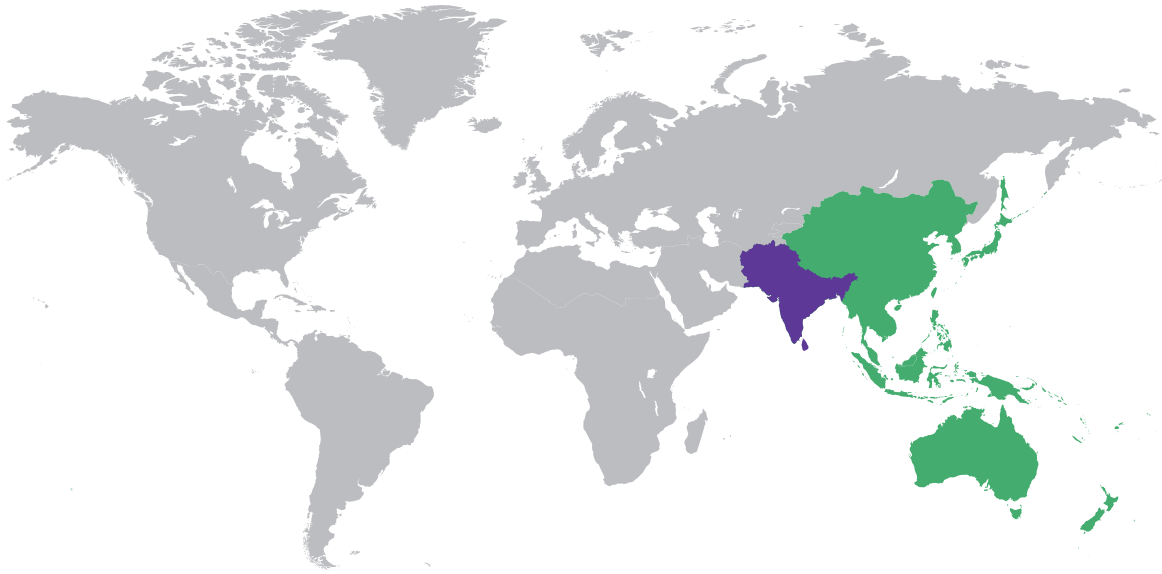


# Regional Reflections: Asia & Pacific

GLOBAL  
PERSPECTIVE



Fast Fact



## Executive Summary

*Regional Reflections: Asia & Pacific* is a customized research report that provides an Asia-Pacific perspective on the findings from CBOK 2015, the largest ongoing study of internal audit professionals in the world. Building on the 10 imperatives for internal audit that were presented at The IIA's 2015 International Conference, this report highlights unique concerns for Asia-Pacific and provides insights from several internal audit leaders in the region.

Many countries in the Asia-Pacific region are experiencing rapid change as their economies and governance systems continue to develop. This creates many differences in the Asia-Pacific sub-regions, which will be described throughout this report. See **appendix A** for a complete description of the countries in each sub-region and the unique characteristics of these areas.

While all auditors face pressure to deliver outstanding assurance to their stakeholders, the task may be particularly challenging for some Asia-Pacific sub-regions where the majority of chief audit executives (CAEs) answer to

the CEO or the board of directors rather than the audit committee. These sub-regions also have 25% fewer CAEs who say they use a risk-based methodology to establish the audit plan (compared to the global average). In addition, they are much less likely to update the audit plan after it has been established for the year.

Most of the region is keeping up with the global average for involvement in general IT risks, and some areas substantially exceed the global average for use of data analytics. However, the region scores are somewhat below global average for hours of training per year and alignment of internal audit with the organization's strategic objectives. Finally, respondents from much of this region are less likely to say they follow "all" of The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)* than the global average, suggesting a need for further exploration of the role of the *Standards* in this region.

Balancing stakeholder needs, available resources, and the maturity of the audit function all influence how individual departments adopt or approach the following

10 imperatives. But what follows should help auditors in the Asia-Pacific region reach the next level of their development.

Section 1: Play a Leading Role

1. Anticipate the Needs of Stakeholders.

In a fast-moving world, internal auditors must engage with stakeholders to proactively serve their needs. In some areas of Asia, however, many auditors still focus primarily on financial and regulatory compliance. “In East Asia, organizations don’t always understand the widely accepted practice of taking a risk-based approach to internal audit,” says Hari Setianto, chief finance officer at ASABRI and president of IIA–Indonesia. In China and East Asia, only 6 out of 10 auditors say they follow a risk-based methodology in establishing their audit plan, compared to the global average of 85%.

He says effective communication and involving stakeholders in audit planning and feedback is key to truly understanding what they need. Internal auditors in

Southeast Asia, South Asia, and Pacific are much more engaged in reaching out to management and business unit heads compared to their counterparts in East Asia and China (with Taiwan and Hong Kong) (see exhibit 1).

2. Develop Forward-Looking Risk Management Practices.

Among Asian regions, Southeast Asia, South Asia, and Pacific are higher than the global average for audit plan flexibility. However, 4 out of 10 in East Asia and China (with Taiwan and Hong Kong) say that they do not change their plan at all during the year after the initial development (see exhibit 2).

Without adequate flexibility, internal audit departments are less responsive to changing internal and external risk factors, and may not be in a position to audit the most relevant risks to the business in a timely way.

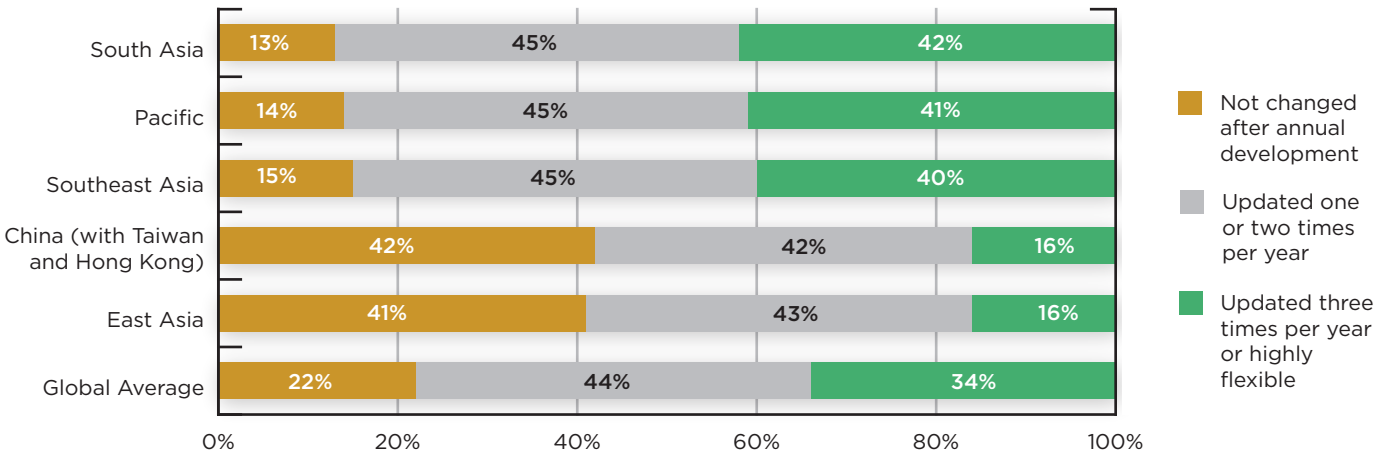
CAEs must communicate the changing risk profile of their organizations and revise the audit plan as frequently as necessary to meet those challenges. But many CAEs still do not conduct risk assessments on the strategic and organizational levels of the business, or clearly define,

Exhibit 1 Resources Used to Establish the Audit Plan

	China, (with Taiwan, Hong Kong)	East Asia	Southeast Asia	South Asia	Pacific	Global Average
A risk-based methodology	60%	64%	92%	88%	90%	85%
Requests from management	64%	66%	69%	79%	78%	72%
Analysis of the organization's strategy or business objectives	47%	47%	71%	63%	76%	64%
Consultations with divisional or business heads	39%	26%	56%	66%	76%	62%
The previous year's audit plan	63%	83%	70%	68%	75%	61%
Requests from the audit committee	30%	19%	69%	65%	75%	56%
Compliance/regulatory requirements	65%	43%	64%	67%	63%	62%
Consultations with external auditors	9%	17%	24%	30%	63%	26%
Requests from external auditors	9%	8%	15%	27%	29%	19%

Note: Q48: What resources do you use to establish your audit plan? (Choose all that apply.) CAEs only. Red text indicates a response notably lower than the global average, and blue indicates a response notably higher than global average. Black text indicates a response within 5% of global average. n = 671 for Asia. n = 3,040 for global average.

