



# Getting the most out of internal audit

How can the audit committee help maximize the value of internal audit?

October 2024

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The audit committee is a key player in ensuring the internal audit function is high performing, effective, and viewed as an important part of the organization. Doing so helps the audit committee fulfill its risk oversight responsibilities.

## Why is internal audit oversight important?

As audit committees face a wider range of business risks and increased expectations from stakeholders, many audit committees are turning to a particular resource—the internal audit function. Internal audit (IA) can be viewed by committee members as an objective insider—one that can serve as their eyes and ears.

Maximizing the value proposition of the internal audit group is an effective way to help audit committees address their risk oversight responsibilities. But getting internal audit's full value requires focus and attention. It requires the audit committee to reflect on what it needs and to be direct with internal audit. Here, we outline how audit committees can get the most out of internal audit and give insight into areas where committees might need to increase their expectations about what they can get from the function.

The key things to focus on for internal audit oversight:

- Empowering the role
- Having a team with the right structure and skills
- Making sure the mission is clear and is adhered to
- Holding management accountable for implementing recommendations
- Assessing performance of the team

In order to drive these key activities, the audit committee needs robust and concise, yet impactful, reporting from internal audit.



NYSE-listed companies are required to have an internal audit function with oversight by the audit committee. Nasdaq-listed companies do not have this requirement, although many choose to have an internal audit function.

## Empowering the Chief Audit Executive and the internal audit team

The audit committee can empower internal audit by providing visible support, starting with the Chief Audit Executive (CAE) as the leader of the group. Empowering him or her and the team shows the entire organization how important internal audit is.

Research has shown a close correlation between strong leadership by the CAE and internal audit's ability to add value and deliver strong performance. Strong CAEs build functions that excel in delivering value today and staying current as business needs and risks evolve. An open and trusting relationship between the audit committee and the CAE is critical to help develop the CAE into a leader who can deliver value to the organization.

The interaction between the CAE and the audit committee is one of the foundations of good governance. Both formal and informal communications with the CAE can help the internal audit function gain audit committee support on its priorities and findings.

Here are some leading practices:

- Ensure that the CAE is a regular attendee at all audit committee meetings.
- Hold a private session with the CAE as part of the regular audit committee meeting schedule.
- Have regular one-on-one meetings between the audit committee chair and the CAE between audit committee meetings.
- Ensure that reporting lines for internal audit, the audit committee, and senior management promote objectivity and the success of the function.
- Support having the CAE be part of the appropriate management leadership committees.
- Hold management accountable for implementing internal audit recommendations according to the agreed-upon timetable.
- Periodically have the audit committee chair attend an internal audit team meeting to reinforce the importance of the team.

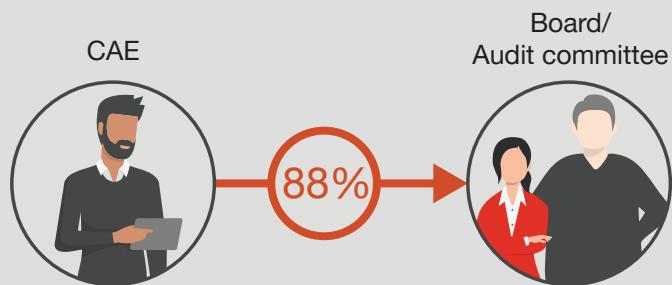


For more information on how the CAE can maximize their time with the board, refer to [\*Get boardroom ready: five ways to improve executive interactions with the board\*](#).

## A team with the right structure and skills

Internal audit often reports to both the audit committee and management. Regardless of the organizational structure, reporting lines that promote objectivity and effectiveness are critical to a high-performing internal audit function. It's also important that the reporting lines are clearly defined and well-known in the organization.

### Common reporting lines



About 88% of CAEs report functionally to the audit committee or board of directors



Within the company, the CAE administratively reports most often to either the CFO or the CEO.

Source: The Institute of Internal Auditors, 2024 North American Pulse of Internal Audit, March 2024.

