What Does the Future Hold for Internal Audit?
To Elevate Its Stature in the Organization, Internal Audit Must Change

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For many years, internal audit departments served as business and operational consultants to their organizations, adding value enterprise-wide. More recently, following the passage of the Sarbanes-Oxley Act and other laws and regulations, the focus of internal audit has shifted away from business and operational issues and toward financial controls. To be perceived as valuable business advisers, however, internal audit departments need to overcome challenges related to governance, staffing, operations, and quality and to align their contributions to the organization’s strategic objectives.

Risk assessments and risk management are becoming more complex, and more important, to organizations. External market forces, economic volatility, and regulatory expectations have prompted executive management and audit committees to be more concerned about identifying and managing risks that could undermine strategic and operational objectives.

At the same time, risk activities generally are not well-integrated into organizations, leading to a fragmented view of risk, overlapping risk assessments, and ineffective risk management. Internal audit rarely has a seat at the strategic table, in part because the function is perceived as lacking the requisite capabilities or technical skills to play a role beyond risk assessment, financial controls testing, and risk mitigation.
Elevating Internal Audit’s Stature

Today there is a need – and an opportunity – for the internal audit function to take more of a leadership role in helping organizations address critical strategic risk management issues. To elevate its stature in the organization, internal audit needs to focus on three primary objectives:

1. Acquire the technical skills to audit the organization’s biggest risks. This can be achieved by hiring auditors with the appropriate experience and education, using outside resources, or both.

2. Maintain a thorough understanding of the organization’s industry and the risks the organization faces. This should include knowledge of the competitive landscape, the primary market drivers, and applicable regulations.

3. Use technology and software tools that can render internal audit’s skills and knowledge more effective.

To attain these objectives, internal audit must first overcome challenges in governance, staffing, operations, and quality.¹
Governance Challenges and Opportunities

Governance is a critical component of internal audit’s mandate and how the department conducts its primary activities. Challenges include:

- Improving the relationship with the audit committee (for example, more access, better communication, and clearer expectations)
- Shifting the internal audit plan from financial and compliance risks to operational and business risks
- Allocating limited resources to meet the needs of the organization in an expanding risk universe
- Managing concerns about independence and objectivity while providing value-added consultation
- Maintaining a global internal audit function with varied cultures and business practices
- Understanding the impact and scope of new laws and regulations
- Managing the challenges associated with complex and ever-changing corporate structures

To overcome these challenges, internal audit needs to do the following:

- Develop regular touch points with executive management and the audit committee outside audit committee meetings.
- Align the internal audit plan with the organization’s business objectives and strategic plan.
- Hire internal auditors with more of a business and operational audit background.
- Define and articulate internal audit’s mission and mandate in the organization through the corporate intranet, internal newsletters, town hall meetings, and other channels.
- Share and promote best practices throughout the organization.
- Integrate the international and domestic audit teams on specific internal audit projects.
- Establish a control mechanism for monitoring regulatory changes and understanding the potential impact on the organization.

To elevate its stature in the organization, internal audit needs to know how to audit the organization’s biggest risks, maintain a thorough understanding of the relevant industry, and use technological tools that make skills and knowledge more effective.
Staffing Challenges and Opportunities

The need to have the right skills in the right place at the right time presents a number of challenges for internal audit, including:

■ Recruiting external candidates with experience in areas like IT, operations, anti-fraud, anti-money laundering, and data analytics
■ Attracting qualified internal candidates who are interested in rotating into the internal audit department
■ Identifying and hiring candidates with international experience and a willingness to travel
■ Finding candidates with the appropriate soft skills or necessary business process and operations knowledge
■ Increasing employee retention and reducing employee turnover
■ Maintaining skills and internal business process knowledge in the face of employee turnover
■ Offering career paths, mobility, and opportunities for promotion within the organization

To address these challenges, internal audit needs to consider doing the following:

