The 2017 Internal Audit Planning and Staffing Priorities Report

Where internal audit is focusing its resources, and the skills and competencies it needs to fulfill its agenda
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EXECUTIVE SUMMARY

**Internal auditors face an ever-growing list of demands** while struggling to hire the right talent and leverage tools to be more effective. In some ways, this uptick in demand is the result of past success: Audit committees and business leaders find enough value in internal audit to ask for more of it. In other ways, burgeoning workloads are the result of past failures to adapt quickly enough to evolving business needs. For good or for bad, these increasing pressures require chief audit executives to pick and choose their focus areas—as well as their people and tools—with greater care than ever before.

To learn more about the opportunities and stresses internal auditors face, MISTI partnered with Experis Finance to survey more than 600 internal auditors about their plans, priorities, and concerns for the upcoming year. The survey covered a range of topics, from how these leaders construct their audit plans to how they’re developing employees who can effectively execute those plans. It drew respondents from across North America, and from a wide variety of industries, with concentrations in finance, manufacturing, and government.

In many ways, the data shows encouraging self-assessed progress in the internal audit function, with auditors aiming to move away from simply “following the cash” and instead taking a more holistic view of their organizations. Ninety-one percent, for example, say they incorporate some form of risk assessment into their annual audit planning, indicating a goal to align audit plans with areas that business leaders consider most important.

### TOP FIVE AREAS ON AUDIT PLANS FOR 2017

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Cybersecurity</td>
<td>55%</td>
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<tr>
<td>IT Governance</td>
<td>47%</td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>41%</td>
</tr>
<tr>
<td>Controls Over Financial Reporting</td>
<td>40%</td>
</tr>
<tr>
<td>Data Management and Privacy</td>
<td>40%</td>
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</tbody>
</table>
The majority indicate they're looking for well-rounded and highly motivated individuals to staff their functions; prioritizing communications skills and critical thinking over more standard technical skills. Very few are experiencing budget cuts, suggesting their organizations see value in what they do and are investing in furthering it.

Yet as with most business functions, more remains to be done. To truly add value to their organizations, many internal audit leaders need to look beyond traditional internal audit focus areas, such as procurement and travel and expense reporting, and take a more critical look at functions and processes that really make organizations grow and become more profitable, such as sales and marketing, product innovation, and leadership development.

Here, the survey identifies a disconnect: While the vast majority of respondents say they use risk assessments to formulate audit plans, few seem to be focused on the biggest threats facing most businesses, such as sales declines, aging product lines, or the loss of key employees. Fewer than 15 percent are looking at anything related to these categories, while tried and true topics, such as accounts payable, compliance and ethics, and travel and expenses remain the most common. “CAEs say they are developing risk-based audit plans,” says Tom O’Reilly, vice president and general manager for internal audit and seminars at MISTI. “But what we find is that there is still a lack of correlation between what internal audit is focused on and what CEOs are typically focused on.” The lone exception is cybersecurity, which tops the list of concerns and audit areas, with 55 percent planning to audit it in 2017.

This imbalance isn’t the only problem plaguing internal audit departments. Many are finding it difficult to attract and retain talent with the skills and competencies to reposition internal audit to assess what really matters in the organization and provide value. To achieve these goals, internal audit leaders need to look for creative ways to attract and retain staff, including those with non-traditional backgrounds such as technology experts and engineers. Survey results show money is the primary—but not likely sufficient—hiring and retention tool. Instead, leading companies are building reputations that attract the best and the brightest, often with well-managed training and development processes, as well as working toward enabling work-life balance.

The survey suggests that internal audit leaders need to hire for new skills—and do more to develop them in the employees they already have. Communications tops the list of desired attributes for both internal audit staff and audit leaders—half of respondents ranked it in the top three most desired skills for seniors and staffers, and 58 percent ranked it in the top three for audit leaders—and rightly so. Yet with technology pervasive in nearly every business process, a potentially serious skills gap is emerging: A lack of understanding of IT audit concepts is a top concern regarding both internal audit staff and leaders.
Finally, survey results indicate internal auditors may need to be more open to being audited themselves. Nearly one-third say their function is not subject to a formal assessment by their audit committee or peers.

