

Driving efficiencies and value from internal audit



In a climate of economic uncertainty and increasing cost pressures, internal audit budgets and plans are likely to face robust challenges in 2009. Effective planning of internal audit spend has become more important than ever. Internal audit functions should take the initiative to help their boards and audit committees understand how their investment in internal audit is utilized and how this compares with peers and high performing functions. The global survey *Driving efficiencies and value from internal audit* was designed to help that understanding, providing insights and data on internal audit spend within the banking and capital markets sector.

A rocky road for internal audit?

Internal audit has already undergone considerable change in the recent drive for improved quality. The Institute of Internal Auditors' requirement to carry out an independent review of internal audit has focused attention on effectiveness and driven efforts to make internal audit a strong and robust function.

However, for many Heads of Internal Audit (HIAs) this is their first experience of managing the function through a downturn. This management challenge is heightened by the particular circumstances in which they now find themselves. Some will have heightened attention by regulators whose motivations may differ.

In today's turbulent environment, senior management has enhanced expectations of, and reliance on, HIAs to provide greater assurance and comfort—but this also needs to be delivered with greater efficiency.

Organizations are under increasing cost pressures and looking to cut back overheads. The budgetary knife may well be poised over internal audit itself. But would a wiser move be to increase investment in internal audit in order to provide boards with much needed assurance in these difficult times? This is a question HIAs must help their boards and audit committees answer.

Key findings

Modest increases in internal audit spending are expected to continue, but this investment could be better leveraged to provide management with greater assurance in these challenging times. HIAs could achieve more value from their internal audit spend by improving process efficiency, strengthening risk-based approaches and adopting flexible resourcing models. The following page provides an overview of the key findings from our survey.

Challenge and opportunity

There are currently clear cost pressures for organizations within banking and capital markets, but this does not necessarily mean internal audit functions should be suffering budget cuts. In fact, investment now in internal audit could be particularly justified, as boards seek reassurance that the efficiencies they are driving are appropriate and not jeopardizing the organization's future. The downturn provides a real opportunity for HIAs to re-evaluate and re-focus the role of internal audit to ensure that it provides the increased assurance that boards and audit committees are looking for in these testing times.

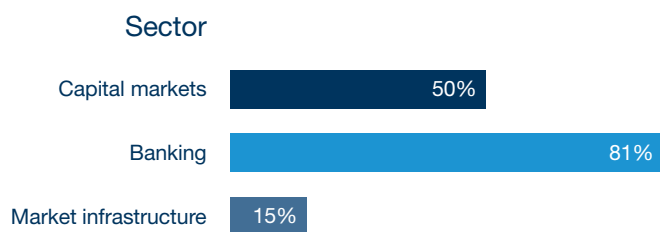
For a full copy of the survey, please contact:

Dorothy Sanford, FCA
Partner
416 869 2353
dorothy.a.sanford@ca.pwc.com

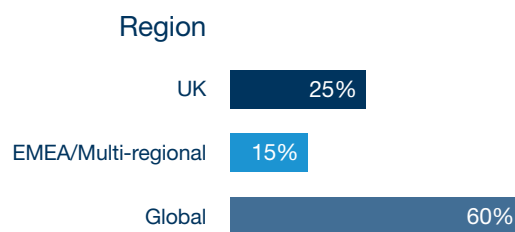
or

Rani Turna, CA
Partner
416 869 2911
rani.turna@ca.pwc.com

Survey sample



Sector survey sample (multiple answers allowed)



Region survey sample

Key findings

Internal audit spending: an upward curve

Across the banking and capital markets sector, internal audit spend is expected to increase by 4%, which is consistent with the previous year. The proportion of total entity expenditure allocated to internal audit is what we would expect. However, this is low for some respondents when compared to investment in other bank functions.

Less productive functions are expecting budget cuts – suggesting a vicious circle of underinvestment.

- An average 0.44% of total firm expenditure was spent on internal audit
- In 2009 predicted budget increases are 4%
- 50% expect a budget increase and 21% expect a decrease

Focused where it counts?

Internal audit's work is becoming more risk-centric, enabling higher audit universe coverage.

Areas of expected increased focus include treasury/liquidity risk, business risk and credit risk.

HIAs need to increase engagement with senior management. In larger functions more time could be spent on providing management with valuable insight rather than on functional management, planning and the delivery of audits. This could be achieved by improving the efficiency of internal audit procedures, to free up time to build relationships with the business.

- 77% plan to increase focus on treasury/liquidity risk and 60% on business and credit risk
- 27% plan to decrease focus on branch inspections and 23% on Sarbanes-Oxley
- On average, large organizations spent 23% of their time on functional management and planning; 62% on audit execution and fieldwork; and only 15% on business communications and reporting

Flexible resourcing: agility is key

The majority of internal audit functions are struggling to meet headcount targets, which could impact the achievement of plans. Organizations of all sizes are increasingly using co-sourcing/outsourcing not only to fill headcount gaps, but also to upskill in-house teams and increase their ability to address areas of increasing focus for internal audit work.

HIAs are increasingly investing in training their staff. However, overall training levels are quite low. More senior staff receive higher levels of training.

- 62% of functions will not hit their target headcount
- External recruitment costs accounted for 17% of external spend
- 50% of respondents who co-source do so in seven or more key skill areas In 2008, organizations were spending 14% of total external spend on training, an increase of 3% on the previous year

Productivity: the biggest prize

Internal audit productivity levels are surprisingly low. Average audit days per auditor to deliver the audit plan are lower than we would expect.

Risk-based approaches are enabling relatively high audit universe coverage.

Little use is made of automation. Even where tools are used, they have surprisingly little impact on productivity.

- In 2008 the average number of assurance days per auditor was expected to be 166. In 2007 this was 163
- Respondents cover 48% of their audit universe on average
- In 2008 planned number of days from fieldwork to report is 24, a fall from 2007 figures of 28
- Only 21% found audit systems to be fully effective