

# ***Higher performance by design: A blueprint for change***

2014 State of the Internal  
Audit Profession Study  
*Technology industry*

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# Overview

- 10th Annual State of the Internal Audit Profession Study recently released
- More than 1,900 respondents: 1,400 chief audit executives (CAEs) and internal audit (IA) managers, as well as more than 520 stakeholders (e.g. board and audit committee members, chief financial officers, chief risk officers, chief communication officers)
- Conducted over 125 stakeholder and CAE interviews across North America, Europe, Australia, and Asia to gain further insights
- 99 respondents categorized as technology industry
- Interviewed certain key regulators across the globe to understand their expectations of internal audit
- Survey focused on:
  - Understanding what is expected from internal audit for the purpose of identifying potential alignment issues
  - Understanding stakeholders' perceptions related to the value of internal audit
  - Understanding internal audit's performance related to key attributes



# ***Heart of the matter***

## ***Higher performance by design: A blueprint for change***

### **This year's findings**

- Significant differences of opinion exist between stakeholders and CAEs on the nature of what is expected of internal audit (i.e. a misalignment)
- On average, 50% of technology industry stakeholders say internal audit is performing well at delivering on expectations
- 71% of Technology industry stakeholders do not believe internal audit adds significant value

### **Leads to the following questions**

- Is your function aligned to the expectations of its key stakeholders? How do you know what capabilities to develop without clearly knowing what is expected of you?
- Are you aligned with respect to the critical risks?
- Are you expecting enough from your function? Our research shows that when more is expected, internal audit has the opportunity to generate more value to the organization
- Higher expectations require increased capabilities and increased investment

*Internal audit must be aligned with the expectations of its stakeholders in order to strategically build the right capabilities and raise both its performance and its value.*

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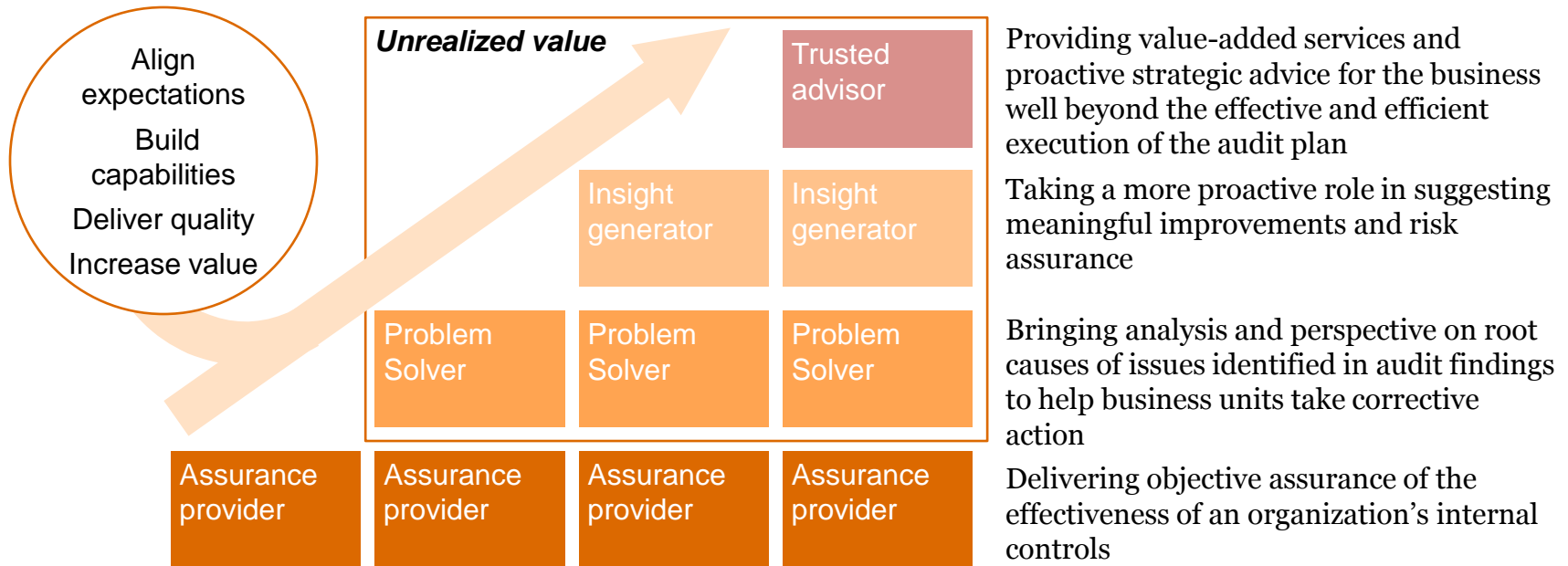
## ***At a glance: Technology industry sector responses***

