

State of the Internal Audit Function

Aggregate Benchmarking Results

Preview Report

EXECUTIVE SUMMARY

THE STORY IN 2015

In 2015, many internal audit teams will find themselves under even more pressure to meet growing stakeholder demands and to deliver effective coverage in a volatile risk environment. This challenge is certainly not new, but today many CAEs—with the exception of those in the financial services industry—project that their departments will stop growing and take on a “maintenance mode.” This difficult reversal of fortunes for Audit—growing at a slower rate than inflation, and far slower than other corporate functions—is putting tremendous pressure on CAEs to do more with the same people, technology, and processes.

Removing process inefficiencies alone will not be enough for Audit to adjust to the rapidly evolving risk and control environment. The most progressive CAEs do not simply manage Audit as a cost-center function to realize productivity and budgetary goals; rather, they apply a profit-center mind-set not only to determine which activities can truly drive value but also to secure funding for the right new investments.

ABOUT THIS RESEARCH

We invited our global internal audit members to complete an online benchmarking survey. To date, more than 330 CAEs and internal audit directors have participated in this research. Analysis referenced in the full study can be used to support the following CAE decisions:

- Resourcing internal audit departments in 2015 and 2016
- Navigating outsourcing and co-sourcing decisions
- Determining optimal organizational structure
- Selecting department performance metrics
- Aligning audit scope with business priorities
- Upgrading audit methodology
- Hiring and developing high-quality talent
- Implementing and improving data analytics initiatives

We invite you to use the analyses and related resources referenced throughout the full report to set audit team strategy and objectives for 2015, to scope new departmental investments, and to evaluate audit performance measurement.

7 KEY FINDINGS

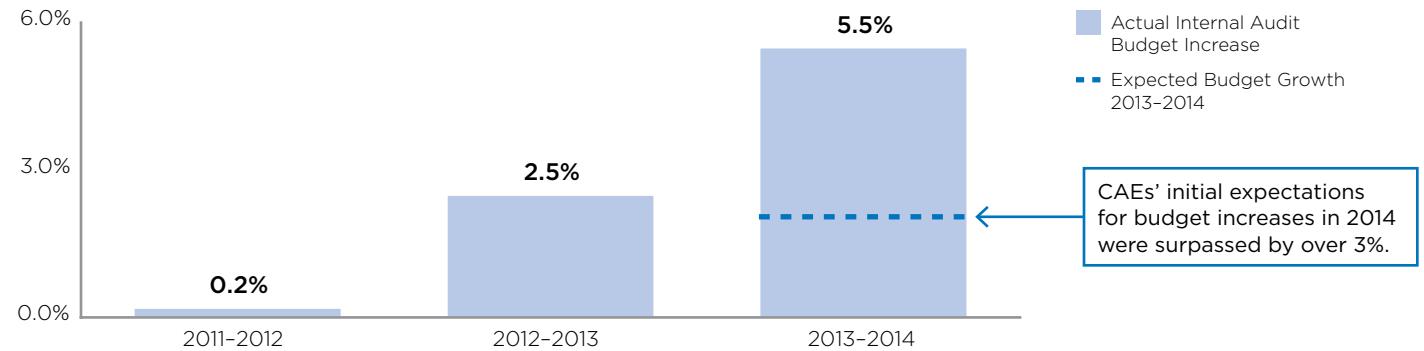
1. Despite Slower Budget Growth, CAEs Are Adding Staff and Technology
2. Use of Guest Auditors Is on the Rise, While Co-Sourcing Spend Remains Flat
3. International Dispersion of In-House Audit Talent Rarely Exceeds 30%
4. Internal Audit's Metrics Continue to Fail to Measure and Communicate How Its Work Is Critical to Improving Risk Management
5. Audit Time Spend Is Not Fluctuating Despite Changes in the Risk and Control Environment
6. CAEs Are Stretching Budgets to Deliver Targeted and Cost-Effective Training in 2015
7. CAEs Are Ramping up Investments in Data Analytics in Hopes of Streamlining Audit Processes

Most internal audit teams have experienced a limited amount of budget growth over the past three years, and 47% of CAEs project a median budget increase of 3% in 2015.

GROWTH IN INTERNAL AUDIT BUDGETS

Annual Increases in Internal Audit Budgets, 2011-2014

Median Percent Change in Internal Audit Budgets, Year-Over-Year^a



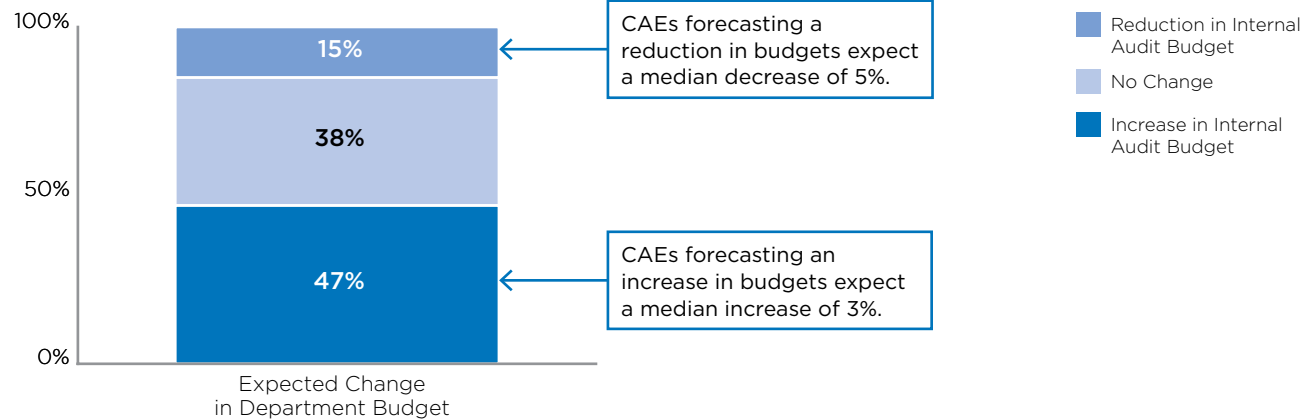
n = 92 global internal audit teams.

Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

^a Above figures are from a panel of responses collected in CEB Audit's 2012, 2013, and 2014 surveys.

Expected Change in Internal Audit Budgets in 2015

Percentage of Respondents



n = 92 global internal audit teams.

Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

^a Above figures are from a panel of responses collected in CEB Audit's 2012, 2013, and 2014 surveys.

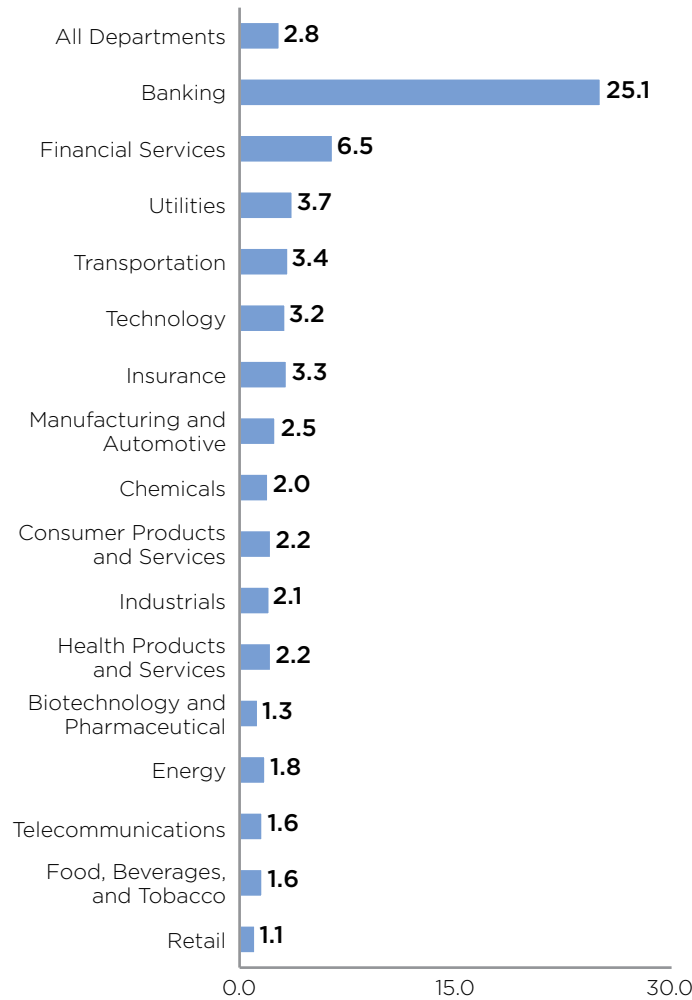
Across all industries (excluding banking and financial services), internal audit teams employ approximately 2.5 auditors for every billion dollars in annual company revenue.

- The following industries have the highest internal audit head count relative to corporate revenues: banking, financial services, and utilities.
- In terms of overall median total staff, internal audit teams are largest in the financial services, insurance, banking, and health products and services industries.

INTERNAL AUDIT STAFFING ACROSS INDUSTRIES

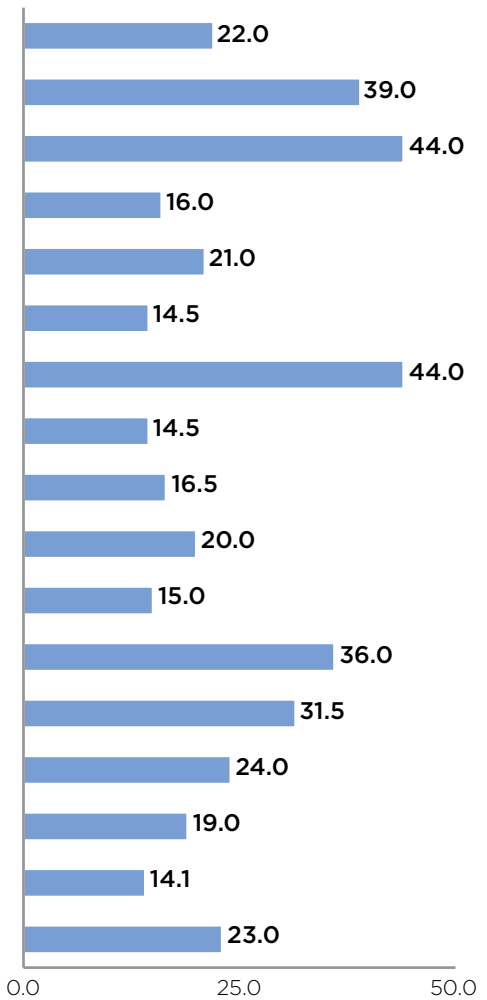
Internal Audit Staff per Billion Dollars in Revenue

Median Number of FTEs per Billion Dollars in Revenue, by Industry



Internal Audit Head Count

Median Total Number of Staff, by Industry



n = 329 global internal audit teams.

Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

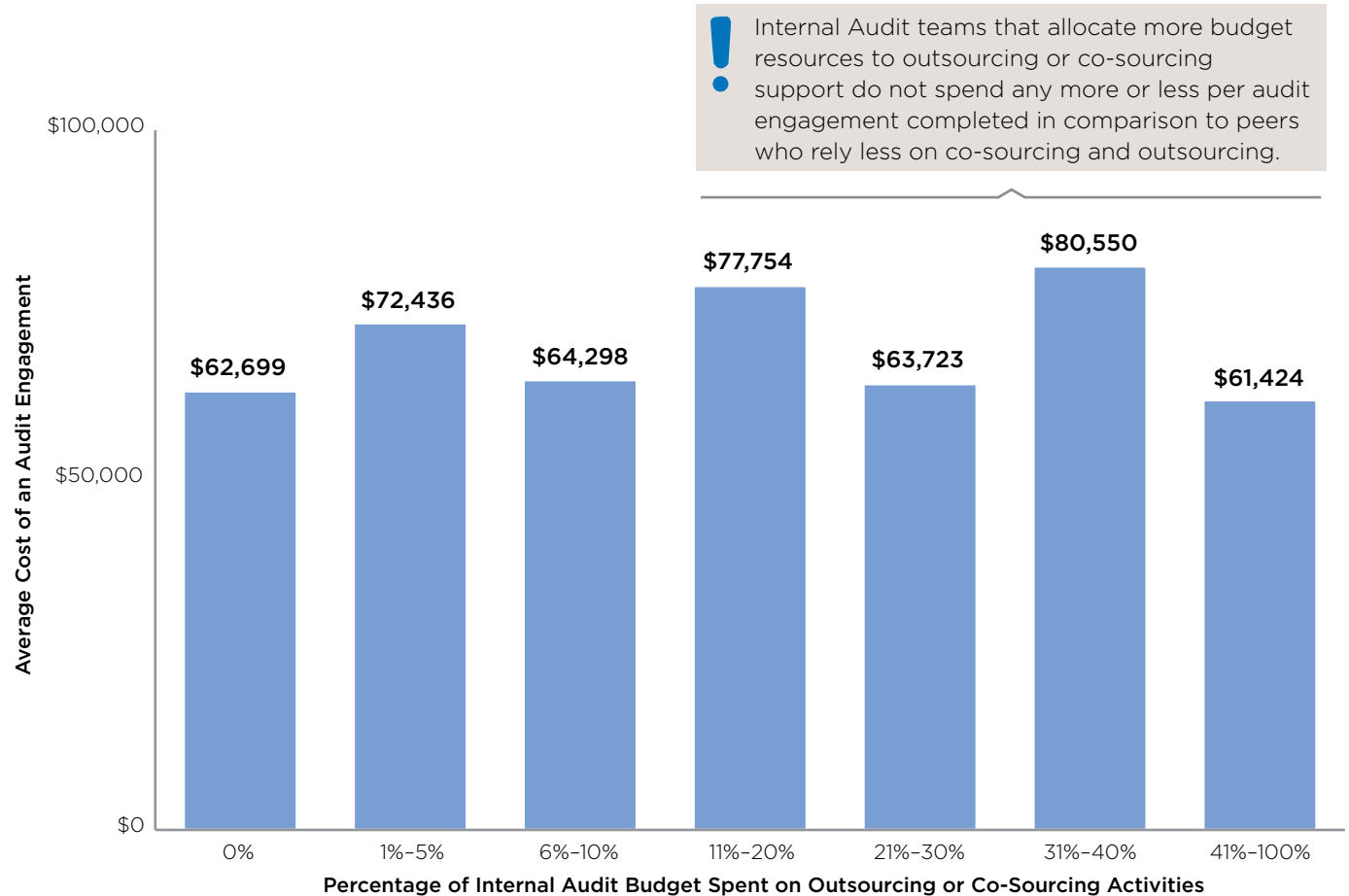
^a Due to variability in sampling, please refer to [Appendix B](#) for additional data on the banking and financial services industries.

Internal audit teams that rely more heavily on outsourcing and co-sourcing than their peers do not realize cost savings.

- Despite widespread use, the proportion of audit work that is outsourced or co-sourced remains low.
- Only 22% of audit departments using additional audit support spend more than 20% of overall budget on outsourced or co-sourced resources.
- It is widely assumed that co-sourcing or outsourcing audit does not provide a cost-savings advantage, and our analysis confirms this assumption.
- Internal audit teams that rely more heavily on outsourcing and co-sourcing do not realize significant cost savings.

OUTSOURCING AND CO-SOURCING DOES NOT OFFER A COST ADVANTAGE

Cost of an Audit Engagement Versus Co-Sourcing or Outsourcing Intensity
 Median Total Internal Audit Department Budget per Audit Completed in 2013



