professional Practice of Internal Auditing (Standards).

IS THIS THE CASE WITHIN YOUR ORGANIZATION?

Recently, The Institute of Internal Auditors Research Foundation (IIARF) conducted a study in the United States on how those at the top perceive the internal audit activity. Contributing to the internal audit profession’s Common Body of Knowledge (CBOK), the survey gathered information from approximately 200 audit committee chairpersons and members, board chairpersons, chief executive officers, and chief financial officers or others to whom the chief audit executive (CAE) might report administratively.

Key findings of the study reveal that:

- The majority of respondents rate internal auditing highly in terms of knowledge, adaptability, and value.
- Nearly one-third of respondents believe the internal audit group is insufficiently funded.
- Almost half the respondents believe that internal auditing does not excel at developing talent for leadership positions throughout the organization.
- The majority find internal audit reports to be clear and informative, although some cite a lack of timeliness in issuance.
- Most respondents view the function as not only an audit activity or enforcer, but also as a consulting resource.
- Many constituents are not sold on the idea of internal auditing having a role in strategic risk and corporate governance.
- Although most stakeholders are aware of professional standards and internal auditor certifications, many do not consider compliance or attainment to be critical.
Given these perceptions, how does an organization ensure its internal audit activity is well equipped to provide the most value? There are several key strategies, including gathering management’s views and feedback on the skills and knowledge of the audit staff and identifying topics that might need addressing. Also, the CAE must be given access to the executive branch to stay informed about the organization’s activities.

Key focal points of the survey are funding, talent, communications, consulting, risk management, and certification. Let’s review what those at the top can do in regard to improving internal audit effectiveness in each of these areas.

ADEQUACY OF FUNDING
To ensure funding of the internal audit activity is adequate, there should be a meeting of the minds among the audit committee chair, executive management, and the CAE in regard to desired audit coverage. If applicable, one way to address inadequate funding is by outsourcing all or part of the internal audit activities. However, The IIA holds firm to its belief that the activity should be managed in-house — preferably by an experienced and qualified professional CAE. Another approach is for the internal audit activity to collaborate more intensively with internal groups, such as risk management and corporate counsel.

It is important that both management and the board are aware of the risks to the organization if gaps in audit coverage exist as a result of insufficient funding. Upon clearly understanding what is at risk, some audit committees refuse to accept the risk and insist that management allocate additional funding to internal auditing.

DEVELOPING TALENT
Although about half of the study participants did not identify the internal audit department as a prime location for developing talent, many believe it is fertile ground for learning about an organization and identifying departments of interest for potential staff rotation. Because internal auditors must study and learn about the groups they audit, they become a storehouse of corporate history and knowledge capital. What better way to identify opportunities, needs, and challenges for which they might be ideally suited? From management and oversight perspectives, internal auditors are placed center stage, and their skills and strengths are readily showcased.

Raising the profile of the internal audit group can go a long way toward developing talent. Whether by including internal audit accomplishments in the organization’s annual summary of success stories, publishing newsletter articles, or conducting webcasts or podcasts, the organization can highlight internal auditing’s value. In addition, through their words and visible actions, the board and executive management can emphasize the important role internal auditors play within the organization. Not only will this help build organizationwide recognition of internal auditing as a talent development area, but it will also set the tone at the top regarding openness and cooperation between the internal audit activity and management.

REPORTING AND COMMUNICATIONS
The audit committee should clarify expectations in regard to timeliness of internal audit reports. Reaching agreement as to the definition of timely and developing processes to meet the agreed-upon timeframe will help ensure both the internal audit professionals and their stakeholders are in sync.

It is important to work with the internal auditors to determine whether the root cause of delayed reporting is an issue of too great a work load, too few resources, a deficiency in reporting skills, a stale approach or format, fear or anxiety of the customers, or another reason. Then, based on the cause of the

INTERNAL AUDIT ACTIVITY SIZING
A new research report recently released by The IIARF has provided a step-by-step approach to determining appropriate sizing of your internal audit activity. The new conceptual model considers critical factors to determine how much is enough in regard to staffing an internal audit activity. These factors include characteristics of the organization and its governance structure; and the internal audit department’s mission, value proposition, quality, and characteristics.

