

THE IIA'S GLOBAL INTERNAL AUDIT SURVEY

# Characteristics of an Internal Audit Activity



**The IIA's Global Internal Audit Survey:  
A Component of the CBOK Study**

# Characteristics of an Internal Audit Activity

Report I

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# Disclosure

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The Institute of Internal Auditors' (IIA's) International Professional Practices Framework (IPPF) comprises the full range of existing and developing practice guidance for the profession. The IPPF provides guidance to internal auditors globally and paves the way to world-class internal auditing.

The mission of The IIARF is to expand knowledge and understanding of internal auditing by providing relevant research and educational products to advance the profession globally.

The IIA and The IIARF work in partnership with researchers from around the globe who conduct valuable studies on critical issues affecting today's business world. Much of the content presented in their final reports is a result of IIARF-funded research and prepared as a service to The Foundation and the internal audit profession. Expressed opinions, interpretations, or points of view represent a consensus of the researchers and do not necessarily reflect or represent the official position or policies of The IIA or The IIARF.

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## Dedication

William G. Bishop III, CIA, served as president of The Institute of Internal Auditors from September 1992 until his untimely death in March 2004. With a motto of “I’m proud to be an internal auditor,” he strived to make internal auditing a truly global profession. Bill Bishop advocated quality research for the enhancement of the stature and practice of internal auditing. To help enhance the future of this profession, it is vital for the profession to document the evolution of the profession worldwide.

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# Acknowledgments

The 21st century presents unprecedented growth opportunities for the internal audit profession. Advances in technology, the confluence of the Information and the Internet Age, and the sheer speed and expansion of communications capabilities have significantly accelerated the pace of globalization. Governance, risk, controls, and compliance processes within organizations have undergone significant change to manage the increasing complexity and sophistication of global business operations. All of these developments offer a huge opportunity for internal audit functions, whether in-sourced, co-sourced, or outsourced, including the potential to add even greater value to their respective organizations.

To ensure that a body of knowledge is systematically built up, developments in practice in a dynamically changing environment must be carefully monitored and continually analyzed to reveal critically important insights. Key lessons learned from the experience of the profession must constitute part of the historical record and be transmitted to current and future generations of internal audit professionals for optimal outcomes. Not only must we strive to secure a robust portrayal of the current state of the profession, but encourage practice-relevant research to inform and push the boundaries of practice.

We are fortunate that under the auspices of the William G. Bishop III, CIA, Memorial Fund, administered by The IIA Research Foundation, it is possible to undertake large-scale studies of the global internal audit profession. We sincerely appreciate Mary Bishop's passion and commitment to further the internal audit profession while honoring Bill Bishop's legacy. The inaugural Common Body of Knowledge (CBOK) survey under William Taylor's leadership occurred in 2006; this is the second iteration. Based on the responses from The IIA's Global Internal Audit Survey from 2006 and now in 2010, it is possible to compare results and perform high-level trending.

Five reports cover the full spectrum of a wide range of the survey questions (carefully designed to allow for comparison between the 2006 and 2010 survey data). These reports cover topical content from characteristics of an internal audit activity to implications for charting the future trajectory of the profession. The cooperation and sharing among the five report-writing teams representing the Americas, Asia, Europe, and the Middle East have made this project a truly global and collaborative effort.

We hope that this collection of reports describing the expected influence of major themes about, and developments in, the profession as extracted from the survey will provide a comprehensive snapshot of the profession globally, offer helpful insights and actionable intelligence, and point the way forward to maintaining the profession's continued relevance and value-added contributions.

For a large global project such as The IIA's Global Internal Audit Survey, the list of individuals to thank is quite extensive. First of all, our special thanks go to IIA Research Foundation Trustee Marjorie Maguire-Krupp who was involved at the inception of the CBOK study in the fall of 2008, and soon thereafter, retired former IIA President David Richards who, along with Michelle Scott, provided the initial leadership to this significant project.

In addition, we must acknowledge William Taylor and Leen Paape, both advisors to the CBOK 2010 study co-chairs, and the following international members of the CBOK 2010 Steering Committee, as well as the Survey Design Subcommittee and the Deliverables Oversight Subcommittee, for their guidance and significant contributions to the survey design, administration, data collection, interpretation, and topic-specific reports: Abdullah Al-Rowais, AbdulQader Ali, Audley Bell, Sezer Bozkus, John Brackett, Ellen Brataas, Edouard Bucaille, Adil Buhariwalla, Jean Coroller, David Curry, Todd Davies, Joyce Drummond-Hill, Claudelle von Eck, Bob Foster, Michael Head, Eric Hespenheide, Greg Hill, Steve Jameson, Béatrice Ki-Zerbo, Eric Lavoie, Luc Lavoie, Marjorie Maguire-Krupp, John McLaughlin, Fernando Mills, Michael Parkinson, Jeff Perkins, Carolyn Saint, Sakiko Sakai, Patricia Scipio, Paul Sobel, Muriel Uzan, R. Venkataraman, Dominique Vincenti, and Linda Yanta.

Several members of these committees must be particularly thanked for their extended participation in what became a prolonged, three-year commitment for this large-scale undertaking. Each of these individuals contributed their leadership, wealth of knowledge and experience, time, and effort to the CBOK study and deserves our deepest gratitude.

Professor Mohammad Abdolmohammadi of Bentley University was key to the 2010 data analysis and preparation of summary tables of the survey responses, as he was for the CBOK study in 2006. Professor Sandra Shelton of DePaul University must be recognized for giving the reports a smooth flow and an overall consistency in style and substance.

The survey could not have succeeded without the unstinted and staunch support of the survey project champions at The IIA institutes worldwide. At The IIA's global headquarters in Altamonte Springs, Florida, United States, many staff members, especially Bonnie Ulmer and Selma Kuurstra, worked tirelessly and provided indispensable support and knowledge. Bonnie Ulmer, IIA vice president, David Polansky, IIA executive director, and Richard Chambers, IIA president and CEO (who simultaneously served as executive director for most of the project), provided the necessary direction for the successful completion of the project.

Last but not least, The IIA's 2010 CBOK study component — The Global Internal Audit Survey — and the resulting five reports owe their contents to thousands of IIA members and nonmembers all over the world who took the time to participate in the survey. In a sense, these reports are a fitting tribute to the contributions made by internal audit professionals around the globe.

### **CBOK 2010 Steering Committee Co-chairs**

Dr. Sridhar Ramamoorti, CIA, CFSA, CGAP  
Associate Professor of Accountancy  
Michael J. Coles College of Business  
Kennesaw State University

Susan Ulrey, CIA, FCA, CFE  
Managing Director, Risk Advisory Services  
KPMG LLP

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# Foreword

## The IIA's Global Internal Audit Survey: A Component of the CBOK Study

The 2010 IIA Global Internal Audit Survey is the most comprehensive study ever to capture the current perspectives and opinions from a large cross-section of practicing internal auditors, internal audit service providers, and academics about the nature and scope of assurance and consulting activities on the profession's status worldwide. This initiative is part of an ongoing global research program funded by The Institute of Internal Auditors Research Foundation (IIARF) through the William G. Bishop III, CIA, Memorial Fund to broaden the understanding of how internal auditing is practiced throughout the world.

A comprehensive database was developed, including more than 13,500 useable responses from respondents in more than 107 countries. The five reports derived from analysis of the survey responses provide useful information to internal audit practitioners, chief audit executives (CAEs), academics, and others to enhance the decision-making process involving staffing, training, career development, compliance with The IIA's *International Standards for the Professional Practice of Internal Auditing* (*Standards*), competencies, and the emerging roles of the internal audit activity.

- ***Characteristics of an Internal Audit Activity (Report I)*** examines the characteristics of the internal audit activity, including demographics, staffing levels, and reporting relationships.
- ***Core Competencies for Today's Internal Auditor (Report II)*** identifies and discusses the most important competencies for internal auditors. It also addresses the adequacy, use, and compliance with The IIA's *Standards*.
- ***Measuring Internal Auditing's Value (Report III)*** focuses on measuring the value of internal auditing to the organization.
- ***What's Next for Internal Auditing? (Report IV)*** provides forward-looking insight identifying perceived changes in the roles of the internal audit activity over the next five years.
- ***Imperatives for Change: The IIA's Global Internal Audit Survey in Action (Report V)*** contains conclusions, observations, and recommendations for the internal audit activity to anticipate and match organizations' fast-changing needs to strategically position the profession for the long term.

The 2010 survey builds upon the baseline established in prior Common Body of Knowledge (CBOK) studies (i.e., 2006), allowing for comparison, analysis, and trends as well as a baseline for comparison when The IIA's Global Internal Audit Survey is repeated in the future.

## PRIOR IIA CBOK Studies

The IIA has sponsored five prior CBOK studies. The table on the following page compares the number of participating countries and usable questionnaire responses used in each CBOK study. While CBOK studies I through IV were offered only in English, the 2006 and 2010 surveys were available in 17 and 22 languages, respectively.

## CBOK's Number of Respondents and Countries Over the Years

CBOK Number	Year	Number of Countries	Number of Usable Responses
I	1972	1	75
II	1985	2	340
III	1991	2	1,163
IV	1999	21	136
V	2006	91	9,366
VI	2010	107	13,582

## The 2010 IIA Global Internal Audit Survey — Benefits to the Profession

Maximizing the internal audit function is imperative to meet the challenges of today's business environment. Globalization and the rapid pace of change have in many ways altered the critical skill framework necessary for success at various levels of the internal audit function. Internal auditing's value will be measured by its ability to drive positive change and improvement. It is imperative for internal auditing to examine current trends within the profession and thus be able to make recommendations for changes within the internal audit activity. This should help internal auditing to:

- ☐ Deliver the greatest value to its organization.
- ☐ Anticipate and meet organizations' needs.
- ☐ Strategically position the profession for the long term.

## Research Teams

The following researchers, selected from the responses to the Request for Proposal, were involved in writing the reports and worked closely with Mohammad J. Abdolmohammadi (Bentley University, United States) who provided general data analysis from the 2006 and 2010 survey databases as well as additional analysis based on researchers' request.

### Report I

Yass Alkafaji, Munir A. Majdalawieh, Ashraf Khallaf (American University of Sharjah, United Arab Emirates) and Shakir Hussain (University of Birmingham, United Kingdom).

### Report II

James A. Bailey (Utah Valley University, United States).

### Report III

Jiin-Feng Chen and Wan-Ying Lin (National Chengchi University, Taiwan, Republic of China).

**Report IV**

Georges M. Selim and Robert Melville (Cass Business School, United Kingdom), Gerrit Sarens (Université Catholique de Louvain, Belgium), and Marco Allegrini and Giuseppe D'Onza (University of Pisa, Italy).

**Report V**

Richard J. Anderson (De Paul University, United States) and J. Christopher Svare (Partners in Communication, United States).

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# Executive Summary

In an effort to meet stakeholder expectations in the wake of the challenges of today's global business environment, organizations have implemented significant changes in risk, control, and compliance processes. It is necessary to examine the demographics and other characteristics of the internal auditor population to assess the critical skills necessary to strategically position the profession for the long term to deliver the greatest value to the organization. Report I examines the demographics and other attributes of the global population of internal auditors. This analysis is based on the responses of 13,582 IIA members and nonmembers in more than 107 countries.

An analysis of the survey uncovered the following salient findings:

- Internal auditors are entering the profession at a younger age. The percentage of auditors in the age group of 26 to 36 increased to 30 percent in 2010, compared to 11 percent in 2006.
- More than two-thirds of survey respondents were male and one-third of respondents were female.
- There is a significant increase in the percentage of internal auditors obtaining master's/graduate and doctoral degrees.
- There is an increase in the percentage of respondents with internal audit majors.
- More than half of the internal audit organizations get their staff from transfers within the organization, followed by employment agencies and referrals from professional affiliations.
- Organizations rely on co-sourcing or outsourcing to compensate for missing skills in the internal audit activity.
- Approximately 50 percent of the respondents' organizations will recruit more staff during the next five years, with 42 percent indicating that they will maintain current staff levels.
- Survey results indicate that most CAEs report either to the CEO or the audit committee with variation by region. The highest percentage of CAEs reporting to audit committees was noted in the Middle East, the United States and Canada, and Latin America.
- In five years the focus of internal audit activities will significantly differ from current practice. Corporate governance, enterprise risk management, strategic reviews, ethics audits, and migration to International Financial Reporting Standards (IFRS) will be the major focus areas for internal auditing with less emphasis on operational and compliance audits, auditing of financial risks, fraud investigations, and evaluation of internal controls.

This report provides CAEs and internal audit practitioners with relevant information on the current role of the internal audit activity and insight regarding the future direction of the profession.

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# Chapter 1

## Introduction

Internal audit practitioners need relevant and timely information about the status of the internal audit profession and the best practices implemented by others on a worldwide basis. Practicing internal auditors strive to improve the effectiveness and efficiency of their internal audit departments. The main objective in delivering Report I is to provide internal audit practitioners with relevant, easy-to-understand, and timely information about the characteristics of the best practices of internal auditing. Practicing internal auditors can learn from the data and information contained within this report to modify their own mode of practices. In addition, this report can be used by the internal audit institutions in designing their service programs to meet the needs of the internal audit community.

The purpose of this report is first is to analyze and identify key characteristics of the practice of internal auditing in 2010; compare, when data is available, the 2006 Common Body of Knowledge (CBOK) study and the 2010 survey; and identify key trends in the practice of internal auditing. Chapter 2 covers the demographics of internal auditors and their organizations, Chapter 3 deals with staffing issues, and Chapter 4 discusses internal audit activities, scope, structure, and reporting.

Internal audit practitioners can learn best practices from other practitioners to enhance and invigorate their own practices. Internal audit institutions can learn how to best meet the growing needs of the internal audit community.

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# Chapter 2

## Demographics of the Internal Audit Population and Organizations

### Introduction

The primary purpose of this chapter is to analyze the demographics of the internal audit population and its organizations. It is important to document the similarities and differences in the demographics of internal auditing worldwide and over time to provide a foundation to enhance the future of the profession. Understanding the demographics of the participants will provide a baseline for strategic planning and decision-making processes.

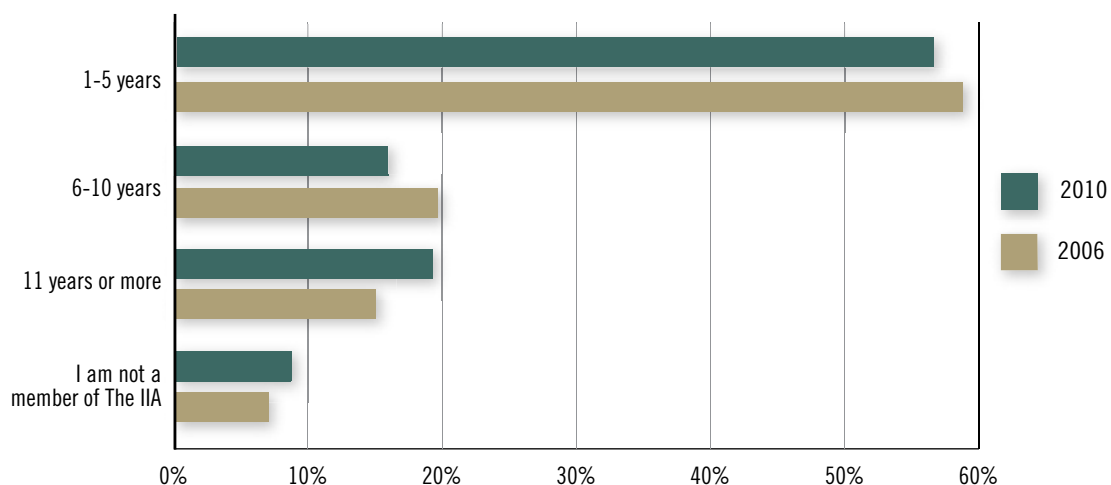
This chapter provides an overall view of the background of the participants in the survey and their organizations, comparing 2010 and 2006 survey results. In relation to the participants, the analysis considers the areas of membership in The IIA, location, personal data (such as age and gender), education, experience, professional certification, training, and career development. For organizations, the analysis emphasizes organizational types, industry classification, size, and geographic location.

### IIA Membership

The 2010 survey findings show that about 56 percent of the respondents became members of The IIA within the last five years. The increase in the proportion of new members joining The IIA is in line with the 2006 survey findings as shown in **Figure 2–1**.