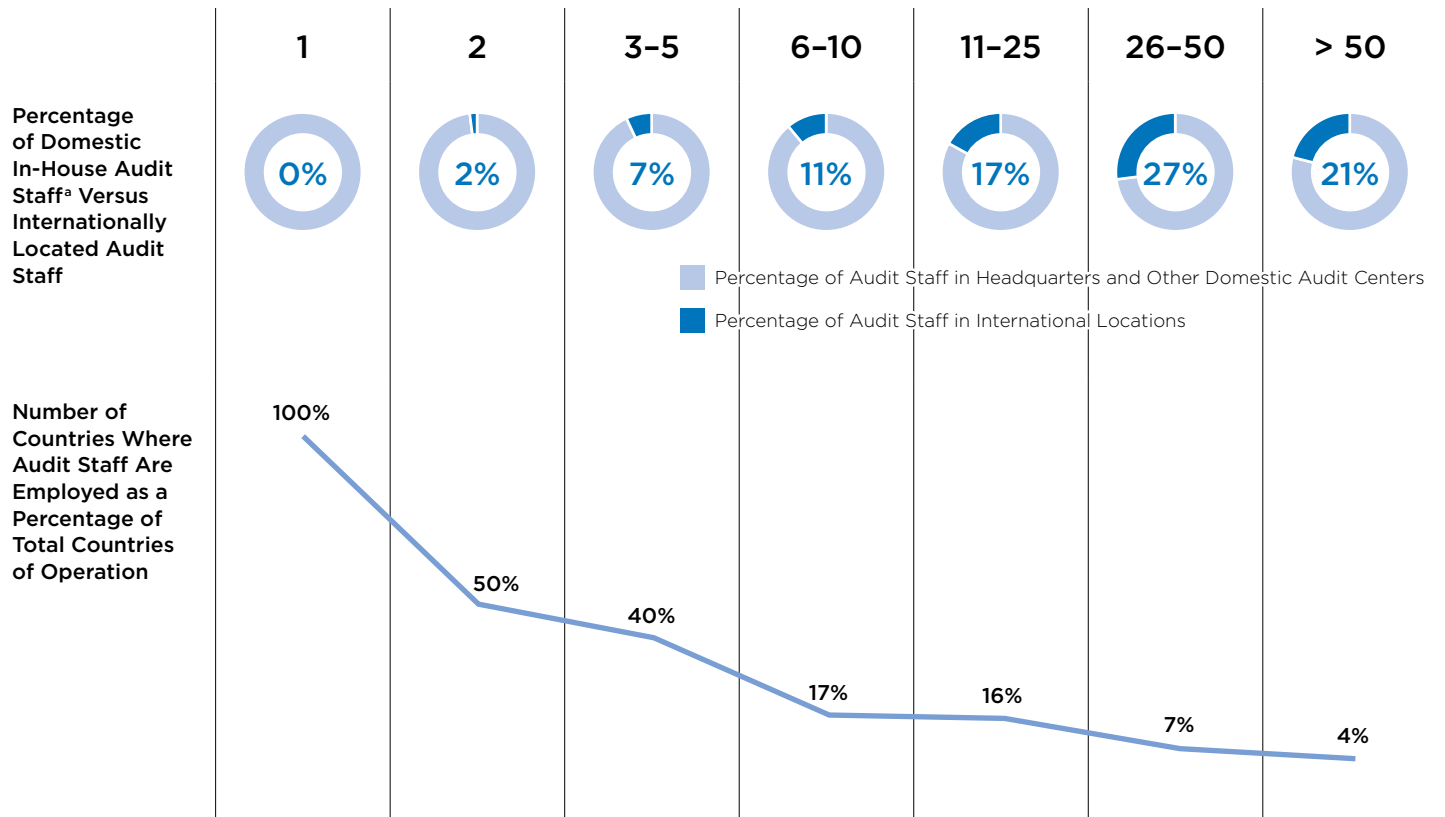
n = 296 global internal audit teams.
 Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

Companies' international presence drives more geographically dispersed internal audit structure, but CAEs limit the overall number of countries where they permanently employ staff.

- Companies place a greater percentage of audit staff abroad as their global presence rises.
- Those with operations in more than 10 countries employ, on average, 20% of their audit staff in international locations.
- The number of countries where audit staff are permanently stationed stays relatively limited, even as global reach increases—accounting for the small ratio of companies with local audit teams for highly global companies.

INTERNAL AUDIT TEAMS' GLOBAL PRESENCE

Number of Countries of Operation



n = 329 global internal audit teams.

Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

^a In-house internal audit team FTEs include the CAE, managers, staff auditors, and administrative staff.

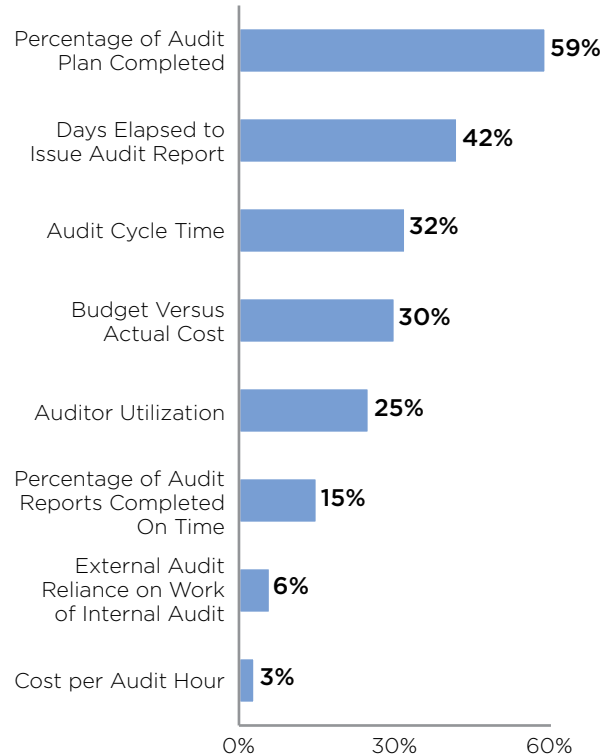
All internal audit teams have metrics, but few metrics effectively measure performance in areas that business partners care about; the majority of audit KPIs focus on internal process efficiency.

- The typical internal audit team reports on audit plan completion rates, audit cycle time and days elapsed, and other productivity metrics.
- Very few teams track and communicate KPIs that provide a more accurate view of departmental success and business benefits, such as audit contributions to process improvements, remediation of high-risk findings, or significant controls failures.