■ Focus collegiate recruiting efforts on universities with internal audit programs.
■ Participate in the Institute of Internal Auditors (IIA), ISACA, and other professional organizations that can provide networking opportunities to identify potential internal audit candidates. Most of these organizations have career assistance programs that allow the posting of open job descriptions, providing another source of talent.
■ Use third-party resources for subject-matter expertise on internal audits.
■ Establish a “guest auditor” program for finance, IT, or operations professionals to join the internal audit department for a project or limited time. This can provide a cross-training advantage that can benefit both parties and improve internal audit’s overall relationships within the business.
■ Rotate experienced internal auditors out to finance, IT, or operations for a project or limited time. Like the guest auditor program, this can provide a cross-training benefit and improve auditors’ skills.
■ Develop strong internal and external recruitment, on-boarding, training, and staff integration processes to attract and retain qualified candidates.
■ Adjust compensation packages and see that auditors are at the higher end of the pay range. More organizations are adjusting pay levels, particularly at the senior and manager levels, to attract and retain professionals.
■ Focus more on work-life balance issues and embrace flexible work schedules. Such issues are clearly important to employees in their 20s and 30s.
■ Create a two-year mandatory stay in internal audit before moving within the organization. The preferred length may vary, but a minimum commitment can provide a certain level of experience and continuity.
Operations Challenges and Opportunities

Internal audit must align its operations to the needs of the business and overcome a number of challenges, including:

- Completing the internal audit plan despite cost reductions, special projects, or changes in the organization’s risk profile
- Keeping up with business changes and changes to internal controls due to system implementations, mergers and acquisitions, or other strategic projects
- Identifying new opportunities to provide value to the business
- Reducing the duplication and overlap with other risk management functions
- Managing the perception that internal audit is focused solely on compliance
- Implementing continuous auditing across multiple locations and systems
- Developing a more formal and integrated risk assessment
- Issuing internal audit reports in a timely manner

To address these challenges, internal audit needs to consider doing the following:

- Work closely with management, executive management, and the audit committee to assess audit plan modifications and the risks associated with project deferrals or cancellations.
- Use guest auditors or third-party resources to supplement changes or additions to the audit plan.
- Participate in executive leadership meetings and strategic initiatives.
- Refresh the internal audit risk assessment during the fiscal year.
- Integrate the risk assessment, audit plan, and related coverage with other risk management groups.
- Articulate the mission, mandate, and value that internal audit provides to the organization through the corporate intranet, internal newsletters, town hall meetings, and other channels.
- Conduct a continuous auditing pilot program over a specific process, system, or location.
- Develop communication and report protocols to reduce report cycle time.
To play a role beyond risk assessment, financial controls testing, and risk mitigation, an internal audit department must overcome the challenges of governance, staffing, operations, and delivering value to the organization.

Quality Challenges and Opportunities
Finally, internal audit must deliver value to the organization in the form of new ideas that go beyond compliance and help advance the strategic agenda. Challenges include:

■ Aligning the internal audit department’s methodology to the IIA’s International Professional Practices Framework and International Standards for the Professional Practice of Internal Auditing
■ Confirming that the internal audit department has established quality standards that are applied consistently
■ Assessing, improving, and monitoring the quality of the work performed by the internal audit function
■ Maintaining consistent report quality across local and global locations
■ Developing the appropriate communication protocols before, during, and after each internal audit
■ Quantifying the value the internal audit function brings to the organization

To address these challenges, internal audit needs to consider taking the following actions:

■ Adopt the IIA's International Professional Practices Framework and International Standards for the Professional Practice of Internal Auditing.
■ Conduct internal and external quality reviews of the internal audit function on a regular basis.
■ Establish a continuous quality-improvement program for all internal audit locations.
■ Establish quality guidelines and standards for work papers and audit reports.
■ Perform multiple reviews of findings, recommendations, and management action plans prior to report issuance.
■ Maintain continuous communication between the internal audit team and the areas they audit during audit planning and execution, and encourage the use of post-audit surveys to gain feedback on audit processes.
■ Develop a scorecard that communicates internal audit value during the year in such areas as cost reduction, revenue enhancement, risk mitigation, and best practices.
Looking Ahead

To be seen as a relevant and valuable contributor to an organization, the internal audit function must shift its focus from traditional regulatory and compliance matters to helping organizations manage risk and operations. In doing so, internal audit will need to overcome challenges related to governance, staffing, operations, and quality as well as focusing on the big picture.

This type of change is transformational, and it requires internal audit to take a bold new look at its roles and responsibilities, break down old paradigms, and create a new model for the future. The time to start is now.

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