As part of its oversight, the audit committee should understand the staffing levels and skills mix of the internal audit function. It can be particularly difficult for some companies to attract and retain sufficient internal audit resources with the appropriate skills to address certain risks. For example, information technology risks, including cybersecurity, require specialized skills that may be difficult to maintain in-house. Also, foreign language skills and local knowledge necessary to effectively perform work at international locations may need to be sourced from third parties.

Leading internal audit groups are changing the profile of who they hire. The “next-gen auditor” has digital and data acumen. In addition to hiring for those skills, IA groups are also encouraging training among current team members to stay digitally fit. Internal audit groups must stay knowledgeable about the technology the company is adopting in order to audit it. But they must also upskill themselves to employ the tools and technology needed to become more data driven and to execute audits to keep pace with the business. This doesn't mean simply learning how to use a specific software—it means auditors need the critical thinking skills to analyze and interpret data. Instead of reviewing a limited sample of data, internal audit should be using analytics and automation software to quickly scan entire populations for trends and anomalies in order to engage the business in risk-based, data-driven discussions. The use of such technology is allowing leading IA groups to transform the way they execute every step of the audit plan and deliver greater insights to your company.

## Internal audit rotations: a win-win for the company

Some companies have created robust rotation programs to bring staff from the business into an internal audit role for a secondment. Being part of the internal audit team allows the employee to learn about the company's system of controls and processes beyond their business unit. They, in turn, bring insider knowledge of the business to internal audit. These rotation programs benefit both the business and internal audit in many ways, including allowing the function to build credibility and relationships within the organization.

Even with digital upskilling initiatives and different hiring profiles, many internal audit groups look beyond in-house resources and co-source or sometimes even fully outsource the internal audit function, particularly if there are cost or talent issues. Either way, the same oversight questions apply:

- Are the resources competent, qualified, objective, and are they able to perform the work effectively?
- How are skills in the group assessed and gaps identified and resolved?
- How is internal audit using technology to make the audit more efficient and to capture and share broader insights on the company's risks and activities?
- What percentage of the group is credentialled (e.g., Certified Internal Auditor, Certified Information Systems Auditor, Certified Public Accountant)?

The CAE's annual audit plan should communicate to the audit committee the sufficiency and qualifications of resources, regardless of source, to deliver the planned audits for the period.



## Looking ahead: a more agile internal audit

Some internal audit groups are adopting a more “agile” approach to their work. The goals of an agile approach to auditing include leveraging a collaborative and iterative approach to all steps of the audit, allowing more time to focus on the risks and respond to change in the business. Traditionally, IA would start a new phase of a project once the previous stage was complete. Under an agile approach, their work can be more flexible.



Lastly, pressure to manage and possibly reduce expenses is an everyday reality for many businesses. Internal audit departments are not immune to cost pressures. As part of their oversight of the internal audit function, it is important for audit committees to understand the cost and staffing budget for the internal audit team and to watch for situations when spending pressures may prevent the group from meeting its key objectives. Audit committees should understand what didn’t end up on the final annual plan—and why. Any time the audit committee asks internal audit to look at a specific risk or area of the business that is outside the current plan, be sure to discuss budget and resource implications.

### Internal audit charter

The charter should define IA’s mission, purpose, authority, reporting structure, and responsibilities. Many audit committees will review the IA charter annually and approve any changes.

## Finding the way: defining and monitoring internal audit's mission

Ensuring there is agreement across the enterprise about internal audit's priorities and scope is another way to maximize its value.

Internal audit's dual reporting lines could result in a lack of clarity of focus or an unclear mission. Accordingly, it is important for the audit committee to help the team define its mission, considering what it can and should be able to accomplish given staffing and budgetary concerns, and maintain its objectivity. The audit committee could offer its views on areas where internal audit should focus its resources based on the committee's view of risk and priorities. Internal control over

financial reporting? Operational controls? High risk areas? Regulatory and compliance? Process improvement and operational efficiencies? System implementations? Transformational projects?

The answer might be "all of the above," and could even include other areas. For example, some internal audit groups have expanded their mission beyond the traditional assurance role to also provide proactive strategic advice. IA and the audit committee should be aligned in terms of what risks are being covered through the execution of the audit plan, and which ones are not.

