Grant Thornton
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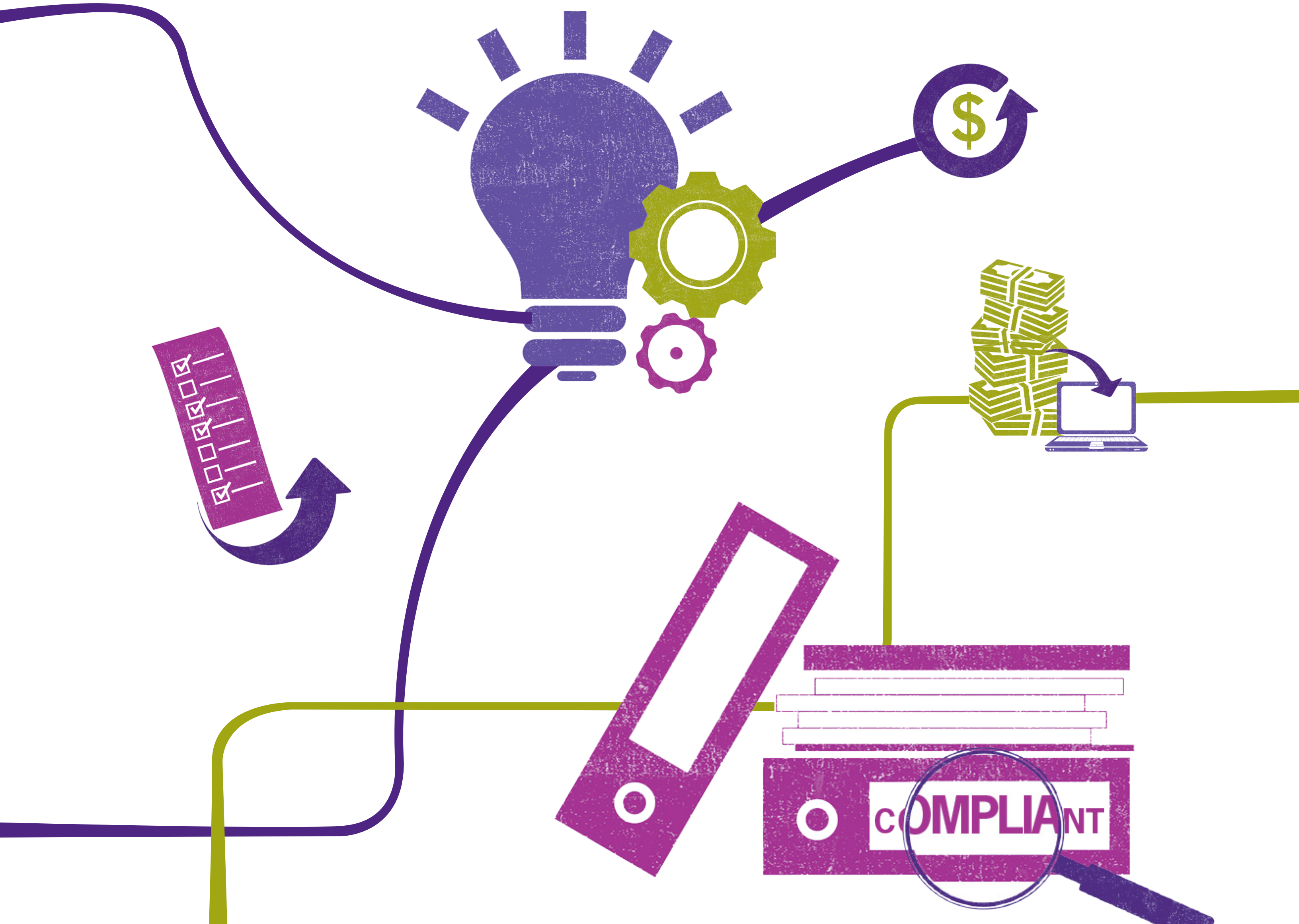
Adding internal audit value:
Strategically leveraging compliance activities

Chief Audit Executive Survey 2014



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Introduction

Grant Thornton LLP's fourth annual survey of more than 400 chief audit executives (CAEs) from U.S. organizations finds CAEs are facing the realities of a greater compliance burden. The increasingly dynamic environment is a result of business, customer, technology and regulatory changes. With limited internal audit resources, compliance requirements often take top priority. New regulations have added to an already-lengthy compliance activity slate and more regulations are coming. As a result, many internal audit executives are being forced to make difficult choices — asking for additional resources for auditing some operational and technology risks or deferring these audits.

If internal audit departments are utilizing a disproportionate amount of resources on compliance activities, there could be significant lost opportunities for value-add governance, operational, strategic and IT audits. When survey respondents were asked where they believe their internal audit organizations could add the most value *without* the constraints caused by compliance requirements, 77% chose "identifying improvement opportunities," but organizational efficiency might be a casualty of reducing the importance of operational audits. Of even more concern is the high number of survey responses regarding reduced focus on core internal audit areas like mitigating risk and stronger corporate governance — a majority of respondents felt these areas could be helped by more time, attention and resources from internal audit.

