

# The Pulse of Large Enterprise Internal Audit

Top Issues Highlighted by Internal Audit Executives

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## Agenda

- ▼ Introduction
- ▼ About the pulse

A survey of Audit Execs

- ▼ Top 10 findings



### How the survey is conducted

- Research, Pre-interviews
- Personal Interview > 100 Internal Audit executives
- Mid-Atlantic: From NY to Baltimore
- Questionnaire
  - Approx. 50% structured, 50% open-ended questions
- Analyze the survey results
- Survey ongoing, additional results to be added

# Survey Topics

## What We Wanted to Learn About – “The Pulse”

- The Internal Audit Organization
- Staff, Training, Professional Issues
- Audit Scope
- Audit Budget
- Methodologies & Standards
- Automated Audit Tools
- Key Business Risks and Challenges

### Titles of participants

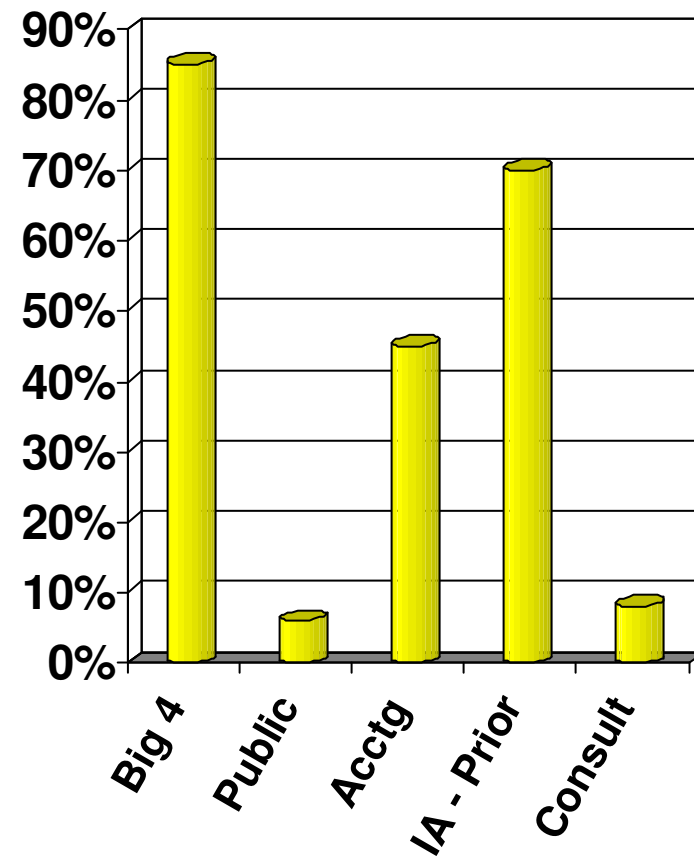
- VP / Director / Manager of Internal Audit
- Director of Risk Management
- Director of Internal Control
- Director—Accounting Policy & Operational Risk Mngmt
- Director / Manager of IT Audit
- VP Audit Services
- SVP, Financial Administration
- Compliance & Regulatory Manager

## Industries

- Financial Services – Banks, Investment Management
- Manufacturing – Chemicals, Aerospace, Defense, Other
- Life Sciences – Pharmaceuticals, Biotech, Med Devices
- Insurance
- Consumer / Retail
- Media & Entertainment
- Utilities and Services
- Electronic Business Services & E-commerce
- Food Processing
- Information Systems

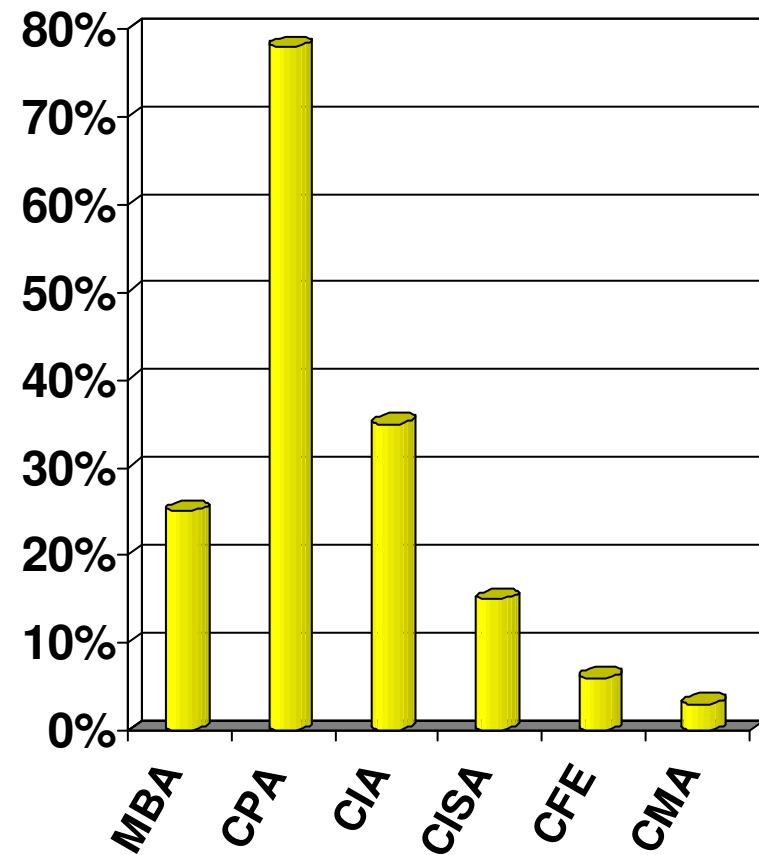
## Participant Profile – Prior Career Time

