Staying relevant
The evolving role of Internal Audit in Ireland
January 2014
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Executive Summary

By Liam McCaul, Advisory Services Leader, EY Ireland

The evolution of Internal Audit – are Irish companies keeping pace?

In a fast-changing business environment, an organisation’s Internal Audit function must adapt and evolve in order to stay relevant to key stakeholders. In recent years there have been major changes in the board and management’s expectations of Internal Audit and they are demanding more from the function. There is no doubt that the range and nature of Internal Audit activity being performed within organisations has changed with increased demand for far more advisory support on strategic initiatives and a drive for broader and deeper Internal Audit coverage using more efficient Internal Audit techniques.

Our overarching message to Irish companies is that Internal Audit, like any other function, needs to be aligned with the strategic goals of the organisation. Senior executives in Ireland continue to be under pressure to maximise value from all areas of the business. Compliance, risk management and assurance functions should be treated no different to any other part of the business in this regard.

This is a central finding of our study Staying Relevant - The evolving role of Internal Audit in Ireland (which places the findings of an EY Global survey solidly into an Irish context).

The good news from our study is that 93% of Irish Heads of Internal Audit participants rated their Internal Audit function as somewhat effective or very effective. Despite this, Heads of Internal Audit in Ireland are very aware of the need to improve their contribution to the business and are anxious to raise standards even higher.

Over three quarters of Irish participants see a need to improve their Internal Audit function, a figure that is comparable to the global finding.

The difference lies in the sense of urgency, 57% of Irish participants believe improvements to the Internal Audit function should take place over the next twelve months, more than twice the comparable global figure which lies at 28%. This finding shows that Irish organisations are aware of the need to improve the value their Internal Audit functions deliver today and are acting on it.

One of the key questions, explored with Irish participants in the study was how Internal Audit could be improved and how it can make an even greater contribution to the organisation. In analysing the results of this question, four key improvement priorities emerged:

1) Align Internal Audit with the strategic goals of the organisation.
2) Drive efficiency through integration, talent management and use of data analytics.
3) Maintain a balance between assurance and advisory reviews.
4) Run Internal Audit like a business.

Align Internal Audit with the strategic goals of the organisation

Interestingly, 56% of Irish participants said that their Internal Audit function did not have a documented mandate that is aligned to the business objectives, which correlates (61%) with the international results.

Our view on this is that you would not expect a CFO or CIO in a company today to not have a strategy or vision for the future that was not clearly aligned with the overall business strategy – so why should a head of Internal Audit be any different?

It is somewhat worrying that many Internal Audit functions in Ireland do not have a formal Internal Audit specific strategy that is aligned to the business and addresses the key elements that will improve the functions’ performance and value. A good strategy should include clear goals and key performance indicators (KPIs) relating to people (e.g., developing people and skills, hiring new talent) process (e.g., improving audit techniques, data analytics, continuous controls monitoring) and new technology requirements (e.g., procuring new Governance, Risk & Control (GRC) tools and enablers to drive efficiency).

*EY Global Internal Audit Survey 2013

Available from

www.ey.com/internalaudit
Drive efficiency through integration, talent management and use of data analytics

Internal audit efficiency is seen as key to deriving the best value from the limited resources available. In our study, all participants displayed a desire for further integration of their Internal Audit function with other risk and assurance functions.

Data analytics also emerged as a key driver for efficiency and effectiveness in Internal Audit globally. The lack of suitably skilled resources continues to be a constraint in the adoption of data analytics tools and methodologies, however, our experience is that data analytics can be adopted by existing Internal Audit staff where there is a will to invest and persevere with a data analytics strategy.

It is also important that Internal Audit understands the skills it has, the skills it needs and where there are gaps in competency areas. Having access to capable and skilled people whether in-house or from external providers is the key to establishing an Internal Audit structure that is fit for purpose and has a solid foundation on which to deliver value – no audit methodology or tool can replace this basic requirement.

Maintain the balance between assurance and advisory reviews

We are increasingly seeing audit plans in Ireland being rebalanced to show a mix of advisory and assurance reviews, thematic audits and issue based audits. 86% of Irish participants reported that advisory reviews made up some of their Internal Audit plan with 65% of organisations having advisory/consulting type reviews accounting for 5%-25% of their Internal Audit plan.

We are seeing Internal Audit in Ireland playing a much more prominent role in strategic initiatives such as IT System Implementations (72%), Major Capital Projects (53%) and Material Contracts (37%). This finding is consistent with our global results and shows many Irish participants are at the coal face providing assurance and advice on important business issues. Thematic and issues based reviews are also making a resurgence and these reviews can be a great way for Internal Audit to provide business insights and value on broader business topics.

Our advice is that even where the Internal Audit function has the skills to be ‘more advisory’ always remember that you need to remain objective and independent in giving your advice. It comes back to Internal Audit, understanding its mandate with key stakeholders. Each organisation is unique, if there is a demand for providing more advisory reviews Internal Audit should be ready to adapt and be flexible to support this demand in order to stay relevant (while continuing to provide the non-negotiable control and compliance monitoring activities).