99 respondents from technology industry

65% of respondents from the technology industry were CAEs

62% of technology industry respondents reported >\$1 billion in revenue

# *The journey to capture unrealized value*



# Case for change

## Value

There has been a significant decline in value perceived by stakeholders in the sector

## Performance

Many functions continue to be challenged in terms of stakeholders' perceptions of performance

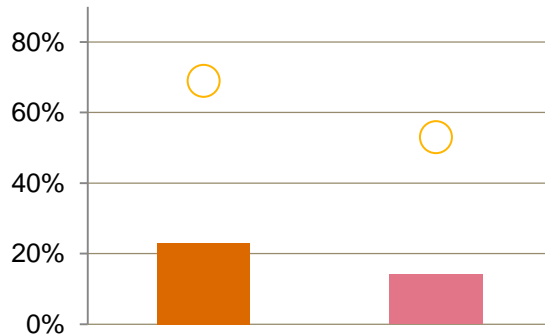
## Critical risks

Stakeholders in the industry continue to say risks are well managed but at a lesser rate than last year

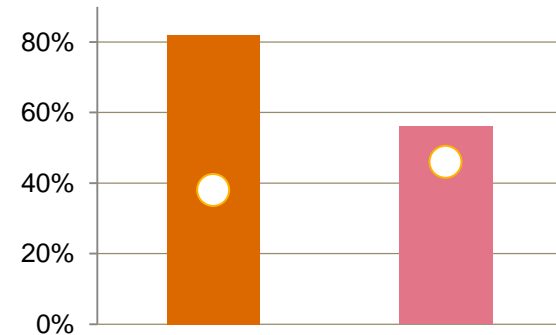
2013	52% of technology industry stakeholders see significant value	65% of technology industry stakeholders rank internal audit performance as strong	73% of technology industry stakeholders say risks are well managed
2014	29% of technology industry stakeholders see significant value	50% of technology industry stakeholders rank internal audit performance as strong*	69% of technology industry stakeholders say risks are well managed

\*Represents the average of the “performs well” ratings across 18 capabilities in 2014 versus 8 capabilities in 2013.

# The case for change: Technology industry



**Engaging and managing a relationship with stakeholders**



**Using technology effectively in the execution of audit services**

CAEs' expectation

Stakeholders' expectation

Performance

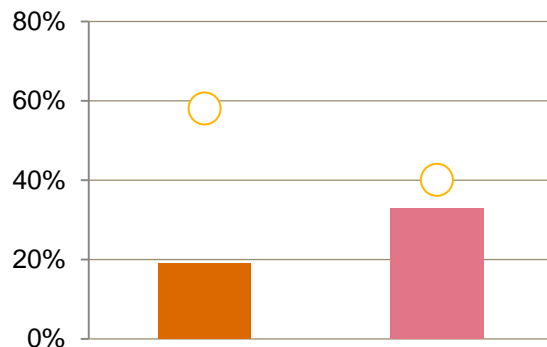
Expectation: % who expect this from internal audit; base = total survey responses