FAILURE TO MEASURE AND COMMUNICATE VALUE-CREATION METRICS

KPIs Used to Drive Internal Audit Department Productivity

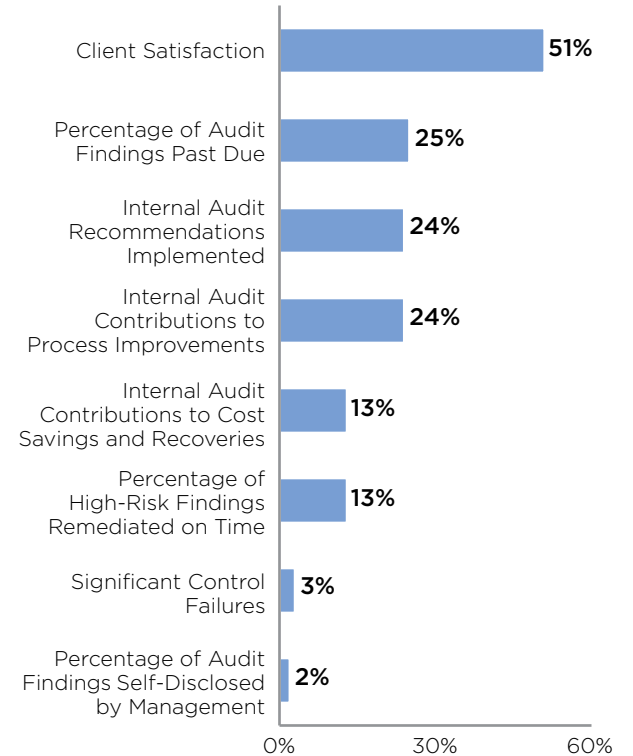
Percentage of CAEs Listing KPI Among Top Three



n = 308 global internal audit teams.
Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

KPIs Used to Communicate Internal Audit Value and Impact

Percentage of CAEs Listing KPI Among Top Three



n = 307 global internal audit teams.
Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

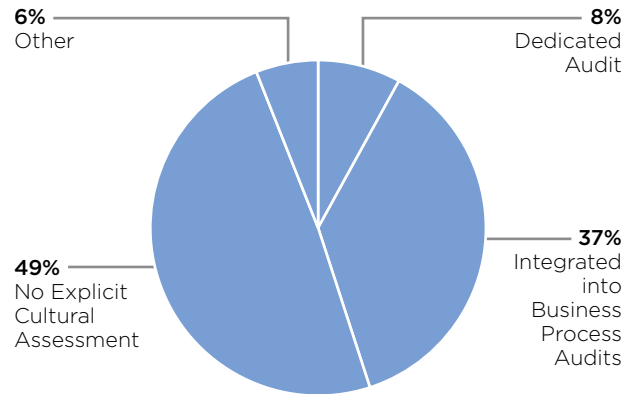
Many internal audit teams are tackling a new mandate to assess cultural and human capital-related risks.

- In 2013, an average of 8% of all control failures reported by Audit were caused by deficiencies or errors related to culture, behaviors, or soft controls.
- Forty-five percent of internal audit teams have established dedicated culture audits or have incorporated culture reviews into existing audit engagements.
- More than half of companies measure compliance, integrity, and leadership components of culture, but only 19% do so for safety.

A NEW MANDATE: AUDITING CULTURE

Approaches for Incorporating Cultural Assessments in Audit's Work

Percentage of Respondents

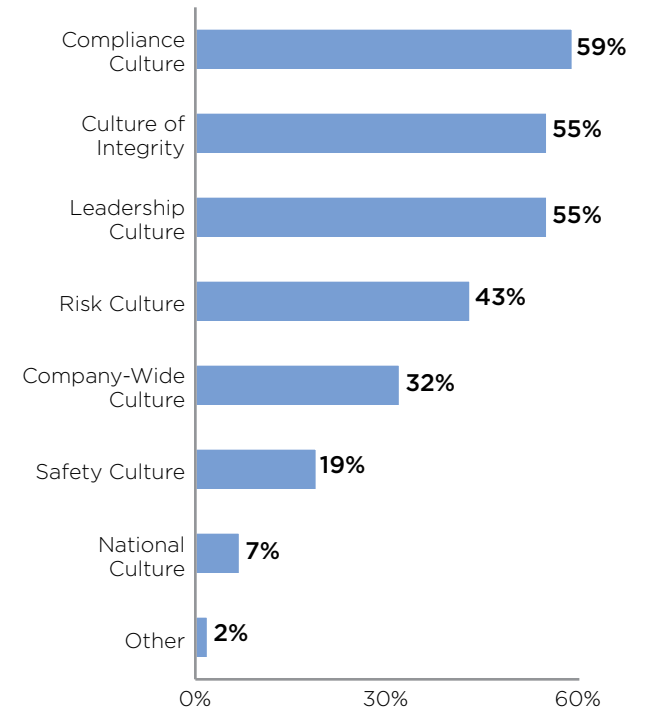


n = 304 global internal audit teams.

Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

Elements Measured in Culture Audits

Percentage of Respondents



n = 286 global internal audit teams.

Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

Most Frequently Used Tools for Measuring Culture, Behavior, and Soft Controls

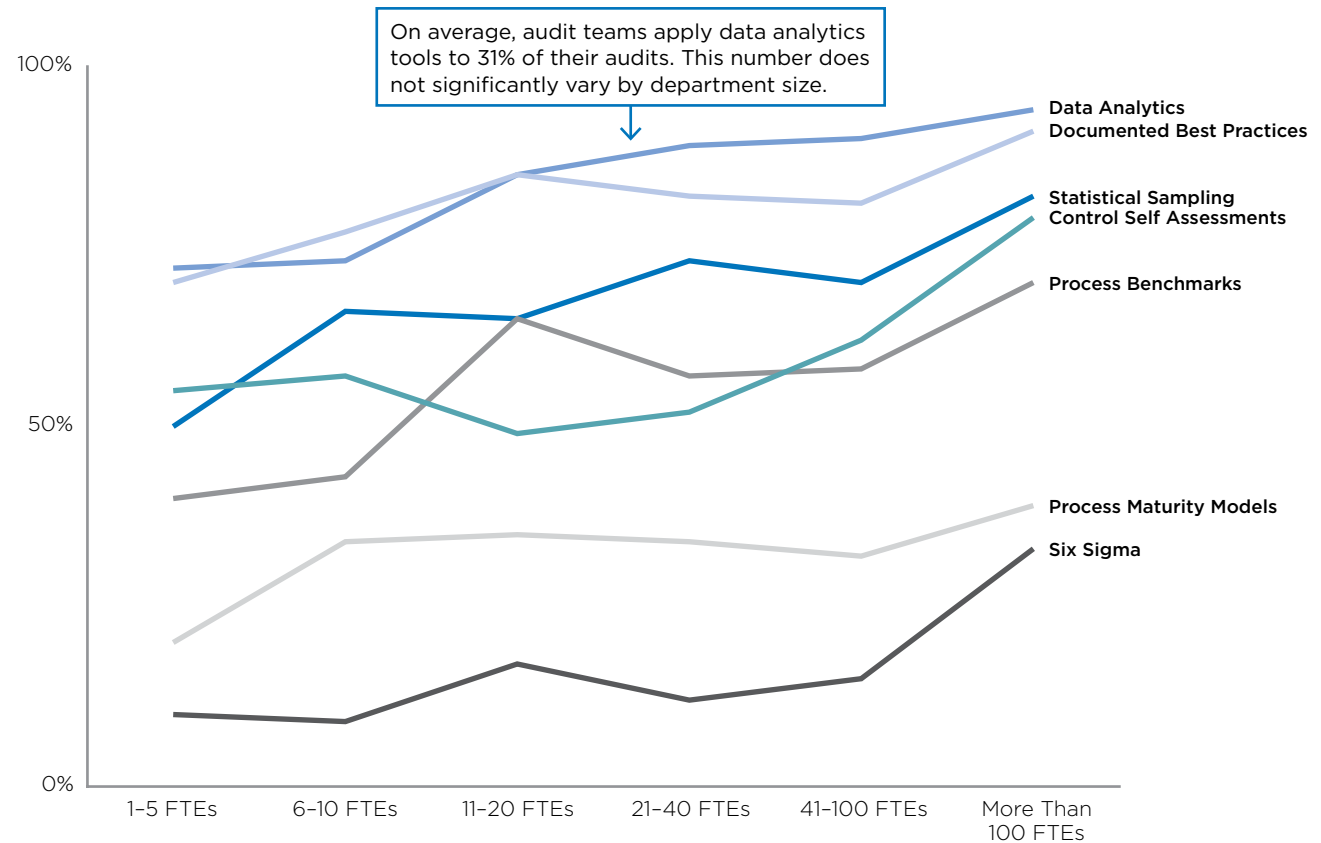
1. Interviews with employees
2. Reliance on audit data
3. Reliance on compliance data
4. Company-wide surveys
5. Reliance on risk management data
6. Standard questions added to other audit programs

Internal audit teams most often use data analytics and documented best practices to assist in fieldwork and reporting phases of audit engagements.

- Eighty-five percent of internal audit teams apply data analytics to at least one audit; larger audit teams are most likely to use this technique.
- However, the depth of data analytics application remains limited across all department sizes, assisting in an average of 31% of completed audits.
- Use of process maturity models remains low, with only 11% of all audit teams actively using these tools.

ADVANCED AUDITING TOOLS AND TECHNIQUES

Use of Additional Tools and Techniques,^a by Department Size
Percentage of Respondents



n = 306 global internal audit teams.

Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

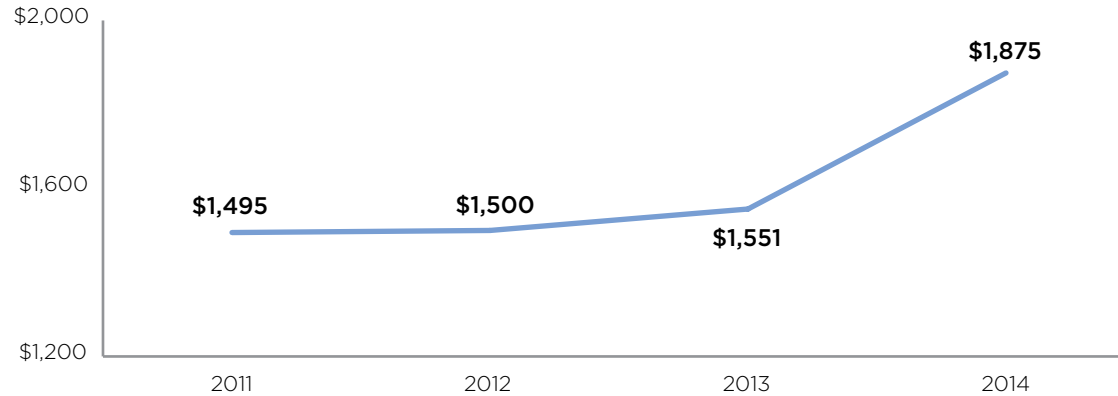
^a For definitions and additional information on each of these audit tools and techniques please refer to [Appendix D](#).

Due to new demands and changing competency requirements, CAEs are making slight increases to spending on audit staff training.

- Internal audit teams' median spend on training and development is just under \$2,000 per auditor, or 1% of the total audit department budget in 2014, which is similar to 2013.
- The percentage of companies that spend more than \$1,000 on training per audit employee rose by 10% in 2014 compared to the past year.