**Exhibit 2 Frequency of Updating the Audit Plan**



Note: Q38: How would you describe the development of the audit plan at your organization? CAEs only. *n* = 676 for Asia. *n* = 3,059 for global average.

clarify, and agree on the measures needed to assess whether the organization is achieving its objectives, says Joseph Arlan Fajardo, CAE at East-West Seed Group, Bulacan, Philippines.

“On the process level, control self-assessment can provide an effective feedback mechanism to improve audit outcomes,” he says. “Through this, internal audit can confirm or align its risks and control analysis to the auditee’s own analysis and agree on common interpretations.”

Having a flexible audit plan can depend on the maturity level of the risk management function within the organization, so coordination between risk management and internal audit is key. The CAE can become a promoter of the Three Lines of Defense Model of corporate governance to make the terms of the relationship clear.

**3. Continually Advise the Board and Audit Committee.**

At least 70% of CAEs report to the audit committee in Southeast Asia, Pacific, and South Asia. In sharp contrast, 70% of respondents in East Asia report to the CEO or equivalent. In China (with Taiwan and Hong Kong), 52% report to the board of directors (see **exhibit 3**).

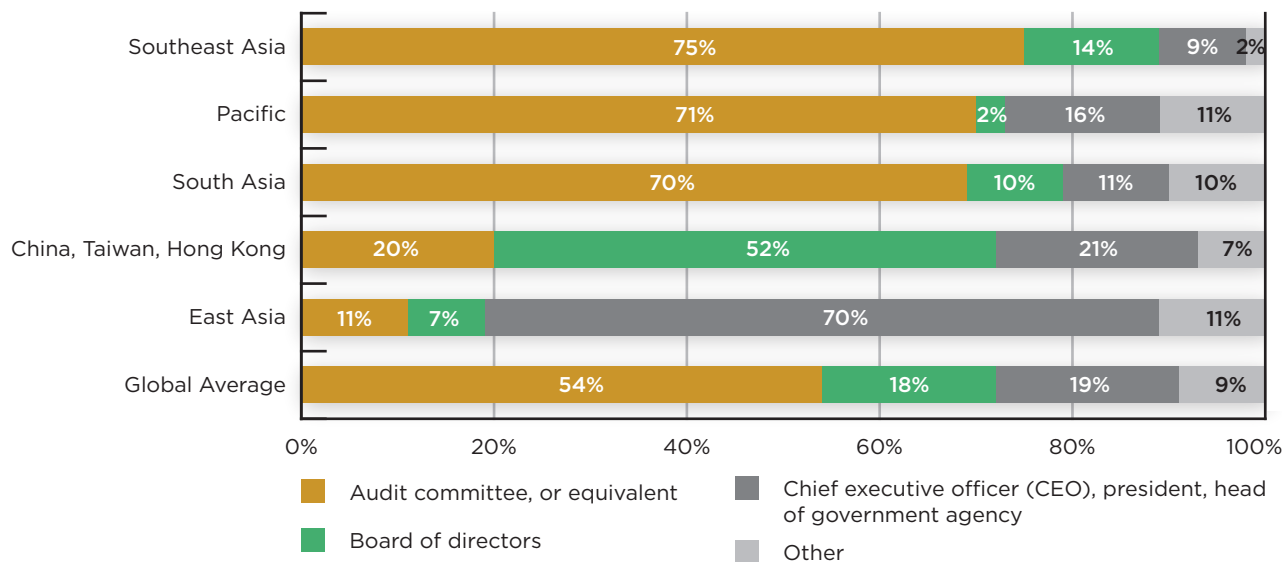
Bing Wang, associate professor of accounting, School of Business, Nanjing University China, says that it is

important to preserve the CAE’s right to attend board meetings and communicate with the governance bodies regularly. “The audit department can also create newsletters and less formal documents about their important findings and send them to management and the board,” he says.

**ACTION POINTS: BOARD AND AUDIT COMMITTEE COMMUNICATION**

- 1. Provide a quarterly update to the board and the audit committee on internal audit’s work.
- 2. Establish good informal communication channels with executive and non-executive management.
- 3. Produce timely, brief newsletters on salient points of interest to the board.
- 4. Establish an ongoing performance evaluation by management and the board under Quality Assessment and Improvement Programs (QAIPs).

Exhibit 3 Functional Reporting Lines



Note: Q74: What is the primary functional reporting line for the chief audit executive (CAE) or equivalent in your organization? CAEs only. n = 556 for Asia. n = 2,634 for global average.

4. Be Courageous.

On a global average, about 3 out of 10 CAEs say they have felt pressure to modify or suppress legitimate audit findings, but several regions in Asia report higher percentages (see **exhibit 4**). In contrast, East Asia is dramatically lower than the global average, and China (with Taiwan and Hong Kong) is unique in having 17% of respondents who say they would prefer not to answer the question. In many areas of Asia, CAEs who have felt such pressure report that it comes from the chief executive officer (CEO) (China, Southeast Asia, and Pacific). However, in East Asia, the pressure is felt more from operations management, and in South Asia, more from operations management or the chief financial officer (CFO) (Q77b, n = 757).

“To resist this pressure, chief audit executives have to find good allies,” Setianto says. “You cannot do it on your

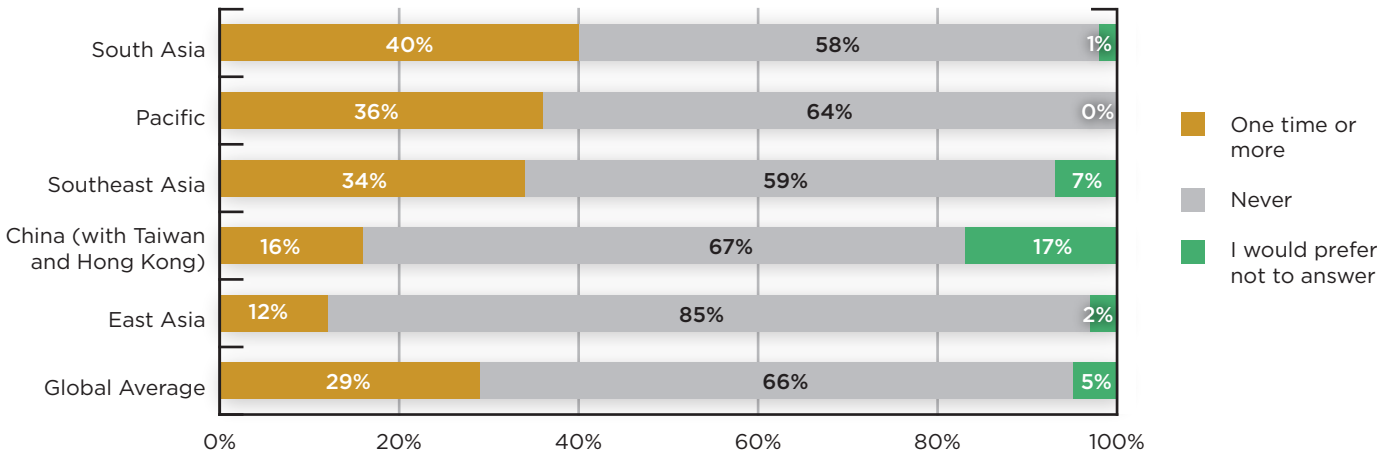
own, so approach the board, the audit committee, or the minister (if you are working in the public sector) with the issue you are going to raise. With such a network of allies, it is easier to get your point across to the CEO.”