## Thinking outside the internal audit box

Many people still think of internal audit in the most traditional sense—auditing key financial controls for Sarbanes-Oxley or performing routine operational or compliance audits. While internal audit groups still need to cover these key areas, many aspire to evolve the way they operate. Instead of only looking backwards to do their work—there is now a sharp focus on the future. Here are a few areas in which the audit committee should consider asking IA for help:

- Assessing culture
- Assessing non-GAAP, environmental, social and governance (ESG) matters, or other metric disclosure controls
- Review of specified cyber areas (e.g., benchmarking processes, cyber crisis plan)
- Review of controls involved in system implementations
- Review of data governance programs and procedures against recognized frameworks and regulations
- Review of AI-related risks, policies and procedures
- Review of the company's third-party risk management processes and procedures
- Review of employee health and safety programs
- Review of sufficiency of enterprise resiliency plans and processes
- Review of management's processes and policies related to social media monitoring and usage
- Review of employee recruitment and retention programs



When evaluating the internal audit team's overall mission and the annual audit plan, it's important to be comfortable that the areas of focus are aligned with the company's strategy and the risks identified through enterprise risk management efforts. Some internal audit groups are creating their own multi-year strategic plan, based on the company's plan, to ensure alignment. The expertise and value of internal audit could be underutilized if its focus is not aligned to the company's strategic objectives. Audit committees should expect internal audit to work with other risk and compliance functions in the company. Internal audit should clearly communicate how they work with these other groups to assess risk. Often both internal audit and risk and compliance are looking at the company's risk universe and seeking to understand the company's mitigating activities for key risks. Sometimes they may even be testing the same areas. Or one group may think the other group has an area covered and the company is left with a gap. Ensuring that the focus on risk is aligned across these functions is important.

## Moving beyond an annual audit plan

Some leading internal audit functions are moving away from a traditional annual audit plan and thinking about their projects on a rolling basis. Many are using data analytics and visualization tools to identify trends or growing risk areas. This allows internal audit to be fluid in their scope and activities. They can tackle issues and risks as they arise, determining what approach makes the most sense for the company.

## Holding management accountable for responding to findings and implementing recommendations

Once internal audit has completed its work in an area, it issues the report to management and sometimes to the audit committee as well. Some audit committees rely on the CAE to report to them only on significant areas or significant findings. The CAE should provide a summary of all reports issued during the period, including the scope of the audit, the findings by risk level (if used), and whether or not the findings have been resolved. Many internal audit groups are using data visualization tools to present their findings in new ways.

Unresolved internal audit findings should be of concern to the committee, particularly those findings that have not been resolved in a reasonable time. Taking too long to resolve findings could create risk and may signal that internal audit is not getting adequate support from management or that management isn't taking the comments seriously.

As internal audit informs the committee of unremediated or overdue issues, management should be held accountable to implement recommended changes. An effective way for audit committees to support the resolution of internal audit findings is to request that members of management with significant findings or findings that have not been resolved in a reasonable period of time to personally attend audit committee meetings and explain any root causes of the findings and commit to a plan of resolution.

In addition to spending time discussing the high risk or significant findings, audit committees

should ask internal audit whether they see any trends or themes across findings, business units, control owners, risk type, or geographical location. The nature of internal audit's work provides them with access to many different parts of the business and levels of management and staff. Internal audit's growing use of data analytics provides the ability to proactively identify potential issues or areas of interest by reviewing trends and anomalies. The audit committee should expect internal audit to proactively share insights with them as part of their regular reporting. If you aren't getting these insights, ask internal audit how they are evolving their use of technology and data to transform their work. The committee may also consider asking more pointed questions of IA in private session—for example, its views on company culture.