For more information on Effective Sizing of Internal Audit Departments, visit www.theiia.org/Bookstore.
delayed reports, the audit committee and the internal auditors should develop strategies for improving reporting and communications. Meeting the timeframe can then become a key performance indicator for internal auditing.

**INTERNAL AUDIT CONSULTING**

Internal auditors are clearly viewed by their stakeholders as advisors as well as auditors. Not only do they help avert problems, but they also help propel organizational success.

To empower CAEs and their teams for their consulting role it is smart for the audit committee to support and encourage the internal audit activity to develop skills in relationship management and business knowledge to the same level as their analytical skills. These skills prove to add significant value to the organization by enabling internal auditors to identify and discuss potential issues before they become problems. While it is critical that internal auditors demonstrate their knowledge and skills to earn the respect and trust of management, they must also be cognizant of their independence and recognize the boundaries between their consulting and assurance activities.

**STRATEGIC RISK MANAGEMENT**

Some respondents fear that because the internal audit activity is intently focused on completing its audit plan to meet the timing requirements of the audit committee resources may be constrained and the internal audit group may not necessarily be looking for emerging risks. Therefore, those at the top should consider including the CAE in discussions about strategy and governance.

The internal audit team should work with management to identify and prioritize both strategic and governance-related risks throughout the year and ensure that a flexible audit plan incorporates coverage of these risks.

**PROFESSIONAL CERTIFICATION AND STANDARDS**

One of the most important steps executive management and the audit committee can take to ensure internal audit quality is to encourage each internal auditor to earn suitable audit certification, such as the Certified Internal Auditor (CIA).

Not only does earning certifications require knowledge-building through in-depth study and preparation, experience, and recommendations that attest to the individual’s integrity, but in the case of the CIA it also indicates adherence to The IIA’s Standards and the Code of Ethics. It requires extensive knowledge of the profession and how auditing should be performed, and it demonstrates a commitment to quality and internal audit effectiveness.

“Upward mobility in the internal audit departments tends to be limited to only the largest of companies, as most departments have only two layers,” says Mary Beth Vitale, a seasoned audit committee chair and one of the study participants. “Attainment of internal audit certification and accreditation is of paramount importance on dual fronts. First, it allows for continuous learning, potential increases in salary for the employee, and retention of employees. Secondly, it can eliminate the costs associated with the use of external auditors for specific audits where the skill set or accreditation is not embedded in the department.”

**GETTING THE MOST FROM YOUR INTERNAL AUDIT ACTIVITY**

Today’s organizations expect great things from internal auditing — often, with limited resources. Ensuring that risks are mitigated, assurance is provided, and resources are protected is a tall order. Inherently, internal auditors may put their careers and financial futures at risk by raising red flags when they discover things are amiss.

Audit committees and executive management play an integral role in ensuring the internal audit activity performs in the most professional and effective manner possible. Using the results and recommendations in this report, those at the top can take steps to keep their internal audit groups on the path to providing increased value to their organizations.
**Mission**
To provide executive management, boards of directors, and audit committees with concise, leading-edge information on such issues as ethics, internal control, governance, and the changing role of internal auditing; and guidance relative to their roles in, and responsibilities for, the internal audit activity.

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**The Institute of Internal Auditors** (www.theiia.org) is dedicated to the global promotion and development of internal auditing.

Established in 1941, The IIA is an international professional association with global headquarters in Altamonte Springs, Fla. The IIA has more than 170,000 members in internal auditing, risk management, governance, internal control, IT auditing, education, and security.

The IIA is the global voice, recognized authority, chief advocate, principal educator, and acknowledged leader in certification, research, and technological guidance for the internal audit profession worldwide. The IIA enhances the professionalism of internal auditors and is internationally recognized as a trustworthy guidance-setting body. It fosters professional development, certifies qualified audit professionals, provides benchmarking, and through The IIA Research Foundation, conducts research projects and produces educational products.