Section 2: Beat the Expectations Gap

5. Support the Business’s Objectives.

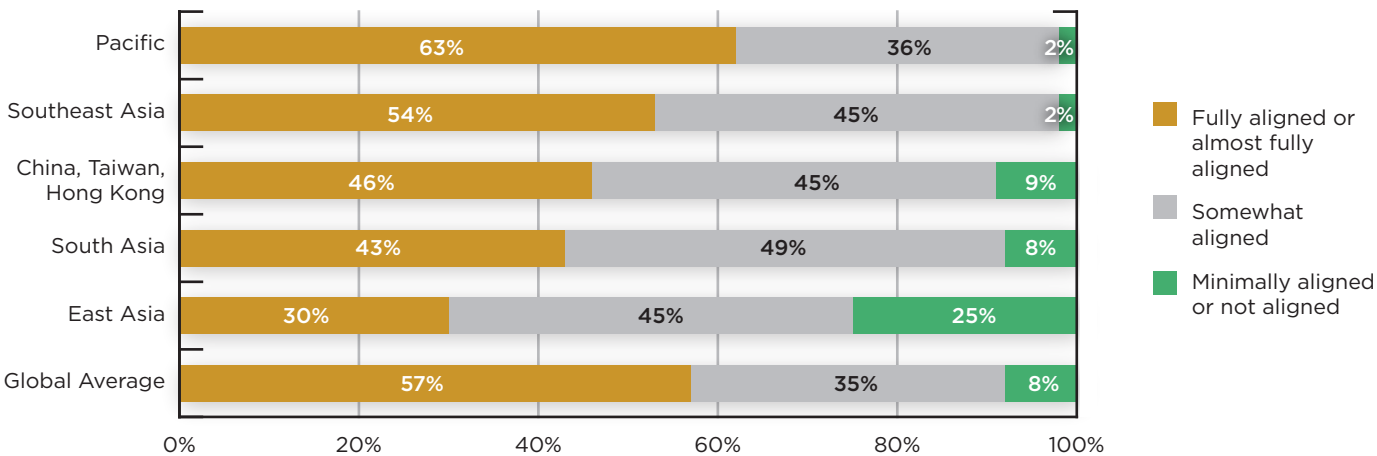
Most regions in Asia are below the global average of 57% who say their audit departments are fully aligned, or almost fully aligned, with the strategic plans of their organizations, with the exception of the Pacific region (see **exhibit 5**). Given that aligning audit work with stakeholder expectations is a prerequisite for helping the business develop forward-looking audit practices, most CAEs in Asia must do better in this area.

**Exhibit 4 Pressure Felt to Change an Audit Finding or Report (CAEs Only)**



Note: Q77: During your internal audit career, have you experienced a situation where you were directed to suppress, or significantly modify, a valid internal audit finding or report? Due to rounding, some totals may not equal 100%. *n* = 549 for Asia. *n* = 2,614 for global average.

**Exhibit 5 Internal Audit Aligned to Strategic Plan**



Note: Q57: To what extent do you believe your internal audit department is aligned with the strategic plan of your organization? CAEs only. *n* = 594 for Asia. *n* = 2,756 for global average.

## ACTION POINTS: ALIGNING WITH STRATEGY

### Informal Methods

1. Communicate with senior management as much as possible. Understand their interests, especially in achieving strategic objectives and the risks that threaten those goals.
2. Think from the perspective of the CEO and other senior management when you are planning and carrying out audit work to keep what is important to them in the forefront.
3. Think strategically—even when addressing daily issues—and share your view with your colleagues.

### Formal Methods

4. Conduct periodic (at least annual) strategic risk assessment and prioritization of strategic risks confirmed in conjunction with management and the board.
5. Have a scalable audit plan flexible enough to accommodate or adjust to the changing risk profile during the year.
6. Align internal audit's risk assessment with the organization's risk management assessment.

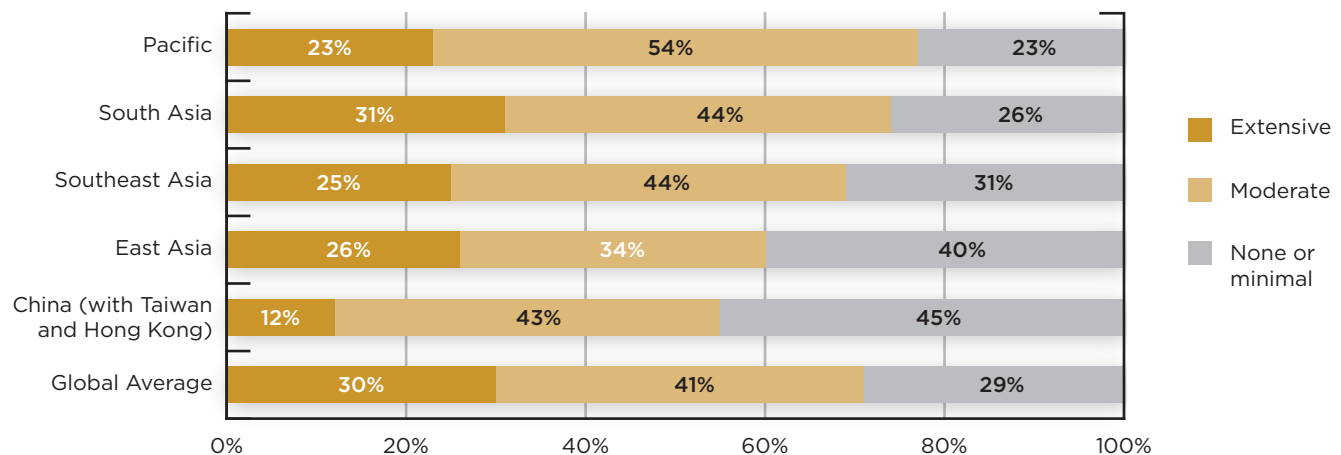
## 6. Identify, Monitor, and Deal with Emerging Technology Risks.

There is a wide gap in activity related to technology within the regions of Asia. Among respondents from China (with Taiwan and Hong Kong), 45% say internal audit activity for IT risks is none or minimal. In contrast, about 75% of

internal auditors in South Asia and Pacific say their IT risk activity is moderate or extensive (see **exhibit 6**).

“In Japan, technology is one of the highest ranking risks because we cannot complete our work without it, and because threats from cyberattacks are increasing at a remarkable rate,” says Hajime Yoshitake, a former CAE at a major Japanese bank in Tokyo, Japan.

**Exhibit 6 Internal Audit Activity for General IT Risks**



Note: Q92: For information technology (IT) security in particular, what is the extent of the activity for your internal audit department related to the following areas? Topic: General IT risks. *n* = 2,897 for Asia. *n* = 10,180 for global average.

## 7. Enhance Audit Findings Through Greater Use of Data Analytics.

South Asia and Southeast Asia stood out above the global average for use of data analytics, while East Asia was below the global average in all uses of data analytics. China (with Taiwan and Hong Kong) stood out for unusually high use of data to discover risk and control issues (see **exhibit 7**).

In regions where internal auditors are skilled in data analysis, they need to harness these skills to address risks that could impact the business's strategic objectives. "Data analytics is just a tool," says Wang. "Auditors should adopt risk-based auditing and focus on their organizations' strategic risks."