## Are you getting the reporting you need from internal audit?

Audit committees have a growing list of oversight responsibilities and the volume of pre-read materials continues to expand. Streamlining reporting in order to focus on issues, trends, and themes continues to be one of the top priorities we hear from audit committee members. If the reporting you receive from internal audit isn't clear, concise, and impactful—it might be time to ask for an upgrade. Dashboard reporting can be particularly helpful in this area. The audit committee should receive reporting that, among other things:



Highlights trends and themes and isn't a laundry list of every action and observation



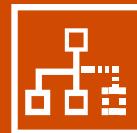
Includes a high-level summary of reporting during the period, with a spotlight on "problem" areas (e.g., high risk)



Shows how internal audit is performing against its plan for the year and highlights any concerns with accomplishing projects



Details the status of management's remediation of observations—including an aging of unresolved items, highlighting any items that need immediate attention or audit committee involvement



Summarizes internal audit's team structure, highlighting open roles or skill gaps

In the appendices, we provide two examples of dashboards internal audit could use to cover these topics as well as an executive summary. We would expect a more detailed summary of observations to follow the dashboard. However, the entire IA reporting package should be limited, not to exceed five to eight pages in most cases. There is also no need to attach every report issued during the period. Ask internal audit to put themselves in the audit committee's seats and evaluate what key messages and issues directors need to know.

## Striving for talent development: assessing performance

The audit committee should periodically assess the performance of the internal audit function as a whole and the CAE in particular. In doing so, the committee may consult with the external auditors, management, and individuals from third parties (e.g., firms that provide internal audit services) who regularly interact with internal audit.

In making its assessment of the internal audit department, the audit committee should ask:

- Is internal audit viewed as a value-adding function in the company?
- Is internal audit evolving as the company's business strategy and associated risks evolve?
- How is internal audit defining and measuring its own success (e.g., do they leverage a balanced scorecard or other instrument to track items such as audit satisfaction survey results, audit breakdown by audit type, and/or report findings)?
- Is internal audit's risk assessment aligned with the company's strategic plan and is it dynamic enough to pivot when needed? Are results shared with the committee?
- How does it formulate its audit plan? Does it focus on the right areas (i.e., the areas that align with the company's overall strategy)? For example, is internal audit involved in the organization's digital transformation?
- Are its findings and recommendations accurate, meaningful, and of high quality?
- Are its reports clear, succinct, and timely?
- Does it approach its audits with professional skepticism, as well as a client service and collaborative mentality?
- Does internal audit have appropriate resources to do its job in a thorough and high-quality manner?
- Does the team use the latest technology, such as automation, data analytics, and machine learning to improve the effectiveness and efficiency of its audits?
- What is the bench strength of the internal audit team? Is there a talent management and succession plan in place?
- What is the succession plan for the CAE?
- Does IA identify relevant themes across multiple findings and share these with the organization proactively?
- How does IA work with other assurance functions (e.g., compliance, risk management) to align on key risks, testing, and results to ensure all groups are aligned?





Assessment of the CAE may go deeper, given the critical need for a strong leader in that role. The audit committee might consider these questions:

- Do the CAE's business acumen and professional experience align with the emerging risks the company faces?
- Does the CAE maintain good working relationships with peer executives, including auditees?
- Does the CAE model professional behavior for the team?
- Does the CAE hold the internal audit team accountable for high-quality audits and recommendations?
- Does the CAE provide development opportunities for the internal audit team members?
- Do exit interviews of team members reveal any matters of concern with the CAE?
- Do the external auditors have any concerns about the performance of the CAE?

## Looking forward: what audit committees should think about

The audit committee's role in overseeing internal audit is a cornerstone of its governance responsibilities. Helping maximize the value of the internal audit function is a critical factor in the audit committee's effective oversight. High on the list should be the audit committee's focus to empower and develop the CAE. Internal audit functions with effective leadership perform better and add greater value to their businesses. With the number and nature of risks expanding, the audit committee's risk oversight role is as important as ever. Developing and enhancing both the internal audit function and its reporting to the committee will help in discharging those oversight responsibilities.



## Appendix A: IA executive summary example

To: (CLIENT NAME) audit committee  
From: (CLIENT NAME) internal audit  
Date:

### **Executive summary: Qx Internal audit update**

#### **Why is the board receiving this update?**

*(Describe here why the board is receiving this reporting package. Examples include: This is our quarterly internal audit (IA) update. Focus on the key observations and challenges related to audits conducted this quarter on page X. OR This is a report on the proposed annual internal audit plan. Internal audit is seeking the Committee's approval.)*

#### **Key highlights – summary of significant observations during Qx:**

*(Use this section to detail any red/significant/high ranking observations identified as a result of audits performed this quarter.)*

Ex: China acquisition review (two significant observations): Non-compliance with new and evolving legal and regulatory requirements globally.

