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Providing senior management, boards of directors, and audit committees with concise information on governance-related topics.

UNLOCKING THE VALUE: HOW AUDIT COMMITTEES CAN LEVERAGE INTERNAL AUDIT



The audit committee is a cornerstone of good corporate governance. Its mandate now extends well beyond oversight of financial reporting to include an array of key areas that support an organization's performance,

such as risk management, compliance, reliability and integrity of internal data, cyber risk, and the effectiveness of internal control over operations.

Yet even as the list of oversight responsibilities gets longer and more complex, the amount of time that most audit committee members can reasonably commit to the part has not.

The role of internal audit has traveled a parallel course with that of the audit committee, with internal auditors expanding their scope of responsibilities to meet organizational needs. Organizations are increasingly turning to the internal audit function to provide assurance and/or consulting services to better address their own needs. When a strong working relationship is in place with the audit committee, internal audit can enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

“With its broad view of the organization and its familiarity with operations across all business units, the internal audit department is uniquely positioned to help the audit committee understand and evaluate risks that may affect the enterprise,” said Carolyn

Audit Committee and Internal Audit: A Symbiotic Relationship

To ensure that internal audit can deliver value, the audit committee must protect and nurture unbiased assurance, which is among internal audit's greatest contributions to the organization. Audit committees should be prepared to:

- Understand the resources needed to provide value, including both personnel and data analytics resources.
- Protect the independence and objectivity of the chief audit executive (CAE) and internal audit team.
- Communicate with the CAE often and at a deep level, both formally and informally.
- Agree on expectations and help design, review, and approve audit plans that are aligned with those expectations.
- Hold management accountable for assessing and implementing, when appropriate, internal audit recommendations.
- Monitor the quality of internal audit work and insist on timeliness, organizational perspective, and fact-based observations and recommendations.

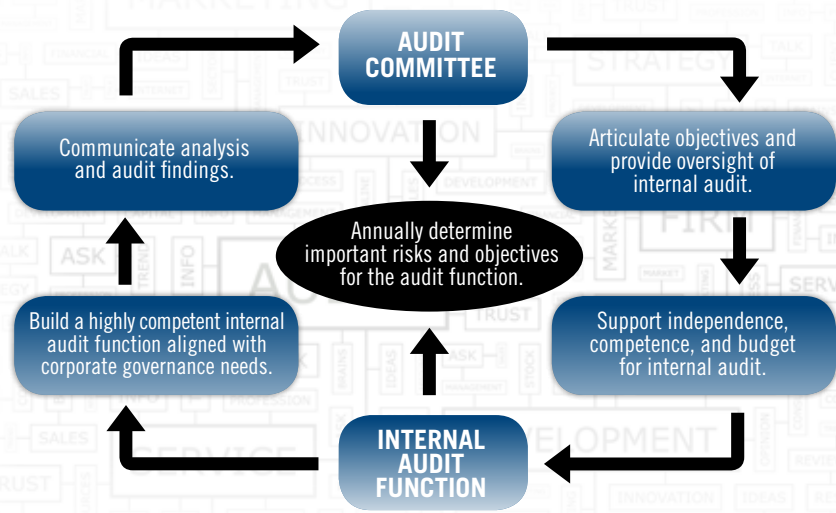
Dittmeier, CIA, QIAL, CRMA, a former chief audit executive (CAE) and long-time audit committee chair. “Audit committees can and should rely on internal audit as a critical resource to help them successfully fulfill their responsibilities.”

In addition to helping address risk, an effective internal audit department acts as an objective insider, empowering the audit committee with insights into the business and its practices that can achieve significant cost savings — something former airline industry CAE Steve Goepfert, CIA, QIAL, CRMA, describes as “head-snapping results.” He explains, “As internal auditors, we use tools such as data analytics to identify problems and recommend new, better approaches that can affect the company’s bottom line. Audit committees and management take notice when that happens.”

But one of the biggest obstacles to optimizing the value obtained from internal audit is a bias toward viewing the function as primarily providing assurance on financial, regulatory, and compliance risks. While those areas are critically important and are historically internal audit’s strengths, internal audit can make contributions well beyond those traditional spaces.

With appropriate resources and staff, internal audit can also address areas many stakeholders see as offering higher value to the organization by improving the efficiency and effectiveness of all controls, including, for instance, controls of data security or operations. In some cases, internal audit may increase value to stakeholders by providing assurance over strategic and business risks. Indeed, 58 percent of stakeholders responding to The IIA’s 2015 Common Body of Knowledge (CBOK) survey — including members of executive management and board and audit committee members — say internal audit should be more active in assessing strategic risk.