Run Internal Audit like a business

An Internal audit function needs to operate like any other function of the business, holding itself accountable for operational excellence, cost containment, continuous improvement and tracking its value and impact on the business. To achieve this, activities should include: designing a value charter and scorecard; determining an optimal operating structure; and evaluating success and monitoring KPIs. Developing a value charter enables Internal Audit to effectively measure the value it delivers to the organisation and should become the norm in the future here in Ireland.

In conclusion

While some Irish Internal Audit leaders appear to be keeping pace and are responding to the changes we are seeing in Internal Audit, for others there is word of caution – invest now in getting to know your stakeholders and what they expect from you as a function and how they perceive value. In order to demonstrate value Internal Audit leaders need to align to key strategic goals and manage the function like a business, driving efficiency with a clear focus on delivering value. If Internal Audit leaders in Ireland can do this then they will stay relevant to the organisation - otherwise the business will leave them behind.
93% of Irish participants rated their Internal Audit function as somewhat effective or very effective.

57% of Irish participants believe improvements to the Internal Audit function should take place over the next twelve months, more than twice the comparable global figure which lies at 28%.

56% of Irish participants said that their Internal Audit function did not have a documented mandate that is aligned to the business objectives.

63% of Irish participants are performing more fraud related reviews since the recession hit.

86% of Irish participants reported that advisory reviews made up some of their Internal Audit plan with 65% of organisations having advisory type reviews accounting for 5%-25% of their Internal Audit plan.

77% of Irish participants aspire for stronger integration of Internal Audit and Enterprise Risk Management (ERM).
Introduction

The role of Internal Audit has evolved over the last number of years to a position where many organisations see the function as a strategic advisor to the business. Partly, due to economic pressures, there is now more focus on the value and relevance of Internal Audit to business goals and objectives.

In Ireland, a gap existed in the understanding of the evolution of the Internal Audit function relative to the global picture. To address this, EY conducted a study involving over 45 Heads of Internal Audit (HOIA) including, industry leaders, manufacturing giants and public service providers based in Ireland. The aim of this study was to gain an understanding locally, of where Internal Audit was moving, how it was structured, what was expected of it and how investment in it was standing up to recessionary pressures.

The findings of our study draw comparison to EY’s Global Internal Audit Survey which was conducted across 26 individual sectors in 2012.

Internal Audit effectiveness

The majority of Irish organisations saw their Internal Audit function as being effective – but at the same time more than 57% want to make improvements to their Internal Audit function in the next 12 months compared to 28% globally.

We were also interested to ask Irish organisations about the impact of the recession on Internal Audit. Internal Audit activity has increased during the recession as margins become tighter and the cost of failure correspondingly higher, leading to heightened attention to, and investment in, key Internal Audit areas - 63% of the participants were doing more in the area of fraud, 49% in IT system reviews, 44% in data leakage reviews and 42% in business continuity/crisis management reviews.

Q: How pressing is your need to improve your Internal Audit function?

- 57% We need to make improvements within the next 12 months
- 17% We need to make improvements within the next 12 to 24 months
- 4% We need to make improvements, but not within the next 24 months
- 15% We do not need to make any improvements at this time
- 7% Don’t know

Q: How has your Internal Audit activities been impacted by the recession/financial crisis?

- Fraud related reviews: 63% More, 30% Less, 7% No change, 0% No impact at all
- Cost control reviews: 37% More, 5% Less, 44% No change, 2% No impact at all
- Financial transactions reviews/monitoring: 35% More, 63% Less, 2% No change, 2% No impact at all
- Data leakage reviews/monitoring: 44% More, 9% Less, 42% No change, 12% No impact at all
- IT system reviews/monitoring: 49% More, 9% Less, 37% No change, 5% No impact at all
- Business continuity/crisis management reviews: 42% More, 2% Less, 49% No change, 7% No impact at all
- Active risk reviews: 40% More, 51% Less, 9% No change, 0% No impact at all
In our study, 60% of participants saw strong risk management as having a positive impact on their long-term earnings performance.

Internal Audit functions face a challenge in balancing the need for compliance programmes to be continuously strengthened and improved in order to mitigate against the risk of fraud and corruption against the backdrop of requirements for cost cutting. Compliance departments are globally under increasing pressure to deliver more effective programmes for less, resulting in a need for smarter use of limited resources in areas where an organisation’s risks are greatest. To truly focus on the risks that matter, create value and help the organisation achieve its objectives, Internal Audit leaders need to focus on aligning their own strategy to that of the overarching organisational strategy. We have identified four key priorities that leading Internal Audit functions need to action to enable effective alignment with the organisation’s strategic objectives, to increase its relevance to the business and to help the organisation achieve a risk maturity that supports sustainable and stronger financial performance. These are to:

1) Align Internal Audit with the strategic goals of the organisation.
2) Drive efficiency through integration, talent management and use of data analytics.
3) Maintain a balance between assurance and advisory reviews.
4) Run Internal Audit like a business.