#### **Trends and themes from IA activity during Qx:**

*(Use this section to highlight any trends across significant observations. "Connect the dots" for the committee.)*

Ex: Three of eight internal audit reviews at two business units included significant observations related to privacy policies and procedures. In certain instances, informal processes existed. In last year's audit plan, IA identified an additional three significant observations and two moderate observations (at six business units) related to this same topic.

#### **Emerging risks noted during Qx:**

*(Use this section to highlight any emerging risks which could impact internal audit's current or future audit plan.)*

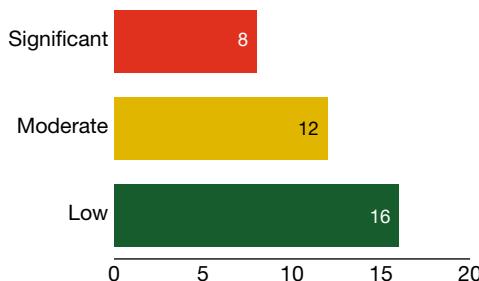
Ex: Pending acquisition of a manufacturing facility in Brazil. Internal audit has added this to the proposed plan for next year, following deal finalization.

Ex: The lead internal auditor for North America has resigned, recruitment for a replacement is in process.

## Appendix B: IA quarterly dashboard example 1

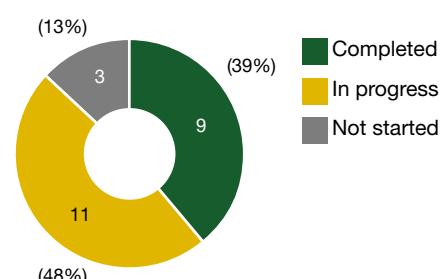
### Qx audit observations

Observations noted during the quarter ended MM/DD/YYYY are as follows:



Refer to page X for details of key observations noted during the quarter.

### FYXX internal audit plan status



Describe any delays, cancellations, additions and rationale.

### Internal audit people activities

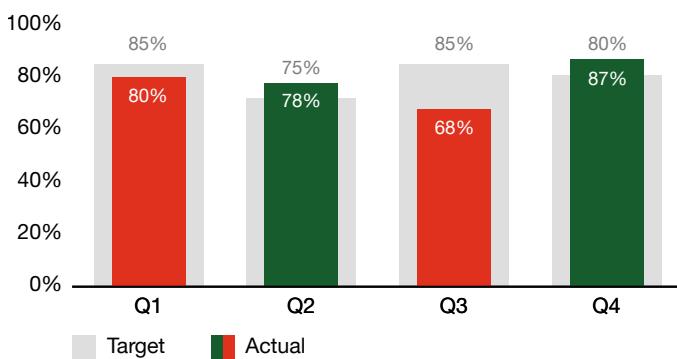
Staff  
X  
Contractors  
X  
Open roles  
X

Forecasted hours (US)  
**60k**

Unstaffed hours/skillset gap?  
 No

No issues to note for the AC.

### Audit time spent on high risk areas



Audit report cycle time (weeks)—End of fieldwork to final report

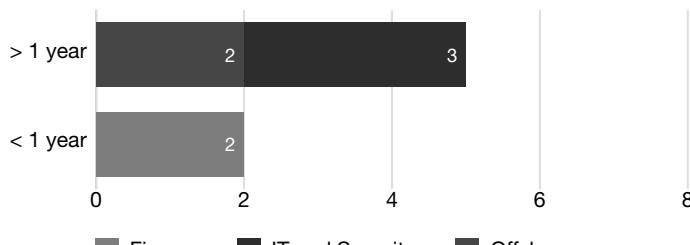
Average time (weeks) to obtain management response

Average time (days) to remediation date

Use this area to direct audience attention to key message (open positions, challenge with closing reports, etc.)