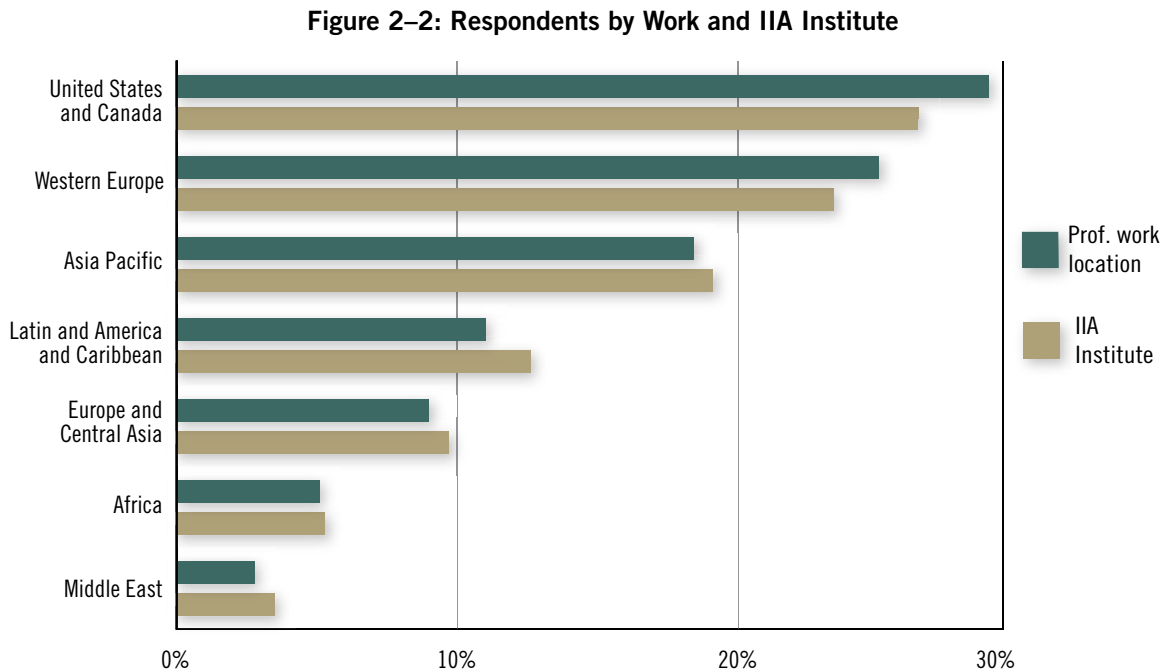
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**Figure 2–1: Longevity of IIA Members**



## Member Location and Institute Affiliations

The respondents were asked to specify the location in which they primarily practice professionally and their affiliation to the local IIA institute with which they primarily identify. Their answers are grouped in eight different, broad geographical areas. **Figure 2–2** shows that approximately 54 percent of the respondents work in the United States/Canada and Western Europe (about 29 percent in the United States/Canada and approximately 25 percent in Western Europe). Similarly, approximately 50 percent of the respondents belong to chapters in the United States/Canada and Western European institutes.



Further analysis of IIA institute membership in 2010 by region and years as shown in **Table 2–1** indicates that overall about 62 percent of the respondents joined IIA institutes within the last five years. It is worth noting that the percentage of members who joined IIA institutes within the last five years varies from one region to another. For instance, 81 percent of members joined Europe-Central Asia institutes while only 53 percent of the members joined United States/Canada chapters.

**Table 2–1**  
**IIA Chapter Membership by Region and Years of Membership**

Regions	1–5		6–9		10 or		Total of Respondents	
	Years		Years		More			
	Freq	%	Freq	%	Freq	%	Freq	%
Africa	389	62.0%	132	21.1%	106	16.9%	627	5.1%
Asia Pacific	1,466	67.5%	381	17.5%	325	15.0%	2,172	17.5%
Europe-Central Asia	898	80.9%	152	13.7%	60	5.4%	1,110	9.0%
Latin American and Caribbean	1,096	74.9%	199	13.6%	168	11.5%	1,463	11.8%
Middle East	247	71.6%	57	16.5%	41	11.9%	345	2.8%
United States and Canada	1,900	53.1%	618	17.3%	1,061	29.7%	3,579	28.9%
Western Europe	1,638	53.0%	623	20.2%	829	26.8%	3,090	24.9%
Total	7,634	61.6%	2,162	17.5%	2,590	20.9%	12,386	100.0%

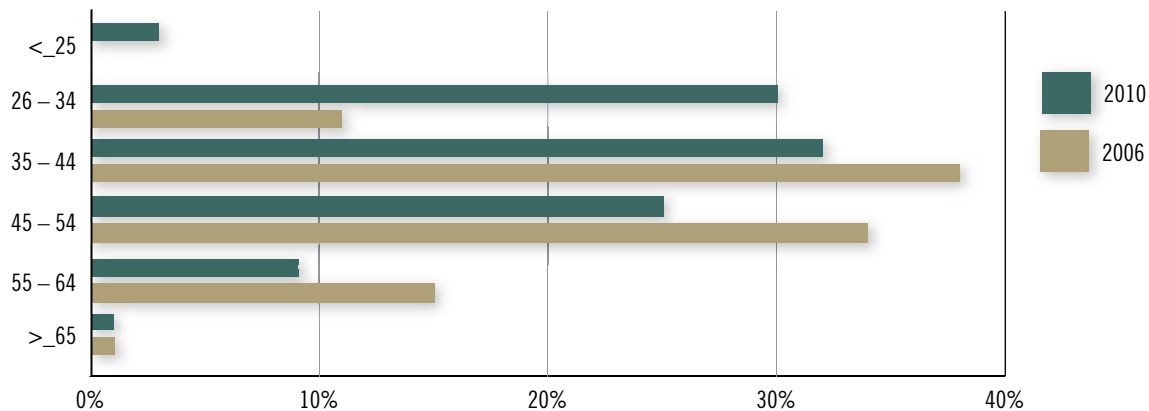
Note: The overall percentages in this table are slightly different from **Figure 2–1** due to the exclusion of non-IIA member and the regrouping of the data in 2010 to be comparable to that in 2006.

### Age of Respondents

The internal audit community appears to be getting younger based on respondents in the 2006 to the 2010 surveys as noted in **Figure 2–3**. Internal auditors in the age group of 26 to 34 increased from 11 percent in 2006 to 30 percent in 2010. According to the 2010 survey, 65 percent of respondents are less than 45 years old.

While not tabulated, analysis of age distribution by region reveals that the Middle East and Africa have the youngest generation of auditors (49 percent younger than 34 years old). In contrast, the average age of internal auditors in the United States, Canada, and Western Europe seems to be higher. In Western Europe, more than 75 percent of the respondents were older than 44 years, and in the United States and Canada, 71 percent were older than 44 years. This may be due to the fact that The IIA was established in the United States and the long-term recognition of the profession.

**Figure 2–3: Age of Internal Auditors**



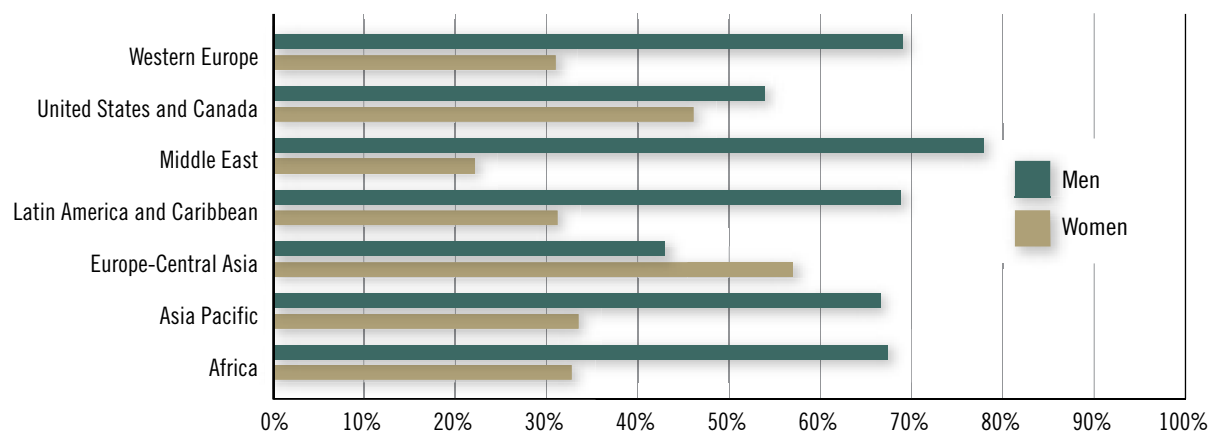
### Respondents' Gender

This section investigates the gender mix of the respondents to the 2010 survey. Overall, two-thirds of survey respondents were male and one-third of respondents were female. **Figure 2–4** shows that 57 percent of the respondents from Europe-Central Asia were women, while the lowest percentage of women's representation is in the Middle East at only 22 percent.

This suggests a predominance of women in the profession in Europe-Central Asia and a more balanced representation in the United States and Canada. In other regions, the profession seems to remain male-dominated.

The highest percentage of women's representation is in Europe-Central Asia at 57%, while the lowest percentage is in the Middle East at 22%.

**Figure 2–4: Gender Distribution by Region**





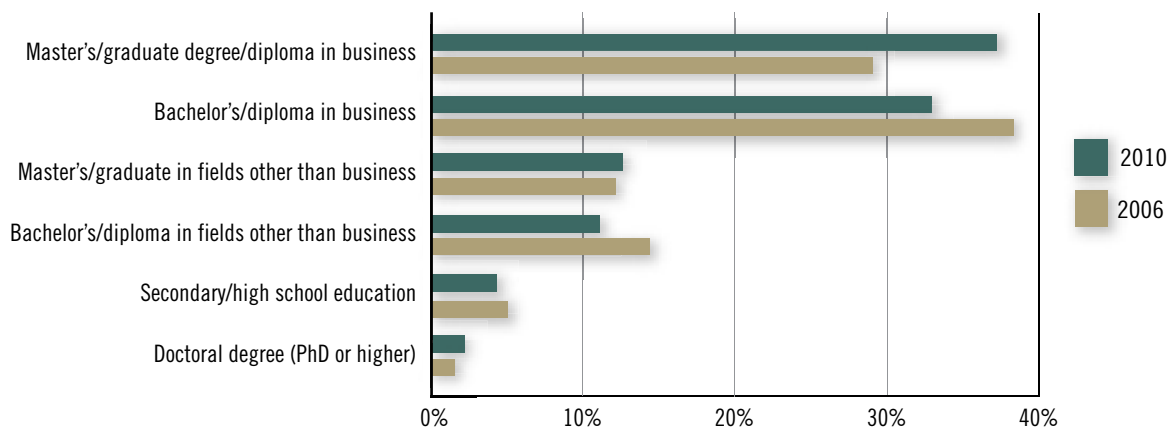
## Internal Auditors' Competencies

There has been increased recognition of the importance of education and experience to the internal audit community. Fraud and scandals reported in the financial press have contributed to the growing awareness of the need for well-educated internal auditors with specialized skills. This section examines the current education status of internal auditors in terms of level of formal education, academic major, professional certifications, and areas of professional and technical skills.

### Level of Education

Education is an indicator of competency. Highly educated auditors tend to deal with the job challenges in a more skillful and competent way than the lesser educated. **Figure 2–5** provides evidence that internal auditors have progressed toward a higher level of education in the last four years. According to the 2010 survey, more than one-half of respondents have earned a graduate degree. Of the 2010 respondents, 49.7 percent have earned a master's degree or graduate diploma compared to 41.1 percent in 2006. Approximately 43 percent of respondents have a bachelor's degree in 2010 compared to 52.5 percent in 2006. The 2010 results disclose that 65.7 percent of respondents have a business degree and 23.7 percent have a nonbusiness degree.

**Figure 2–5: IA Level of Formal Education**



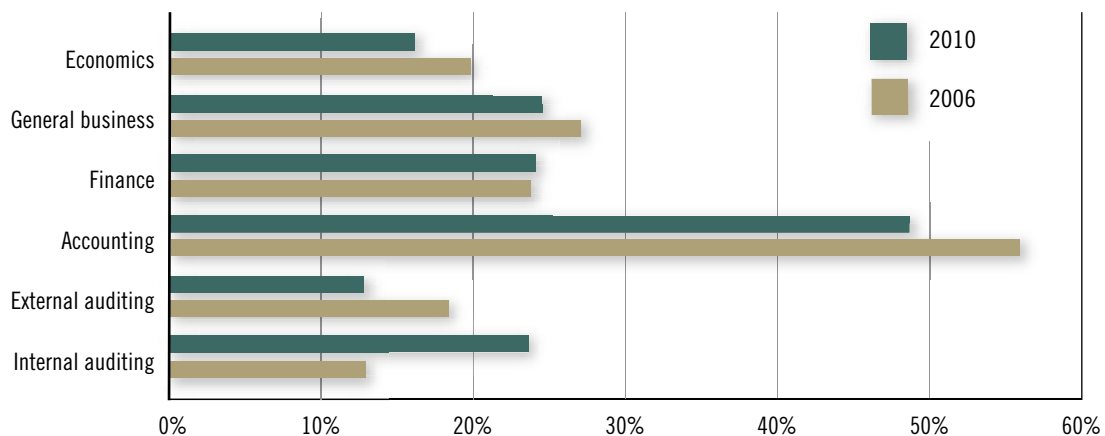
To examine whether the difference between the respondents' level of education between the 2006 and 2010 survey is significant, the difference between the two proportions was calculated for each level of education. **Figure 2–5** shows that 4.3 percent of the 2010 survey respondents have a secondary/high school education compared with 5 percent in the 2006 survey. This is evidence of a trend toward higher levels of professionalism in internal auditing since a higher proportion of practitioners have at least some tertiary education.

In general, there is evidence of a significant downward movement in the percentage of respondents with a bachelor's degree or less and a significant upward movement in the percentage of respondents obtaining a master's/graduate diploma and doctoral degrees. It is clear that there is a major shift toward earning a graduate degree among internal auditors. These findings suggest that internal auditors believe in the importance of improving their education level.

## Academic Major

**Figure 2–6** focuses on the top six academic majors specified by the survey respondents in 2006 and 2010. It is clear that accounting is the most frequently chosen major, as 48.6 percent of the 2010 respondents selected this option. This is followed by general business (24.4 percent), finance (24.1 percent), internal auditing (23.6 percent), economics (16.1 percent), and external auditing (12.8 percent). There is a decrease in the percentage of respondents indicating accounting and external auditing majors in 2010 relative to the 2006 study and an increase in the percentage of respondents whose major is internal auditing. Further analysis of academic major selection at various regions shows that 63 percent of the respondents in the Latin America and Caribbean region chose internal auditing as a major while only 4 percent of the respondents in the United States and Canada chose internal auditing as a major. This is possibly reflective of the availability of internal auditing as a specialist study at the university level.

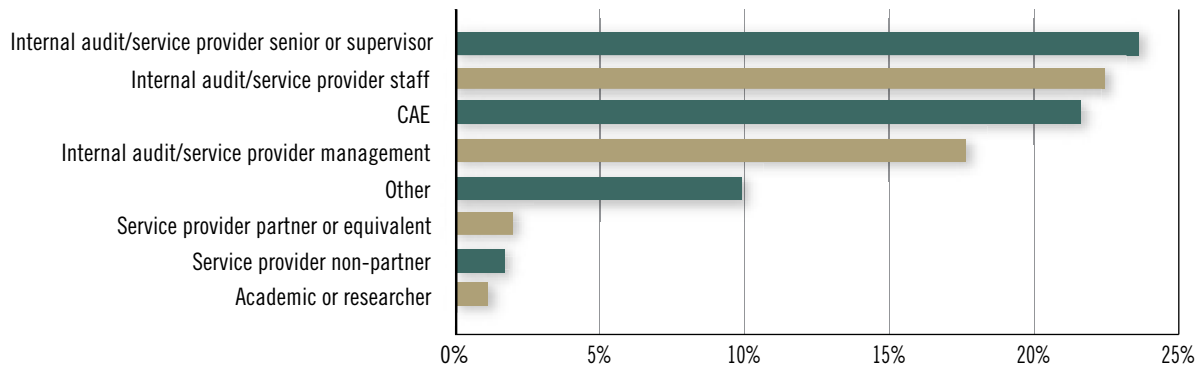
**Figure 2–6: Internal Auditing Academic Major**



Note: Since respondents were able to select all majors that apply, the percentage may not add up to 100 percent.

## Current Position in the Organization

Survey respondents were asked to identify their positions in the organization in which they work. **Figure 2–7** shows respondents' positions in 2010. The survey was not addressed to a specific group or a certain position inside the organization. In fact, the survey covers a wide range of auditing (and nonauditing) positions. Of the respondents, 22 percent are chief audit executives (CAEs). It is worth noting that 29 percent of the total in-house respondents are CAEs while only 8 percent of the service provider respondents are partners.