“You can’t fully know if you’re meeting expectations if you’re not going through a process to independently and objectively evaluate how well you’re doing,” says Alec Arons, national practice leader for advisory services at Experis Finance. Effectively, “for internal audit to add value we need to confirm that we are looking at high-risk, strategically important areas and that we have the tools and talent to do so.”

While the vast majority of respondents say they use risk assessments to formulate audit plans, few seem to be focused on the biggest threats facing most businesses, such as sales declines, aging product lines, or the loss of key employees. Fewer than 15% are looking at anything related to these categories.
1: Resources vs. Performance

How much is enough? Internal auditors are trying to clear a bar that is constantly rising, in part due to their efforts to meet board expectations and stay closely connected with turbulent business risk profiles. Seventy-three percent use a formal risk assessment as the basis of their audit plan, 18 percent use an informal process, and fewer than 5 percent say they don’t consider risks in formulating the audit plan. “The internal audit profession as a whole has made tremendous progress in the past decade as it relates to our ability to better align audit activities with the strategic goals and objectives of the companies we serve,” says Ed Williams, senior manager for risk advisory services at Experis Finance.

Those risk assessment processes can be resource-intensive in and of themselves, generally involving surveys, face to face interviews, and data analysis over the course of months. Trying to stay close to business risks can also mean frequent audit plan revisions over the course of a business year. “Every quarter we change the plan based on emerging risks,” says Duaine Smith, chief audit executive for iHeartMedia, a $6 billion owner and operator of radio stations and billboards in 30 countries.

The good news is that most have stable or even rising budgets to do the job. More than a third (35 percent) say they expect the resources for internal audit to increase, 57 percent expect them to stay the same. And more than half (55 percent) consider the resources they have adequate to do the job, even if they might like more.

Do you consider the resources in terms of budget and staffing provided to the internal audit department sufficient to carry out all the required activities of the function?

- Yes: 36%
- No: 9%
- I don’t know/Not sure: 55%

A LITTLE HELP, PLEASE

About one-third of internal audit departments use a Big Four audit firm, 33% use another national or regional advisory firm, and 12% turn to small consulting firms. That’s in part because audit staffs generally remain lean—48% of respondents had teams of 10 or less.
OUTSIDE HELP AND ANALYTICS

Those resources frequently include using an outside consulting firm. About one-third use a Big Four audit firm, 33 percent use another national or regional advisory firm, and 12 percent turn to small consulting firms. That's in part because audit staffs generally remain lean—48 percent of respondents had teams of 10 or less—and audit leaders rely on outside help to augment in highly technical areas. However, it's not always a size issue. “With our stakeholder expectations these days, I can’t think of one audit department—even the largest—that doesn’t use some external resources,” says Smith. While he has a fairly large team of 10 staff employees, he co-sources another 12 with a Big Four firm to gain specific types of expertise. “There are just too many specialized situations—language issues, technology issues, business complexity issues—to go it on your own.”

Internal audit leaders are also still working to harness the power of data analytics tools. While many see their potential to minimize low-value work and focus reviews on the areas of greatest concern, less than half (42 percent) of respondents plan to use such tools in this year’s audits. That number varies only slightly by size of department. Forty percent of those with staffs of 1 to 24 use such tools, compared to 48 percent of those with larger internal audit staffs.

Even among those using data analytics tools, progress is typically slow, experts say. “The concept of truly integrating data analytics into internal audit is still struggling to get off the ground,” says Williams.

MISPLACED CONFIDENCE?

By and large, however, internal auditors generally think their departments are doing a good job. A full 89 percent say the products and services provided by internal audit meet or exceed audit committee expectations, proportions that hold true for both audit staff and audit executives. Those with larger audit staffs tend to be the most confident, with 23 percent saying they exceed expectations, compared with 15 percent of those with smaller staffs.

Please select the following statement that best describes your view on whether internal audit meets the audit committee’s expectations.