### Open observations

#### Aging of observations



Audit committee action needed?  
 Yes



On track



Past due

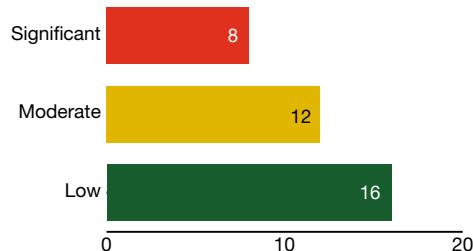
- 1 of 7 is past due with high risk observations
- 2 of 7 are remediated but pending IA testing
- 4 of 7 past due observations have revised remediation dates and are progressing towards completion

Provide key highlight for audience on why the issue is overdue, any progress made and indicate if action from audience is needed.

## Appendix C: IA quarterly dashboard example 2

### Qx audit observations

Observations noted during the quarter ended MM/DD/YYYY are as follows:



Refer to page X for details of key observations noted during the quarter.

### Audit observation tracking

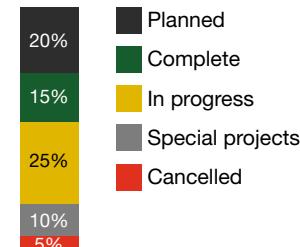
Status of audit observations as of MM/DD/YYYY is as follows:

Issues	#
Total outstanding	15
Identified in Q2	10
Resolved in Q2	12
Due in Q3	8
Overdue	1

**Overdue issue:** Provide key highlight for audience on why the issue is overdue, any progress made and indicate if action from audience is needed.

### 20xx internal audit plan

Project status

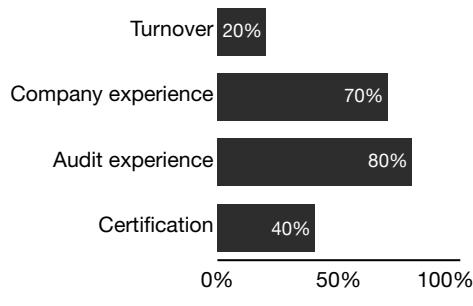


**Plan changes:** Describe any delays, cancellations, additions and rationale.

**Use a statement and color mapping here to alert audience to concerns about meeting IA plan objectives.**

### Internal audit department

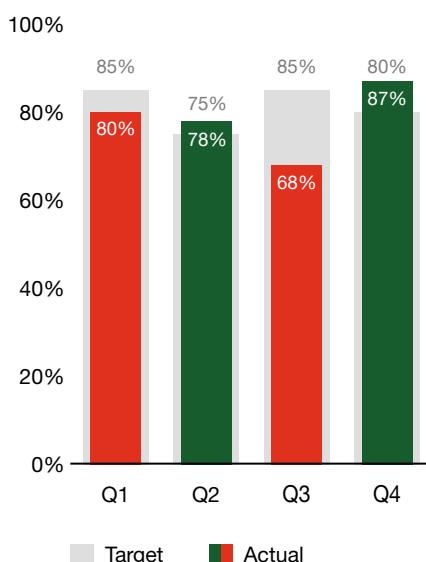
Level	Location 1	Location 2
Staff	2	1
Senior	1	1
Manager	2	-



Does IA have adequate staffing to meet plan objectives?

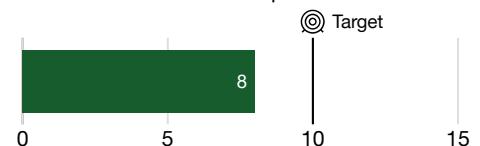
Yes

### Audit time spent on high risk areas

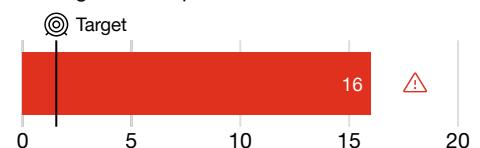


Use this area to direct audience attention to key message (open positions, challenge with closing reports, etc.)

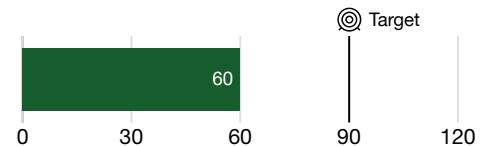
Audit report cycle time (weeks) – End of fieldwork to final report



Average time (weeks) to obtain management response



Average time (days) to remediation date



## How PwC can help

To have a deeper discussion about how this topic might impact your business, please contact your engagement partner or a member of PwC's Governance Insights Center.

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