The remainder of this report discusses each of these areas individually.

<table>
<thead>
<tr>
<th>Q: What sort of impact has strong organisational risk management had on your long-term earnings performance?</th>
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<tbody>
<tr>
<td><strong>Strongly positive</strong></td>
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<tr>
<td>16%</td>
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</tbody>
</table>

**Key learning:**

To truly focus on the risks that matter, create value and help the organisation achieve its objectives, Internal Audit needs to focus on aligning its own strategy to that of the overarching organisational strategy.
Align Internal Audit to the organisation’s strategic goals

Many Internal Audit leaders new to their role embark on a journey to transform their Internal Audit function. Their approach can often be tactical in nature and not focused on a long-term strategic plan for Internal Audit. Our study shows that many do not have a higher level Internal Audit-specific strategic plan that enables Internal Audit to align it’s objectives to the organisation.

Leverage the organisational strategy

To create value and maximise relevance to the organisation, Internal Audit leaders need to have sight and a solid understanding of the organisation’s broader business imperatives.

However, when we asked participants whether Internal Audit had a documented mandate that is aligned to the overarching business strategy, 56% of participants in Ireland said no compared to 61% in the global survey. Our study identified organisations taking different approaches to how Internal Audit operates. Some participants revealed that they align closely to business strategy and have a closer operational working relationship with their Audit Committee. Others, in contrast, showed a preference for having an ‘arms length’ relationship with the business and prepared Internal Audit plans independent of the business strategy. Indeed others we met, felt that the objectives of Internal Audit and business functions were incompatible as the overarching objective of the business was viewed as profit-maximisation.

Experiences vary but one thing is clear: Internal Audit should be guided by the organisation’s overarching strategy to guide the process for identifying the risks that matter most. In order to remain relevant, Internal Audit leaders need to align their approach to risk assessments with the organisation’s strategic objectives. Our participants commented that they are changing their approach to reflect this because more Audit Committees are looking for greater alignment of the audit plan to business strategy and the risks that really matter.

### Key learning:

Don’t gamble when it comes to addressing risk. Become more relevant by using the organisation’s business strategy to identify the risks that matter most.
Develop a well aligned Internal Audit strategy

An Internal Audit strategy should be guided by the business strategy and developed on a rolling yearly basis. Internal Audit leaders in Ireland revealed different views on the issue of alignment with some looking to better align with the business strategy, while others stated that they wish to maintain independence and are less concerned with being aligned with the business strategy.

Our view is that the Internal Audit function must be aware of all enterprise risks regardless of whether they are providing assurance for these risks.

An Internal Audit strategy should have a long-term (e.g., three to five years) timeframe and have a road map that is based on the organisation’s overall strategy, stakeholder expectations and regulatory requirements. A good strategy should include clear goals and key performance indicators (KPIs) relating to people (e.g., developing people and skills, hiring new talent), process (e.g., improving audit techniques, data analytics, continuous controls monitoring) and new technology requirements (e.g., procuring new Governance, Risk & Control (GRC) tools and enablers to drive efficiency).

“On an annual basis, Internal Audit does a three-to four-year strategy. If we have just changed something – our business ethics statements or other major change to the business – that will rise in priority.”

Survey respondent

Key learning:

Develop an Internal Audit-specific strategy that matches the organisation’s strategic plan time horizon to increase organisational alignment and improve Internal Audit’s relevance to other operating functions.
Steps to create a comprehensive strategy document and roadmap

Leading Internal Audit functions follow four steps to create a well-aligned strategy:

1. Develop or refine Internal Audit’s strategic vision. Know the function’s roles and responsibilities, the needs of its key stakeholders, what its mandate is and what the Internal Audit function should accomplish over a long-term period.

2. Identify and prioritise key strategic initiatives. Based on the mandate and strategic vision, align initiatives to key business risks and key operational and financial priorities. Make sure that processes, methodologies and tools are up to date, that Internal Audit has the industry and functional insights it needs, and that staffing models are flexible enough to anticipate change and address emerging risks/ issues.

3. Design the appropriate key performance indicators (KPIs). Determine how Internal Audit measures its success against the prioritised initiatives, how it aligns with stakeholder expectations, and how to track productivity and value-driven measures.

4. Develop an operating strategy. Detail activities that enable Internal Audit to achieve its strategic initiatives. Determine key milestones and how the function is communicating its progress to key stakeholders. Also, put steps in place that enable Internal Audit to adapt to changing priorities so that it can maximise its relevance to the business.