**Figure 2–7: Respondents' Position in the Organization**

### Professional Certifications

Certified Internal Auditor (CIA) is the professional certification held by more than 30 percent of the respondents. The public accountancy certificates such as Certified Public Accountant (CPA), Chartered Accountant (ACA), and Chartered Certified Accountant (ACCA) are held by 20 percent of the respondents, followed by the information systems auditing certificates such as Certified Information Systems Auditor (CISA). **Table 2–2** lists the professional certificates and the percentages of responses in order. When asked what certificates they will have in five years, respondents affirmed that CIA is the number one intended certificate followed by Certified Fraud Examiner (CFE) and Certification in Control Self-Assessment (CCSA).

**Table 2–2**  
**Professional Certificates**

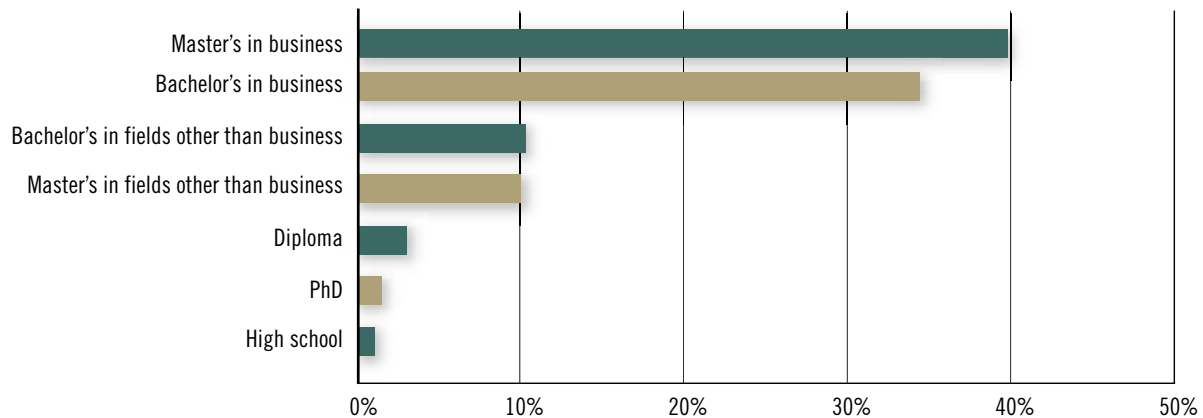
Professional Certificates	%
Certified Internal Auditor (CIA)	30.3%
Public accounting/chartered accountancy (such as CA/CPA/ACCA/ACA)	20.4%
Information systems auditing (such as CISA/QiCA)	9.7%
Fraud examination (such as CFE)	5.3%
Other internal auditing (such as MIIA [UK & Ireland]/PIIA)	4.2%
Management/general accounting (such as CMA/CIMA/CGA)	4.0%
Certification in Control Self-Assessment (CCSA)	3.7%
IT/ ICT	2.4%
Advanced or senior professional status (such as FCA/FCCA/FCMA)	2.4%
Accounting — technician level (such as CAT/AAT)	2.1%
Certified Government Auditing Professional (CGAP)	2.0%

**Table 2–2**  
**Professional Certificates** (continued)

Professional Certificates	%
Certified Financial Services Auditor (CFSa)	2.0%
Other risk management/control self-assessment (such as CRM)	1.3%
Other government auditing/finance (such as CIPFA/CGFM)	1.2%
Other specialized financial auditing (such as CIDA/CBA)	0.8%
Certified financial analyst (such as CFA)	0.7%

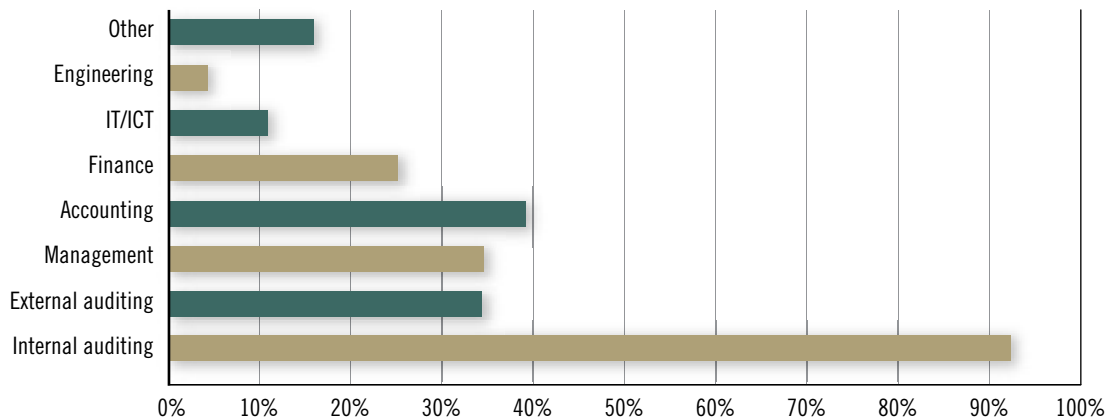
As shown in **Figure 2–8**, in 2010, about 50 percent of the CIA holders completed graduate studies compared to 41 percent in 2006, which may indicate that practitioners are seeking formal education beyond completing the CIA.

**Figure 2–8: CIA Holders and Level of Education**



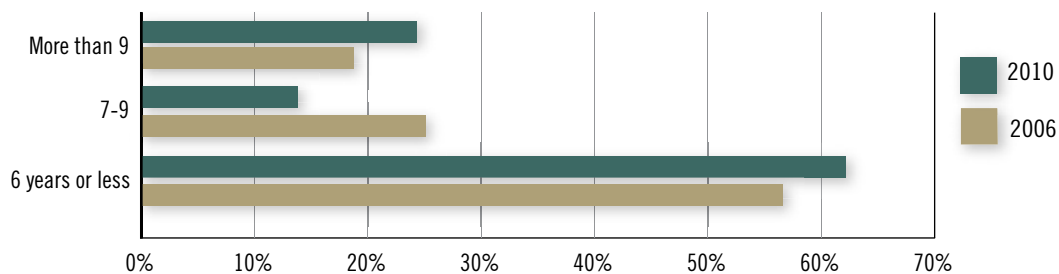
## Professional Experience

Survey respondents were asked to describe the domain of their professional experience. **Figure 2–9** shows that survey respondents have a variety of experiences. Many of the internal auditors have experience in other fields such as accounting, management, external auditing, finance, IT/CT, engineering, and others.

**Figure 2–9: Professional Experience**

Note: Since respondents were able to select all experiences that apply, percentages add up to more than 100 percent.

In a related question, CAEs were asked to specify the number of years they have been working as a CAE in their current and previous organizations. Survey results indicate that in the 2010 study, the majority of CAEs (62 percent) have six years or less experience as a CAE in their current and previous organizations. **Figure 2–10** indicates that 24 percent of the CAEs have more than nine years' experience as a CAE and 13.6 percent have seven to nine years' experience.

**Figure 2–10: CAE Years of Experience**

### Continuing Professional Education

The IIA requires practicing CIAs to have on average 40 hours per year of continuing professional education (CPE). Survey respondents were asked to disclose whether they received at least 40 hours of formal training per year. Of the individuals who answered this question, 76 percent indicated that they received 40 hours of formal training per year while 24 percent answered to the contrary. Further analysis of the data indicates that 89 percent of the CIAs comply with The IIA's CPE requirement and about 11 percent are not in compliance.

## Audit Organizations' Profile

This section analyzes the size, type, and nature of the organizations where internal auditors work and operate.

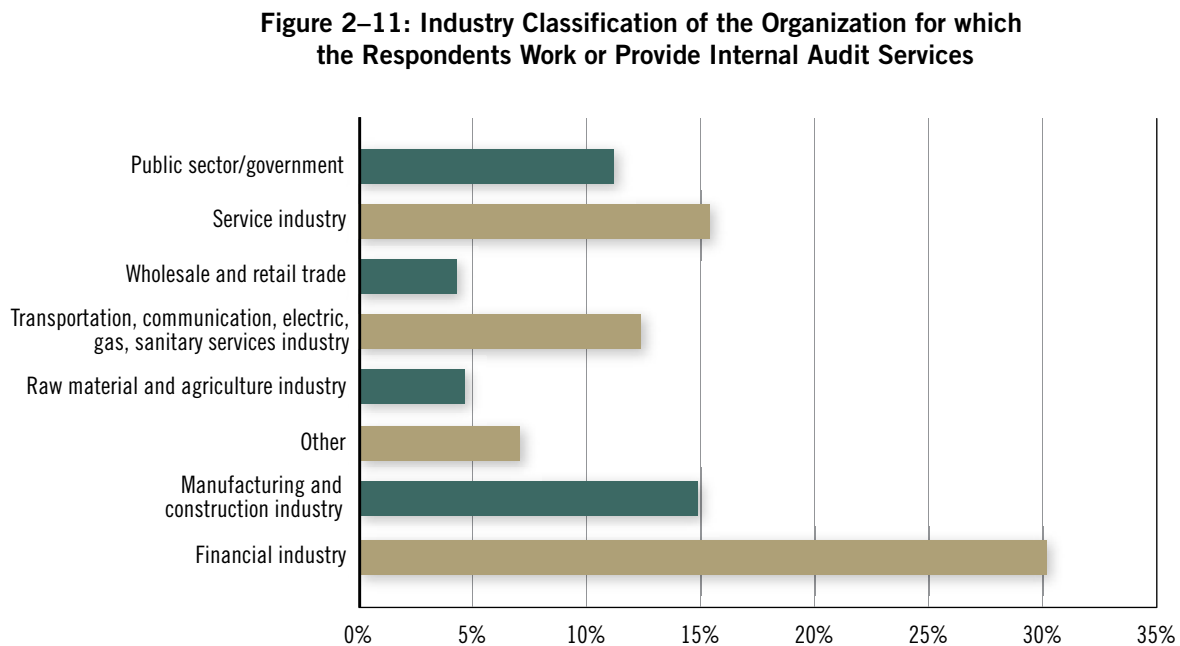
### Industry Classification

Respondents' organizations were grouped into eight broad industry classifications as presented in [Table 2–3](#).

**Table 2–3**  
**Industry Classification**

1	Financial Industry, including Banking, Insurance, and Real Estate	Banking and financial institutions/credit unions/thrift and savings and loan
		Insurance
		Real estate
		Other financial: security and commodity services/holding companies
2	Manufacturing and Construction Industry	Manufacturing
		Building and construction
		Pharmaceutical/chemical
3	Other	Other
4	Public Sector/Government	Government — Public administration and defense/compulsory social security
5	Raw Material and Agriculture Industry	Agriculture, forestry, and fisheries
		Mining and oil
6	Transportation, Communication, Electric, Gas, Sanitary Services Industry	Transportation and logistics
		Communication and telecommunications
		Utilities
7	Wholesale and Retail Trade	Wholesale and retail trade
8	Service Industry	Hospitality/hotels, leisure/tourism
		IT/ICT
		Health services
		Education
		Professional services
		Trade services
		Nonprofessional services
		Accounting, bookkeeping, and business services

**Figure 2–11** provides the classification of these industries and their percentages of representation for the year 2010.

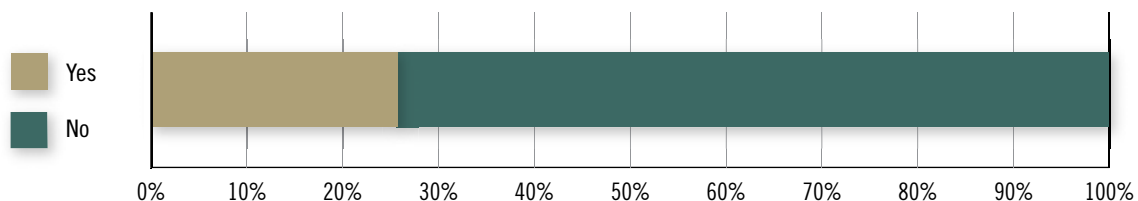


As **Figure 2–11** indicates, the largest group of respondents in 2010 provide internal audit services in the financial industry (30 percent), followed by the service industry (15.4 percent).

### Place of Work: In-house versus Outside Professional Firms

**Figure 2–12** shows that one-fourth of survey respondents work for professional firms that provide internal audit services or outside service providers (OSP), compared to only 11 percent in 2006. The 2010 survey was designed to overcome certain difficulties that service providers may have had in answering the 2006 survey: this change may simply indicate that 2010 results are more representative.

**Figure 2–12: Do You Work for a Professional Firm that Provides Internal Audit Services**



Further investigations of whether 2010 survey respondents work for a professional firm that provides internal audit services show variances among industries as illustrated in **Table 2–4**. For example, 42 percent of survey respondents from the public sector/government work for a professional firm that provides internal audit services, while only 15 percent of respondents from raw material and agriculture work for a professional firm that provides internal audit services.

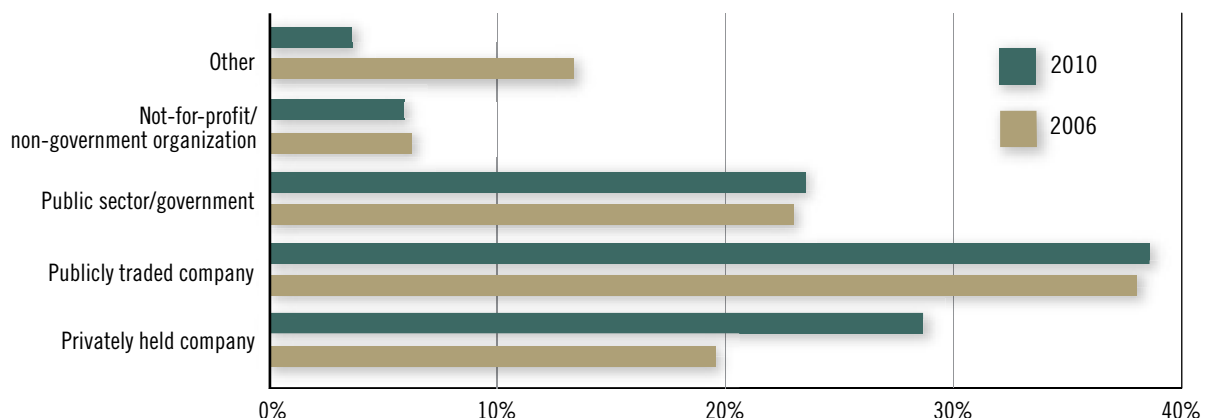
**Table 2–4**  
**Survey Respondents Work for a Professional Firm that**  
**Provides Internal Audit Services by Industry**

Type of Industry	Yes	No
Financial industry, including banking, insurance, and real estate	26%	74%
Manufacturing and construction	19%	81%
Transportation, communication, electric, gas, sanitary services	34%	66%
Service	21%	79%
Public sector/government	42%	58%
Other	23%	77%
Raw material and agriculture	15%	85%
Wholesale and retail trade	18%	82%
Overall average	26%	74%

### Type of Organizations: Public, Private, Not-for-profit, or Governmental

The largest group of respondents works for publicly traded companies. **Figure 2–13** indicates that 38.5 percent of respondents work for publicly traded companies, 28.7 percent work for privately held companies, 23.5 percent work for public sector/government, and 5.8 percent work for not-for-profit organizations. It is worth noting that the difference in the percentage of the respondents in **Figures 2–11** and **2–13** related to the public sector/government is due to the differences in the questions asked of the respondents. The question in **Figure 2–11** refers to the type of industry in which the respondent works or provides internal audit service, while the question in **Figure 2–13** refers to the type of organization that the respondent currently works for.