Performance: % who say internal audit performs this well

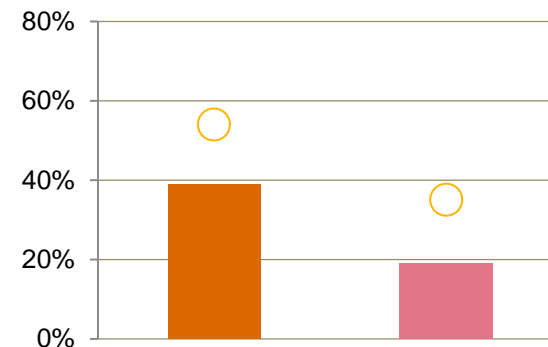
*Technology industry stakeholders and CAEs are not aligned in their expectations of internal audit when “engaging and managing a relationship with stakeholders.”*



# The case for change: Technology industry



Identifying thematic issues the organization is facing\*



Promoting quality improvement and innovation\*

CAEs' expectation

Stakeholders' expectation

Performance

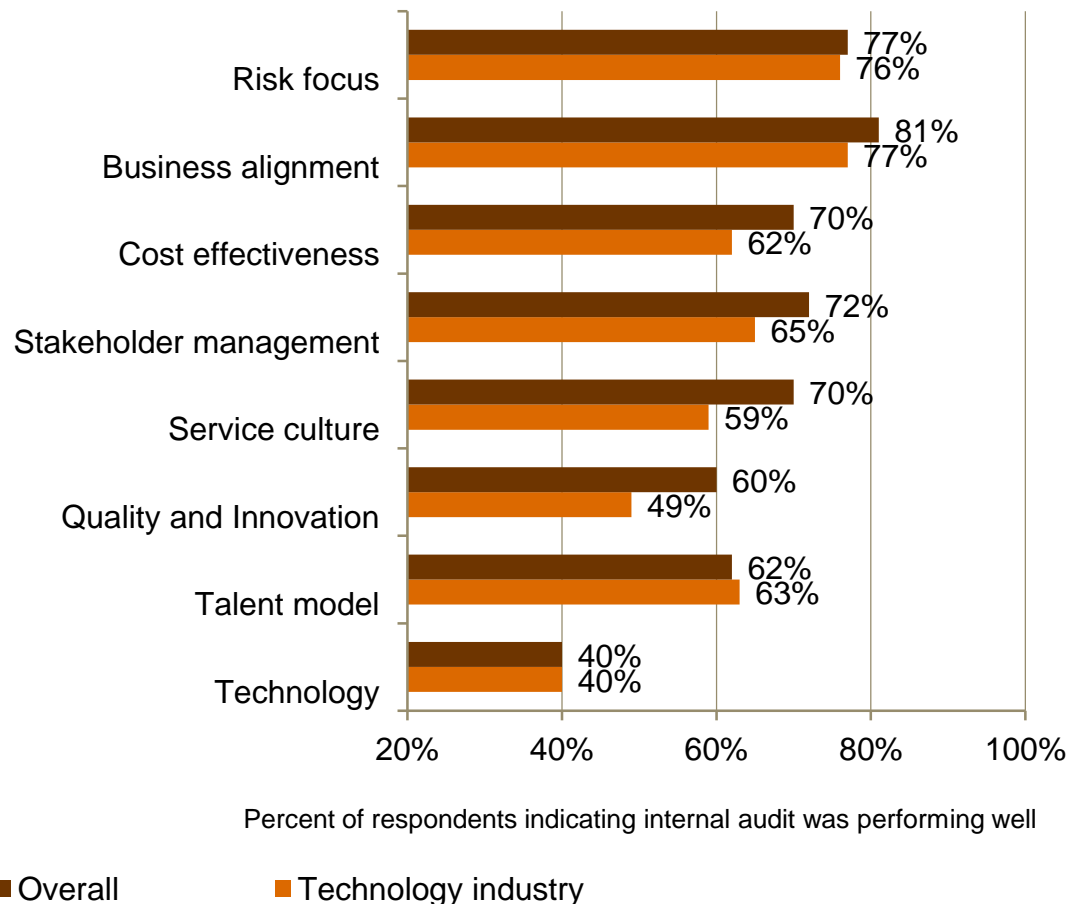
Expectation: % who expect this from internal audit; base = total survey responses