Survey participant snapshot

- More than 400 participants
- 50% represent public companies
- 66% had revenues of $100 million–$5 billion
- 31% had 2,501–10,000 employees

Warren Stippich, partner and Grant Thornton National Governance, Risk and Compliance (GRC) practice leader, explains: "The dilemma many CAEs face is how to continue adding strategic value through the internal audit function given the current compliance-heavy environment." In this survey report, we examine numerous ways where CAEs can gain efficiency and maximize internal audit value to make room for ever-increasing regulatory requirements. Stippich feels, "The solution is not to leave compliance behind as an unchosen option in the place of focusing on strategic and/or operational areas — but instead to understand how CAEs can leverage compliance activities to add value."

… many internal audit executives are being forced to make difficult choices — asking for additional resources for auditing some operational and technology risks or deferring these audits.

The unseen costs of meeting compliance requirements

Compliance requirements have risen dramatically over the past few years as legislators attempt to help businesses avoid some of the issues that led to the 2008 financial crisis. Laws like the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the Affordable Care Act, Payment Card Industry Data Security Standard (PCI DSS), anti-corruption regulations, government contract requirements, and many more have been enacted, with a seemingly never-ending pipeline. As a result, increased internal audit costs are a reality for CAEs. In fact, 69% of survey respondents listed increased cost as the top impact of regulation on their organizations.

CAEs must therefore make hard decisions on the costs of compliance — costs that can go far beyond just staff hours. These additional costs have the potential to offset much-needed focus on operational, strategic and financial risk. Thirty-one percent of survey respondents ranked compliance risks as their top concern, up from 28% in last year's survey. Financial and operational risks concern dropped from last year, perhaps offset by the rise in need for compliance focus.

Reprioritizing risk

Because of increased compliance responsibilities, internal audit has had to back away from the goal of adding strategic value that we have seen in prior surveys. In fact, when asked what they see as the impact of regulation on their organizations, 36% of survey respondents said they are unable to devote resources to higher-value activities due to the focus on regulatory compliance. Survey respondents who consider strategic risk their top audit focus actually increased from 18% to 21%, but still far below the 31% who ranked compliance risks as their top concern, however. Since strategic goals have taken lower precedence overall, this rise could be due to concern over the CAE's inability to spend the resources necessary to meet the full strategic needs of the business. Companies may be looking for alternatives like offshoring to save time and expense.

The clock is ticking on conflict minerals provision adoption

The first filing for the conflict minerals provision in the Dodd-Frank Act (Section 1502) is May 31, 2014, for public companies. Conflict minerals include cassiterite, columbite-tantalite, wolframite and their respective derivatives (limited to tantalum, tin, and tungsten, also known as the "Three Ts," as well as gold) that originate from "covered countries" or a contiguous country. Electronic components and automotive products are the most common uses, but anything (including clothing) that contains metal parts could be affected. Companies are required to submit a Form SD, and compliance numbers are extremely low at this point — only 16% of survey respondents have addressed the issue, and another 20% plan to address it in 2014. Although there are options to delay the first filing, we encourage anyone required to file an initial report to develop a plan for the filing now. For more information, visit our website grantthornton.com/conflictminerals.

Figure 1
What do you see as the impact of regulation on your organization? Select all that apply.

Impact	Percent
Increased cost	69%
Improving our governance and rigor of testing	45%
Unable to devote resources to higher-value activities	36%
Little to no impact	10%
Other	2%

Figure 2
Rank the importance of your audit focus in the following areas, with 1= highest importance and 4 = lowest importance.

Area	Overall rank
Compliance risks	1
Financial risks	2
Operational risks	3
Strategic risks	4

… **69%** of survey respondents listed increased cost as the top impact of regulation on their organizations.

The state of SOX

The Sarbanes-Oxley Act of 2002 (SOX) is still ranked as a notable area of concern 12 years after it became a law. Significantly, this length of time almost constitutes a generational carryover for internal auditors, which is rare. The survey shows that 16% of respondents consider SOX compliance an extremely important concern now, while another 17% consider it very important. Increased Public Company Accounting Oversight Board (PCAOB) scrutiny is adding to the concern, with 69% of respondents reporting they have changed their approach to SOX compliance as a result.

In Grant Thornton's *CorporateGovernor* newsletter, we said as far back as 2005 that "while SOX compliance has been costly, there is an upside to Sarbanes-Oxley that gets little press: there are actually a number of companies that have been able to improve the quality and efficiency of not only their financial reporting processes but also their general business operations as a result of their Section 404 compliance activities. In short, it is possible to gain long-term economic benefit as a byproduct of a properly designed and executed controls evaluation process."

Figure 3

How companies rated the impact of the Sarbanes-Oxley Act, with 1 = most significant impact, 5 = no impact at all or N/A = not a priority.