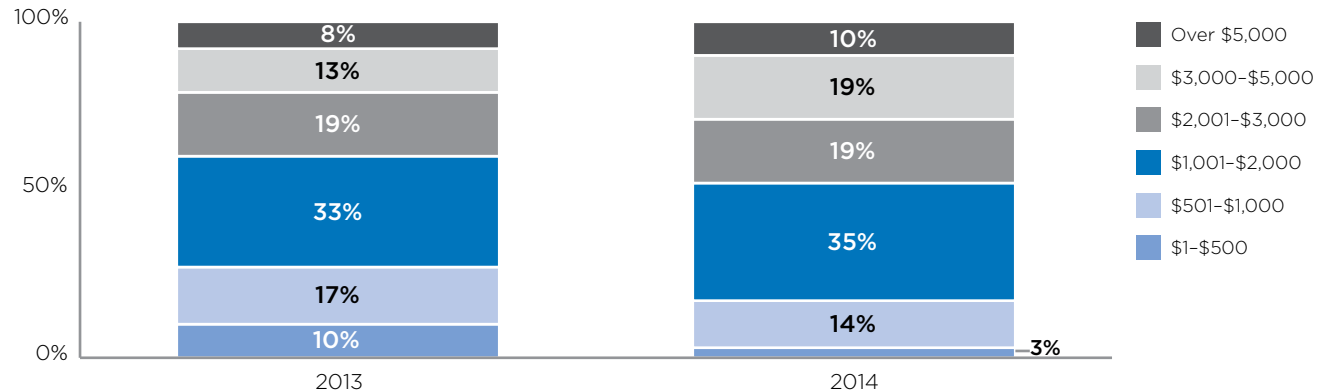
SLIGHT INCREASES IN TRAINING BUDGETS

Annual Training and Development Spend per Internal Auditor
Median Spend



n = 325-367 global internal audit teams.
Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

Annual Training and Development Spend per Internal Auditor
Percentage of Respondents



n = 304 global internal audit teams.
Source: CEB 2014 Budget and Head Count Benchmarking Surveys.
Note: Data in the above chart only includes those departments that spend at least \$1 on training and development.

IMPLEMENTING DATA ANALYTICS INITIATIVES

Data analytics is an emerging area of interest to numerous internal audit teams in search of new tools and techniques that will increase the efficiency of controls testing and more quickly identify anomalies and hidden risks. Benchmarking of CAEs' use of data analytics reveals the following trends:

- Sixty percent of CAEs rate the maturity of their departments' data analytics capabilities on the lower end of the maturity scale (emerging). Sixty-two percent of audit teams either completed new investments in data analytics in 2014 or are planning to do so in 2015.

- CAE's primary goals for growing data analytics capabilities are 1) improving audit productivity, 2) applying tests to larger populations of data, and 3) developing stronger monitoring programs.

- The greatest challenges associated with using data analytics are obtaining high-quality data and compensating for insufficient auditor skills. Companies with the highest number of ERP systems are more likely to report data-related challenges and a slow pace of new investments in data analytics.

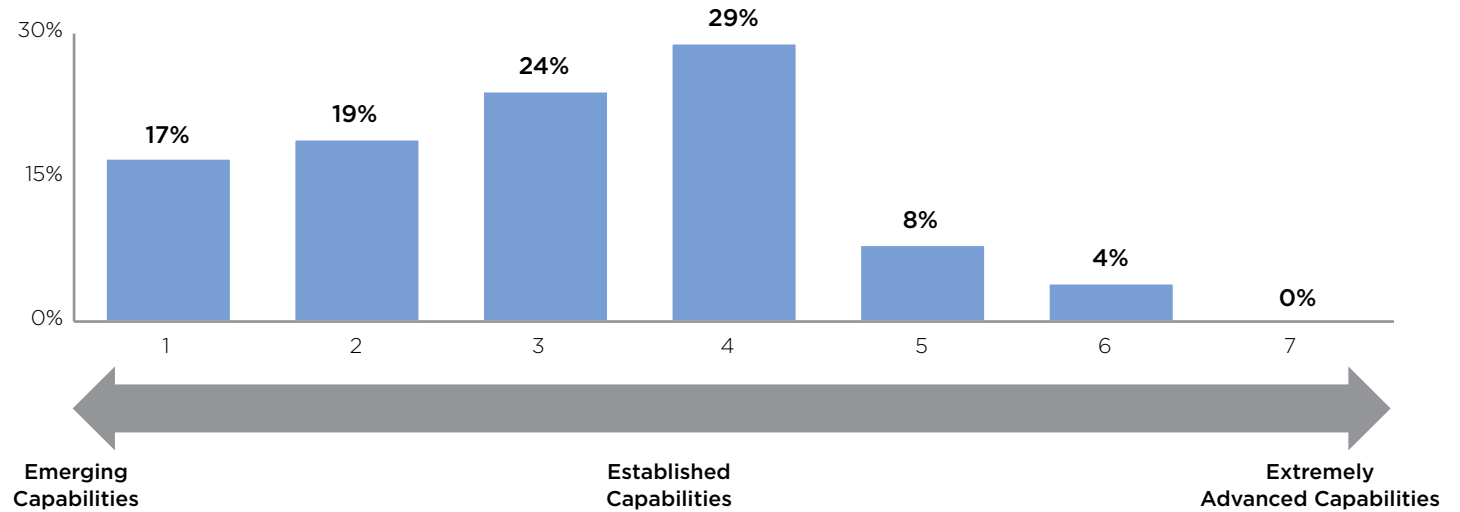
- Internal audit teams that use data analytics in their day-to-day work primarily do so during the engagement planning and fieldwork stages. The results are primarily used to identify anomalies and test controls.

The majority of CAEs rate their data analytics maturity on the low end of the scale, with 48% planning to advance their capabilities in 2015.

- Sixty-two percent of CAEs recently made, or are planning to make, significant investments in audit data analytics tools and solutions.