**Developing a formal Internal Audit strategy document**

- Develop or refine Internal Audit’s strategic vision
- Identify and prioritise key strategic initiatives
- Design the appropriate key performance indicators (KPIs)
- Develop an operating strategy

**Execute, track, adjust and communicate**

**Key learning:**
Create a strategy document that details Internal Audit’s strategic vision, key initiatives, relevant KPIs and an implementation plan that maps initiatives against a timeline, resources and competing priorities.
Internal Audit efficiency is seen as key to deriving the best value from the limited resources available. Efficiencies can be gained through greater integration of Internal Audit with other risk functions throughout the organisation. Best practice is to avoid duplication across risk management functions by being aware of all enterprise Governance, Risk and Compliance (GRC) activities and through the sharing of data by the various assurance functions.

### Integration of Internal Audit and other risk functions

As an organisation changes and grows, its risk, control and compliance activities often become fragmented, siloed, and misaligned. This has an impact on both the governance oversight and the business itself. Often, there are multiple communications to management and the board that overlap and cause confusion.

In addition to generating cost savings and reducing fatigue on the business, reporting on risk through a coordinated lens enables the board to gain a broader perspective into the health of the organisation and its risk management strategy.

When asked, stakeholders indicated they are seeking significantly higher risk coordination in the future.

Participants showed a convincing desire for further integration of their Internal Audit function in areas where there is already a relatively high degree of integration, namely enterprise risk management (ERM) and fraud and investigations. ERM shows the highest level of ambition in this regard with 44% of participants stating that Internal Audit was already highly integrated with ERM and 77% were aspiring for the two to be even more integrated.

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<table>
<thead>
<tr>
<th>Q: How integrated is Internal Audit with the following risk functions in your organisation?</th>
<th>Q: How integrated would you like them to be?</th>
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<tbody>
<tr>
<td>ERM 44%</td>
<td>ERM 77%</td>
</tr>
<tr>
<td>Corporate compliance 30%</td>
<td>Corporate compliance 56%</td>
</tr>
<tr>
<td>Fraud and investigations 53%</td>
<td>Fraud and investigations 40%</td>
</tr>
<tr>
<td>Health and safety 9%</td>
<td>Health and safety 70%</td>
</tr>
<tr>
<td>Sustainability 30%</td>
<td>Sustainability 53%</td>
</tr>
<tr>
<td>Legal and regulatory 21%</td>
<td>Legal and regulatory 51%</td>
</tr>
<tr>
<td>Ethics 28%</td>
<td>Ethics 42%</td>
</tr>
<tr>
<td>Sox or equivalent 28%</td>
<td>Sox or equivalent 44%</td>
</tr>
<tr>
<td>Other 9%</td>
<td>Other 42%</td>
</tr>
</tbody>
</table>

Highly integrated | Somewhat integrated | Not integrated
Enterprise Risk Management

Our view is that attitudes towards Enterprise Risk Management (ERM) in Ireland are still maturing with only 60% of Irish participants seeing strong risk management as having a positive impact on their long-term earnings performance, (compared to 75% of global participants). Other recent research from EY has identified that organisations with more mature risk management practices outperform their peers financially – see Turning risk into results*.

We see room for improvement in how ERM is valued by Irish participants. Only a quarter of these organisations believed the impact to be strongly positive with the other three-quarters vouching for a somewhat positive impact.

For larger organisations it is not recommended that Internal Audit functions also administer ERM, however for practical reasons this is something that small and medium sized companies should consider doing to align skills and experience that may be best leveraged from the Internal Audit function.

The majority of large organisations have ERM as a standalone function and process, acting as a second line of defence. Internal Audit may set the framework and reporting lines for ERM, however, they do not look after the running of the function on a day-to-day basis. We are seeing a growing trend towards alignment between Internal Audit and ERM to bring greater convergence on managing the risks that really matter to the business. ERM and Internal Audit functions are working closer than ever before to develop smarter assurance maps which demonstrate better alignment on risk coverage. By working together these risk functions can help the company avoid paying for costly duplication of risk management activity and avoid being exposed to gaps in their Governance, Risk and Compliance (GRC) functions. In striving to avoid duplication, organisations are becoming increasingly aware of GRC tools and enablers with data from all risk functions being shared through a central common GRC platform to drive better business value and reporting.

Recommended reading

*Turning risk into results
How leading companies use risk management to fuel better performance.
- 2012

“When it comes to strategy development and execution, it's important for risk to enable business performance – not simply protect the business.”

Survey respondent

Key learning:

Coordinate among risk functions to improve risk coverage and drive valuable insights for the business. Use coordinated risk reporting to give the audit committee a broader perspective into the health of the organisation.
Fraud risk management

When asked how integrated Internal Audit was with fraud and investigations, 53% of Irish participants said it was highly integrated, however, 70% would aim for higher integration. Our 2013 EMEIA Fraud Survey reveals that executives and their teams are under increased pressure to produce growth and profit in challenging conditions. Unethical conduct - including fraud, bribery and corruption - appears to persist in this environment, and compliance programmes are not managing the risk as effectively as possible.