Performance: % who believe internal audit performs this well

*19% of CAEs expect internal audit to “identify thematic issues”; 58% say internal audit is performing well at that task.*

\* Caution: small base size

# ***The technology industry found internal audit to be performing 11% lower than population for “service culture” and “quality and innovation”***



*Expanded expectations and alignment of stakeholder expectations create an opportunity for internal audit to raise its performance and provide added value for the organization.*

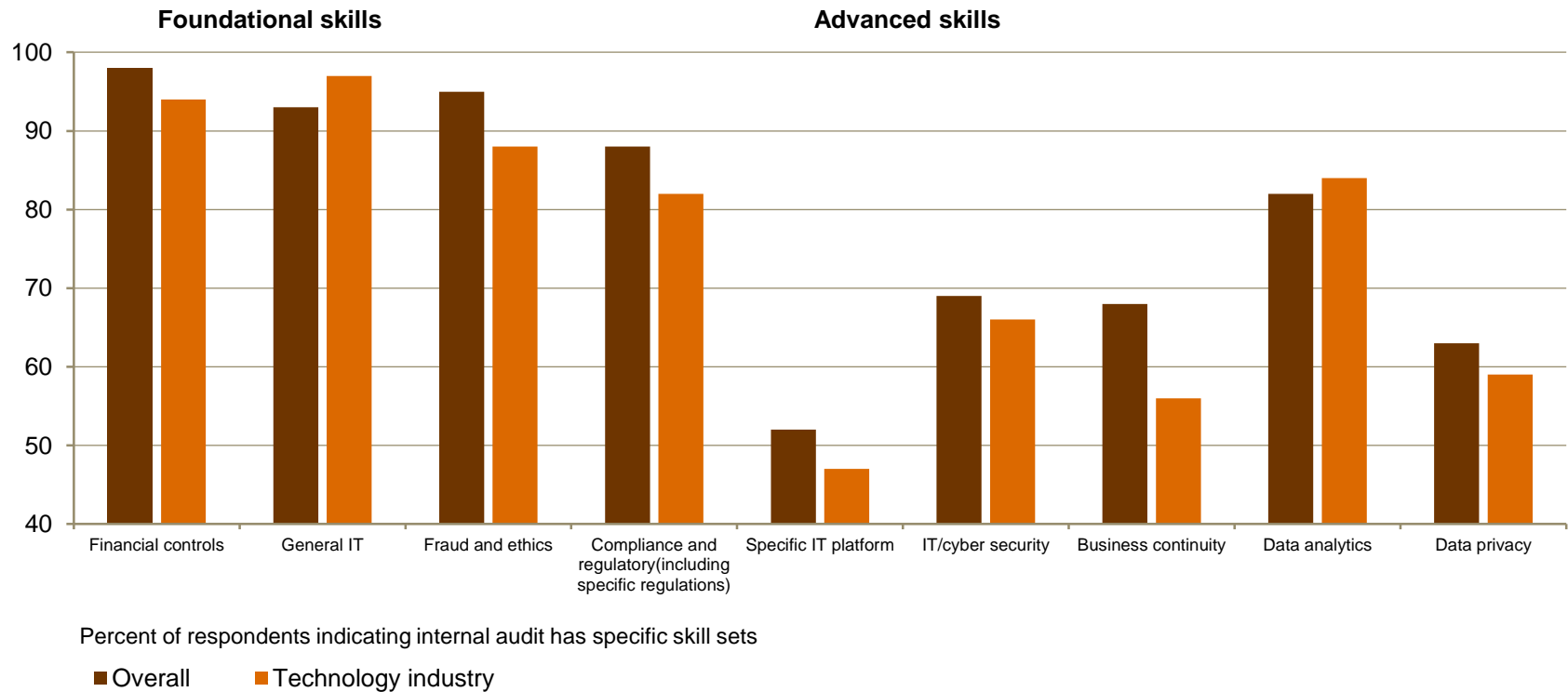
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## ***Developing an aligned set of expectations***