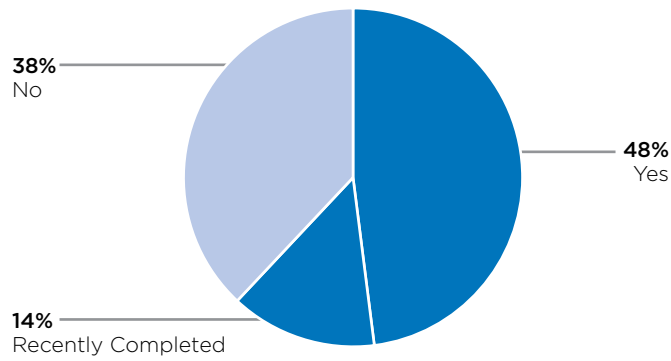
DATA ANALYTICS STILL AN EMERGING CAPABILITY

Level of Internal Audit Department's Maturity in Data Analytics
Self-Rated, Percentage of Respondents



n = 308 global internal audit teams.
Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

Planned Investments in Audit Data Analytics Tools and Solutions
Percentage of Respondents



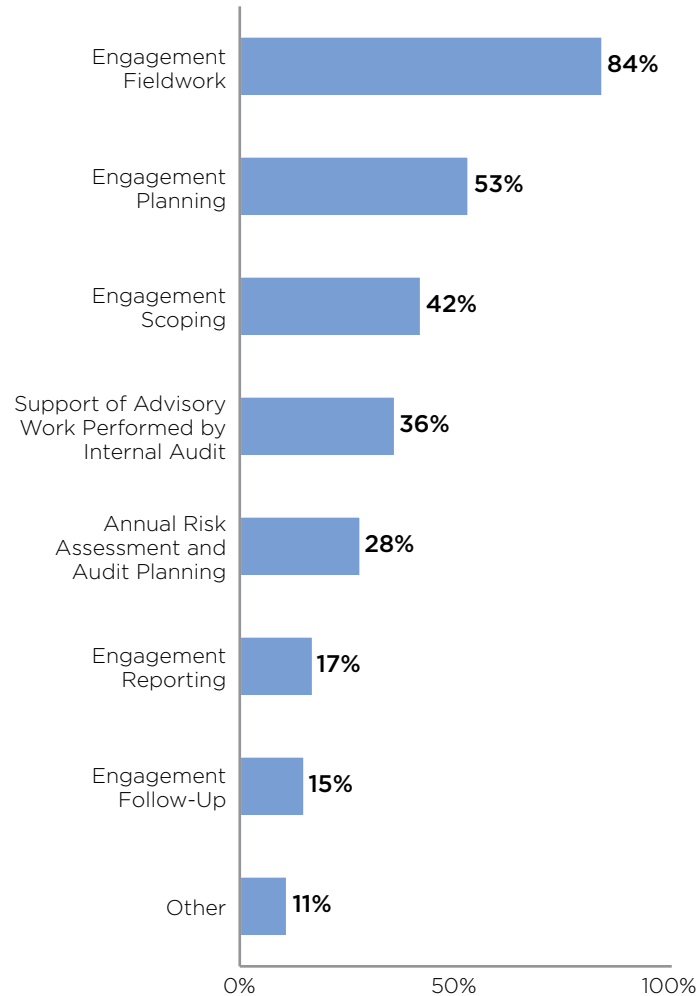
n = 308 global internal audit teams.
Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

Auditors use data analytics tools most frequently for fieldwork, using the results to identify anomalies and test controls.

APPLICATION OF DATA ANALYTICS

Areas of Internal Audit Work Where Data Analytics Is Used Most Frequently

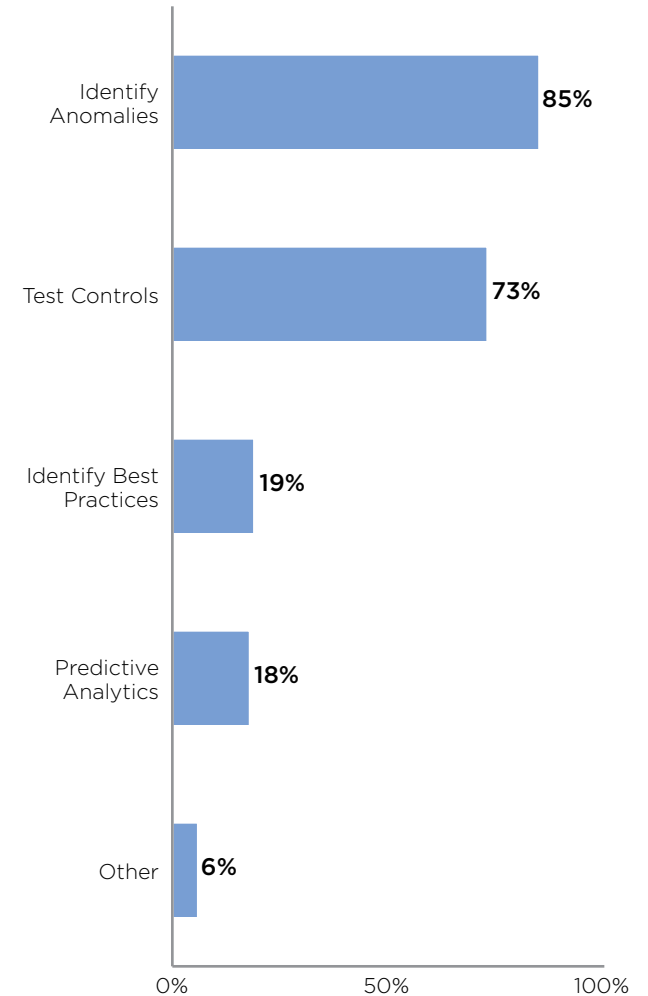
Percentage of Respondents



n = 308 global internal audit teams.
Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

Application of Results of Analytical Procedures

Percentage of Respondents



n = 308 global internal audit teams.
Source: CEB 2014 Budget and Head Count Benchmarking Surveys.

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Contact us directly to dive deeper into the full report and learn how CEB can help evaluate your team's performance and assist in setting your audit strategy for 2015 and beyond.