Some of the key findings show:

- **42%**
  Of board directors and senior managers are aware of some type of irregular financial reporting in their organisation

- **57%**
  Of respondents feel that corrupt practices are widespread in their country

- **49%**
  Of sales staff do not consider their organisation’s anti-corruption policy to be relevant to their work

Some common features that were observed amongst those organisations who manage anti-bribery and anti-corruption programmes most effectively include:

- Owning the problem and acknowledging the risk;
- Ensuring the risks are understood and shared throughout the organisation;
- Developing a corporate culture where bribery and corruption is unacceptable;
- Creating a tough compliance and monitoring programme.

Recommended reading

2013 EMEIA Fraud Survey - Navigating today’s complex business risks
Europe, Middle East, India and Africa Fraud Survey 2013
Conducting real-time risk assessments

Irish Internal Audit functions are focused on ‘active participation by executive management’ and ‘enterprise wide risk coverage’ which are cited by 84% and 79% of participants respectively as a key element of the Internal Audit risk assessment process. 72% of the Irish-based organisations also see the linkage to organisation strategy and key initiatives as a key priority.

Globally, we are seeing leading organisations incorporating a quantitative component with data-driven analytics being used to produce more focused stakeholder discussions and workshops to validate and prioritise key risks.

<table>
<thead>
<tr>
<th>Q: Which of the following do you consider to be the key elements of the Internal Audit risk assessment process? Select your top three.</th>
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<tbody>
<tr>
<td><strong>Active participation by executive management</strong></td>
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<tr>
<td><strong>Enterprise-wide coverage</strong></td>
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<tr>
<td><strong>Linkage to organisation strategy and key initiatives</strong></td>
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<tr>
<td><strong>Active participation by the business unit management</strong></td>
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<tr>
<td><strong>Input from other risk management functions</strong></td>
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<tr>
<td><strong>Formal facilitated workshop to validate and prioritise key risks</strong></td>
</tr>
<tr>
<td><strong>Active participation by external audit</strong></td>
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</table>

Key learning:

An annual risk assessment may no longer be enough if Internal Audit wants to remain relevant to the business. Focus regular risk assessments on enterprise-wide coverage, management participation and a direct link back to the company’s overall strategy.
Employing innovation and data analytics throughout the audit cycle

While most participants recognise the benefits of using data analytics, the lack of suitably-skilled resources is a key barrier to the adoption of these tools and methodologies. A clear majority of Internal Audit functions say that they use data analytics. In many cases however data analytics is used on an ad hoc basis, without the additional capabilities of data warehousing, benchmarking or continuous controls monitoring. Also, only a small percentage of resources within Internal Audit have the necessary skills to use data analytics.

Internal Audit should consider developing a comprehensive data analytics programme that can be embedded into the entire audit life cycle. Using data analytics can produce more focused risk assessments, more efficient execution, increased risk coverage and more effective reporting.

Data analytics options available to augment traditional rules-based tests include: model-based, statistical and text mining analytics, as well as visual analytics.

Demonstrate Internal Audit value

Data analytics provides opportunities for broader audit coverage than the traditional sample-based approach. Instead of analysing a representative selection of data, the entire data set can be accessed and analysed remotely, resulting in less disruption to the business.

Through the use of data analytics, Internal Audit can generate better business insights into processes that management cannot readily get from existing reports - maybe due to system limitations. For example, the ability to analyse the raw transactional data from multiple dimensions and to perform targeted analysis can identify inefficiencies, errors and risk in business processes.

Furthermore, the successful implementation of data analytics by Internal Audit can act as the catalyst for introducing data analysis techniques to the wider business. In our experience the Internal Audit function can be seen as leaders by demonstrating that these techniques work, which in turn encourages management to consider using analytics for detection controls (e.g. Continuous Controls Monitoring) and to deliver more frequent insights on key business processes.

Finally, data analytics can enhance the presentation and follow up of issues reported by Internal Audit. For example, the ability to visually represent the nature and impact of the issues detected can lead to a more meaningful discussion with management and the audit committee.

Basic analytics focused on controls

- Repeatable process and controls analytics across key business cycles: FSCP, P2P, O2C, HR
- Identification of fraud risk indicators prevalent in transaction activity
- Forms the basis for a continuous monitoring/auditing

Business insight

- Leveraging analytics to monitor process performance across key business cycles
- Benchmark process metrics against business units or external indicators
- Integrate analytics into the annual risk assessment process

Integrated and repeatable

- Fully integrated continuous auditing for standard processes
- Potential to deliver more value as more time for analysis and interpretation
- Advanced analytics techniques – optimisation, data mining, statistical analysis

Impact on organisation

Risk control  ➤  Performance  ➤  Enablement  ➤  Prediction
The greatest potential for data analytics

Key areas that can be identified for adoption of data analytics include:

- Assessing the effectiveness of controls over a high volume of transactions for example, sales data, customer data, finance data, procurement data, HR data e.g., time, attendance and expense data, etc.
- Profiling and analysing data to help understand transaction flows, user/customer behaviours and to identify outliers in data associated with standard business cycles.
- Analytics to target sampling on high risk areas such as activity in the General Ledger close to period end.
- Quantification of risk and impact when issues are detected by looking for patterns across the entire dataset.
- Fraud endeavour detection.
- Quality assurance for operations and finance.