- Align and agree on the critical risks the organization faces (fundamental)
- Establish detailed expectations aligned to the eight foundational attributes
- In developing these detailed expectations, consider:
  - Future needs and emerging issues and risks
  - Regulatory expectations
  - The first and second lines of defense
- CAE should drive the discussion
- Proactively share your expectations, but do so with open lines of communication across the key stakeholder group

*Achieving alignment on the breadth of expectations and critical risks is a significant step toward internal audit's improving its relevance and value to the business.*

# *Building the capabilities to deliver on expectations*



*94% of the technology industry say it is important that internal audit possess financial control skills*

# Internal audit's communication strategy

	Overall	Technology industry
Specific communication with audit committee chair and board on internal audit mandate	73%	73%
At least an annual discussion with key stakeholders to ensure internal audit's role is aligned with expectations	72%	56%
A meeting held between internal audit, management and board members to agree on expectations	67%	70%
Top-down communication with internal audit members on expectations	61%	56%
Specific communication with internal audit members on expectations	63%	59%
Regular survey of stakeholders on internal audit's performance and adherences to stakeholder expectations	40%	30%
A meeting held with external stakeholders such as regulators and external auditors to discuss expectations	43%	43%
Posting of audit expectations on company's internal website	29%	25%

*“Annual discussion with key stakeholders to ensure internal audit's role is aligned with expectations” is the tactic with the biggest difference from the overall population, with 56% in the technology industry saying it is important, compared with 72% of overall respondents.*

# *Communicating performance and value*

## **Advanced metrics being used to measure internal audit performance:**

- Involvement and value provided in all key initiatives and emerging risk, including new systems, acquisitions, dispositions, new products, and new regulations
- Ability of internal audit to provide macro/horizontal views on key issues and areas of critical risk to the organization
- Ability of internal audit to be a change agent in the organization; that is, is the overall control environment improving year over year because of internal audit's influence?
- Annual voice-of-the-customer survey
- How well internal audit is able to answer questions from the board and management
- Value of recommendations provided
- Cost savings and revenue enhancement based on internal audit's recommendations and findings

*Trusted advisors focus on communicating the value they bring to the organization through the recommendations they make and their involvement in emerging issues rather than on classic value measures such as successful completion of the audit plan.*

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# ***Successfully making the journey***

Each stakeholder plays a role in enhancing the value internal audit can deliver

## **Chief audit executives**

### **Lead the design and the communication plan**

- Develop a point of view on what stakeholders expect of internal audit and how you are fulfilling those expectations
- Use an aligned set of expectations to assess needed skill sets against your current capabilities and to develop an action plan, including milestones and metrics to address any capability gaps
- Create a communication plan to purposefully gain alignment on the suggested inventory of expectations

## **Management**

### **Support the design**

- Involve internal audit in nontraditional areas, and value the new perspectives and feedback the function can bring
- Support efforts to align skill sets with business risks and the aligned expectation set
- Support internal audit's efforts to develop metrics that align with expectations, and expect more than the typical report on controls

## **Board members**

### **Provide proactive input and approve the design**

- Provide input on expectations, with an understanding of leading practices and the value internal audit could deliver if expectations, supported by capabilities, are more strategic in nature and better aligned with the most critical risks of the organization
- Provide input on the performance that internal audit is expected to achieve through its short- and long-term strategic plans, including the need to invest in skill sets and processes that will deliver on expectations
- Provide input on when and how the CAE should communicate with the board and how and when the board prefers internal audit to report progress against expectations