	Current concern level	Concern level in 12 months
1	**16%**	**15%**
2	**17%**	**18%**
3	**18%**	**18%**
4	**11%**	**12%**
5	**12%**	**11%**
N/A	**27%**	**26%**

Figure 4

Principles of effective internal control

Control environment	1. Demonstrates commitment to integrity and ethical values 2. Exercises oversight responsibility 3. Establishes structure, authority and responsibility 4. Demonstrates commitment to competence 5. Enforces accountability
Risk assessment	6. Specifies suitable objectives 7. Identifies and analyzes risk 8. Assesses fraud risk 9. Identifies and analyzes significant change
Control activities	10. Selects and develops control activities 11. Selects and develops general controls over technology 12. Deploys through policies and procedures
Information and communication	13. Uses relevant information 14. Communicates internally 15. Communicates externally
Monitoring activities	16. Conducts ongoing and/or separate evaluations 17. Evaluates and communicates deficiencies

Source: COSO

In previous surveys, respondents have indicated that a positive outcome from SOX compliance is a continuing management focus on risk. This upside of proactive and accurate compliance has proven true time and time again, and SOX is clearly a permanent part of the internal audit baseline approach, but it can be a challenge for resource-constrained internal audit departments. Despite this, CAEs see the value of SOX and are allocating the resources necessary for compliance.

New COSO guidance

In 2013, we saw the release of the Committee of Sponsoring Organizations of the Treadway Commission's (COSO) updated guidance on internal controls: Internal Control — Integrated Framework[1]. One of the most significant changes in the new framework is setting forth 17 principles, each of which is specifically assigned to one of the five components. Each principle must be present and functioning in an organization for it to have effective internal control. The 1992 framework did not contain such principles or a requirement that any factors beyond the five components of internal controls be considered.

Compliance also a top concern for in-house counsel and CFOs

A Grant Thornton online survey[2] conducted in January and February 2013 by ALM Marketing Services measured in-house counsel's assessment of the biggest threats to organizational growth and the corporate law department's role in dealing with these threats. While economic uncertainty topped the list of in-house counsel's organizational growth threats, regulatory compliance and enforcement was considered the second-highest threat to growth — even more threatening than traditional business concerns such as global or domestic competition and the lack of customer demand.

In Grant Thornton's Fall 2013 *CFO Survey*, respondents expressed concern over the polarizing negotiations in Washington and the lack of cooperation on both sides[3]. As politicians struggle to find common ground, regulations will remain in flux, with internal audit executives trying to comply across the board.

[1] *Guidance on internal controls: Internal Control — Integrated Framework*, Committee of Sponsoring Organizations of the Treadway Commission. Available at www.coso.org/IC.htm.

[2] The Grant Thornton *Corporate General Counsel Survey* is available at www.grantthornton.com/CGCSurvey.

[3] The Grant Thornton Fall 2013 *CFO Survey* is available at www.grantthornton.com/issues/library/survey-reports/CFO-survey/2013/Fall-2013-CFO-Survey.aspx.

COSO will continue to make the original framework available during the transition period that extends to Dec. 15, 2014. After this date, COSO will expect the new guidelines to be implemented. The COSO board believes that continued use of the original framework is appropriate during this transition period, and any application of the Internal Control — Integrated Framework that involves external reporting should clearly disclose whether the original or 2013 version was used.

Our data shows that 35% of survey respondents will start the transition to the new framework in the next 12 months. For some companies, this transition could be fairly extensive, especially if they hadn't fully embraced and implemented the 1992 framework. For other companies, this will be an easier transition and accomplished by an organized and methodical approach to ensuring that the principles and attributes are covered. Stippich says, "It's important that this doesn't become a 'check the box' exercise. Rather, organizations should work to be sure to embrace the content and spirit of the guidance to raise the bar overall on corporate governance and internal controls."

A surprising 24% of survey respondents have no plans to transition to the new framework, although in some cases this is not-for-profits and privately held companies. We encourage these companies to consider implementing the framework in part or in full. Grant Thornton has been helping not-for-profits and privately held companies interpret the new framework and apply elements of it effectively and efficiently.

Figure 5
Are you planning to transition to the new COSO framework?

Response	Percent
Our existing controls program is already in agreement	11%
Yes, we've started	18%
Yes, we'll start in the next 12 months	35%
No plans to transition in the next 12 months	24%
I don't know	12%

All in all, the transition for those that choose to move to the new framework will require additional effort. If internal audit is helping, then time and resources will need to be reallocated. The good thing is that once the transition is complete, subsequent periodic updates and evaluations shouldn't take as long. For public companies, reviewing the implemented framework will be part of the normal internal controls review and update process in subsequent periods, and further refinements can help to continuously strengthen the internal control environment[4].

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[4] For more information, see "The updated COSO framework: A principles-based approach," *CorporateGovernor*, Spring 2013, available at www.grantthornton.com/issues/library/newsletters/advisory/2013/BAS-GRC-Updated-COSO-Framework.aspx.

Figure 6
Which of the following risk areas have the potential to impact your organization's growth?