<table>
<thead>
<tr>
<th>Choice</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>My organization doesn’t have an audit committee</td>
<td>7%</td>
</tr>
<tr>
<td>The products and services provided by internal audit do not currently meet the audit committee’s expectations</td>
<td>4%</td>
</tr>
<tr>
<td>The products and services provided by internal audit meet the audit committee’s expectations</td>
<td>16%</td>
</tr>
<tr>
<td>The products and services provided by internal audit exceed the audit committee’s expectations</td>
<td>73%</td>
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</table>
The bad news: That perception of success may or may not be rooted in reality. Nearly one-third (31 percent) say they are not subject to regular review by their peers or audit committee, often called a quality assessment review. Similar to confidence levels about meeting audit committee expectations, that number also varies by size of department: Nearly 40 percent of respondents with 24 or fewer internal audit staff say they don’t have formal assessments, compared with only 16 percent of those with 25 or more staff members.

Those who believe their departments exceed audit committee expectations are also more likely to have a formal review process in place. Among those who say they exceed expectations, 84 percent say they are subject to a formal review. Among those who believe they simply meet expectations, that number drops to 70 percent.

One potential area of improvement for smaller audit teams may be to consider developing avenues to get more feedback on their performance. “Even if you are a small two-person shop, you really should be doing some sort of assessment to make sure you’re in sync with the rest of the business,” says Williams. “That could be a simple questionnaire that gets distributed to management and the businesses you’re auditing, or even conversations with management.”

QUALITY REVIEWS?

Nearly 40% of respondents with 24 or fewer internal audit staff say they don’t have formal assessments of internal audit, compared with only 16% of those with 25 or more staff members.
Survey results showed a strong correlation between audit topics for 2017 and what most concerns auditors. In line with recent years, cybersecurity is the most common concern; it’s also the item most likely to be in audit plans this year. Nearly two-thirds ranked cybersecurity in the top three concerns and 30 percent ranked it as the top concern, well ahead of other worries. Meanwhile, cybersecurity was in 55 percent of respondents’ audit plans for 2017, well ahead of IT governance, which was the second most common topic at 45 percent. Compliance and data governance round out the top three concerns and those topics abound in 2017 audit plans: IT governance, data management and privacy, and compliance and ethics are among the top ten audit areas.

Other classic topics are also high on the list of audit areas for 2017. About 40 percent will look at accounts payable and financial reporting controls; 31 percent will look at travel and expense reporting.

Notably, no category is being universally audited. For example, the data suggests 45 percent are not looking at cybersecurity and 65 percent are not looking at compliance and ethics. This implies that chief audit executives rotate categories from year to year, and likely rotate focus areas within them. “We rotate geographic location, but also coverage of different topics,” says Yulia Gurman, director of internal audit at Packaging Corp of America (PCA), a $5.8 billion box and paper producer based in Lake Forest, Ill. “This year we may focus on contracted services with vendors; the next year we may take a deeper dive into procurement from paper mills.”

WHAT WORRIES YOU
Cybersecurity, compliance, and data governance round out the top three concerns and those topics abound in 2017 audit plans: IT governance, data management and privacy, and compliance and ethics are among the top ten internal audit areas of concern.

STUCK IN THE BOX
What’s concerning about this list, however, is that many auditors do not seem to focus on the common drivers of business success. “If you focus your audit on the objectives of the company, you should be able to get three or four obvious focus areas: revenue growth, product innovation, and human resources, in addition to decreasing expenses” says O’Reilly.
TOPICS ON THE AUDIT PLAN FOR 2017