- 85% Big 4
- 6% Non-Big 4 public
- 45% Acctg - industry
- 70% Prior IA positions
- 8% Consultant



## Participant Profile Certifications & Degrees

- 25% MBA
- 78% CPA
- 35% CIA
- 15% CISA
- 6% CFE
- 3% CMA



# The Survey

## Top Ten Issues Noted by IA Executives

## 1. Implementing AS 5

- Goals for IA Execs
  - Improve efficiency - focus on high risk areas
  - Reliance on work of IA
  - Reduce independent auditor fees by 10%
- Issues
  - Resistance by external auditors
  - Changes in IA skills
    - Financial audit
    - Risk assessment
    - Test plans

## 1. Implementing AS 5

- How IA Execs Are Addressing
  - Approx 2/3 trying aggressively; 1/2 are succeeding
  - Create quality for external auditor reliance on work
    - Examine quality and risk-focus of SOX and other audit programs and documentation
  - Plan for external auditor reliance
  - Training staff in needed skills
  - Augment / co-source additional personnel & skills
  - Gain CFO & Audit Committee leverage with externals

## 2. IFRS

- Issues
  - What is IFRS? What do we need to learn? When?
  - What are the accounting, tax and financial reporting issues for our company – how will we implement?
  - What will be IA role in testing conversion
    - Systems
    - Accounting processes and key controls
    - Financial reporting
  - What will we address in our audit plans/programs?
  - What is our timetable for implementation?

## 2. IFRS

- Time Table for IFRS
  - 2005 Europe companies (had 3 years to convert) – Done
  - 2009 Foreign companies listed on US exchanges - SEC Approved
  - 2011 Canadian, Indian, Japanese companies - Expected

### SEC Proposed Roadmap 8/27/08

- 2009 Option for limited group of large companies
- 2011 Proposed SEC decision
- 2014 Large accelerated filers (estim. 110 eligible)
- 2015 Accelerated filers
- 2016 Small companies

## 2. IFRS

- PCAOB – Remarks of Bill Gradison 9-16-08
  - Current state of play
    - 2 sets accounting standards
    - 3 sets auditing standards
    - Few US universities teaching IFRS; only 22% plan to
- How IA Execs Are Addressing IFRS
  - Identifying the issues
    - Seeking assistance - auditors and other experts
    - Training (mostly planned at this point)
    - Strategy process with CFO / Financial Rptg
    - Worry about tax implications

### 3. Fair Value

- Issues
  - Extraordinary accounting complexity (FNM, FRE)
  - Do we understand and are we able to assess value correctly?
    - Financial reporting team
    - IA team
    - External auditors
  - PCAOB and SEC have expressed concern over auditors' ability to understand the valuation issues

### 3. Fair Value

- FAS 123R, *Stock Based Compensation*
- FAS 133, *Derivative Instruments & Hedging Activities*
- FAS 142, *Goodwill and Other Intangible Assets*
- FAS 144, *Impairment or Disposal of Long-Lived Assets*
- FAS 157, *Fair Value Measurements*
  - stocks, bonds, loans, warranty obligations, interest rate hedges.
- FAS 159, *The Fair Value Option for Financial Assets & Liabilities*
  - gives companies the option to account for certain financial assets and liabilities using the fair-value method of accounting.

## 4. Fraud

- Goals for IA Execs
  - Increasing emphasis on Fraud
- “Managing the Business Risk of Fraud: A Practical Guide”
  - Issued 7/8/08 by AICPA, IIA and ACFE
    - Fraud risk governance
    - Fraud risk assessment
    - Fraud prevention
    - Fraud detection
    - Fraud investigation & corrective action

## 4. Fraud

- Issues
  - Fraud risk governance
  - More sophisticated interviewing
  - Testing techniques
  - Certifications and training
- Measures IA Execs are Taking
  - Specialized training
  - Certifications
  - Hiring for the skills
  - Outsourcing / co-sourcing specialists

## 5. IT Security and Privacy

- Goals for IA Execs
  - Higher assurance levels
    - Increase testing
    - Improve effectiveness of testing
- Issues
  - Complexity
  - Industry-specific regs
  - Specialized skills
  - Cost of specialized skills
  - Finding staff with the talent