In order to successfully integrate data analytics in the Internal Audit plan, it is important to plan early and start with the areas where analytics could have the most impact.

Assessing skills and managing talent

As the role of the Internal Auditor evolves and stakeholder expectations rise, Internal Audit increasingly requires competencies that exceed the more traditional technical skills. In addition to Internal Audit knowledge, stakeholders expect Internal Auditors to have the ability to team with management and business units on relevant business issues. They also expect Internal Audit resources to have deep sector knowledge and business acumen.

It is important that Internal Audit understands the skills it has, the skills it needs and where the gaps are in each competency area. The following are two approaches Internal Audit can take to attract the right capabilities:

**Auditor rotation programme**

This programme provides opportunities for auditors to rotate through other positions within other business units or functions in other parts of the organisation.

**Guest auditor programme**

This programme provides an opportunity for high-performing employees from other parts of the business to gain Internal Audit experience, providing the function with specialised skills that may reside in other functions or business units.

**Key learning:**

Use analytics as part of a comprehensive programme throughout the audit life cycle rather than on an ad hoc basis. Embedding data analytics into the audit plan can help Internal Audit guide the risk assessment, drive enterprise efficiencies, add tangible value to the business, and facilitate more effective communication to Management and the Audit Committee.

**Recommended reading**

Matching Internal Audit talent to organisational needs

Key findings from the Global Internal Audit Survey - July 2013
Maintain a balance between assurance and advisory

Finding the right balance between assurance and advisory

Audit plans in Ireland are increasingly being rebalanced to show a mix of advisory and assurance reviews, thematic audits and issues based audits. 86% of the Irish participants reported that advisory reviews made up some of their audit plan. However, compared to the global findings (where 59% of participants reported that advisory reviews made up 25% or more of the audit plan), advisory type reviews were relatively unrepresented in Irish audit plans with 65% of the Irish participants having advisory reviews accounting for only 5-25% of the audit plan. Finding the right balance is important. Internal Audit should always safeguard compliance but also needs to be a strategic adviser to the business. The balance is not always easy to reach.

**Conducting thematic audits**

Thematic audits are not new to Internal Audit. But they are making a resurgence as stakeholders increasingly work to know the implications, magnitudes and insights that audit findings convey. Themes should be tailored to the sector, organisational structure, business life cycle and strategy.

**Conducting issue based audits**

Issue-based audits are another way for Internal Audit to add value to the business by providing insights on strategic business issues. These audits can be planned in advance, aligned to the business strategy or ad hoc based on business requests or unexpected events that occur throughout the year. These audits can include a mix of advisory and assurance reviews. Internal Audit would also be wise to build time into the audit plan for potential ad hoc issues.

Recommended reading

Key considerations for your Internal Audit plan

Enhancing the risk assessment and addressing emerging risks - May 2013
Executing a focused, dynamic audit plan

An effective audit planning process that focuses on organisational strategic imperatives and key business risks will identify an appropriate blend of advisory and assurance reviews. The updating of the audit plan can no longer be an annual process. The audit plan must be refreshed regularly (e.g., quarterly) and with triggering events. Leading functions are developing a ‘3 + 9’ plan – a three month frozen window and nine month fluid plan. For those that do not, the risk of unpreparedness, of being too slow to react to the changing risk environment or market events is simply too great, leaving organisations unready to react to events including:

- Transactions (mergers, acquisitions, carve-outs or divestiture)
- New product launch or retirement
- New market entry
- Patent expiry
- Litigation

Although 42% of the participants in Ireland still adhere to the annual update, there are signs of positive change. Indeed, in Ireland, audit committees are showing a keener appetite to make their plans more fluid. 42% of the participants update or refresh their internal risk assessment and audit plans quarterly or more often, which is almost double the figure in the global survey.

Q: How often is the Internal Audit risk assessment and audit plan updated/refreshed during the year?

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annually</td>
<td>5%</td>
</tr>
<tr>
<td>Semi-annually</td>
<td>16%</td>
</tr>
<tr>
<td>Quarterly</td>
<td>37%</td>
</tr>
<tr>
<td>More than quarterly</td>
<td>42%</td>
</tr>
<tr>
<td>Not updated</td>
<td>5%</td>
</tr>
</tbody>
</table>

Key learning:

Create an audit plan that has the right balance between assurance and advisory. There needs to be a balance between audit committee and management expectations on the one side and company or business initiatives on the other.
Trends in execution

Trends in execution suggests that Internal Audit will continue to focus on a mix of business and information technology (IT) reviews, with an increased emphasis on strategic and operational risks.