- Cybersecurity: 55% (51% from 2016)
- IT Governance: 45% (41% from 2016)
- Accounts Payable: 41% (37% from 2016)
- Controls Over Financial Reporting: 40% (36% from 2016)
- Data Management and Privacy: 40% (36% from 2016)
- Entity-Level Controls: 39% (35% from 2016)
- Compliance and Ethics Program: 35% (31% from 2016)
- Business Continuity / Disaster Recovery Planning: 31% (27% from 2016)
- Travel and Entertainment Expense: 31% (27% from 2016)
- Procurement: 29% (25% from 2016)
- Billing and Accounts Receivables: 29% (25% from 2016)
- Risk Management Program or ERM: 29% (25% from 2016)
- Physical Security: 29% (25% from 2016)
- Identity and Access Management: 29% (25% from 2016)
- Contracts: 28% (24% from 2016)
- Third Party Risk Management Program: 28% (24% from 2016)
- Revenue Recognition: 23% (19% from 2016)
- Contract Administration: 19% (15% from 2016)
- Employee Wages: 17% (13% from 2016)
- 401k / Retirement Plans: 16% (12% from 2016)
- Anti-Corruption / FCPA: 15% (11% from 2016)
- Software Development Lifecycle: 15% (11% from 2016)
- Customer Service: 15% (11% from 2016)
- SaaS / Cloud Computing Service Providers: 14% (10% from 2016)
- Sales: 14% (10% from 2016)
- Executive Management Reporting: 14% (10% from 2016)
- Organizational Culture: 14% (10% from 2016)
- Pricing: 14% (10% from 2016)
- Corporate Tax Function: 13% (9% from 2016)
- Other: 13% (9% from 2016)
- Employee and Contractor Terminations: 12% (8% from 2016)
- Annual Budgeting Process: 11% (7% from 2016)
- Construction and Facilities Expansion: 11% (7% from 2016)
- Social Media / Digital Marketing: 11% (7% from 2016)
- New Product Rollout: 10% (6% from 2016)
- Joint Ventures / Mergers and Acquisitions: 10% (6% from 2016)
- Lease Accounting: 5% (3% from 2016)
- Real Estate: 5% (3% from 2016)
- Cost Recovery: 8% (4% from 2016)
- Administrative Expense Reduction: 7% (3% from 2016)
- Logistics: 7% (3% from 2016)
- Workforce Planning and Talent Acquisition: 7% (3% from 2016)
- Talent and Leadership Development: 6% (2% from 2016)
- Charitable Donations: 6% (2% from 2016)
- Marketing Spend: 6% (2% from 2016)
- Corporate Communications: 6% (2% from 2016)
- Research and Development: 6% (2% from 2016)
- Import / Export / Trade Compliance: 5% (1% from 2016)
- Sales Forecasting / Opportunity Pipeline: 5% (1% from 2016)
- Social Responsibility and Corporate Sustainability: 5% (1% from 2016)
- Intellectual Property: 5% (1% from 2016)
- Medical and Dental Service Providers: 4% (2% from 2016)
- Affordable Care Act: 4% (2% from 2016)
- Outside Counsel Spend: 3% (2% from 2016)
- Contingent Workers: 3% (2% from 2016)
Such items are relatively rare when it comes to audit plans. Only 14 percent of auditors plan to audit sales this year, for example, and just 10 percent or fewer will audit R&D, new product rollout, talent and leadership development, or workforce planning and talent acquisition.

This suggests that either CAEs aren’t able to persuade business leaders to let them move beyond the basics, or that business leaders don’t have confidence in internal audit to assess such operational areas. To take their functions to the next level, internal audit leaders should consider re-evaluating their sacred cows and take a hard look at the balance between cost minimization and revenue generation in their audit plans. For example, “if you’ve audited AP for three years and gotten the same results—and there haven’t been any significant changes—why do you have to audit it again this year?” asks O’Reilly. “Instead, why not look at AP every other year and focus on digital marketing or the innovation process instead?” As with most types of non-routine audit projects, internal audit leaders may also want to consider outside experts to help.

Gurman found outside research essential when she undertook an audit of HR processes at a past company. Armed with subject-specific guides, she says she was able to zero in on the critical regulations and policies against which to check HR activities. “We looked at everything from the job-posting and interviewing process to performance review procedures, to exit processes,” she says. While it took some convincing that an outsider could help the HR department improve its operations, she says her colleagues ultimately saw the value and made changes following the audit. “It’s important to be prepared with a risk statement, such as what it could mean for the organization if people don’t do the required background checks,” she says.
PUTTING CULTURE IN THE AUDIT PLAN

Encouragingly, the survey results show a small shift between 2016 and 2017 toward putting audits of non-traditional areas on the audit plan. The biggest declines were in planned audits of accounts payable (-13.7 percent), procurement (-12.3 percent), and controls over financial reporting (-10 percent). The areas that went up include organizational culture (+5 percent), cloud (+4.1 percent), and “other” (+3.7 percent).