Areas	Percent
Data privacy and security	42%
Regulation	38%
Execution of strategy	38%
Third parties/vendors	22%
Mobile technologies	19%
Fraud/anti-corruption	14%
Supply chain	14%
Business continuity	13%
Global expansion	13%
Cloud computing	12%
Social media	8%
Other	2%

Operational risk isn't going away

In the survey, we asked respondents which risk areas have the potential to impact their organization's growth. When asked to choose among numerous potential risk areas, respondents saw some areas high in importance (regulation, data privacy/security, third parties/vendors and execution of strategy), while some remained the same; none were seen as unimportant, and none had significant drops from previous surveys. The bottom line for CAEs is that as more and more significant compliance regulations come into effect, the snowballing amount of compliance effort will continue to be a resource challenge.

Conclusion

Costs are rising as regulatory expectations rise. Internal audit departments that keep pace and strive to add value through compliance will continue to be a strong asset for companies and audit committees that are committed to corporate governance at a high level. For example, as discussed in the Fall 2013 issue of the Grant Thornton *CorporateGovernor* newsletter, there are a number of areas that CAEs need to pay close attention to related to IT general controls to improve their internal control over financial reporting and achieve compliance with SOX 404[5].

Key questions to ask about your COSO program

With a view toward assuring that all 17 principles exist within the company's internal control structure and are currently being applied, here are some key questions to ask:

1. Do I fully understand the principle and its intent?
2. Does the principle exist in our company today? If so, how is it being applied?
3. Are the principles being applied consistently throughout the organization?
4. Do the individuals responsible for applying the principle understand it? Are they applying the principle correctly? Are they doing so consistently throughout the organization?
5. If a principle does not exist in the organization, does it represent a gap in the internal control structure? Or is there another control or set of controls that can mitigate its absence?

[5] "Audit readiness: 7 areas of focus for CAEs," *CorporateGovernor*, Fall 2013. Available at www.grantthornton.com/issues/library/newsletters/advisory/2013/BAS-7-areas-of-focus-for-CAEs.aspx.

Adding value through compliance

With the focus firmly on compliance for the foreseeable future, internal audit's challenge is to get as much value out of its compliance activities as possible. This is not necessarily a bad thing — 45% of respondents felt that the impact of regulation on their organizations was improving their governance and rigor of testing. So the question isn't about decreasing — or even balancing — compliance activities against other priorities, it is increasingly about how to wring the most value out of testing so that other important risks are simultaneously addressed through compliance.

In this evolving model, the question for internal audit is what can they learn through compliance activities that will also help them be contributors in strategic, operational and financial risk areas? As discussed previously, survey respondents ranked strategic risks as least important, which may be due to compliance needs. This failure to "see the forest for the trees" is potentially troubling for companies who want and need to take a longer-term, strategic view.

In this evolving model, the question for internal audit is what can they learn through compliance activities that will also help them be contributors in strategic, operational and financial risk areas?

According to Stippich, "To meet all key risks, the internal audit plan must become more holistic and efficient — internal audit activities simply can't be segregated as distinct goals anymore for planning purposes. If any risk area is left on the table, it creates more risk for the organization as a whole and puts the internal auditors in a precarious position. The goal of adding value is not going away for internal audit, no matter what the compliance expectations may be."

Broader risk assessments

Expanding the risk assessment scope may be one source of value-add for internal audit. This can extend as far as the overall enterprise risk management (ERM) approach, but can affect almost any testing area. An example might be the PCI DSS. As a qualified security assessor, Grant Thornton has encountered situations where we begin to perform the compliance validation for an organization, only to determine that a particular control or process had failed at some point during the year due to a lack of monitoring, or an organizational or IT infrastructure change. Depending on the requirement, this may present a difficult remediation challenge for the organization. It may be a cultural change for organizations that truly saw PCI compliance as an annual ritual, but they should put appropriate processes in place now to make compliance an ongoing effort and decrease the amount of testing required later[6].

6 For more information, see "Beyond compliance: PCI DSS version 3.0" at www.grantthornton.com/issues/library/articles/advisory/2014/BAS-pci-dss.aspx.

Figure 7

In your organization, GRC/internal audit technology tools are used primarily for which of the following functions? Select all that apply.

Function	Percent
Internal audit function management and administration	75%
Centralized management and reporting of audit plans and results	60%
SOX testing	59%
ERM	28%
Other compliance or regulatory testing (PCI, FCPA, HIPAA)	24%
Other	5%

Technology

The gut response of many CAEs to internal audit technology may be reluctance to use additional scarce resources, but as a whole, internal audit departments are beginning to speed the pace of technology adoption. CAEs reported they are using GRC technology for a variety of internal audit-related tasks. Initial adoption has been about managing the internal audit department, but SOX testing is a major use for technology at 59%, with ERM (28%) and compliance testing (24%) following.