**Figure 2–13: Type of Organization Where Respondents Work**



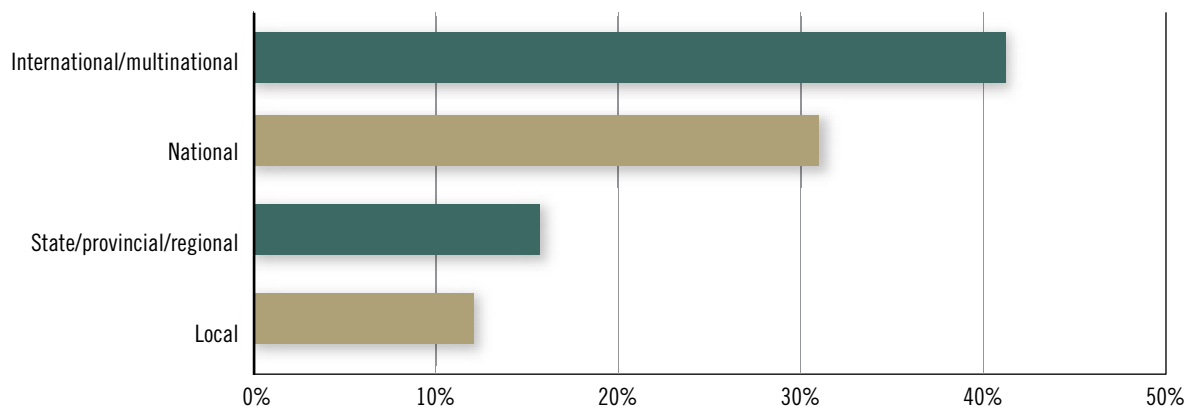


The percentage of respondents working for privately held organizations increased 9.3 percent from 2006 to 2010.

### National versus International Organizations

**Figure 2-14** indicates that 41.2 percent of respondents work for international/multinational organizations, 31 percent work for national organizations, 15.7 percent work for state/provincial organizations, and 12 percent work for local organizations. This distribution shows that a major portion of the survey respondents are working in transnational organizations.

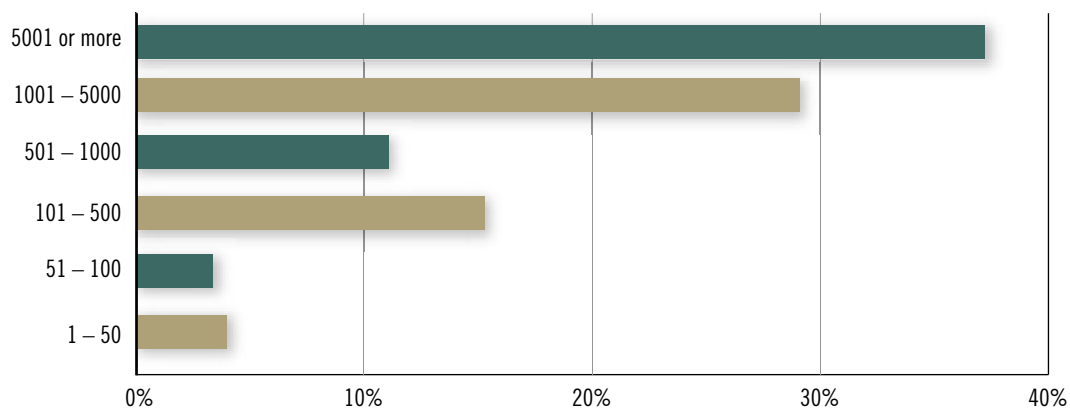
**Figure 2-14: Geographical Area Served by Organization**



### Organization Size by Number of Employees, Revenues, and Assets

More than two-thirds of the survey respondents practice in an organization that has more than 1,000 employees. (See **Figure 2-15**.)

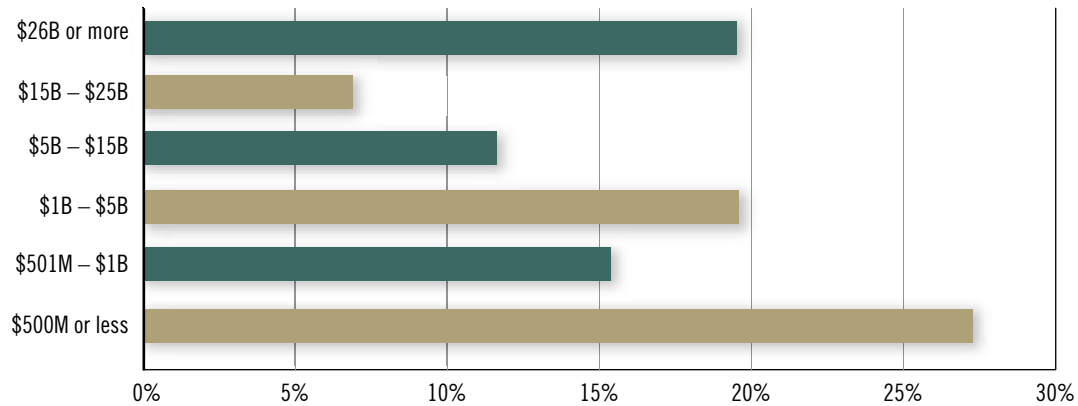
**Figure 2-15: Size of Organizations by Number of Employees**



When the total value of assets is used as a proxy for size, a reverse pattern is noticed where approximately only 40 percent of respondents practice in a large organization that has total assets that exceed US \$5 billion (see **Figure 2–16**). Clearly, an organization that has the largest number of employees does not necessarily control the highest value of total assets.

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**Figure 2–16: Size of Organizations by Total Assets in U.S. Dollars**



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## Chapter 3

# Internal Audit Staffing Practices

### Introduction

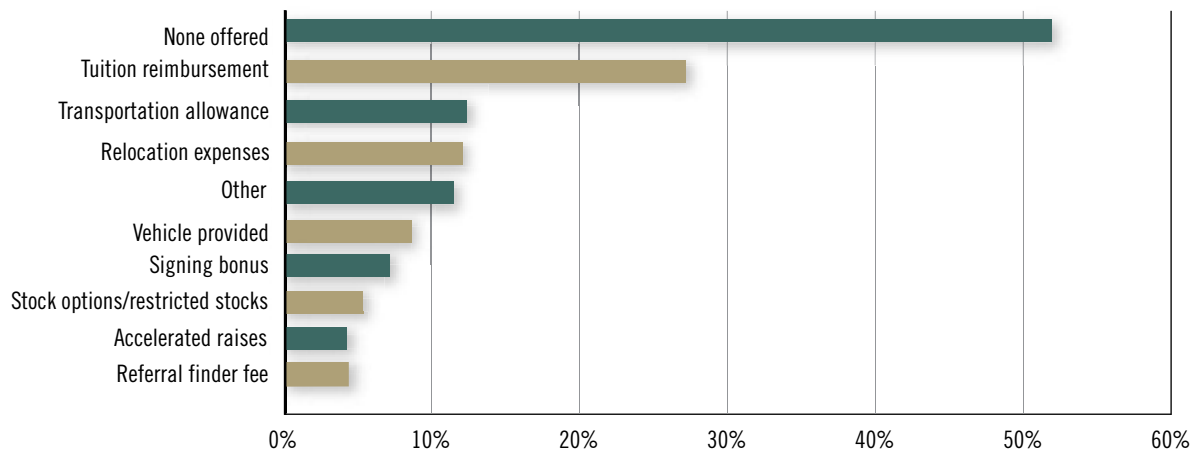
This chapter examines methods and practices of attracting, recruiting, and compensating internal auditors based on the results of the 2010 survey with selected comparisons with the 2006 survey. Analysis addresses sources of recruitments, methods of managing staff shortages, types of incentives, methods of evaluations, and auditors' perception about the future level of staffing.

### Hiring Incentives

In 2010, more than half the respondents indicate that they offer no incentives in the hiring process for new internal auditors. For those who offer incentives, as shown in **Figure 3–1**, most of the firms provide tuition reimbursement followed by transportation allowance and relocation expense reimbursement.

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**Figure 3–1: Internal Audit Staff Hiring Incentives**



Note: Since respondents were able to select all types of incentives that apply, percentages add up to more than 100 percent.

Further analysis of hiring incentives by regions shows that the United States/Canada and Western Europe offer more hiring incentives than other regions (see **Table 3–1**). For example, 64 percent of the respondents in the United States/Canada who offer incentives provide referral finder fees and 45 percent in Western Europe provide relocation expenses. While other regions offer some incentives, the percentage of incentives offered is much less comparatively. For example, none of the respondents in the Middle East offer stock options and only 1 percent of respondents in Africa provide referral finder fees.

**Table 3–1**  
**Special Incentives Offered by Organizations by Region**

	Relocation	Signing Bonus	Stock Options	Accelerated Raises	Vehicle Provided	Transportation	Referral Finder	Tuition	Other	None Offered
Africa	6%	8%	4%	7%	7%	14%	1%	7%	4%	4%
Asia Pacific	9%	5%	21%	24%	10%	19%	10%	10%	16%	11%
Europe-Central Asia	6%	2%	2%	13%	15%	13%	4%	13%	13%	12%
Latin America and Caribbean	4%	9%	9%	7%	13%	11%	1%	8%	15%	8%
Middle East	1%	3%	0%	6%	2%	4%	1%	2%	2%	1%
United States and Canada	29%	36%	39%	14%	3%	7%	64%	34%	16%	29%
Western Europe	45%	37%	25%	28%	50%	31%	18%	25%	33%	36%

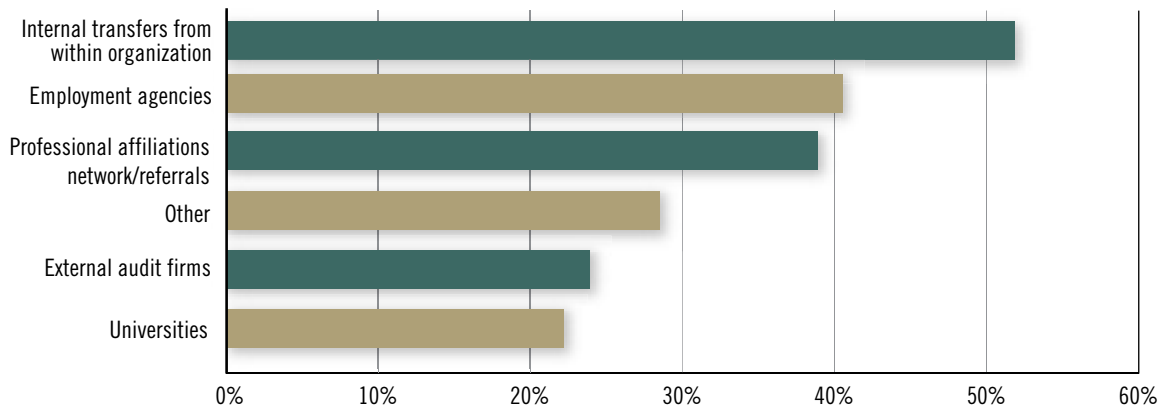
## Sources of Recruiting Audit Staff

Internal audit organizations continuously strive to recruit competent staff for their internal audit activities. From **Figure 3–2**, it appears that more than half of the internal audit organizations get their staff from transfers within the organization, followed by employment agencies and then other referrals. Direct recruitment from universities came last and this may indicate that internal audit organizations need experienced auditors and thus recent university graduates may not meet their needs. As previously discussed in the section on academic majors, internal auditing appears to be gaining popularity as a major or specialized study for active or intending internal auditors. Universities may want to consider offering specialized studies in internal auditing so that internal audit organizations are attracted to recruit more of their recent graduates.

While sourcing the candidates for internal audit positions, preference is given for those who work within the organization (51 percent). Perhaps familiarity with the organization's culture, systems and procedures, and the track record of the candidate appear to guide the appointment.

The other popular sources for the organizations are use of employment agencies (41 percent) and professional affiliations and referrals (39 percent).

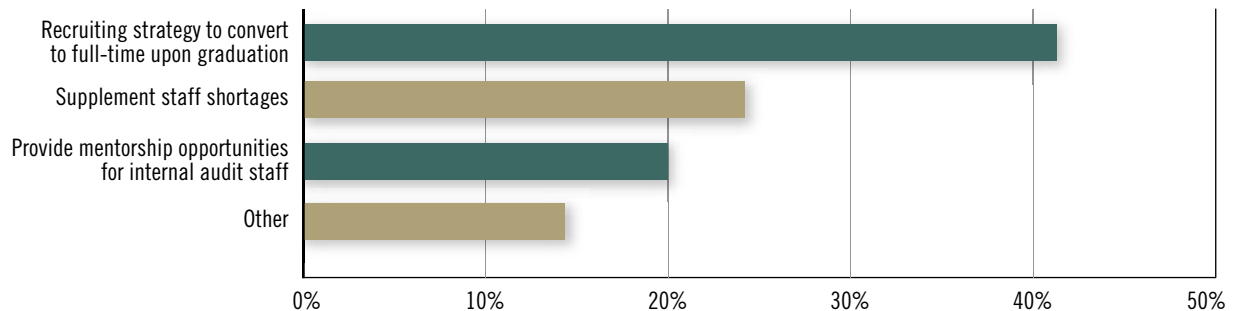
External audit firms and universities are not popular, highlighting the importance assigned to industry/organization knowledge.

**Figure 3–2: Sources Used by Organizations to Recruit Audit Staff**

Note: Since respondents were able to select all sources of recruitment that apply, percentages add up to more than 100 percent.

## Recruiting Undergraduate Students

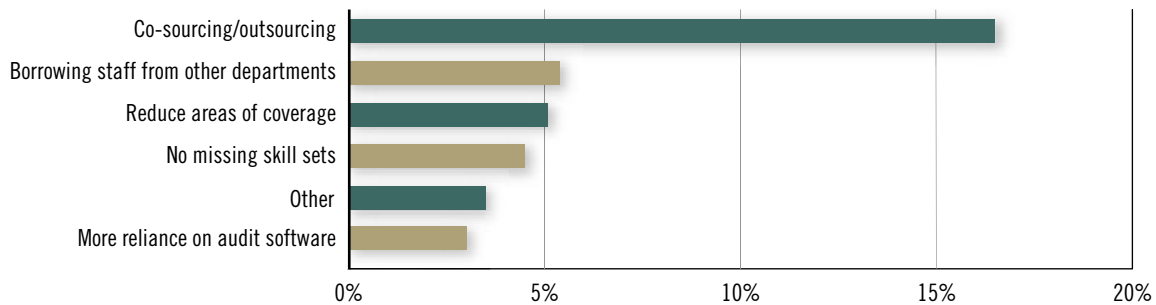
Only 30 percent of the audit organizations employ undergraduate students in their staffing and recruiting efforts. When asked what the motivation was for bringing in interns, 41 percent said they intend to convert them to regular employees when the students complete a bachelor's degree. Only one-quarter indicate that they actually use interns to supplement shortages in staffing, while 20 percent indicate that they want to give their current staff experience with mentoring others. **Figure 3–3** shows the breakdown of responses.

**Figure 3–3: Reason for Employing University Interns**

## Methods of Managing Missing Skills

Organizations appear to rely heavily on co-sourcing/outsourcing in compensating for missing skills. A small number of internal audit functions borrow staff from other departments, and others reduce areas of coverage. The responses to skill shortages in 2010 have the same order of popularity as they did in 2006. **Figure 3–4** presents all the possible choices made available to the respondents.

**Figure 3–4: Methods Used by Organizations to Compensate for Missing Skill Sets**



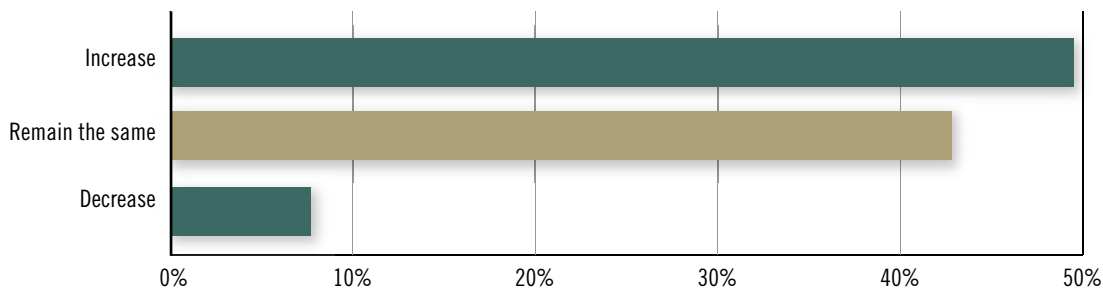
Note: Not all respondents answered this question and thus the percentages do not add up to 100 percent.

## Future Expectations of Staff Level

**Figure 3–5** indicates that the internal audit organizations are expecting to add more staff. About half of the organizations surveyed expect to add more staff, 43 percent will maintain the current level, while only about 8 percent intend to shrink the size of their staff. This is great news for the internal audit community as it indicates that the demand for internal auditors is likely to increase.