Amjad Ally, chief audit executive of Summa Health System, is one of the 14 percent of respondents who plans to audit culture this year. “Culture is not as defined as looking at something like accounts payable, but it’s definitely something that is top of mind in our organization,” he says. That’s because after several years of campaigning for a culture of compliance, Summa management wants to make sure it’s truly instilled at the 11,000-employee non-profit hospital system. To that end, Ally was recently asked to audit the firm’s conflict-of-interest policy as well.

“People are often intimidated by the concept of culture audits,” says Tim Lietz, regional practice leader for risk advisory services at Experis. “Functionally, they’re struggling with how to go forward and perform them for the first time.” There’s also a general fear of being the bearer of bad news. "When you start to get into some forensic investigations, you often find that corporate values in practice just aren't as strong as written policy would indicate," he says.

For those just starting to tackle this area, there are two primary ways to address culture. One is to start incorporating culture checks into standard audits; asking, for example, how open people are to sharing information with internal auditors and what the general tone of discussion is like. Another is to look at written policies that help create culture, from mission statements to committee charters, and then to test how well internalized those policies are by reviewing employee engagement surveys, usage of whistleblower hotlines, and other indications of behavior.

It’s also important to look at how well management communicates, models, and reinforces the culture. The key question, says Arons, is: “What happens when culture is identified as a contributing factor to a breach of policy or inappropriate behavior? In addition to taking appropriate disciplinary actions, does leadership fully examine those elements of the culture that enabled the act to occur and then reinforce the proper behaviors within the organization? These reviews should begin with an assessment of tone at the top.”
Even the most experienced internal audit executives groan when it comes to finding and keeping staff members. “I dread hiring,” confesses Mark Monroe, vice president of internal audit and risk management for Dentaquest LLC, a $1.7 billion dental insurer based in Boston, Mass. Though he has hired more than 30 people in his 37-year career, “it always takes a long time” to find the right ones.

Survey results show that 55 percent of chief audit executives and director-level respondents, who tend to hire most often, worry most about attracting good candidates to open positions, and two-thirds (66 percent) say retaining high performers is a top staff-related concern.

Compensation is certainly a necessary first step to addressing these concerns. In general, respondents find salary, benefits, and bonuses to be the top tools to recruiting new talent, with 70 percent, 62 percent, and 61 percent, respectively, ranking them very or extremely effective.

Internal audit executives who stop there, however, leave themselves vulnerable to losing staff when a higher bidder comes along. To truly excel at talent management, chief audit executives will have to get increasingly creative about using non-compensation tools to attract and retain employees.

SHOW ME THE MONEY!

Compensation is certainly a necessary first step.
In general, respondents find salary, benefits, and bonuses to be the top tools to recruiting new talent, with 70%, 62%, and 61%, respectively, ranking them very or extremely effective.
In some ways, internal audit leaders may be making their jobs harder by not focusing on longer-term strategies to build a department. Survey results indicate that after money, providing training programs ranks as one of the top three most effective ways to attract and retain people. Yet such items are low on the list of audit executives’ staffing concerns, with getting team members proper training and establishing a mentoring or development program at the very bottom of the list.

“Increasing compensation will only get you part of the way. At some point, you need to develop a reputation as an organization people want to work for and stay with,” says Arons. “Generations across the workforce want to be valued, learn new skills, grow professionally, and achieve work-life balance. The challenge is that each has a different lens through which they measure their progress,” he adds.

**TRAINING UP THE NEXT GENERATION**

As the results indicate, a vital way to develop a favorable reputation is to make employee training and career development a priority. About half (52 percent) of respondents considered providing training and certification opportunities among their most powerful attraction and retention tools. This is particularly important when it comes to hiring millennials. Millennials “want to learn and grow, and they’re not shy about asking for very specific feedback. A pat on the back is not enough,” says Arons. “They also want to be taken seriously by senior people in the organization, and they are seeking mentors to help them in this area.” This requires a commitment from management to coach and offer that specific feedback.