Potential GRC technology advantages

- Significantly reduces an organization's compliance costs
- Significantly increases an audit team's productivity and audit quality
- Helps organizations focus on higher-value activities as opposed to administrative tasks
- Promotes better decision-making as a result of greater access to information
- Leads to heightened management and organizational effectiveness
- Improves communication with stakeholders
- Enhances accountability within the internal audit group and for business process owners
- Increases confidence in the quality and reliability of the organization's system of controls

Data analytics in action

Grant Thornton used data mining and analysis techniques to discover and document key analytics and metrics on inventory management at a leading manufacturer. We were able to use the results to quantify risks and make specific policy recommendations in such areas as monthly cycle count statistics, drop ship activity, turn ratios and shrinkage charged to the company. As a result, the client significantly reduced their operational and financial risk.

Data analytics

The rising use of data analytics is an opportunity for internal audit departments to improve efficiency, reduce costs, increase accuracy and expand the testing universe. By pinpointing likely risk areas for testing, internal audit personnel can be deployed more strategically, leaving room for additional testing areas. Advanced analytics can also help organizations improve compliance through the ability to anticipate upcoming risks and make the appropriate mitigation decisions. Among the uses for data analytics in the area of GRC are:

- Enhancing internal audit effectiveness
- Evaluating, selecting and administering third-party vendors
- Identifying trends associated with unjustified spend
- Applying well-informed compliance controls

The CAE's role

As requirements change, the CAE's role is also changing. Finding ways to add strategic value may take more effort given current constraints. When asked where the board and management most frequently asked CAEs to deliver value, "mitigating risk" was the clear answer. But as you may recall, when asked where they believe their organization could add the most value *without existing constraints*, respondents' top answer was "identifying improvement opportunities." This indicates that adding value is top of mind for CAEs, but the basic foundational role of risk mitigation is taking too much time and resources in today's compliance-heavy environment.

Figure 8

In which areas are you asked most frequently by the board and management to deliver value? Select only the top 3 in ranked order, with 1 being the highest.

Area	Overall rank
Mitigating risk	1
Identifying improvement opportunities	2
Stronger corporate governance	3
Increased efficiency	4
Business insights	5
Strategic direction	6
Position against peers/benchmarks	7
Other	8
Business planning	9

Conclusion

CAEs therefore must find a path to success through efficiency, which will take additional effort — effort that could lead to a new definition of the CAE's role. Using the right mix of tools and strategy to get the most out of compliance activity is critical to being in the position to add real value to the organization.

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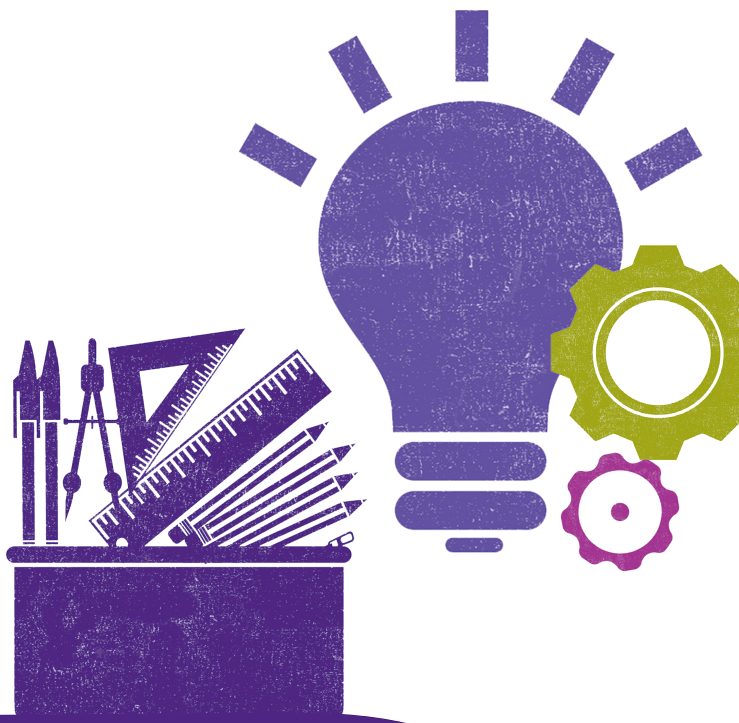


Maximizing current resources

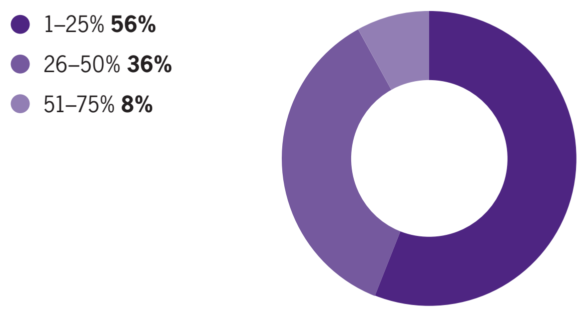
A critical piece of maximizing internal audit efficiency and impact is fully utilizing existing resources. Internal audit departments are not identical, so determining the right mix for any organization is an important part of the CAE's job. In this year's survey, we asked respondents a number of questions aimed at gathering important information on how they feel about various tactics to leverage existing resources.