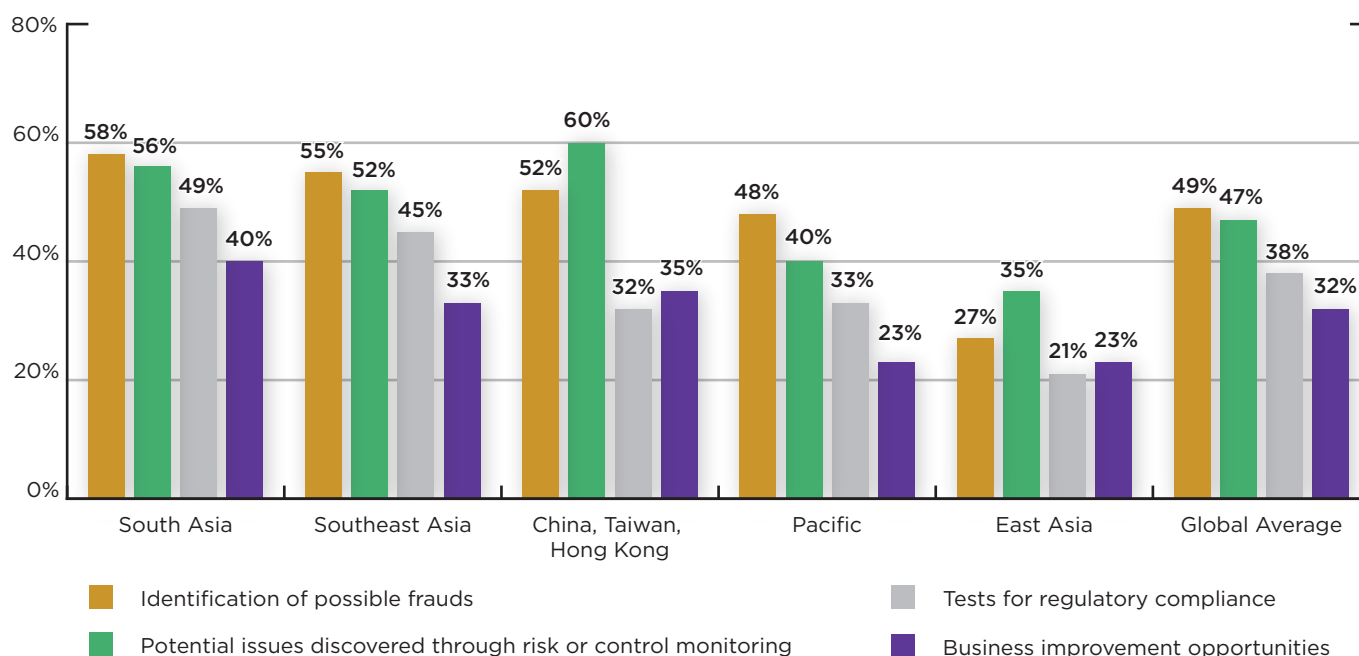
He says that, if properly focused, data analytics is likely to help find some important or potential strategic risks. This will help those businesses decrease risks and help realize their strategic objectives.

## 8. Go Beyond The IIA's *Standards*.

In some parts of Asia, the use of "all of" The IIA's *Standards* is well below the global average, although "partial use" is substantial (see **exhibit 8**). About 1 out of 3 respondents say the reason for not conforming to all of the *Standards* is "inadequate internal audit staff." In addition, 1 out of 4 cite "lack of perceived benefit compared to cost" or "not appropriate for small organizations" (Q99a,  $n = 1,288$ ).

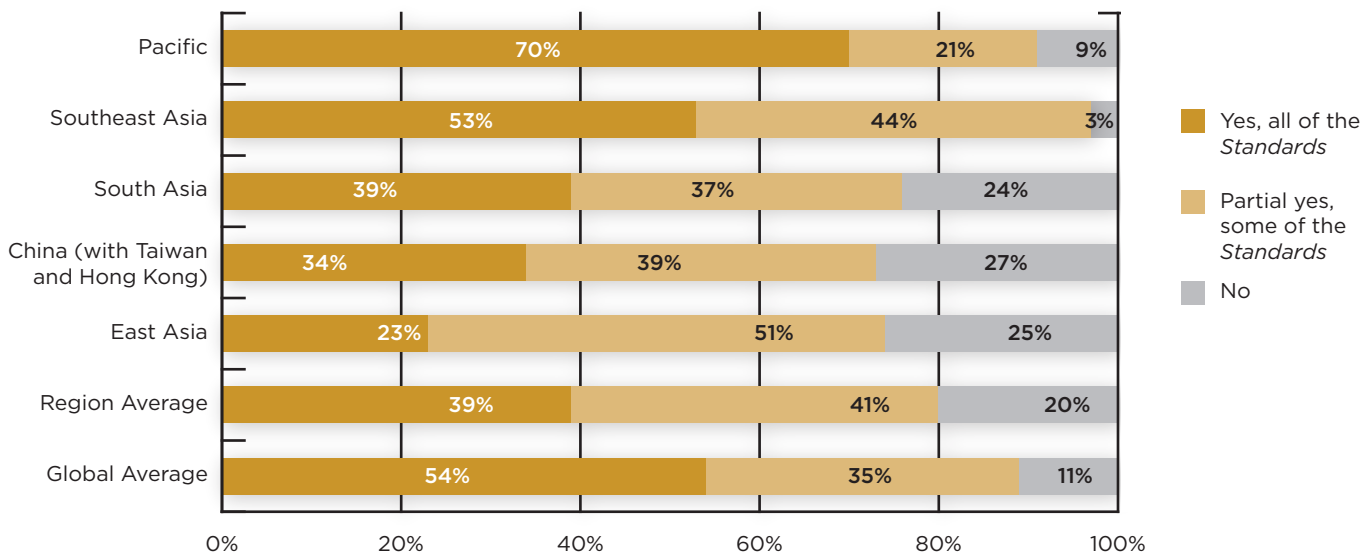
Among those who use the *Standards*, three of Asia's regions are above the global average of 42% for conformance to Standard 1300: Quality Assurance and Improvement Program (China, 51%, South Asia, 47%, and Pacific, 46%) (Q99,  $n = 400$ ).

**Exhibit 7 Usage of Data Analytics**



Note: Q96: Does your internal audit department use data mining or data analytics for the following activities? (Choose all that apply.)  $n = 3,084$  for Asia.  $n = 10,088$  for global average.

**Exhibit 8 Use of IIA Standards**



Note: Q98: Does your organization use the *International Standards for the Professional Practice of Internal Auditing (Standards)*? Only CAE responses were included in this exhibit. *n* = 510 for Asia. *n* = 2,513 for global average.

**Benefits of Following The IIA’s Standards**

- 1. Helps the organization stay abreast of international trends in internal auditing and enhances internal audit quality.
- 2. Helps improve internal audit practices because the *Standards* is continually revised and updated.
- 3. Enhances and promotes the position and authority of internal audit.
- 4. Provides common knowledge, which facilitates communication with non-auditors, other assurance providers, and auditors in different countries.

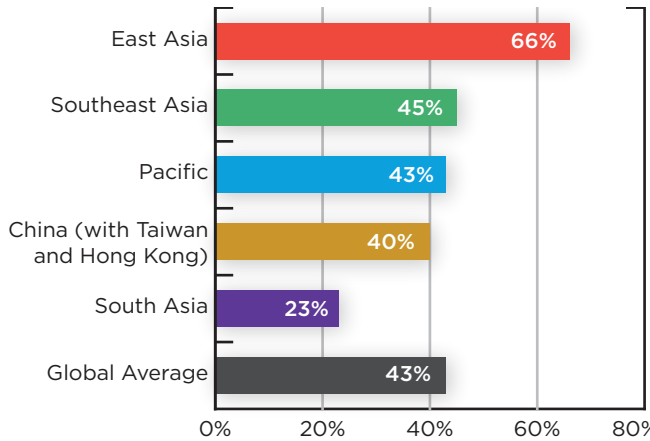
far exceeds the global average for internal audit certification at 66% (see **exhibit 9**). Internal auditors need to invest in these critical certifications to have fulfilling careers and contribute effectively to their organizations.

**Section 3: Invest in Excellence**

**9. Invest in Yourself.**

Internal auditors in South Asia are second-least likely to hold an internal audit certification in the world (23%), following those in Latin America and the Caribbean. However, East Asia (comprised of Japan and South Korea)

**Exhibit 9 Respondents with an Internal Audit Certification**



Note: Q12: Which professional certifications and/or qualifications do you have related to internal auditing? (Choose all that apply.) *n* = 3,805 for Asia. *n* = 13,156 for global average.