While many businesses don’t have deep internal resources dedicated to development of internal auditors, forward-thinking CAEs will help their team members pursue the knowledge and credentials they need to get to the next level. They’ll also give them a crisp understanding of how well they’re progressing toward goals.

“A lot of people come to our department because they know they’ll get good career planning and development. It’s one of our selling points,” says one internal audit director of a Fortune 100 company. “We sit down when they first join and ask them what they’re hoping to get out of their time with the department.”

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**Percentage of respondents who ranked the following a 4 (very effective) or a 5 (extremely effective) as tools to recruit internal auditors to the department**

<table>
<thead>
<tr>
<th>Tool</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Competitive Salary</td>
<td>70%</td>
</tr>
<tr>
<td>Competitive Benefits (retirement and health plans, etc.)</td>
<td>62%</td>
</tr>
<tr>
<td>Competitive Bonus and Incentive Pay</td>
<td>61%</td>
</tr>
<tr>
<td>Opportunity to Work Non-Standard Hours (flextime)</td>
<td>57%</td>
</tr>
<tr>
<td>Provide Training and Certification Opportunities</td>
<td>52%</td>
</tr>
<tr>
<td>Opportunity to Work from Home</td>
<td>48%</td>
</tr>
</tbody>
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“Alec Arons, Experis Finance

“Increasing compensation will only get you part of the way. At some point, you need to develop a reputation as an organization people want to work for and stay with.”
From there, he and other leaders craft plans to help new recruits get the experience they desire, whether it’s exposure to a particular business unit or a deeper understanding of the supply chain. “We’ll make introductions or get them the training they need,” says the internal auditor. Mandatory quarterly check-ins with audit leaders help both sides know if the plan is working, and after auditors gain a certain amount of experience, they are encouraged to do a 360-degree review with other leaders to help identify blind spots.

While smaller companies may have fewer resources for training and development, the basic principles still apply. Monroe, for example, is bound to have his team spend part of the year meeting regulatory obligations. The rest of the year, he looks to insert them into business operations. This year, for example, he has one of the internal auditors working with the sales group to restructure its processes. “I tell my team: ‘You’ll do what you have to do, but you’ll get to do some fun stuff as well, and you’ll get to know people in the business.’ That’s a selling point for some,” says Monroe.

The simple act of regular communication also translates well. “I meet with each team member once a week, that way I know what concerns are on their minds,” says David P. Holland, director of internal audit for Racine, Wis.-based Modine Manufacturing, a $2 billion global maker of vehicle technology components. While it can be challenging with heavy workloads and travel, “I think it really helps, just as it does to be in frequent touch with our business partners, to make sure we’re focused on the right things,” he says.

Enthusiastic support for training programs is another way to invest in staff. Many leading auditors say their companies pay for outside training on specific topic areas, as well as certifications that support the position. Co-sourcing with an outside audit firm or drawing on guest auditors from the business, are other effective ways of gaining deep expertise in areas that are not classic audit topics, such as sales, marketing, innovation, and human resources.

“\nIn my company, internal audit is seen as a talent pool for future leaders, so you’re always looking at job candidates with the perspective of ‘Can they take on a higher-level role some day?’
”

YULIA GURMAN, PACKAGING CORP. OF AMERICA

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**THE CERTIFICATION ADVANTAGE**

When it comes to pursuing certifications, audit staff members have a number of options that enjoy widespread respect. Survey results show that better than 70 percent valued CIA, CISA, and CPA designations, in nearly equal proportions. Surprisingly, one certification that ranked low in value was the MBA, with only 34 percent of respondents considering it highly valued.
Such credentials are not only a way to boost team morale, but may also help them find a more favorable reception with business leaders. “Certifications are a way to proactively highlight and market internal audit’s reputation,” says O’Reilly. “In order to provide credibility, you may need to showcase the fact that the team is certified,” particularly when it comes to the increasingly necessary set of IT auditing skills that a CISA designation affirms.