One-to-many approach

Leveraging control testing across multiple compliance areas — the "one-to-many approach" — has been slower to catch on than we anticipated. Since last year's survey, we've seen a significant gain however, with 54% of respondents indicating they have found ways to implement one-to-many, up from 49% last year. A full 92% of respondents believe they can potentially apply one-to-many principles to up to 50% of their control testing. Yet a large group (46% of respondents) of potential one-to-many users have not yet embraced the practice.

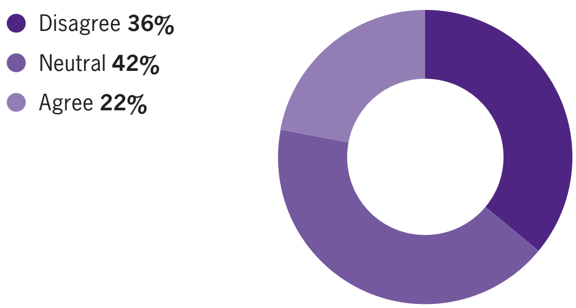
Figure 9

What percentage of your control testing do you think is possible to test once and use the results across multiple compliance requirements?



… only 22% of respondents believe their organizations effectively leverage GRC technology.

Figure 10
I believe that my organization effectively leverages governance, risk and compliance (GRC)–specific technology.



One-to-many isn't easy to implement, and internal auditors may be tied to the idea they must silo the control testing for accuracy. According to Stippich, "We disagree and challenge CAEs to at least take another look at the possibility. Intuitively, 'killing two or more birds with one stone' is a clear path to efficiency gains, although not an easy one."

Effectively leveraging technology

Another path to efficiency gains may be through technology. Allocating an appropriate amount of scarce budget dollars to technology may be a challenge, but the payoff in efficiency gains may quickly offset costs. In the survey, 29% of respondents reported their companies are using GRC-specific technology, up from only 23% in last year's survey. While adoption numbers have increased, however, only 22% of respondents believe their organizations effectively leverage GRC technology. Significantly, 36% don't feel their organizations effectively leverage GRC technology.

CASE STUDY: The one-to-many approach in action

At First Command Financial Services, Internal Audit Director Sonia Thomas and her team cover both the investment and retail banking side. According to Thomas, "With so many rules and regulations in both areas, we look for the most efficient way to audit — otherwise, we'd have to visit departments many times per year to look at every regulation separately. The one-to-many approach is working for us."

Implementing a one-to-many approach takes a well-considered change management strategy, however. Thomas reached out to her regulator with her plan and got buy-in, plus she follows up regularly to keep the regulator in the loop and reinforce the one-to-many concept. Since every organization is different, she advises CAEs to look at key stakeholders and evaluate for themselves who to work closely with on implementing one-to-many; the audit committee, management and individual departments may all be important players in the process. "Sometimes you have to find the right portals to get a buy-in. Strategize where to start and how to present it to management and the audit committee — you have to be a visionary and show them the benefit."

With one-to-many, Thomas sees the major benefit as a reduction in audit hours. Her team is also able to use standard audit programs more often, stating that "because we don't need to go in and recreate the process over and over, we have more time with the auditees to understand their business." Thomas is optimistic about expanding her team's use of the one-to-many approach. "Our world has become more complicated to audit, and we as auditors need to keep finding new and efficient ways to do our jobs for ourselves and our auditees."

Data analytics

Sixty percent of survey respondents reported using data analytics to enhance the internal audit function. CAEs also reported that they used analytics for such other tasks as forensic analysis, predictive analytics and performance measurement.

Since these resources are in place, the question is about fully using their capabilities and moving beyond basic analytics into the newer, more advanced realms of collaborative business intelligence and prescriptive analytics[7]. This swiftly evolving field holds major potential for internal audit organizations looking for efficiency and accuracy in choosing testing targets.

Survey respondents cited their top reasons for using data analytics were about efficiency in general, including more efficient internal audit process; the ability to quickly identify patterns, trends and relationships; increased internal audit coverage; and improving strategic internal audit function value. According to Stippich, "Data analytics are here to stay. Fully embracing this evolving discipline can be a critical differentiator for internal audit."

"Data analytics are here to stay. Fully embracing this evolving discipline can be a critical differentiator for internal audit."

Warren Stippich, Grant Thornton National Governance, Risk and Compliance Practice Leader

Figure 11

Are you using data analytics/business intelligence for other functions? Select all that apply.

Function	Percent
Performance measurement	38%
Forensic analysis	36%
None	36%
Predictive analytics	25%
Other	2%

Figure 12

What are the top 3 benefits you achieve from using data analytics? Select only the top 3 in ranked order, with 1 being the highest.