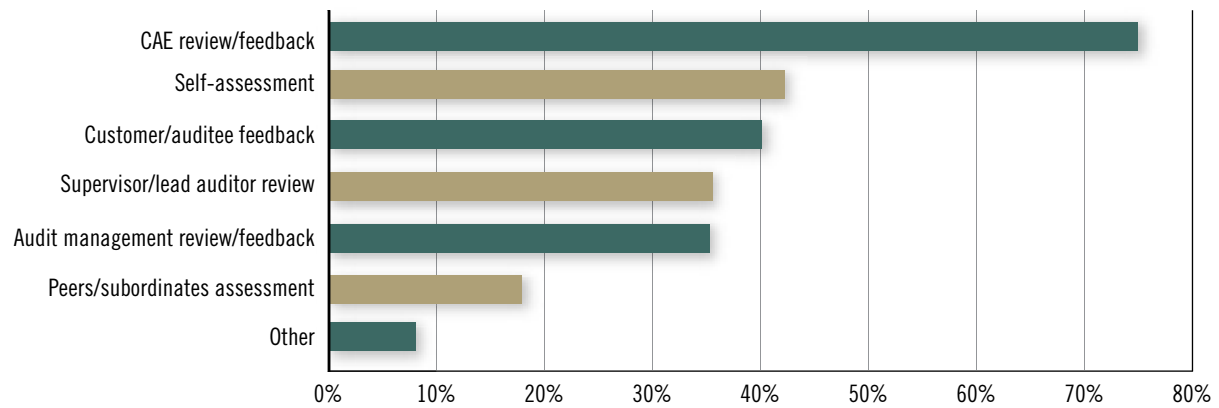
An overwhelming majority of the respondents were upbeat about the future staffing levels in internal auditing. While 49 percent of the respondents expect higher staff levels, 43 percent expect it to remain at the same level. Only 8 percent of the respondents expect the future staffing level to reduce.

**Figure 3–5: Change in Staff Levels in the Next Five Years**



## Methods of Staff Evaluation

The top five methods of feedback for staff evaluation used in 2010 were CAE review/feedback, self-assessment, customer/auditee feedback, supervisor/lead auditor review, and audit management review/feedback. **Figure 3–6** presents all the choices available to the respondents.

**Figure 3–6: Methods Used in Staff Evaluation**

Note: Since respondents were able to select all methods that apply, percentages add up to more than 100 percent.

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# Chapter 4

## Internal Audit Activity Scope, Structure, and Reporting Relationships

### Introduction

This chapter summarizes key observations, discussions, and conclusions using different methods of data analysis of the 2010 survey related to the scope and structure of the internal audit activity and its reporting relationships with audit committees and administration. Examining internal audit activities provides an understanding of what is expected from internal auditors and highlights the importance of the main internal audit characteristics such as independence, objectivity, and proficiency.

In particular, this chapter presents the survey analysis related to current and future nature and scope of internal audit activities; extent of current and future co-sourcing/outsourcing of internal audit activities; CAE dual reporting relationship to the audit committee and the organization's executive management; audit plans; and audit reports.

### The Nature and Scope of Internal Audit Activity

This section focuses on the current and future nature and scope of the internal audit activity. IIA Standard 2000: Managing the Internal Audit Activity requires that the CAE "must effectively manage the internal audit activity to ensure it adds value to the organization." The CAE, working with the audit committee, is responsible for establishing an internal audit activity assessing and improving effectiveness of governance, risk management, and control processes. Using the data collected from the 2010 survey, the nature and scope of the internal audit's assurance and consulting engagements are examined.

The top five highest ranked activities currently performed by internal auditors are:

- ☐ Operational audits (88.9 percent).
- ☐ Audits of compliance with regulatory code (75.1 percent).
- ☐ Auditing of financial risks (71.6 percent).
- ☐ Investigations of fraud and irregularities (71.2 percent).
- ☐ Evaluating effectiveness of control systems (68.8 percent).

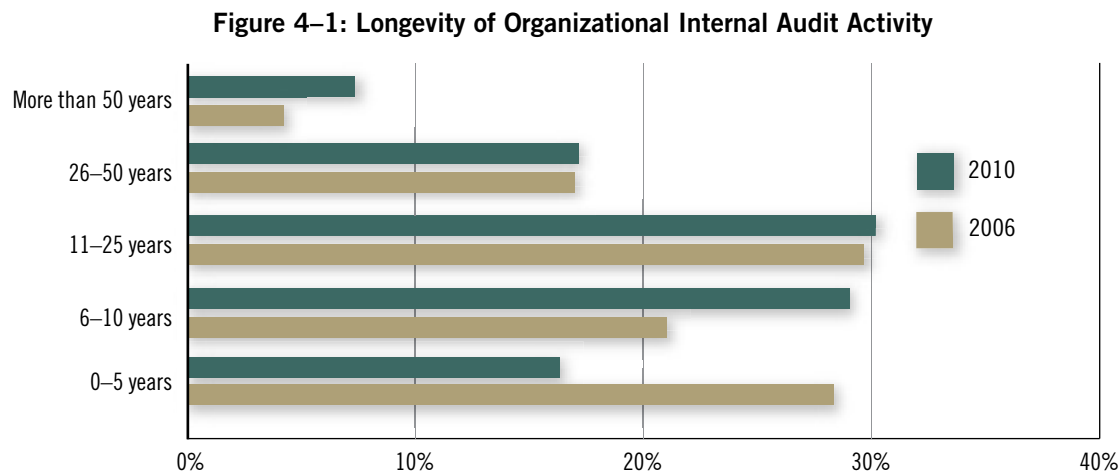
It is interesting to note that none of the above activities were identified by the respondents as top five emerging areas of internal audit activity.

The emerging top five activities in the next five years according to survey respondents are:

- ☐ Corporate governance review (23 percent)
- ☐ Audits of enterprise risk management processes (20.4 percent).
- ☐ Reviews addressing linkage of strategy and company performance (19.9 percent).
- ☐ Ethics audits (19.9 percent).
- ☐ Migration to IFRS (18.8 percent).

## The Current Status of Internal Audit Activity

This section focuses on the current status of general types of audits that are performed by internal auditors. Approximately 54 percent of the respondents indicate that the internal audit activity in their organizations has been established for more than 10 years, as shown in [Figure 4–1](#).



Such growth in the maturity of the organization’s audit activities is reflected positively in the number and quality of the activities that the internal auditors perform. The respondents were asked to select one or more from the list of activities reflecting the type of tasks they perform. Participants in the 2010 survey indicate that they perform internal audit activities as shown in [Table 4–1](#), ranked from the highest to the least selected activity.

**Table 4–1**  
**Internal Audit Activity Ranked Based on Current Experience**

Internal Audit Activity	Currently	
	Percentage	Rank
Operational audits	88.9%	1
Audits of compliance with regulatory code (including privacy) requirements	75.1%	2
Auditing of financial risks	71.6%	3
Investigations of fraud and irregularities	71.2%	4
Evaluating effectiveness of control systems (using COSO, COBIT, etc., frameworks)	68.8%	5
Auditing of IT/ICT risks	61.7%	6
Auditing of information risks	61.4%	7
Audits of enterprise risk management processes	56.6%	8
Project management assurance/audits of major projects	55.4%	9

**Table 4–1**  
**Internal Audit Activity Ranked Based on Current Experience** (continued)

Internal Audit Activity	Currently	
	Percentage	Rank
Security assessments and investigations	52.8%	10
External audit assistance	52.0%	11
Management audits	49.9%	12
Corporate governance reviews	44.5%	13
Disaster recovery testing and support	40.5%	14
Facilitating risk/control/compliance training and education for organization personnel	40.0%	15
Auditing of outsourced operations	35.0%	16
Ethics audits	32.1%	17
Business viability (going-concern) assessments	26.6%	18
Reviews addressing linkage of strategy and company performance (e.g., balanced scorecard)	25.3%	19
Due diligence reviews for corporate acquisitions/mergers, etc.	24.8%	20
Quality/ISO audits	24.0%	21
Social and sustainability (corporate social responsibility, environmental) audits	19.6%	22
Migration to International Financial Reporting Standards (IFRS)	19.4%	23
Executive compensation assessments	18.5%	24
Implementation of Extensible Business Reporting Language (XBRL)	5.3%	25

Note: Since respondents were able to select all activities that apply, percentages add up to more than 100 percent.

The top five highest ranked activities selected by the respondents are operational audits (88.9 percent), audits of compliance with regulatory code (75.1 percent), auditing of financial risks (71.6 percent), investigations of fraud and irregularities (71.2 percent), and evaluating effectiveness of control systems (68.8 percent). Further analysis of the top five ranked internal audit activities by region shows no significant differences.

Activities where respondents indicate that their internal audit activities have less of a role are implementation of extensible business reporting language (XBRL), executive compensation assessments, migration to International Financial Reporting Standards (IFRS), social and sustainability audits, and quality/ISO audits (refer to [Table 4–1](#)).

## Emerging Internal Audit Activity

Participants were also asked to select one or more from a list of activities that they anticipate their internal auditors will perform in the next five years. The top five activities that respondents predict will be performed by internal auditors in the next five years are corporate governance reviews (23 percent), audits of enterprise risk management processes (20.4 percent), reviews addressing linkage of strategy and company performance (19.9 percent), ethics audits (19.3 percent), and migration to IFRS (18.8 percent). Further investigations of internal audit activities by region show no variations in the ranking of internal audit activities. The list of internal audit activities and their rank in five years are presented in **Table 4–2**.

**Table 4–2**  
**Internal Audit Activities Expected in Five Years**

Internal Audit Activity	In 5 Years	
	Percentage	Rank
Corporate governance reviews	23.0%	1
Audits of enterprise risk management processes	20.4%	2
Reviews addressing linkage of strategy and company performance (e.g., balanced scorecard)	19.9%	3
Ethics audits	19.3%	4
Migration to IFRS	18.8%	5
Social and sustainability audits	18.6%	6
Disaster recovery testing and support	18.2%	7
Evaluation of the effectiveness of internal control	16.8%	8
Auditing of IT/ICT risks	16.5%	9
Executive compensation assessments	16.3%	10
Implementation of XBRL	16.1%	11
Business viability (going-concern) assessments	16.0%	12
Auditing of information risks	15.8%	13
Due diligence reviews	15.8%	14
Auditing of outsourced operations	15.4%	15
Project management audit	15.2%	16
Facilitating risk/control/compliance training and education for organization personnel	15.2%	17
Quality/ISO audits	14.8%	18

**Table 4–2**  
**Internal Audit Activities Expected in Five Years** (continued)

Internal Audit Activity	In 5 Years	
	Percentage	Rank
Compliance audit	14.7%	19
Security assessments and investigations	13.5%	20
Investigations of fraud and irregularities	13.2%	21
Auditing of financial risks	13.0%	22
Management audits	11.7%	23
Operational audits	11.0%	24
External audit assistance	11.0%	25

Note: Since respondents were able to select all activities that apply, percentages add up to more than 100 percent.

Activities where respondents indicate that their internal audit activities will have less of a role in the next five years are external audit assistance (11.0 percent), operational audits (11.0 percent), management audits (11.7 percent), auditing of financial risks (13.0 percent), and investigations of fraud and irregularities (13.2 percent).

## The Balance between the Assurance and Consulting Engagements

Finding the right balance between the internal audit function assurance services and consulting engagements requires an explicit strategy that should be determined by the audit committee or equivalent on behalf of the organization. The audit committee determines how much assurance is needed in each engagement, plans it appropriately, and finds the right resources to complete the task. Consulting and assurance engagements of internal audit functions are important and valuable to an organization. Consulting is directed at maximizing benefit and minimizing loss.

The IIA defines *internal auditing* as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” The participants’ agreement with the various statements related to the scope of internal auditing and the nature of the activities that internal auditors perform was investigated. As shown in **Table 4–3**, respondents indicate that objectivity, independence, adding values, and systematic approach to evaluate effectiveness are characteristic of the services they provide.

**Table 4–3**  
**Survey Respondents' Level of Agreement with the Below Statements as They**  
**Relate to Their Current Organization or Organizations That They Audit**

Statements	Not Answered	In Disagreement	Neutral	In Agreement
Objectivity is a key factor for your internal audit activity to add value.	75.7%	0.4%	0.6%	23.4%
Your internal audit activity is an independent objective assurance and consulting activity.	75.5%	0.8%	0.9%	22.8%
Independence is a key factor for your internal audit activity to add value.	75.6%	0.7%	1.2%	22.5%
Your internal audit activity adds value.	75.6%	0.5%	1.4%	22.5%
Your internal audit activity brings a systematic approach to evaluate the effectiveness of internal controls.	75.6%	0.7%	1.4%	22.2%
Your internal audit activity is credible within your organization.	75.7%	0.7%	2.1%	21.5%
Your internal audit activity proactively examines important financial matters, risks, and internal controls.	75.7%	1.2%	3.3%	19.9%
Your internal audit activity has sufficient status in the organization to be effective.	75.6%	2.0%	2.9%	19.6%
Your internal audit activity is an integral part of the governance process by providing reliable information to management.	75.6%	1.5%	3.6%	19.4%
Your internal audit activity brings a systematic approach to evaluate the effectiveness of risk management.	75.7%	1.5%	3.6%	19.2%
Compliance with The IIA's Code of Ethics is a key factor for your internal audit activity to add value to the governance process.	75.6%	1.4%	4.3%	18.8%
Your internal audit activity meets/exceeds the requirements of The IIA's Code of Ethics.	75.6%	1.3%	4.8%	18.3%
Compliance with the <i>International Standards for the Professional Practice of Internal Auditing (Standards)</i> .	75.6%	2.1%	5.2%	17.2%
Your internal audit activity brings a systematic approach to evaluate the effectiveness of governance processes.	75.7%	2.2%	5.8%	16.4%
One way your internal audit activity adds value to the governance process is through direct access to the audit committee.	75.9%	2.9%	4.8%	16.4%

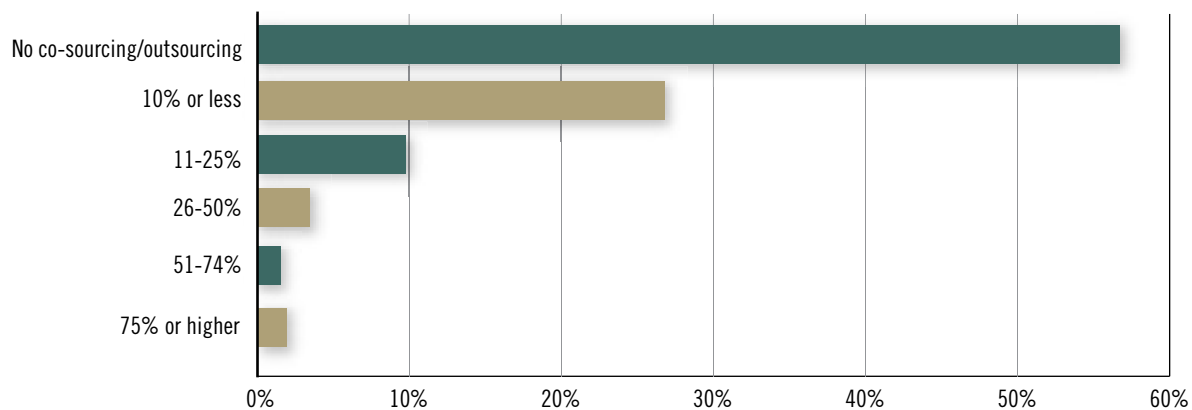
## Co-sourcing/Outsourcing of the Internal Audit Activity (IAA)

### Current Level of Co-sourcing/Outsourcing of the IAA

Co-sourcing/outsourcing was popularized during the 1990s. Post Enron and Sarbanes-Oxley (U.S. Sarbanes-Oxley Act of 2002), there appears to be fundamental changes in the interest of internal audit organizations in co-sourcing/outsourcing internal audit activities from outside the organization. This notion appears to have been expressed in the 2010 study.

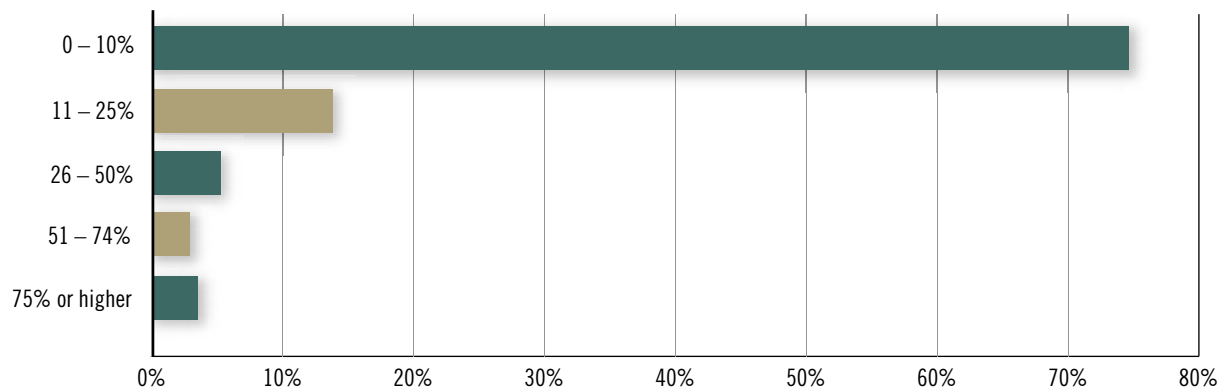
Although co-sourcing/outsourcing is still common, its extent has declined from 2006 to 2010 (**Figures 4-2 and 4-3**). In 2010, the percentage of respondents who did no co-sourcing/outsourcing at all was 57 percent, with 27 percent of respondents outsourcing 10 percent or less of their activity for a total of 84 percent, compared to 75 percent in 2006 for those who outsource/co-source 10 percent or less of their activity as shown in **Figure 4-3**.