72% of Irish based organisations cite information technology systems implementation as having central importance for Internal Audit functions. In addition, Internal Audit in Ireland is playing a more prominent role in organisational issues, such as:

- Major capital projects (53%)
- Material contracts (37%)
- Mergers, acquisitions and/or divestitures (33%)
- Major construction projects (30%)

“The earlier Internal Audit gets involved during major change initiatives the greater the opportunity to influence better risk outcomes and add value to the business.”

Survey respondent
The River Lagan, Belfast
Fanad Lighthouse, Donegal
Run Internal Audit like a business

Internal Audit needs to operate like other facets of the business, holding itself accountable for operational excellence, cost containment, continuous improvement and tracking its value and impact on the business.

To achieve this Internal Audit functions should:
• Design a value charter and scorecard
• Establish an Internal Audit structure that fits
• Evaluate success and monitor KPIs

Designing a value charter and scorecard

The value charter should include a vision statement and commit Internal Audit to:
• Delivering consistent, seamless and high-quality service to the organisation
• Being recognised as the catalyst for strengthening the organisation’s control performance
• Serving as a catalyst for the enhanced efficiency of the organisation’s control environment

Developing a value charter enables Internal Audit to effectively measure the value it delivers to the organisation.

In addition to the value charter, developing a value scorecard is essential for measuring Internal Audit’s success. Traditional KPIs have focused on Internal Audit’s level of effort (i.e., productivity), such as utilisation or completing the audit plan – as cited by 86% of Irish study participants.

However, more effective KPIs focus on the value Internal Audit is delivering to the organisation. Measurable value-drivers can include:
• Business unit cost savings realised
• Leading practices implemented
• Benchmarking and business insights Internal Audit brings to the business

• Percentage of subject-matter resources that increase an audit’s depth or value

Key learning:
Hold Internal audit to the same standard of continuous improvement to which operational functions are held.
Establishing an Internal Audit structure that fits

There is no ‘one-size-fits-all’ organisation structure for an Internal Audit function. An organisation could be centralised, decentralised or a hybrid hub.

The audit functions of Irish based organisations reflect a high degree of centralisation. Three quarters of the organisations (74%) had their Internal Audit function centralised in a single location with only 2% of organisations opting to decentralise by business unit. A hybrid model was the preference of just under a quarter of the organisations. This makes for a notable contrast with the international experience where centralisation was the norm for 49% and hybrid models the preferred practice for 16%. Decentralisation was the preferred practice for 35% of the organisations.

Q: How is Internal Audit structured?
When selecting an Internal Audit structure, Heads of Internal Audit need to ensure that it aligns to the overarching organisation structure. They also need to consider both the benefits and the risks of each structure before making a decision:

- Centralised functions enable increased consistency and control, and demand management, as well as a comprehensive view of the overall organisation. However, audit teams may not be close enough to operating units or geographic locations to offer deep insights or strategic value.
- Hybrid functions, which generally operate as regional hub and spoke models, are often used by global organisations. This structure tends to offer better access to language, culture and local regulatory knowledge, while maintaining a high level of consistency.
- Decentralised functions offer the highest level of operating unit knowledge and responsiveness and can often play a strong advisory role at a local level. However, decentralised structures can inhibit global consistency and objectivity. Under this model, local Internal Audit functions must have strong reporting relationships to the Head of Internal Audit.

Additionally, it is important for Internal Audit to make a confident choice based on the culture and needs of the organisation. Factors that may influence decision making on choosing the right fit may include:

- The broader structure of the business
- The organisation’s risk profile
- Cost
- Independence requirements
- Geographic diversity

In-sourcing versus out-sourcing

Irish organisations appear to be leaning towards out-sourcing rather than building bigger Internal Audit teams. Internal Audit in Ireland is currently heavily outsourced, with 72% of Irish organisations out-sourcing to some extent – with 20% of this group out-sourcing greater than 50% of their plan. There is a particular tendency to out-source for certain skills in risk areas such as technology or project audits. The lesson from this is to ensure Internal Audit leaders have a clear view of the skills required to deliver an effective audit plan – where skills are not readily available out-sourcing is a viable option.

Q: Do you out-source all or part of your Internal Audit capabilities?

- 28% No, we don’t outsource any of our Internal Audit capabilities
- 11% Yes, we outsource all of it
- 11% Yes, we outsource more than 75% of it
- 41% Yes, we outsource 50-75% of it
- 2% Yes, we outsource 25-49% of it
- 7% Yes, we outsource less than 25% of it

Key learning:

Make a confident choice on Internal Audit’s structure – centralised, decentralised or a hybrid – based on organisational alignment, risk tolerance and the culture of the organisation.
Evaluate successes and monitor KPIs defined on the value scorecard

To help Internal Audit execute effectively and achieve the objectives established in the Internal Audit strategy, the function needs to be able to regularly track its performance.