Benefit	Overall rank
More efficient internal audit process	1
Quickly identify patterns, trends and relationships	2
Increased internal audit coverage	3
Improves strategic value of internal audit function	4
Increased risk monitoring	5
Reduced time to perform internal audit	6
Reduced internal audit headcount	7
Other	8

[7] For more information, see Grant Thornton's white paper, *Prescriptive analytics: Winning in a competitive environment*, available at www.grantthornton.com/issues/library/whitepapers/advisory/2014/BAS-prescriptive-analytics.aspx.

Figure 13

What are the barriers to delivering the greatest value? Select all that apply.

Barrier	Percent
Budget constraints	61%
Perception of internal audit within the organization	45%
Talent quality or capacity	40%
Focus heavily weighted to compliance	34%
Unknown	9%
Other	8%

Figure 14

What are your top 3 goals for the internal audit organization in the next 12 months?

Goal	Overall rank
Improve efficiency of internal audit function	1
Strive to contribute more to the organization's strategy	2
Build talent and skills	3
Ensure compliance for key regulations	4
Reduce the organization's risk profile	5
Improve relationships with the board and management	6
Other	7

The talent gap

Part of the equation of getting the most out of an organization's compliance work is about the people who are doing the work. In fact, for 40% of survey respondents, "talent quality or capacity" was seen as a barrier to delivering the greatest value. We have seen in previous surveys that internal audit can be viewed as a starting point in the careers of financial staff, who often then move on to jobs in other departments like accounting, finance, operations or IT. In some cases, CAEs are there for the same reason, and may have been chosen for their management skills or are using the position as a training ground for other roles. No matter what the reasons are, internal audit leaders have an ongoing opportunity to upgrade staff skills. When asked to list their top three goals for the internal audit organization in the next 12 months, a solid amount of survey respondents listed "build talent and skills," making it the third choice in a close category.

Specialized skills

In today's environment, internal auditors are expected to have a wide range of skills to address specialized situations, but needs may be *so* specialized that it makes sense to consider available alternatives such as:

- Learning programs administered internally or externally
- Guest audit programs, where resources from other parts of the business bring subject matter expertise for operational and strategic projects
- Co-sourcing/teaming with an outside professional services firm
- Special project budgets for outside consulting hours

Third-party risk/testing

Third-party risk is a topic that is getting major attention from regulators. With billion-dollar settlements being paid out, particularly in the banking industry, it makes sense to thoroughly test any area relating to third parties in any industry. Third-party risk information can feed into GRC efforts, which include the formulation of the internal audit risk universe and annual internal audit plan.

When asked if third parties have the potential to impact their organization's growth, 22% of survey respondents felt it was a highly significant risk, a major rise from just 14% last year. When asked which risk areas were included in their audit plans, 66% of respondents said third parties were currently in scope and another 36% said they will be included in the next 12 months. Stippich feels that "maximizing the use of current resources in this case means the opportunity cost of avoiding regulatory action, or worse yet, a major exposure of company data by the third-party service provider by building and adhering to a solid internal audit approach around third-party risk."

Conclusion

Maximizing resources is a highly company-specific discipline for CAEs. In light of the evolving regulatory environment, it can be especially challenging. With the array of available tools, there are solid options for moving forward, however. CAEs can always ask for more resources, but may not get them. They have to be smart about ways to get more coverage with the existing talent, at least for the time being. As we see audit committees being concerned more with resource availability in internal audit, the resource dilemma may improve over time.

Figure 15

What steps are you taking to manage third-party risk? Select all that apply.

Action	Percent
Due diligence before entering business relationship	70%
Requesting assurance reports (SOC) from key vendors	64%
Including and using right-to-audit clause in contracts	63%
Monitoring activities against contracts or agreements with on-site auditing	55%
Created/conducted a third-party risk assessment	37%
Other	4%

With billion-dollar settlements being paid out, particularly in the banking industry, it makes sense to thoroughly test any area relating to third parties in any industry.

Figure 16
Which risk areas are included in your internal audit plans? Please check all that apply for each risk area in the table below.

	Currently in scope	Will include in the next 12 months	No plans to include in the near future
Cloud computing	**24%**	**36%**	**45%**
Mobile technologies	**25%**	**45%**	**35%**
Social media	**19%**	**30%**	**56%**
Data privacy and security	**70%**	**41%**	**7%**
Third parties/vendors	**66%**	**36%**	**14%**
Fraud/anti-corruption	**69%**	**34%**	**15%**
Supply chain	**46%**	**31%**	**32%**
Business continuity	**52%**	**37%**	**22%**
Regulation	**73%**	**36%**	**10%**
Execution of strategy	**36%**	**36%**	**38%**
Global expansion	**21%**	**24%**	**61%**
Other	**12%**	**18%**	**75%**

New requirements have changed the game

It's time we acknowledge a true paradigm shift for internal audit departments. The rising tide of regulation and compliance is here to stay. Embracing the new paradigm means looking for ways to overcome any perceived barriers or nostalgia for the simpler past and to move ahead strongly.

Regulatory change

A majority (69%) of survey respondents clearly saw increased cost as the biggest impact of regulation, with another 36% feeling that regulation left them unable to devote resources to higher-value activities. On a positive note, 45% of respondents felt that regulation improved their governance and testing rigor.