**Figure 4-2: Level of Internal Audit Activity Co-sourced/Outsourced in 2010**



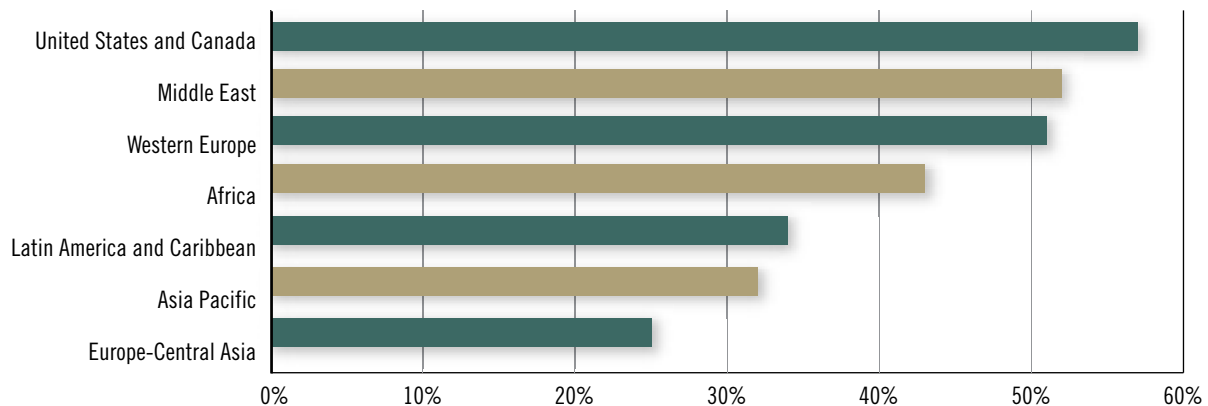
Similarly, in 2010, only 9.74 percent of the respondents indicate that they outsourced/co-sourced 11–25 percent of their internal audit activities, down from 13.8 percent in 2006. This general decline in the extent of the outsourcing activities may have been caused by the restrictions imposed by Sarbanes-Oxley and the IIA position that discourages co-sourcing/outsourcing of internal audit activities to external auditors. There may also be an effect from the more recent global financial recession.

**Figure 4-3: Level of Internal Audit Activity Co-sourced/Outsourced in 2006**



Further analyses of the level of co-sourcing/outsourcing of the internal audit activities show variations among the different regions and industries. **Figure 4-4** indicates that the United States and Canada, Middle East, and Western Europe appear to exceed the average level (42 percent) of co-sourcing/outsourcing for internal audit activities.

**Figure 4-4: Level of Internal Audit Activity Co-sourcing/outsourcing by Region**



Relative to other industries, the financial industry has the highest level of co-sourcing/outsourcing of the internal audit activities (30 percent) followed by the manufacturing and construction industry with 18 percent (see **Table 4-4**).

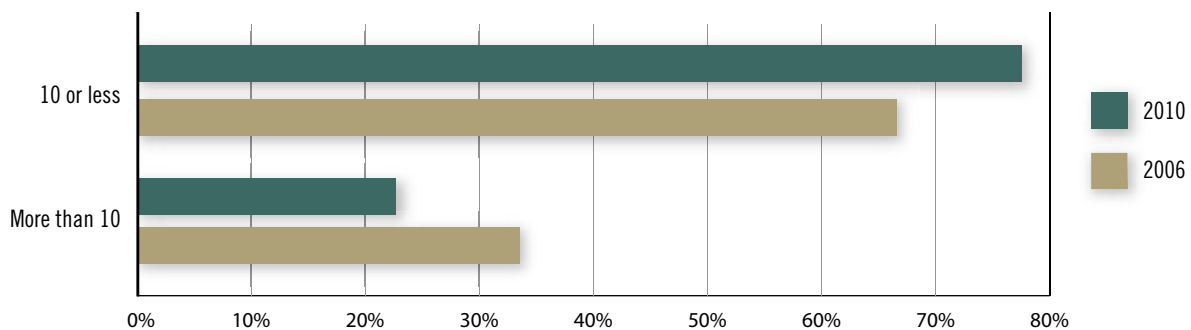


**Table 4–4**  
**Co-sourcing/outsourcing of Internal Audit Activity by Industries**

Type of Industry	10% or less of IAA	More than 10% of IAA
Financial industry, including banking, insurance, and real estate	35%	30%
Manufacturing and construction	17%	18%
Transportation, communication, electric, gas, sanitary services	13%	15%
Service	11%	14%
Public sector/government	8%	8%
Other	7%	7%
Raw material and agriculture	5%	4%
Wholesale and retail trade	5%	4%
Total	100%	100%

When service providers were asked about the number of organizations they currently provide services to, about 78 percent indicate that they provide services to 10 organizations or less compared to 66 percent in 2006, as shown in **Figure 4–5**. This may indicate that service providers may be providing more services for fewer clients.

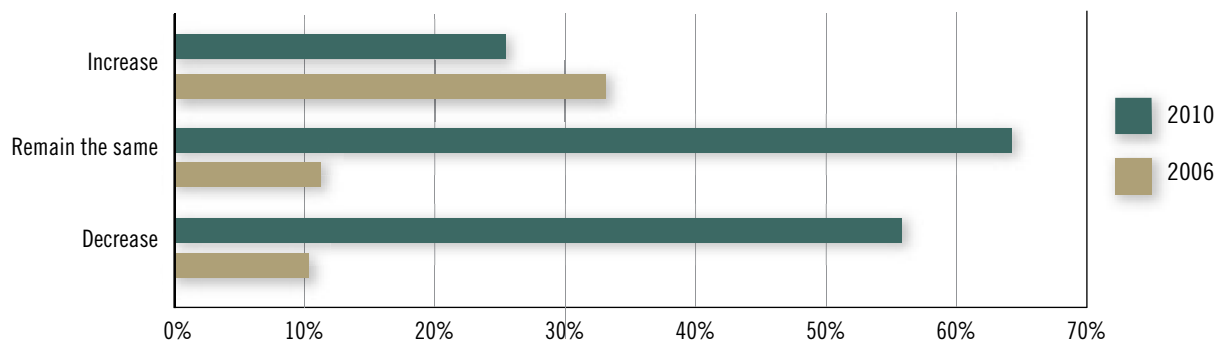
**Figure 4–5: The Number of Organizations to Which Services Providers Provide Internal Audit Activity Services**



### Future Trends of Co-sourcing/Outsourcing of the IAA

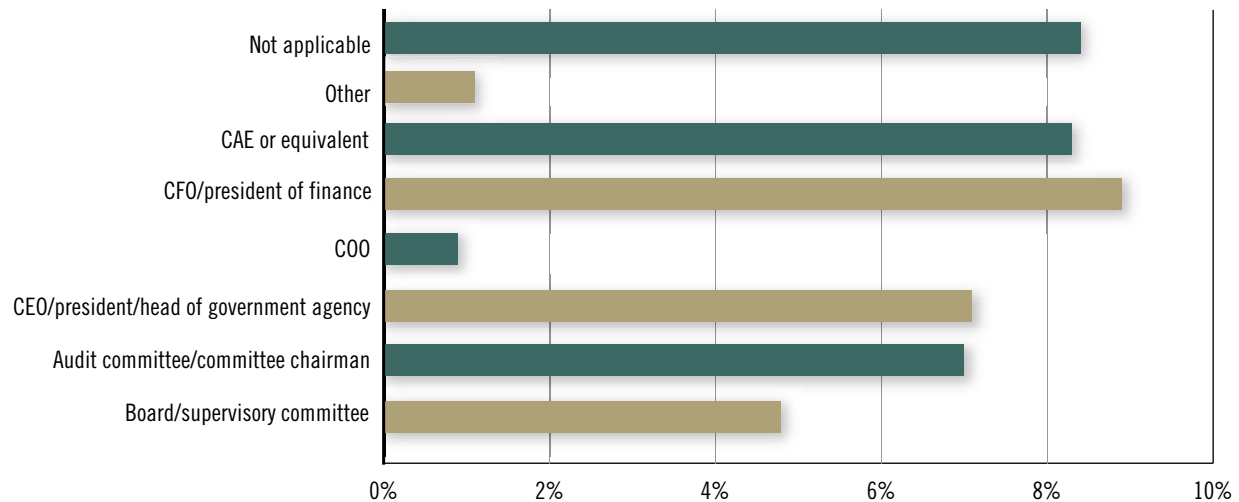
When asked about their anticipation of the change in their co-sourcing/outsourcing budget for the next five years, 64.15 percent of the respondents indicated that there will be no change in their future budgets, while in the 2006 survey, only 11.28 percent said there will be no change. Only 25.53 percent of the respondents in the 2010 survey anticipate increases in the co-sourcing/outsourcing budget compared to 33 percent in the 2006 survey. A decrease in the co-sourcing/outsourcing budget was anticipated by 10.32 percent of the respondents in the 2010 survey, compared to 55.71 percent of respondents in the 2006 survey (**Figure 4–6**). One may conclude that the extent of co-sourcing/outsourcing of internal audit activities will either stay at the same level or increase during the next five years.

**Figure 4–6: Anticipated Budget Changes for Co-sourcing/Outsourcing Activity in the Next Five Years**



### Appointing an Internal Audit Service Provider

According to the respondents, the CAE or equivalent, the CEO/president/head of a government agency, and the audit committee/committee chairperson are the most influential when it comes to appointing the internal audit service provider (**Figure 4–7**). It appears that many organizations choose to have their top management — CEO, chief operating officer (COO), chief financial officer (CFO), etc. — make decisions in appointing the outside service provider, while others have their CAEs or the boards carry this responsibility.

**Figure 4-7: Responsibility of Appointing Internal Audit Service Providers**

Note: Not all respondents answered this question and thus the percentages do not add up to 100 percent.

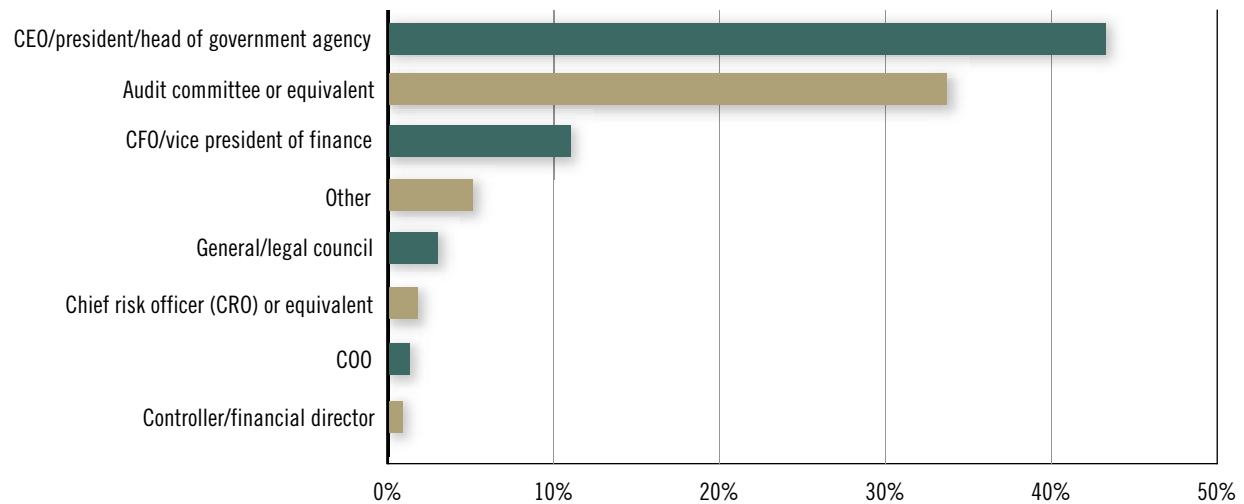
## The Reporting Line of the CAE

IIA Standard 2060: Reporting to Senior Management and the Board requires that the CAE “must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan.” This section focuses on the reporting line of the CAE and the relationship between the CAE and the audit committee.

### The Administrative Reporting Line of the CAE

The IIA’s *Standards* require that the head of the internal audit department reports to the audit committee or an equivalent to fulfill its obligations and to effectively assess internal controls, risk management, and governance, and to achieve its independence, objectivity, and organizational stature. Moreover, The IIA recommends a dual reporting relationship where the CAE reports functionally to the audit committee of the board and administratively to a senior management executive.

About 43 percent of respondents indicate that they report administratively to the CEO/president/head of government agency, while 34 percent said the audit committee or equivalent. **Figure 4–8** presents the answers.

**Figure 4-8: Administrative Report of CAEs**


Further analysis of the CAE reporting administratively by region reveals most respondents either report to the CEO or the audit committee or its equivalent. About 68 percent of the respondents in the Middle East report to the audit committee, while 33 percent report to the CEO/president. However, 55 percent of the respondents in Europe-Central Asia report to the CEO/president, while only 25 percent report to the audit committee as shown in [Table 4-5](#).

**Table 4-5  
CAEs Administrative Reporting By Region**

	Africa	Asia Pacific	Europe-Central Asia	Latin America and Caribbean	Middle East	United States and Canada	Western Europe
Audit committee or equivalent	29%	30%	25%	50%	68%	41%	29%
General/legal counsel	1%	1%	2%	1%	0%	6%	3%
CEO/president/head of government agency	55%	53%	55%	37%	33%	21%	51%
CFO/vice president of finance	5%	7%	4%	2%	0%	23%	10%
COO	1%	2%	4%	0%	0%	1%	2%
CRO or equivalent	3%	3%	1%	2%	0%	2%	1%
Controller/financial director	2%	1%	0%	1%	0%	2%	0%
Other	4%	3%	9%	7%	1%	4%	4%

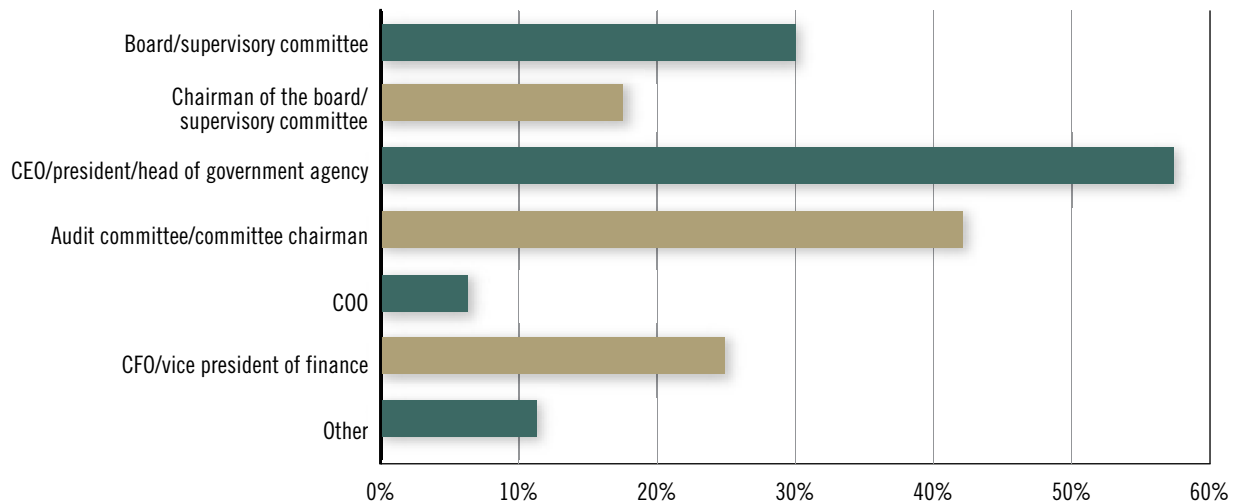
Further investigation of the CAE administrative reporting varies from one industry to another. For instance, 39 percent of the survey respondents working in the financial industry report to the audit committee, while only 12 percent of the respondents working in transportation, communication, electric, gas, and sanitary services report to the audit committee. In addition, 28 percent of the survey respondents working in the financial industry report administratively to the CEO, while 4 percent of the respondents working in the raw material and agriculture industry report to the CEO as presented in **Table 4–6**.