**THE VALUE OF BEING FLEXIBLE**

Another way internal audit executives can attract strong candidates is to offer some scheduling flexibility. Fifty-seven percent of respondents considered flextime high in effectiveness, making it almost as popular as bonuses. Julie Pearce, a senior auditor at Diamond Resorts International who travels up to 60 percent of the time, is among them. “I would fight harder for flexible time than I would for money,” she says. Currently, she often pays to have her young child and a nanny accompany her on business trips, “otherwise I would never see my child,” she adds.

The challenge is providing those benefits within the constraints of the job, which inherently requires a great deal of travel and face time. “We try to be sensitive to people’s needs, and we do whatever testing we can from our desktop; videoconferencing helps, too,” says Holland. “But many areas—like understanding how a manufacturing process can produce less scrap or measuring management’s tone—are things you can’t do from your desk.”

Technology can help minimize or reduce travel, but travel is still an important element of the job because there are certain things you can’t replicate even with video conferences. “The trick is to figure out a way to balance travel and to have the right kind of HR programs that allow people to take compensatory time once they’ve delivered,” says Arons.
4: Skills and Competencies Desired and Lacking

As internal audit members work more closely with business leaders, CAEs are looking for the next generation of auditors to build bridges and solve problems rather than just spotting errors. That means so-called soft skills, such as communications, are rising to the top of their wish lists.

Two skills stood well above the others as most desired for internal audit seniors and managers: verbal communications/presentation skills and critical thinking. About 50 percent of auditors ranked these in their top three most desired attributes. Written communications is a close third, cited by 34 percent as an important attribute.

Communications is front and center because effective internal auditors must be able to collaborate with a wide variety of people across the business, audit executives say. “You could be the brightest person in the world, but if you can’t communicate your ideas effectively, it doesn’t matter, you’re irrelevant,” says Smith of iHeartMedia.

“One of my goals is to be the first person people call when they have a business problem.”

DUAINE SMITH, iHEARTMEDIA
Critical thinking is also essential as internal audit staffers interact with business leaders. “Critical thinking is the ability for people to connect the dots and understand why things are happening. It’s thinking beyond the ‘what’ and looking at the ‘why.’ For example, was the problem the result of the policy or procedure being inadequate, or was the communication and training ineffective? Does the problem happen often or was it an isolated incident? Is this issue unique to a region or business unit or pervasive across the company? It’s really peeling back the onion,” says Arons.

While knowledge of the business and technical skills, such as data analytics, fell lower on the list of desirable qualities, many audit executives say it’s because those areas are easier to train people in than top-rated communication and critical thinking. “Healthcare can be taught; it’s much harder to teach you the maturity and confidence that allows you to communicate well,” says Ally of Summa Health.

Likewise, “we focus on competence, not experience,” says one internal audit leader. “We can teach internal auditing, it’s not rocket science. It’s much harder to teach good communication skills and good customer service skills,” he says.

Other highly sought-after skills may be easier to acquire. A good way to work on business acumen and industry knowledge is to encourage audit team members to stay apprised of industry concerns by regularly reading top business publications and the company’s financial statements. Then, they should use that information to proactively reach out to business leaders with intelligent questions. “You should be spotting issues in the industry and asking: ‘How would we handle this here? Or how could we prevent this from happening to us?’ ” says O’Reilly. “By putting useful information in front of business leaders, you’re building knowledge and relationships.”

“Data analytics is an area that holds a lot of potential, but finding the people with the skill sets is hard, so I find myself doing a lot of training.”

DAVID HOLLAND, MODINE MANUFACTURING
**LACKING SKILLS VS. DESIRED SKILLS**

Somewhat surprisingly, the skills that are considered most lacking in audit staffers do not line up with those that are considered most desirable. For seniors and managers, survey respondents said the top three skills that are lacking include data analytics, understanding of IT auditing concepts (such as integrated auditing), and project management skills.