Cost of compliance

Survey respondents clearly indicated their concern about inadequate internal audit budgets, with 61% listing budget constraints as their top barrier to delivering value, a rise from the 58% in last year's survey. In addition, the perception that the compliance focus is a barrier to delivering value was shared by 34% of respondents.

Internal audit talent and perception

Survey results indicate that the pressure to recruit and train talent is another significant barrier to delivering value. Coupled with the perception of internal audit in the organization, the talent gap is a potential barrier that should remain top of mind for CAEs. As discussed in the last section, there are solutions and a real opportunity to break down this barrier.

Technology adoption

As noted earlier, technology adoption may be another perceived barrier that can be broken down — only 22% of respondents believe their organization effectively leverages GRC-specific technology. Only 29% of respondents are even using a GRC/internal audit-specific technology tool at this point — there is room for exploration for those organizations that have held back due to budget or other reasons.

CAEs have an opportunity to overcome many of these challenges by developing the right mix of tools and efficiency strategies for their businesses, many of which are touched on in this survey report.

Future outlook

This year's survey showed a clear evolution. Less budget for value-added activities due to expanding regulatory requirements means CAEs have additional pressure to work harder and smarter to keep their internal audit organizations moving ahead. It can be done, but significant change means taking significant action.

Internal audit is still an important strategic contributor for any organization. Taking a closer look at technology innovations, analytics, staff training, supplemental specialized resources and any of the other tools available to CAEs is important in embracing this new paradigm, where regulatory expectations will only expand.

According to Stippich, "A focus on maximizing current resources means understanding the universe of options and making realistic choices that will move your organization forward."

About the survey

Survey purpose

The 2014 survey of U.S. CAEs aimed to uncover how internal audit is adjusting to the evolving expectations of its role. By identifying trends taking place in the profession, we can provide CAEs with valuable insights for staffing, career progression, training, use of technology and audit planning.

Methodology

The survey was administered online from November to December 2013. A total of 433 internal audit professionals responded to the survey of 19-plus questions. Respondents were not required to answer every question. Responses came from public and private companies in geographically dispersed U.S. locations representing a wide range of organizational revenues. Respondents worked in a variety of industries such as professional services, consumer products, technology, health care, not-for-profit and manufacturing. Respondents performed internal audit functions under varying titles, including CAE, vice president and director. Throughout this survey, we refer to all respondents as CAEs.

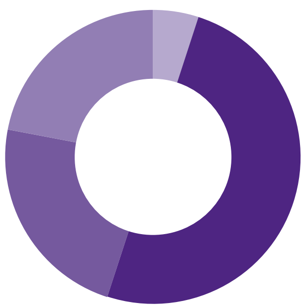
Anonymity

This summary reflects the responses of participants to the maximum extent possible. To preserve anonymity, the survey does not attribute responses to specific individuals.

Demographics

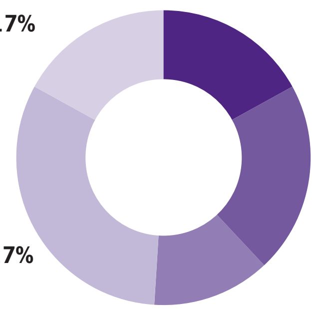
Company type

- Public/listed **50%**
- Private **23%**
- Not-for-profit **22%**
- Government **5%**



Revenue

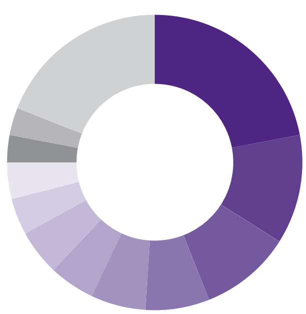
- Less than $100 million **17%**
- Between $100 million and $500 million **21%**
- Between $500 million and $1 billion **13%**
- Between $1 billion and $5 billion **33%**
- Greater than $5 billion **17%**



Responses may not total 100% due to rounding.

Industry

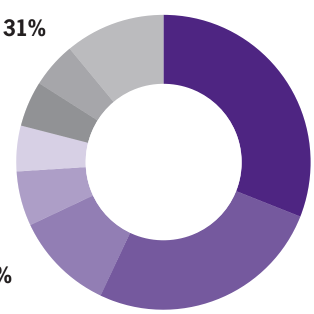
- Financial services **23%**
- Health care **12%**
- Manufacturing **10%**
- Not-for-profit **7%**
- Technology **6%**
- Consumer products **5%**
- Energy **5%**
- Retail **4%**
- Higher education **4%**
- Professional services **3%**
- Government **3%**
- Other **20%**



Responses may not total 100% due to rounding.

Title

- CAE/VP of internal audit **31%**
- Director of internal audit **26%**
- Manager of internal audit **11%**
- Other director **6%**
- Internal auditor **5%**
- CFO/financial director **5%**
- Other VP **5%**
- Other **11%**



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