**Table 4–6**  
**CAEs Administrative Reporting by Industry**

Administratively Reporting	Audit Committee or Equivalent	General/ Legal Counsel	CEO/ President/ Head of Government Agency	CFD/ VP of Finance	COO	CRO or Equivalent	Controller/Financial Director	Other	Total
Financial, including banking, insurance, and real estate	39%	32%	28%	12%	29%	53%	12%	25%	30%
Manufacturing and construction	17%	15%	19%	27%	18%	15%	28%	12%	19%
Public sector/government	5%	6%	13%	3%	5%	0%	12%	22%	9%
Raw material and agriculture	5%	6%	4%	4%	0%	2%	4%	3%	4%
Service	13%	15%	12%	17%	18%	15%	12%	13%	13%
Transportation, communication, electric, gas, sanitary services	12%	20%	12%	17%	18%	9%	16%	11%	13%
Wholesale and retail trade	3%	2%	5%	10%	5%	4%	8%	3%	5%
Other, including unanswered and missing data	7%	5%	7%	10%	5%	2%	8%	11%	7%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%

In responding to a question related to appointing the CAE or equivalent, the respondents indicate that the CEO/president/head of a government agency is mostly involved in appointing the CAE, followed by the audit committee. **Figure 4–9** presents the answers for the 2010 study.

**Figure 4-9: Responsibility of Appointing CAEs**



Note: Since respondents were able to select all who is involved in appointing the CAE, percentages add up to more than 100 percent.

## The Relationship of the CAE with the Audit Committee

IIA Standard 2060: Reporting to Senior Management and the Board requires that the CAE “must report periodically to senior management and the board on the internal audit activity’s purpose, authority, responsibility, and performance relative to its plan.” About 70 percent of the organizations that participated in the surveys in 2006 or 2010 have audit committees. On average, there are four meetings held by the audit committee each year. This is consistent with the result in the 2006 study. Some organizations (6.3 percent in 2010) have as many as 12 meetings per year or as few as one or two meetings.

Respondents indicate that most organizations invite the internal auditors (CAE or others) to their meetings at least four times a year. It appears that the internal auditors are invited to almost all audit committee meetings.

The IIA recognizes that a sound relationship between the audit committee and internal auditors is essential

Internal auditing is an important source for the audit committee in the discharge of its oversight activities. Hence the relationship of internal auditing with the audit committee is of paramount importance. Reinforcing this assertion, it emerges from the surveys that most organizations invite the internal auditors to almost all their meetings.

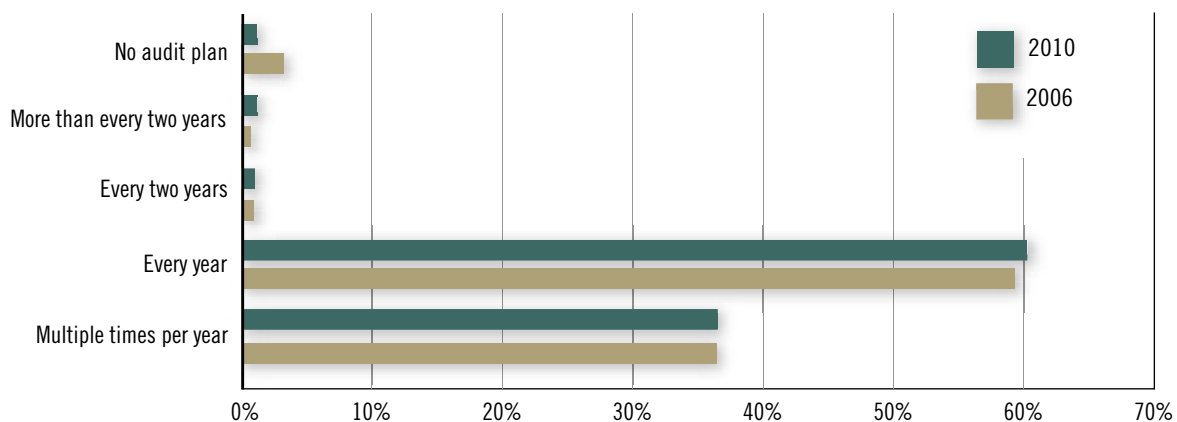
The results indicate that there is an improvement in the relationship between the audit committee and the internal auditors compared to 2006. About 74 percent of the respondents indicate that they meet or talk with the audit committee/chairman in addition to regularly scheduled meetings.

for each to fulfill its responsibilities to senior management, board of directors, shareholders, and other outside parties. About 74 percent of the respondents in 2010 indicate that they meet or talk with the audit committee/chairman in addition to regularly scheduled meetings compared to 63 percent in 2006. The results indicate that there is an improvement in the relationship between the audit committee and the internal auditors compared to 2006. When asked if they have appropriate access to the audit committee, 90 percent answered positively. This answer did not change from the 2006 study.

## Creating and Maintaining the Audit Plan

IIA Standard 2010: Planning requires that the CAE “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization’s goals.” Most respondents indicate that they update their plans once a year (60 percent) and about one-third indicate that they update their plans multiple times per year. The results are comparable to the 2006 survey and are presented in **Figure 4–10**.

**Figure 4–10: Frequency of Updating the Audit Plan**



Practicing internal auditors identified four top approaches in establishing their internal audit plans: use of a risk-based methodology, requests from management, consulting the previous year’s audit plan, and consultation with divisional or business heads. The same approaches in the same order of preference were reported by the respondents to the 2006 study. **Table 4–7** shows the order of preferences for the approaches used to develop internal audit plans in 2010.

**Table 4–7**  
**Top Approaches Used by Internal Auditors in**  
**Establishing their Internal Audit Plan**

Approach	2010
Use of a risk-based methodology	21.9%
Requests from management	18.1%
Consult previous year's audit plan	15.3%
Consultation with divisional or business heads	14.2%
Compliance/regulatory requirements	13.9%
Audit committee requests	12.6%
Requests from or consultation with external auditors	8.2%
Other	2.1%

Note: Since respondents were able to select all approaches that apply, percentages add up to more than 100 percent.

## Reporting of Findings

### Reporting on Internal Control

IIA Standard 2130: Control requires that the internal audit activity “must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.” When respondents were asked whether they prepare a report on internal control, 62.9 percent of the respondents indicate that they prepare a written report on overall internal control for use by the audit committee or senior management, while 37.1 percent indicate that they do not prepare a written report.

When asked how often they provide such written reports, 51.20 percent indicate that they provide the reports periodically, while 44.10 percent indicate annually, and 4.70 percent specify on request.

IIA Standard 2010 requires that the CAE “must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organization’s goals.”

Respondents identified four top approaches to audit plans:

- ☐ Use of a risk-based methodology.
- ☐ Requests from management.
- ☐ Consulting the previous year’s audit plan.
- ☐ Consultation with divisional or business heads.

With regard to frequency, 60 percent of the respondents indicate that they update their plans once a year. This is in line with the previous survey. About 36 percent indicate that they update their plans multiple times per year.



## Reporting Findings to Senior Management

Approximately 77 percent of the respondents indicate that it is the duty of the CAE or an equivalent to report findings to senior management after the release of an audit report. A comparison of the results of the responsibility in reporting findings to senior management between 2010 and 2006 is provided in **Table 4–8**.

**Table 4–8**  
**The Responsibility in Reporting Findings to Senior Management**

	2010	2006
Auditee/customer	3.0%	3.4%
CAE/general auditor/top audit position/service provider equivalent	76.7%	58.8%
Internal auditor manager	5.7%	19.6%
Both internal audit manager and auditee/customer	2.7%	7.4%
Both CAE and auditee/customer	10.2%	7.8%
Other	1.3%	1.9%
No formal reporting of results	0.6%	1.1%

## Internal Control Report in the Annual Report

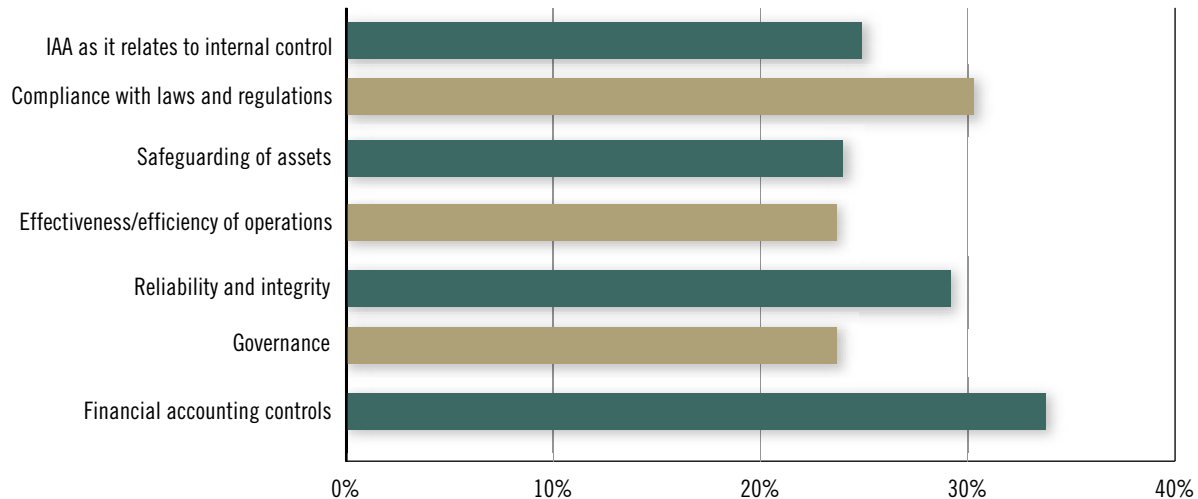
In the 2010 survey, about 25 percent of the CAEs who answered the survey indicate that they issue a comprehensive internal control report based on a generally accepted control framework, while 29 percent indicate that they do not provide a report on internal control as part of the annual report (**Table 4–9**).

**Table 4–9**  
**Reporting on Internal Control as Part of the Annual Report**

Report	2010
It is a comprehensive report based on a generally accepted control framework (e.g., COSO, CoCo, UK Combined Code, AM).	25.2%
The report is based on management's responsibility to identify and address the organization's risks.	19.7%
The report is based primarily on management's responsibility for integrity and reliability of financial information.	17.5%
No report on internal control is provided.	29.6%
We do not issue an annual report.	8.0%
Total	100.0%

About 34 percent of the CAEs indicate that their internal control reports contain references to financial accounting controls, followed by references to compliance with laws and regulations, reliability and integrity, and internal audit activity as it relates to internal control (**Figure 4–11**).

**Figure 4–11: Reporting Items on Internal Control in the Annual Report**

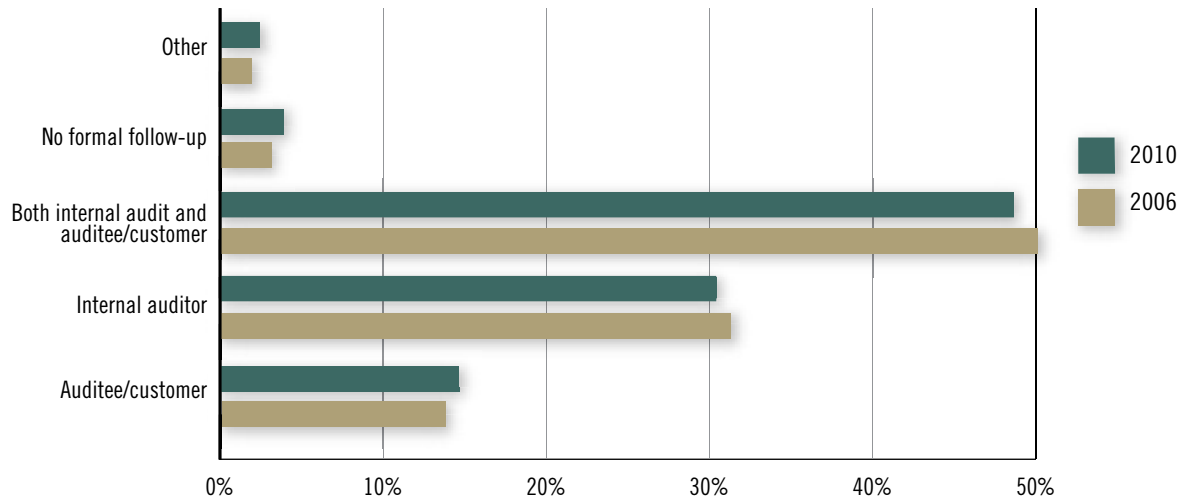


Note: Since respondents were able to select all items that apply, percentages add up to more than 100 percent.

In response to the question on who signs the report, the CEO/president/head of government agency is ranked number one for signing the report on internal controls, then the CFO/vice president of finance, followed by the CAE.

### Monitoring Corrective Action

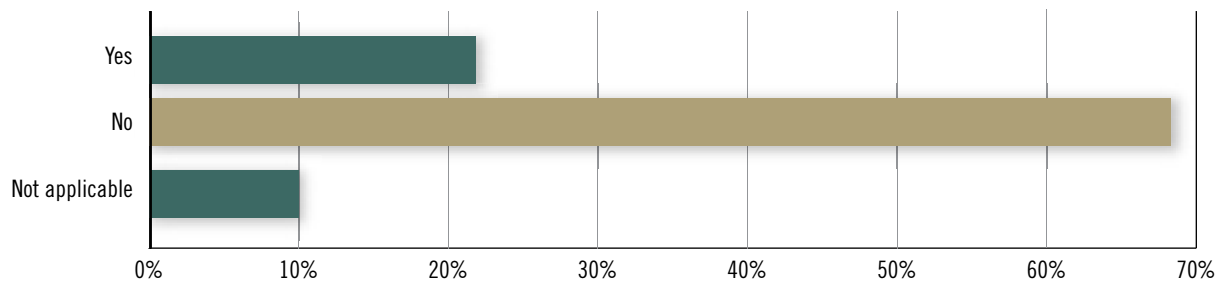
IIA Standard 2500: Monitoring Progress requires that the CAE “must establish and maintain a system to monitor the disposition of results communicated to management.” **Figure 4–12** presents the survey results indicating who has the responsibility to monitor corrective action. About 48 percent of the respondents indicate that in their organization both internal audit and the auditee/customer have the responsibility to monitor the corrective action as reported in the audit report, while 30.40 percent indicate that it is the responsibility of the internal auditor. This is consistent with the results obtained from the 2006 survey.

**Figure 4–12: Monitoring Corrective Action**

When asked whether internal auditing usually provides an overall rating (such as satisfactory/unsatisfactory) of the audit subject area in the audit reports, 72.39 percent of the respondents indicate that they did so.

## Coercion

IIA Standard 1100: Independence and Objectivity requires that the internal audit activity “must be independent, and internal auditors must be objective in performing their work.” Undue or extreme pressure (coercion) has the potential to limit internal auditing in meeting this standard. The 2010 survey results indicate that overall, about 22 percent of the respondents (CAEs) have been subject to coercion to change a rating or assessment or withdraw a finding in an internal audit report. **Figure 4–13** summarizes these results.

**Figure 4–13: Internal Auditors' Subject to Coercion**

In Africa and Europe-Central Asia, 35 percent and 31 percent, respectively, of internal auditors have experienced coercion. Similarly internal auditors in the Middle East (24 percent), Western Europe (23 percent), Asia Pacific (22 percent), and Latin America and Caribbean (19 percent) have been coerced. Even in the United States/Canada, the problem is not insignificant (15 percent).

Internal Audit Performance Measurement

This section focuses on the internal audit performance measurement and the CAE performance evaluation.

Current and Future Methods of Internal Audit Performance Measurement

IIA Standard 1311: Internal Assessments requires that internal assessments for the internal audit activities “must include: Ongoing monitoring of the performance of the internal audit activity; and Periodic reviews performed through self-assessment or by other persons within the organization with knowledge of internal audit practices.” Respondents were asked to rank some of the common measures of the performance of internal audit activities used by management currently and anticipated in five years.

**Table 4–10** presents the top ranked methods currently used, which include surveys/feedback from the board, customer surveys, assurance of sound risk, and balanced scorecard. **Table 4–11** presents the top five methods of internal audit performance measurements expected to be used in five years’ time. Balanced scorecards came first, followed by assurance of sound risk.