“First and foremost, we have to encourage more internal auditors to get their certifications and encourage more participation in training generally,” Fajardo says. “Individual auditors should realize that such training is beneficial to their long-term prospects and careers.”

### 10. Recruit, Motivate, and Retain Great Team Members.

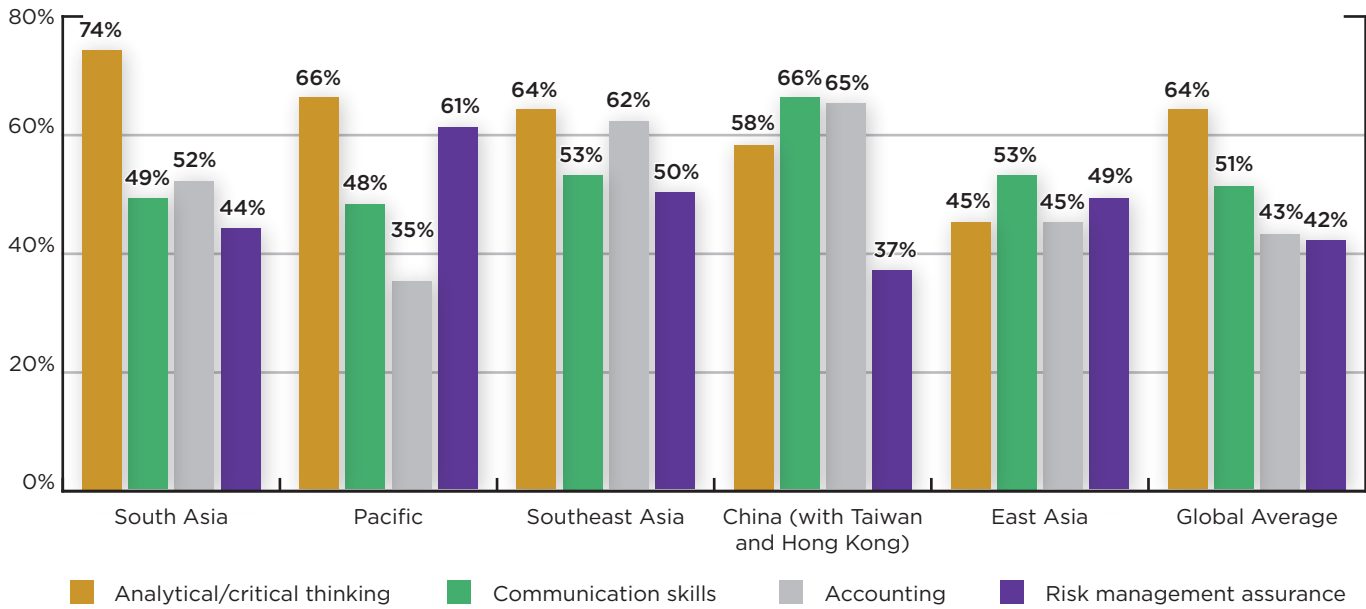
Internal audit departments need to attract and retain people from a broader range of backgrounds with more diverse skills to succeed in a rapidly changing world. Competition for the right candidates is intense, particularly for those with good analytical and communication skills, so only departments with properly structured training and development will become world-class functions. The Asia-Pacific region as a whole is lagging slightly behind the global average, with 5 out of 10 in Asia-Pacific saying they receive 40 or more hours of training per year, compared to 6 out of 10 globally (Q14, *n* = 12,925).

In addition to ensuring that the department has the right budget for education and training, Setianto says that rotating auditors into other parts of the organization to gain industry knowledge can benefit the individual, the audit function, and the business. Developing a department that can serve as a training ground for future managers can also raise its profile and professionalism, he says. In some countries, such as Japan, auditors tend to work in the department for three to five years before moving to other functions.

While CAEs are recruiting for traditional skills (such as accounting), they are also looking for analytical thinking and communication skills to add to their departments (see **exhibit 10**).

To aid retention, CAEs can work closely with human resources professionals within their organizations to ensure internal auditors also have appropriate job grades and remuneration plans compared to other functions within the business.

**Exhibit 10 Skills Being Recruited for the Internal Audit Department**



*Note:* Q30: What skills are you recruiting or building the most in your internal audit department? (Choose up to five.) CAEs only. This exhibit includes only the top four skills by global average. *n* = 724 for Asia. *n* = 3,304 for global average.

# Appendix A

## Internal Audit in Asia & Pacific

**Exhibit A1** Responses Per Country

	Count	% of Region
<b>Region: China (with Taiwan and Hong Kong)</b>		
China	1,761	41.69%
Taiwan	444	10.51%
Hong Kong	14	0.33%
Macao	3	0.07%
Mongolia	0	0.00%
<b>Subtotal</b>	<b>2,222</b>	<b>52.60%</b>

<b>Region: East Asia</b>		
Japan	411	9.73%
South Korea	80	1.89%
<b>Subtotal</b>	<b>491</b>	<b>11.62%</b>

<b>Region: Southeast Asia</b>		
Malaysia	238	5.63%
Indonesia	205	4.85%
Singapore	114	2.70%
Phillippines	69	1.63%
Thailand	22	0.52%
Brunei Darussalam	2	0.05%
Cambodia	1	0.02%
Laos	1	0.02%
Myanmar (Burma), Vietnam	0	0.00%
<b>Subtotal</b>	<b>652</b>	<b>15.44%</b>

<b>Total Respondents</b>	<b>4,205</b>	<b>100%</b>
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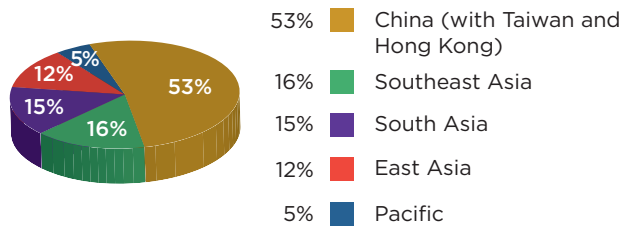
	Count	% of Region
<b>Region: South Asia</b>		
India	513	12.14%
Bangladesh	82	1.94%
Pakistan	33	0.78%
Sri Lanka (ex-Ceilan)	7	0.17%
Afghanistan	2	0.05%
Nepal	4	0.09%
Bhutan	1	0.02%
Maldives	0	0.00%
<b>Subtotal</b>	<b>642</b>	<b>15.20%</b>

<b>Region: Pacific</b>		
Australia	98	2.32%
New Zealand	58	1.37%
Fiji	21	0.50%
Papua New Guinea	8	0.19%
French Polynesia	6	0.14%
Guam	2	0.05%
Micronesia	2	0.05%
Marshall Islands	1	0.02%
New Caledonia	1	0.02%
Solomon Islands	1	0.02%
Samoa, American Samoa, Tonga	0	0.00%
<b>Subtotal</b>	<b>198</b>	<b>4.69%</b>

Note: Q6: In which region are you based or primarily work?  $n = 4,205$ .