Internal Audit aspires to be more relevant to the business but only 14% of Irish participants cited support of key business initiatives as a metric to measure Internal Audit’s effectiveness. The Irish participants accorded relatively little emphasis on the value of realised revenue or savings (7% of organisations). Irish participants accorded high ranking in process-based measures, for example, 86% cited completed audits per plan as a metric, 47% included the length of time for the issue of an audit report and 33% cited length of time to resolve audit findings.

These findings are interesting against an environment where 54% of organisations assess their internal function as somewhat effective and 39%, very effective. It is important to establish a value charter and scorecard to assess if and where Internal Audit is qualitatively adding value. Irish organisations need to track and monitor the success of their Internal Audit function more and share their assessments with senior management and the Board.

Senior management equally have a role to play in helping Internal Audit be more relevant to the business. Our experience at EY is that senior management and Boards need to get better at giving feedback to the Internal Audit function on it’s performance and value scorecard.

Q: What metrics do you include on a value scorecard to measure Internal Audit effectiveness?

Completed audits per plan
Significance of findings and recommendations
Audit committee satisfaction
Percentage of recommendations implemented
Length of time for issue of audit report
Meetings/relationship with customer/auditee
Length of time to resolve audit findings
Budget compared to actual hours per audit
Business unit/auditee satisfaction surveys
Requests from the business for a review/audit/advice
Process improvement recommendations
Internal Audit personnel transfers into the business
Revenue enhancement/savings/cost reductions identified
Support of key business initiatives
Value of realised revenue and/or savings
Return on investment of the Internal Audit functions

Q: How would you rate your organisation’s Internal Audit function today?

Somewhat effective - 54%
Very effective - 39%
Neither effective nor ineffective - 2%
Somewhat ineffective - 2%
Very ineffective - 2%
Internal Audit: Where do we go from here?

We set out to gain an understanding of the evolution of Internal Audit in Ireland, and our research has highlighted the predominant view that in order to deliver maximum value to senior executives Internal Audit needs to be aligned to the strategic goals of the organisation.

Four key priorities emerged to facilitate this alignment:

1) Align Internal Audit to the strategic goals of the organisation.
2) Drive efficiency through integration, talent management and use of data analytics.
3) Maintain a balance between assurance and advisory reviews.
4) Run Internal Audit like a business.

The question that must now be asked is, ‘where should Internal Audit go from here?’ Irish organisations have shown a clear indication of the direction in which the Internal Audit function needs to evolve. We are seeing new expectations of Internal Audit emerge, including increased expectations to detect and eliminate waste and fraud; identify inefficiency and cost competitiveness opportunities; as well as introduce and bolster best practice in every operational area. The on-going economic downturn has added to the momentum of the Internal Audit role, rather than impeding it.

In summary, as some Irish Internal Audit leaders appear to be keeping pace and are responding to the changes we are seeing in Internal Audit, for others there is word of caution – invest now in getting to know your stakeholders and what they expect from you as a function and how they perceive value. In order to demonstrate value Internal Audit leaders need to start managing the function like a business with proper reporting on its performance and achievements. If Internal Audit leaders in Ireland can do this then they will stay relevant to the organisation – otherwise the business will leave them behind.
Want to learn more?

Key considerations for your Internal Audit plan
The Internal Audit risk assessment and the ongoing refresh processes are critical to identifying and filtering the activities that Internal Audit can perform to provide measurable benefit to the organisation. This document is intended to facilitate discussion as your organisation develops and updates its Internal Audit activities for 2013.

Matching Internal Audit talent to organisational needs
Internal Audit functions currently lack the specialist skills and competencies their organisation needs. Corporate leaders are demanding that Internal Audit improves visibility and provides strategic insights that can deliver lasting value for the organisation and enable leadership to anticipate traditional and emerging risks.

Internal Audit’s role during the strategic transactions life cycle
Mergers and acquisitions (M&A) and divestitures remain some of the most risk-heavy initiatives that any organisation can undertake. This report details the key areas where Internal Audit (IA) can play a crucial role in an organisation’s strategic transactions life cycle.

Turning risk into results: how leading companies use risk management to fuel better performance
Companies with more mature risk management practices outperform their peers financially. Find out how leading companies are turning risk into results.

Access this report online at ey.com/ie/InternalAudit

Internal Audit: Think Tank series
Over the past five years, EY has facilitated a very successful Internal Audit Think Tank network in Ireland. Over 50 Heads of Internal Audit participate in this network.

This network offers you the opportunity to explore current business and market issues through the lens of the unique challenges you face in your role. The aim of this network is to bring peers together to exchange ideas, share best practice and network in a confidential environment.

Your views in shaping this network are really important and the topics are selected based on your feedback and upcoming regulatory changes. Throughout 2014 we will continue to bring you a mix of external speakers as well as EY experts. Chatham House Rule will apply and further details will be sent closer to each meeting.

We will also provide you with regular thought leadership to help you carry out your role effectively and add value to your organisation.

We hope you find this publication useful and informative and if you have any queries, please do not hesitate to contact us directly.

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