The Mutual Relationship Between the Audit Committee and Internal Audit Function



Source: Rittenberg, Larry E. *Interacting with Audit Committees: The Way Forward for Internal Audit* (Altamonte Springs, FL, The IIA, 2016).

Increasingly, stakeholders see value in allowing internal audit to move beyond traditional assurance by providing advisory services, primarily in areas of risk. In the CBOK survey, stakeholders said the top three areas for such advisory services are:

- Identifying known/emerging risk areas.
- Facilitating/monitoring risk management.
- Identifying appropriate risk management frameworks.

Communication Is Key

An expanded role for internal audit inevitably creates higher expectations of the function, and requires clear communication about how internal audit will support the audit committee.

“The audit committee must partner with the CAE to determine what are the risk areas where internal audit’s activities will best serve the organization,” said Mark Sparano, CAE of U.S. Bancorp/U.S. Bank. “This requires everyone to engage in an ongoing and robust dialogue. When internal audit consistently identifies key known and emerging risks, and updates its assessment on an ongoing basis, the department can deliver credible insights to management and the board that help equip the organization to respond quickly and appropriately.”

Equip Internal Audit With Necessary Resources

If management and audit committees choose to trust internal audit to deliver value outside of assurance over financial reporting, CAEs must identify the resources needed to fulfill that trust. In turn, audit committees must hold the CAE accountable for properly staffing the function, and should ensure the CAE has the budget to find or cultivate the necessary talent and skills.

Sparano said he develops his staffing plan based on a detailed analysis of key existing and emerging risks. “An essential step to success is breaking down skill sets needed to respond to risk,” he said. “For example, it is not as simple as saying, ‘It’s cybersecurity, so I need more IT expertise.’”

Internal audit can deliver the value that audit committees desire, Goepfert said, but finding the right people with the right qualities is of paramount importance. “Business acumen and communication skills are the essential attributes for internal auditors that help us meet their expectations,” he said.

Most assuredly, internal auditing can deliver value, but to do so, it must have an open and honest line of communication with the audit committee, the proper staffing and resources to meet new demands, and the business acumen to quickly recognize changing risks, and alter its work accordingly.

Unlock the Value: A Win-Win Relationship

New risks driven by technology, economic instability, health threats, cybercrime, terrorism, increased regulation, and other factors are evolving faster than ever. What’s more, the interconnectedness of the global marketplace makes it increasingly difficult to insulate any business from these new and emerging risks. Clearly, the dynamics of the modern business world almost guarantee the scope of work for audit committees will change at a fast pace for the foreseeable future.

In such an environment, the audit committee must have the strong and trustworthy support internal audit can provide. And the internal audit profession must be a trusted adviser to the audit committee by evolving to serve fast-moving organizations.

5 Attributes of Extraordinary Audit Committee Chairs

In a recent blog, “Five Attributes of Extraordinary Audit Committee Chairs,” IIA President and CEO Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA, referred to audit committees as “the sentries charged with guarding corporate financial integrity on behalf of weary shareholders.” To fulfill that role, the most successful audit committee chairs are:

- **Courageously independent:** They are willing to challenge management and their assumptions.
- **Professionally skeptical and intellectually curious:** They ask important questions and examine linkages.
- **Deeply experienced:** They demonstrate industry, financial, and business expertise.
- **Approachable relationship builders:** They value and foster the important relationships that are required.
- **Risk-centric strategists:** They demonstrate a keen sense of mission and require better than average support.

Quick Poll Question

How would you rate internal audit’s support of the audit committee or the board at your organization?

Visit www.theiia.org/tones to answer the question and learn how others are responding.

About The IIA

The Institute of Internal Auditors Inc. (IIA) is a global professional association with more than 180,000 members in more than 170 countries and territories. The IIA serves as the internal audit profession's chief advocate, international standard-setter, and principal researcher and educator.
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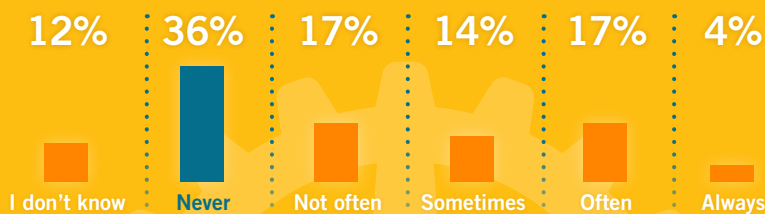
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Quick Poll Results:

In the past 12 months, how frequently has culture been a meeting agenda topic of either the board or audit committee?



Based on 163 respondents. Source: The IIA's Tone at the Top February 2016 survey.