The following emerge as the key internal audit performance measures, in descending order:

- ❑ Surveys/feedback from the board.
- ❑ Customer surveys.
- ❑ Assurance of sound risk.
- ❑ Balanced scorecard.

The respondents have identified balanced scorecard and risk assurance as likely leading measures in the future.

The CEO and the audit committee are most commonly involved in reviewing the performance of the CAE.

Table 4–10  
Top Five Methods of Internal Audit Performance Currently Used

The Measurement of the Internal Audit Performance	Currently	
	Frequency	%
Surveys/feedback from the board	1,279	10.8%
Customer/auditee surveys	1,075	9.1%
Assurance of sound risk	980	8.3%
Balanced scorecard	491	4.1%

**Table 4–11**  
**Top Five Methods of Internal Audit Performance Expected to be Used in Five Years**

The Measurement of the Internal Audit Performance	In 5 years	
	Frequency	%
Balanced scorecard	476	4.0%
Assurance of sound risk	381	3.2%
Surveys/feedback from the board	443	3.7%
Customer/auditee surveys	443	3.7%
Percentage of audit plan complete	332	2.8%

### Performance Evaluation of the CAE

**Table 4–12** shows the parties within an organization that perform the CAE evaluation. The respondents indicate that the CEO/president/head of a government agency is most commonly involved in evaluating the performance of the CAE, followed by the audit committee/committee chairperson. In addition, the respondents indicate that the chairman of the board/supervisory committee and the board/supervisory committee are involved in the evaluation process of the CAE.

**Table 4–12**  
**Evaluating the Performance of the CAE**

Evaluator	2010
CEO/president/head of government agency	56.2%
Audit committee/committee chairman	45.0%
Senior management	32.5%
Chairman of the board/supervisory committee	14.2%
Board/supervisory committee	17.2%
Auditee/customer	15.0%
Supervisor	13.0%
Peers	7.7%
Subordinates	6.1%
Self	15.0%

Note: Since respondents were able to select all items that apply, percentages add up to more than 100 percent.

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## Chapter 5

# Conclusion

Analysis of survey results discussed in this report indicate that the internal audit profession continues to be a dynamic force in the governance, risk management, and compliance arena with a positive outlook for the future. While attracting younger professionals to the IIA membership, significant growth is expected in emerging markets. The CIA is still the number one professional designation currently held by internal auditors, and more individuals are seeking to acquire it during the next five years. There is also an increase in the level of formal education and the number of practitioners with degrees in internal auditing. Furthermore, accounting continues to be the number one major for internal auditors. While most internal auditors work for publicly traded/listed companies, there is a significant increase in the last four years (2006–2010) in the number of internal auditors who work for privately held/non-listed companies.

Staffing of internal audit organizations is expected to increase over the next five years through external recruitments or internal transfers. To cover shortages of staff, most organizations either outsource/co-source the internal audit activity or reduce areas of coverage.

Hiring incentives do not play a major role in the recruiting process, but organizations that do offer hiring incentives focus more on tuition reimbursement, transportation allowances, and relocation expenses.

Staffing of internal audit organizations is expected to increase over the next five years through external recruitments or internal transfers. To cover shortages of staff, most organizations either outsource/co-source the internal audit activity or reduce areas of coverage.

The importance of various internal audit activities will significantly change in the next five years from what is practiced currently. Corporate governance, enterprise risk management and strategic reviews, ethics audits, and migration to IFRS will be the major focus areas with less emphasis on operational and compliance audits, auditing of financial risks, fraud investigations, and evaluation of internal controls. This will require internal auditors to adapt and strengthen their skills to match the new internal audit activities. These changes will also have an impact on the type and nature of professional development and continuing professional education, as well as on the hiring of staff that have the necessary skills to meet the future internal audit activities. Survey results indicate that most audit organizations prepare risk-based audit plans at least annually. Co-sourcing/outourcing activities are expected to either increase or maintain at the current level in the next five years. However, there are variations among the different regions.

Internal audit practitioners are well positioned in their organizations and report administratively to the highest authority within the company, the CEOs, and/or the audit committee. Approximately one-third of the CAEs report administratively to the audit committee. Moreover, 22 percent of CAEs indicate that they had been subject to coercion while performing their internal audit activities.

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# The IIA's Global Internal Audit Survey — Questions

The entire IIA Global Internal Audit Survey, including question and answer options and glossary, may be downloaded from The IIA's website ([www.theiia.org/research](http://www.theiia.org/research)). The following table provides an overview of the questions and groups that answered the specific questions. In addition, the table indicates in which report the survey data were (mostly) used.

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
<b>Personal/Background Information</b>							
1a	How long have you been a member of The IIA?	X	X	X	X	X	I & V
1b	Please select your local IIA.	X	X	X	X	X	I & V
1c	Please select the location in which you primarily practice professionally.	X	X	X	X	X	I & V
2a	Your age.	X	X	X	X	X	I & V
2b	Your gender.	X	X	X	X	X	I & V
3	Your highest level of formal education (not certification) completed.	X	X	X	X	X	I & V
4	Your academic major(s).	X	X	X	X	X	I & V
5a	Do you work for a professional firm that provides internal audit services?	X	X	X	X	X	I & V
5b	Your position in the organization.	X	X	X	X	X	I & V
6	Your professional certification(s) (please mark all that apply).	X	X	X	X	X	I & V
7	Specify your professional experience (please mark all that apply).	X	X	X	X	X	I & V
8	How many total years have you been the CAE or equivalent at your current organization and previous organizations you have worked for?	X					I
9	Where do you administratively report (direct line) in your organization?	X					I & V
10	Do you receive at least 40 hours of formal training per year?	X	X	X	X		I & V

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
<b>Your Organization</b>							
11	The type of organization for which you currently work.	X	X	X	X		I
12	The broad industry classification of the organization for which you work or provide internal audit services.	X	X	X	X		I
13a	Size of the entire organization for which you work as of December 31, 2009, or the end of the last fiscal year (total employees).	X	X	X	X		I & V
13b	Total assets in U.S. dollars.	X	X	X	X		I & V
13c	Total revenue or budget if government or not-for-profit in U.S. dollars.	X	X	X	X		I & V
14	Is your organization (local, regional, international)?	X	X	X	X		I & V
<b>Internal Audit Activity</b>							
15	How long has your organization's internal audit activity been in place?	X			X		I, III, & V
16	Which of the following exist in your organization (e.g., corporate governance code; internal audit charter)?	X			X		I, III, & V
17a	Who is involved in appointing the chief audit executive (CAE) or equivalent?	X					I & III
17b	Who is involved in appointing the internal audit service provider?	X	X				I & III
18	Who contributes to the evaluation of your performance?	X					I & III
19	Is there an audit committee or equivalent in your organization?	X					I, III, & V
20a	Number of formal audit committee meetings held in the last fiscal year.	X					I & III
20b	Number of audit committee meetings you were invited to attend (entirely or in part) during the last fiscal year.	X					I & III
20c	Do you meet or talk with the audit committee/chairman in addition to regularly scheduled meetings?	X					I & III
20d	Do you meet with the audit committee/oversight committee/chairman in private executive sessions during regularly scheduled meetings?	X					I & III

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
21a	Do you believe that you have appropriate access to the audit committee?	X	X				I & III
21b	Do you prepare a written report on overall internal control for use by the audit committee or senior management? Do you prepare a written report on overall internal control for use by the audit committee or senior management? How often do you provide a report?	X	X				I & III
21c	Does your organization provide a report on internal control in its annual report?	X	X				I & III
21d	Which of the following are included in the annual report item on internal control?	X	X				I & III
21e	Who signs the report on internal controls?	X	X				I & III
22	How does your organization measure the performance of the internal audit activity?	X					I, III, & V
23a	How frequently do you update the audit plan?	X					I & III
23b	How do you establish your audit plan?	X					I, III, & V
24a	What is your IT/ICT audit strategy?	X					I, III, & V
24b	What is the nature of your internal audit activity's technology strategy?	X					I, III, & V
25a	What is the number of organizations to which you (as an individual) currently provide internal audit services?		X				I & III
25b	Please indicate your agreement with the following statements as they relate to your current organization or organizations that you audit.	X					I, III, & V
<b>Staffing</b>							
26a	Is your organization offering any special incentives to hire/retain internal audit professionals?	X					I & III
26b	What sources does your organization use to recruit audit staff?	X					I & III
26c	Does your organization use college interns/undergraduate placements?	X					I, III, & V
26d	What is your primary reason for employing college interns/undergraduate placements?	X					I, III, & V

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
27	What methods do you use to make up for staff vacancies?	X					I & III
28	What methods is your organization employing to compensate for missing skill sets?	X					I & III
29	What percentage of your internal audit activities is currently co-sourced/outsourced?	X					I & III
30a	How do you anticipate that your budget for co-sourced/outsourced activities will change in the next five years?	X					I & III
30b	How do you anticipate that your permanent staff levels will change in the next five years?	X					I, III, & V
31	What method of staff evaluation do you use?	X					I & III
<b>Internal Audit Standards</b>							
32	Does your organization use the <i>Standards</i> ? If you are a service provider, do you use the <i>Standards</i> for internal audits of your clients?	X	X				II, III, & V
33	If your internal audit activity follows any of the <i>Standards</i> , please indicate if the guidance provided by these standards is adequate for your internal audit activity and if you believe your organization complies with the <i>Standards</i> .	X	X				II, III, & V
33a	Do you believe that the guidance provided by the <i>Standards</i> is adequate for internal auditing?					X	II, III, & V
34	Your organization is in compliance.	X					II, III, & V
35	What are the reasons for not using the <i>Standards</i> in whole or in part?	X	X				II, III, & V
36	Does your internal audit activity have a quality assessment and improvement program in place in accordance with Standard 1300?	X					II, III, & V
37a	When was your internal audit activity last subject to a formal external quality assessment in accordance with Standard 1312?	X					II, III, & V
37b	Why has such a review not been undertaken?	X					II, III, & V

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
37c	As a provider of internal audit services, are your internal audit processes subjected to external quality assessments as specified in Standard 1312?		X				II, III, & V
38	For your internal audit activity, which of the following is part of your internal audit quality assessment and improvement program?	X					II, III, & V
<b>Audit Activities</b>							
39	Please indicate whether your internal audit activity performs (or is anticipated to perform) the following:	X	X	X	X		I, III, & V
40a	Do you usually provide a form of opinion of the audit subject area in individual internal audit reports?	X	X	X	X		I & III
40b	Do you usually provide an overall rating (such as satisfactory/unsatisfactory) of the audit subject area in individual internal audit reports?	X	X	X	X		I & III
40c	Have you ever been subject to coercion (extreme pressure) to change a rating or assessment or to withdraw a finding in an internal audit report?	X	X	X	X		I & III
41	After the release of an audit report in the organization, who has the primary responsibility for reporting findings to senior management?	X	X	X	X		I & III
42	After the release of an audit report with findings that need corrective action, who has the primary responsibility to monitor that corrective action has been taken?	X	X	X	X		I & III
<b>Tools, Skills, and Competencies</b>							
43a	Indicate the extent the internal audit activity uses or plans to use the following audit tools or techniques on a typical audit engagement.	X	X	X	X		II, III, & V
43b	What other tools and techniques are you currently using or planning to use (indicate if proprietary)?	X	X	X	X		II, III, & V
44	Please mark the five most important of the following behavioral skills for each professional staff level to perform their work.	X	X			X	II, III, & V
44a	Please indicate the importance of the following behavioral skills for you to perform your work at your position in the organization			X	X		II, III, & V
45	Please mark the five most important of the following technical skills for each level of professional staff to perform their work.	X	X			X	II, III, & V

Question #	Section and Description of Question	CAE	Service Provider Partner	Service Provider Non-partner	Practitioners (staff levels in-house and at-service providers)	Academics and Others	Data Used in Report
45a	Please indicate the importance of the following technical skills for you to perform your work at your position in the organization.			X	X		II, III, & V
46	Please mark the five most important of the following competencies for each level of professional rank to perform their work.	X	X			X	II, III, & V
46a	Please indicate the importance of the following competencies for you to perform your work at your position in the organization.			X	X		II, III, & V
46b	How important are the following areas of knowledge for satisfactory performance of your job in your position in the organization?			X	X		II, III, & V
46c	Are there other areas of knowledge that you consider essential?			X	X		II, III, & V
<b>Emerging Issues</b>							
47	Do you perceive likely changes in the following roles of the internal audit activity over the next five years?	X	X	X	X	X	IV & V
48	Please indicate if the following statements apply to your organization now, in the next five years, or will not apply in the foreseeable future.	X	X	X	X		IV & V

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# The IIA's Global Internal Audit Survey — Glossary

This glossary was made available to respondents when they participated in the survey.

## Add Value

Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.

## Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization. Examples may include financial, performance, compliance, system security, and due diligence engagements.

## Audit Risk

The risk of reaching invalid audit conclusions and/or providing faulty advice based on the audit work conducted.

## Auditee

The subsidiary, business unit, department, group, or other established subdivision of an organization that is the subject of an assurance engagement.

## Board

A board is an organization's governing body, such as a board of directors, supervisory board, head of an agency or legislative body, board of governors or trustees of a nonprofit organization, or any other designated body of the organization, including the audit committee to whom the chief audit executive may functionally report.

## Business Process

The set of connected activities linked with each other for the purpose of achieving one or more business objectives.

## Chief Audit Executive

Chief audit executive is a senior position within the organization responsible for internal audit activities. Normally, this would be the internal audit director. In the case where internal audit activities are obtained from external service providers, the chief audit executive is the person responsible for overseeing the service contract and the overall quality assurance of these activities, reporting to senior management and the board regarding internal audit activities, and follow-up of engagement results. The term also includes titles such as general auditor, head of internal audit, chief internal auditor, and inspector general.

## Code of Ethics

The Code of Ethics of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe behavior expected of internal auditors. The Code of Ethics applies to both parties and entities that provide internal audit services. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.

## **Compliance**

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

## **Consulting Services**

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation, and training.

## **Control**

Any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

## **Customer**

The subsidiary, business unit, department, group, individual, or other established subdivision of an organization that is the subject of a consulting engagement.

## **Engagement**

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

## **Enterprise Risk Management** — See Risk Management

## **External Auditor**

A registered public accounting firm, hired by the organization's board or executive management, to perform a financial statement audit providing assurance for which the firm issues a written attestation report that expresses an opinion about whether the financial statements are fairly presented in accordance with applicable Generally Accepted Accounting Principles.

## **Framework**

A body of guiding principles that form a template against which organizations can evaluate a multitude of business practices. These principles are comprised of various concepts, values, assumptions, and practices intended to provide a yardstick against which an organization can assess or evaluate a particular structure, process, or environment or a group of practices or procedures.

## **Fraud**

Any illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organizations to obtain money, property, or services; to avoid payment or loss of services; or to secure personal or business advantage.



**Governance**

The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives.

**Independence**

The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.

**Internal Audit Activity**

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

**Internal Audit Charter**

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

**Internal Control**

A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- ☐ Effectiveness and efficiency of operations.
- ☐ Reliability of financial reporting.
- ☐ Compliance with applicable laws and regulations.

**International Professional Practices Framework**

The conceptual framework that organizes the authoritative guidance promulgated by The IIA. Authoritative Guidance is comprised of two categories — (1) mandatory and (2) strongly recommended.

**IT/ICT**

Information technology/information communication technology.

**Monitoring**

A process that assesses the presence and functioning of governance, risk management, and control over time.

**Objectivity**

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires internal auditors not to subordinate their judgment on audit matters to others.

**Risk**

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

**Risk Assessment**

The identification and analysis (typically in terms of impact and likelihood) of relevant risks to the achievement of an organization's objectives, forming a basis for determining how the risks should be managed.

**Risk Management**

A process to identify, assess, manage, and control potential events or situations to provide reasonable assurance regarding the achievement of the organization's objectives.

**Service Provider**

A person or firm, outside of the organization, who provides assurance and/or consulting services to an organization.

**Standard**

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities, and for evaluating internal audit performance.

**Strategy**

Refers to how management plans to achieve the organization's objectives.

**Technology-based Audit Techniques**

Any automated audit tool, such as generalized audit software, test data generators, computerized audit programs, specialized audit utilities, and computer-assisted audit techniques (CAATs).

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The vision of The IIA Research Foundation is to understand, shape, and advance the global profession of internal auditing by initiating and sponsoring intelligence gathering, innovative research, and knowledge-sharing in a timely manner. As a separate, tax-exempt organization, The Foundation does not receive funding from IIA membership dues but depends on contributions from individuals and organizations, and from IIA chapters and institutes, to move our programs forward. We also would not be able to function without our valuable volunteers. To that end, we thank the following:

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