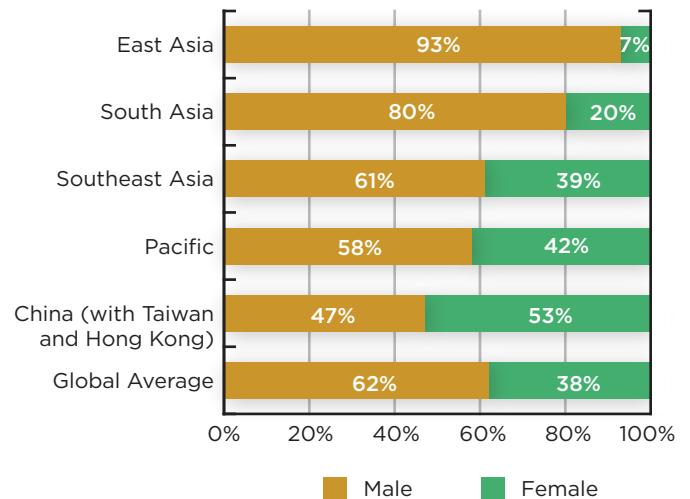
# Internal Audit in Asia & Pacific

**Exhibit A2 Geographic Distribution of Asian Respondents**



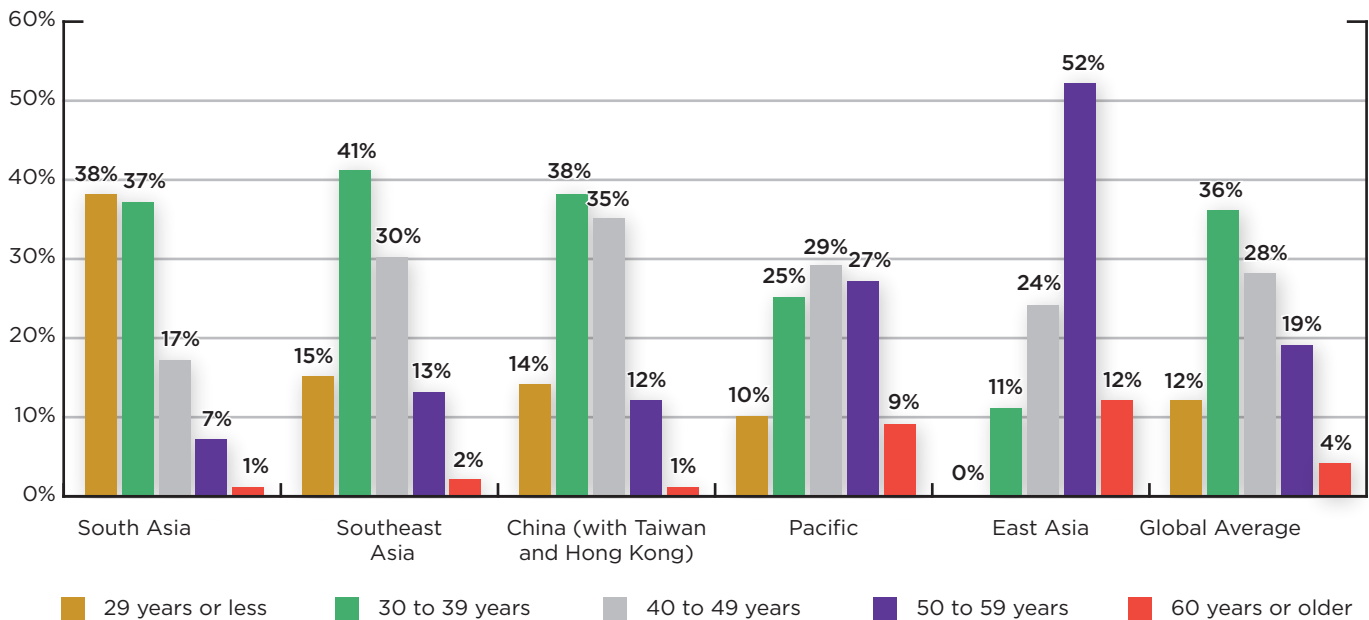
Note: Q6: In which region are you based or primarily work?  $n = 4,205$ .

**Exhibit A3 Ratio of Men to Women**



Note: Q4: What is your gender?  $n = 4,158$  for Asia.  $n = 14,357$  for global average.

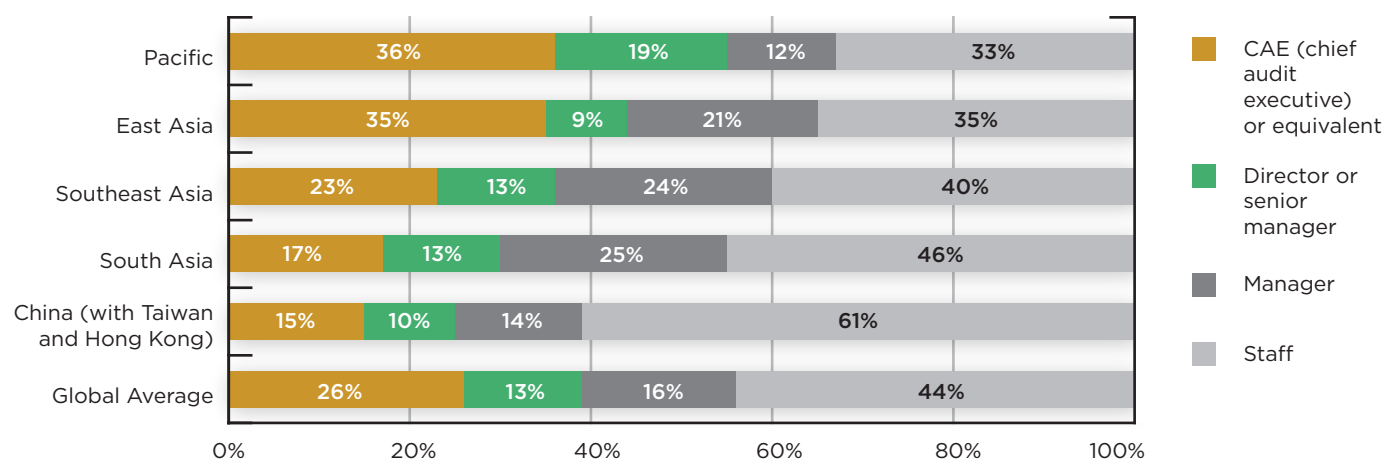
**Exhibit A4 Age by Category**



Note: Q3: What is your age? (optional).  $n = 3,650$  for Asia.  $n = 12,780$  for global average.

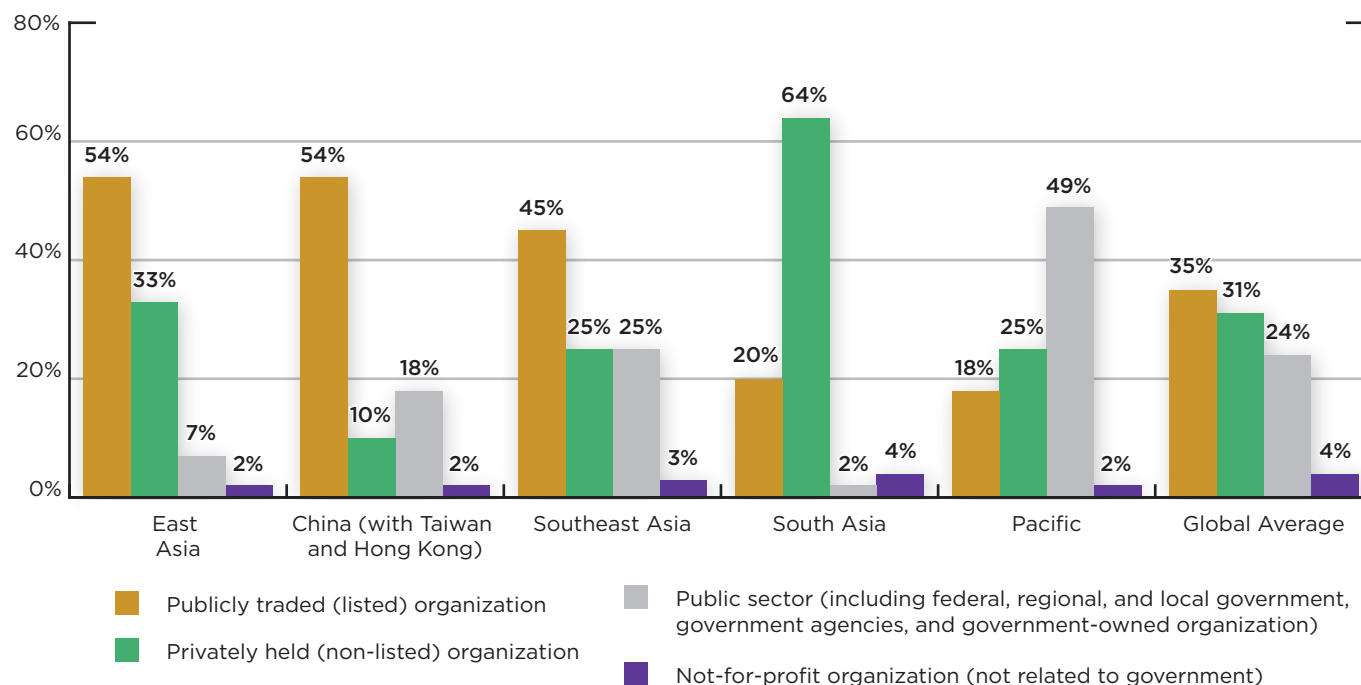
# Internal Audit in Asia & Pacific

**Exhibit A5 Employee Levels**



Note: Q9: What is your position as an internal auditor in the organization?  $n = 3,964$  for Asia.  $n = 12,716$  for global average.