## 5. IT Security and Privacy

- How IT Execs are addressing
  - Increasing emphasis in audit plans
  - Training
  - Hiring specialists
  - Outsourcing / co-sourcing

## 6. Auditor Skills

- Issues
  - Finding auditors with the needed skills
  - Dealing with skill deficiencies in existing staff
  - #1 Skill: Communications (verbal and writing)
  - Risk assessment
  - Ability to design appropriate audit programs
  - Financial auditors with ITGC audit skill
  - Industry – specific skill areas

## 6. Auditor Skills

- Measures Taken
  - Training
  - Mentoring and OJT
  - Tougher hiring evaluations
  - Co-source or augment staff

## 7. Staff Quantity / Retention / Hiring

- Issues
  - IA project budgets are increasing – need more staff
  - Migratory nature of internal audit jobs – stepping stone
  - Difficulty hiring the (good) staff we need
    - Not enough good candidates
    - Competition for HR's attention to our needs
    - Competitive environment for auditors

## 7. Staff Quantity / Retention / Hiring

- How IA Execs are Addressing Staff Requirements
  - Becoming more involved in the hiring process
  - Improving the requirements / position description
  - Finding ways to make the company / group attractive
  - Training operations people as a new career path
  - Outsource / co-source / augment

## 8. Budget and Audit Plan Scope

- Issues
  - Audit plan time increasing by 20% on avg
  - IA budgets are flat across the board
  - Audits are becoming more technically sophisticated
  - Regulations and standards growing more complex
  - “How do you deal with the demands being made of audit, balancing budgets with program, regulatory and standards requirements?”

## 8. Budget and Audit Plan Scope

- How IA execs are addressing budget and scope
  - Working more hours
  - Training
  - Looking for and implementing efficiencies
  - Fighting for more budget
  - Trying to hire staff needs within the budget
  - Outsource / co-source / augment

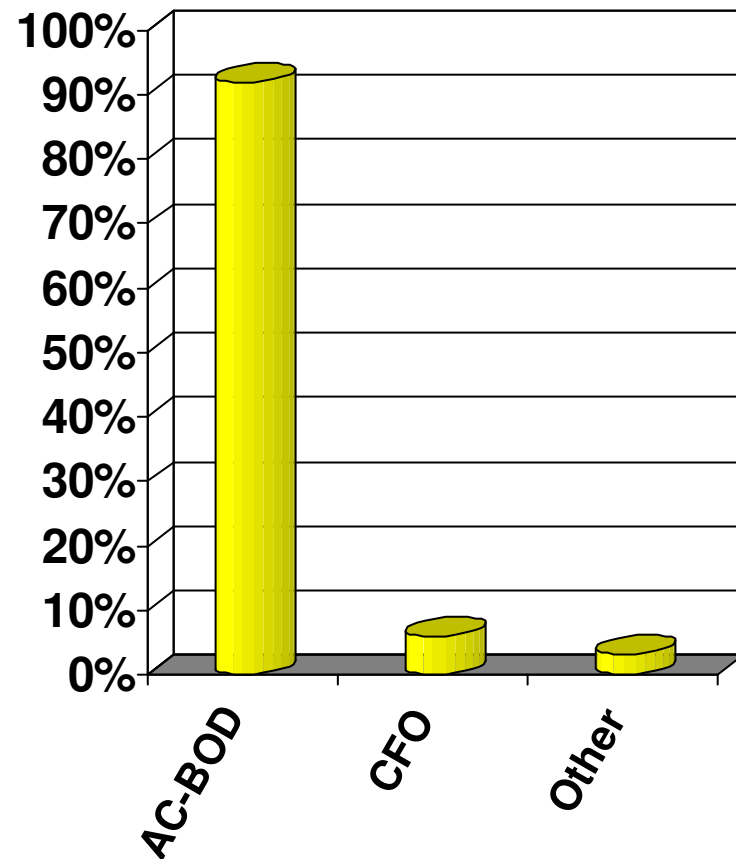
## 9. Continuing Influence of CFO

### Position Reports to:

- 92% Audit Committee of BOD
- 6% CFO
- 3% Controller or Other

### KEY FINDING:

- 91% of those reporting to AC
  - Admin/dotted line to CFO/CEO
- Most say CXO is a big influence



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“What I need is an internal auditor with an objective point of view to convince my executive team my plan is right.”

**10. Top Audit Plan Elements, Value, & Budget Rank**

	% Include Element in Audit Plan	Noted as Value-Added	% Who Ranked This a Top 5 Budget Item
SOX	94%	33%	50%
Risk Assessment	98%	17%	33%
Fraud Audits	75%	8%	25%
IT Audits	75%		25%
Operational Audits	67%		17%
Financial Audits	67%		33%

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What are your insights to help turn this company around 360 degrees?"



## **Thank You for Participating!**

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