A similar dichotomy holds true for chief audit executives and directors. Excellent verbal communications and the ability to think critically top the list of most-desired attributes, yet an understanding of IT audit concepts is considered the most lacking skill among audit executives, even edging out deficiencies in the ability to influence and control. “Considering that nearly every business process is now enabled by technology, it’s surprising that top leaders don’t feel they have the ability to understand how to audit them,” says O’Reilly. This suggests the need for deeper learning and training in specific areas, rather than hoping to absorb the necessary information on the job.

It’s also possible, however, that these items are most lacking precisely because audit executives hire (and are hired) for higher-level interpersonal skills and often have to catch up on emerging areas such as those related to technology.

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“**We tell people you have to be comfortable being uncomfortable, because we’re going to put you in situations where you don’t know the subject matter and have to figure it out. That’s where great communication skills, customer service skills, and inquisitiveness all come into play.”**

- FORTUNE 100 INTERNAL AUDIT DIRECTOR

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**GOT SKILLS?**

Two skills stood well above the others as most desired for internal audit seniors and managers: verbal communications and presentation skills, and critical thinking. About 50% of auditors ranked these in their top three most desired attributes. Written communications is a close third, cited by 34% as a key attribute.
CONCLUSION

Internal audit departments have evolved in many ways over the past decade, moving from playing the role of corporate cop to becoming consultative business advisors. Our results suggest that while audit leaders have much to be proud of, they also have opportunities to continue to improve. By taking a hard look at their priorities and working with business leaders to break out of well-worn routines, audit executives can move away from cost-minimizing activities to focus on those that truly add value—and revenue—to the business.

“In the next three-to-five years, boards are going to continue to expect more out of internal audit, and they want people to help redefine the position,” says O’Reilly. That means expanded audit scopes, increased subject matter expertise, and the agility to shift plans quickly as business risks rise and recede.

The stakes are high, but so are the opportunities. By focusing on the right audit areas and the right competencies, internal audit executives have the chance to continue to reshape their roles and the value of their function. “You have to keep an eye on what used to be and what’s going to be—that’s the challenge,” says Holland of Modine. “It really stretches us, but it’s also what makes the audit profession really exciting.”

ACTION ITEMS FOR INTERNAL AUDIT DEPARTMENTS

• Look beyond traditional audit areas, such as procurement and travel and expense reporting, to areas that have the greatest impact on revenues and profits, such as sales and marketing and product innovation.

• Consider bringing in outside experts and resources to help conduct audits in non-traditional areas where internal audit has less familiarity of processes and best practices.

• Address culture in internal audits, either by incorporating culture elements like tone at the top into standard audits, or conduct a culture audit that looks at how policies and other communications are internalized and how they affect actions.

• Ensure that the internal audit department is subject to a quality assessment review or some type of regular assessment of internal audit’s performance.

• Include non-monetary drivers in hiring and retention plans, including training programs, flextime, career development, and mentoring programs.

• Encourage opportunities, including training, for the development of verbal and written communications, presentation skills, and critical thinking.
MISTI sent an email invitation to complete the 23-question survey in mid-January to North American professionals with internal audit titles, and received 603 survey responses.

What is your title or position level?

Out of the total number of respondents, 40 percent held the titles of chief audit executive, vice president of internal audit, director, or equivalent. Another 45 percent were internal audit managers or senior auditors, with the remaining 15 percent comprising internal audit staff members or other internal audit-related titles.
Respondents came from those in internal audit departments of various sizes and from companies that leaned toward the larger-company end of the spectrum. More than 43 percent of respondents reported the size of the internal audit department to be from two to nine auditors. Just over 27 percent reported the size of the audit department to be from 10 to 24 people. Nine percent were on audit teams of from 25 to 49 members, and 16 percent had departments of 50 or more individuals. More than 53 percent of respondents work at companies with at least $1 billion in revenues.

How many people are in your organization’s internal audit department? (FTEs)

The top industries represented by respondents included finance (30 percent), government (14 percent), manufacturing (10 percent), health and medical (7 percent), energy (6 percent), and education (6 percent).

What is your organization’s primary industry?

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