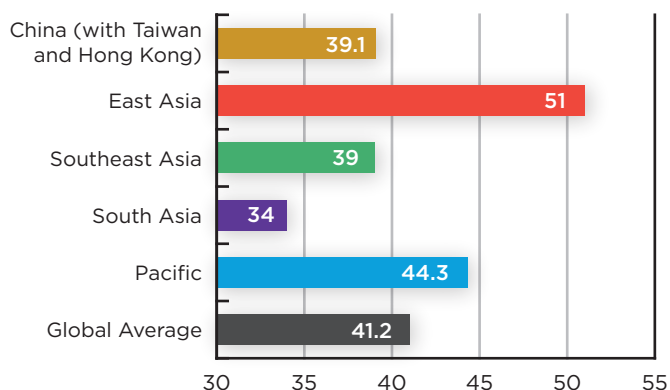
**Exhibit A6 Organization Types**



Note: Q15: What is the type of organization for which you currently work?  $n = 3,780$  for Asia.  $n = 13,032$  for global average.

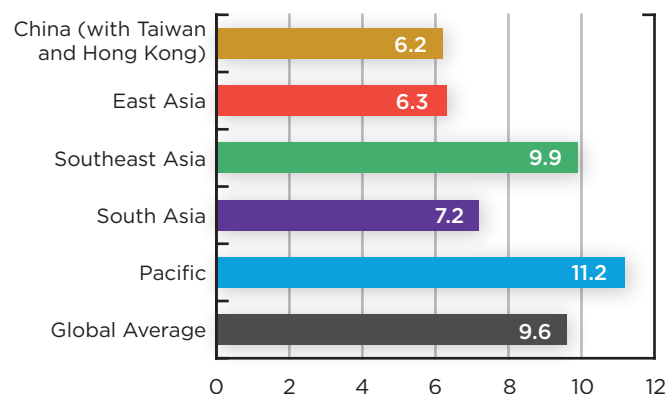
# Internal Audit in Asia & Pacific

**Exhibit A7 Average Age in Years**



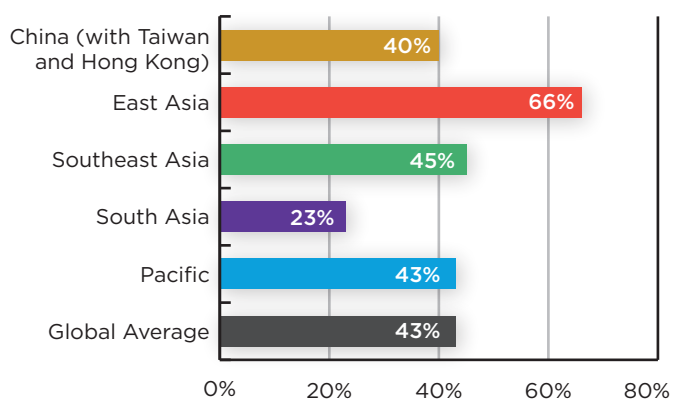
Note: Q3: What is your age? (optional).  $n = 3,650$  for Asia.  $n = 12,780$  for global average.

**Exhibit A8 Years of Internal Audit Experience**



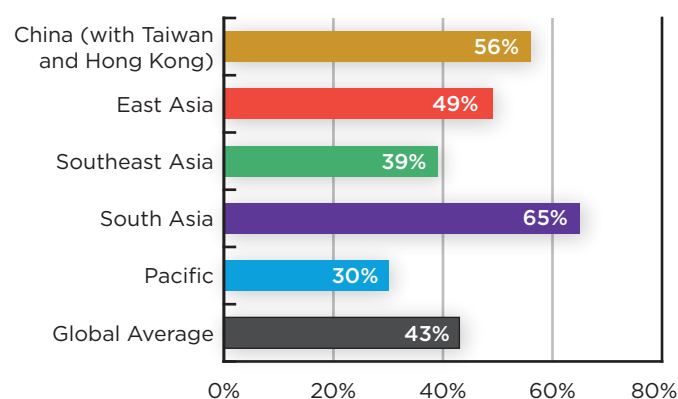
Note: Q10: Approximately how many years of professional experience do you have as an internal auditor?  $n = 3,801$  for Asia.  $n = 13,138$  for global average.

**Exhibit A9 Respondents with Internal Audit Certifications**



Note: Q12: Which professional certifications and/or qualifications do you have related to internal auditing? (Choose all that apply.)  $n = 3,808$  for Asia.  $n = 13,156$  for global average.

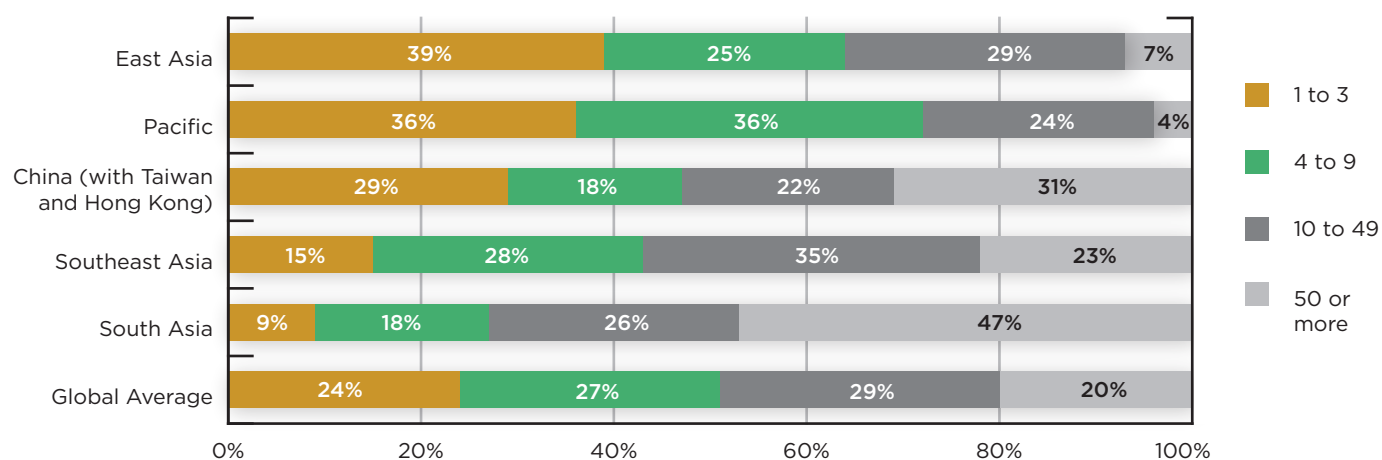
**Exhibit A10 Internal Audit Higher Education**



Note: Q5a: What were your academic major(s) or your most significant fields of study. (Choose all that apply.) Topic: Auditing (internal).  $n = 4,106$  for Asia.  $n = 12,462$  for global average.

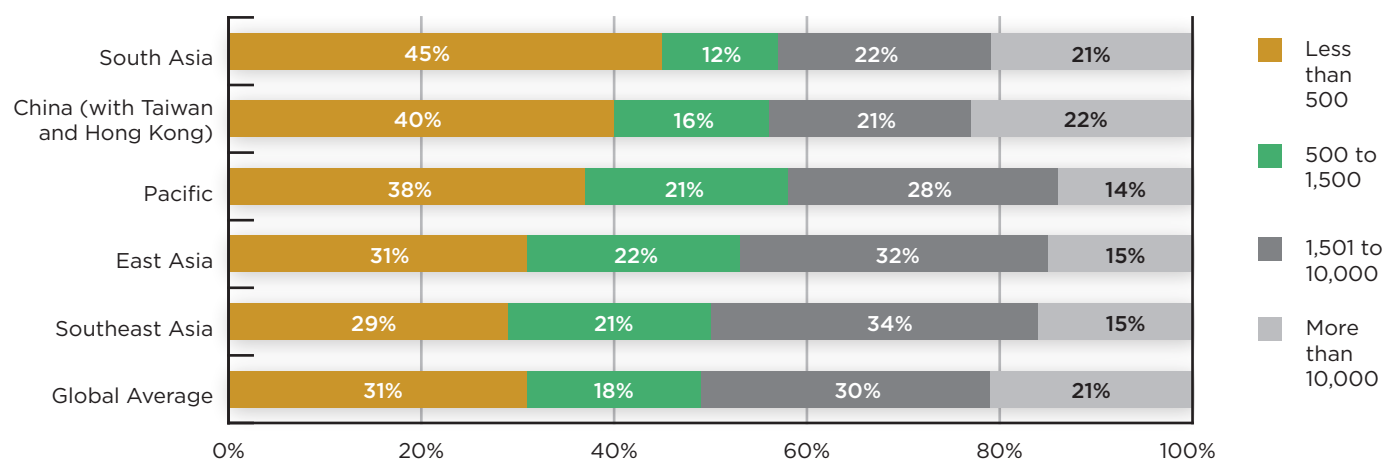
# Internal Audit in Asia & Pacific

**Exhibit A11** Number of Employees in the Internal Audit Department



Note: Q24: Approximately how many full-time equivalent employees make up your internal audit department?  $n = 3,115$  for Asia.  $n = 11,761$  for global average.

**Exhibit A12** Number of Employees in the Organization



Note: Q19: For the entire organization in which you work, what was the approximate total number of fulltime equivalent employees as of the end of the last fiscal year?  $n = 3,775$  for Asia.  $n = 13,014$  for global average.

# About CBOK

## SURVEY FACTS

Respondents	14,518*
Countries	166
Languages	23

## EMPLOYEE LEVELS

Chief audit executive (CAE)	26%
Director	13%
Manager	17%
Staff	44%

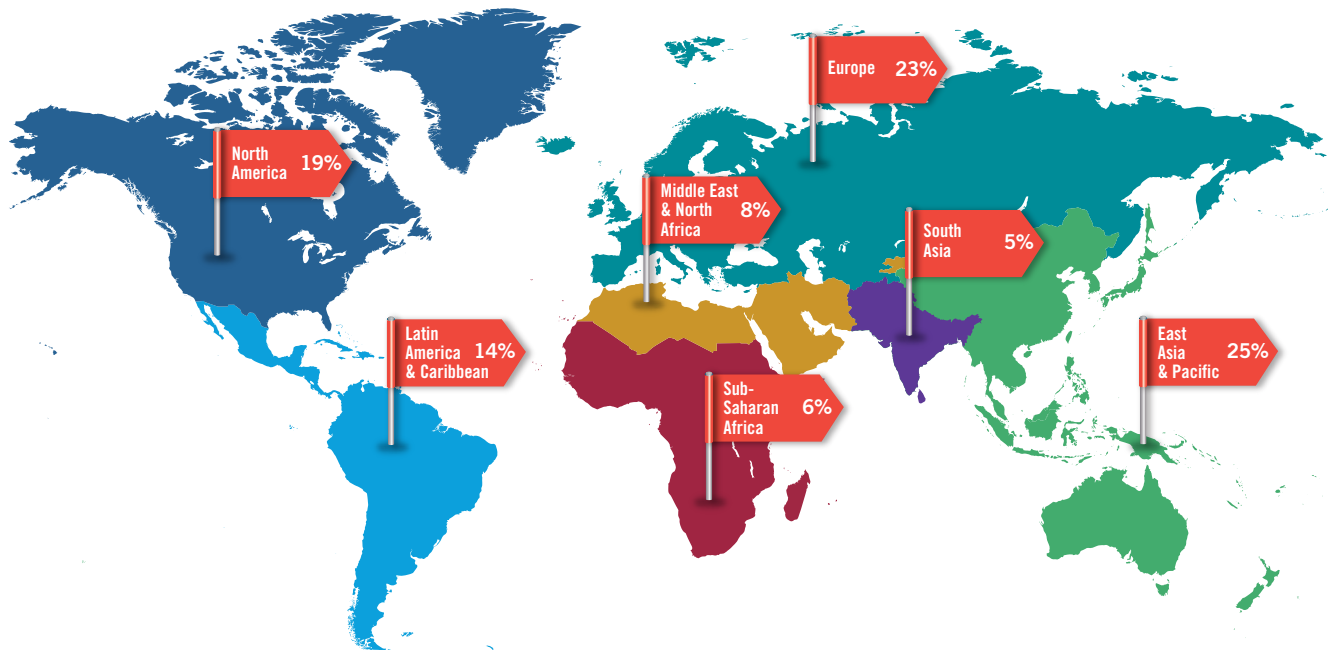
\*Response rates vary per question.

The Global Internal Audit Common Body of Knowledge (CBOK) is the world's largest ongoing study of the internal audit profession, including studies of internal audit practitioners and their stakeholders. One of the key components of CBOK 2015 is the global practitioner survey, which provides a comprehensive look at the activities and characteristics of internal auditors worldwide. This project builds on two previous global surveys of internal audit practitioners conducted by The IIA Research Foundation in 2006 (9,366 responses) and 2010 (13,582 responses).

Reports will be released on a monthly basis through July 2016 and can be downloaded free of charge thanks to the generous contributions and support from individuals, professional organizations, IIA chapters, and IIA institutes. More than 25 reports are planned in three formats: 1) core reports, which discuss broad topics, 2) closer looks, which dive deeper into key issues, and 3) fast facts, which focus on a specific region or idea. These reports will explore different aspects of eight knowledge tracks, including technology, risk, talent, and others.

Visit the CBOK Resource Exchange at [www.theiia.org/goto/CBOK](http://www.theiia.org/goto/CBOK) to download the latest reports as they become available.

## CBOK 2015 Practitioner Survey: Participation from Global Regions



Note: Global regions are based on World Bank categories. For Europe, fewer than 1% of respondents were from Central Asia. Survey responses were collected from February 2, 2015, to April 1, 2015. The online survey link was distributed via institute email lists, IIA websites, newsletters, and social media. Partially completed surveys were included in analysis as long as the demographic questions were fully completed. In CBOK 2015 reports, specific questions are referenced as Q1, Q2, and so on. A complete list of survey questions can be downloaded from the CBOK Resource Exchange.

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## About the Author

**Arthur Piper**, PhD, is an award-winning writer and editor with more than 20 years' experience specializing in internal auditing, risk management, corporate governance, and emerging technologies. He has been managing director of the editorial services company, Smith de Wint, since 1996. He has been Associate Research Fellow at the University of Nottingham (UK) in the Department of Culture, Film, and Media since 2006, and specializes in the critical understanding of emerging technologies.

## About The IIA Research Foundation

CBOK is administered through The IIA Research Foundation (IIARF), which has provided groundbreaking research for the internal audit profession for the past four decades. Through initiatives that explore current issues, emerging trends, and future needs, The IIARF has been a driving force behind the evolution and advancement of the profession.

## About The IIA Research Foundation

### CBOK Development Team

CBOK Co-Chairs:

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Practitioner Survey Subcommittee Chair:

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