

Driving Success in a Changing World

10 Imperatives for Internal Audit & 8 Challenges in the Year Ahead



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The Institute of Internal Auditors, Inc.



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Agenda

- ❑ ACGA overview
- ❑ 10 Imperatives for Internal Audit
- ❑ Challenges and opportunities in the year ahead
- ❑ Strategies for leading auditors



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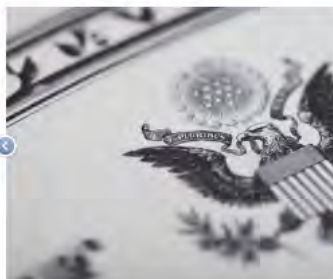
ACGA Mission



To advance the professional practice of auditing in the public sector by advocating its value through timely and relevant thought leadership, communication, collaboration, and education.

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Emerging Strategies for Performance Auditing

New report gleams insights from city auditors in major cities in the U.S. and Canada. Highlighted are ideas for audit leader and external stakeholder collaboration to address systemic barriers.

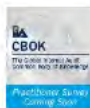
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Latest News



CBOK: Global Survey of Internal Auditors Launches Feb. 2

A survey providing the most-comprehensive global look into the practice of internal auditing will launch Feb. 2, bringing new insight into a profession whose value continues to grow as ever-evolving risks and opportunities challenge government and business operations worldwide. | [More](#)



Washington Examiner Publishes Chambers Op/Ed on IG Vacancies

The IIA's support of a strong federal inspector general system is reflected in a new opinion piece by IIA President and CEO Richard F. Chambers. | [More](#)



IIA Releases First-Ever IPPF Guidance for the Public Sector

Recognizing that public sector auditors face unique challenges that require tailored guidance, The IIA has released Assessing Organizational Governance in the Public Sector, the first IPPF practice guide specifically for government auditors. | [More](#)



U.N. Hosts IIA Global Chairman at Oversight Office Anniversary

IIA Global Chairman Anton van Wyk recently was part of a distinguished panel at the United Nations' Office of Internal Oversight Services (OIOS) 20th Anniversary celebration. | [More](#)

Events

- Tuesday, February 17, 2015
eWorkshop: Basic Data Integrity, Mining, and Analysis in Excel
- Monday, March 16, 2015
eWorkshop: Auditor Roles in Improving Government Performance Management
- Thursday, March 19, 2015
Webinar: Green Book & COSO

[View Event Calendar](#)



[View News Archive](#)

The American Center for Government Auditing (ACGA)

Welcome to the ACGA, the premier resource for auditors in the public sector. Supported by The IIA – the internal audit profession's global voice, recognized authority, acknowledged leader, chief advocate, and principal educator – the ACGA was established to provide public sector auditors with low-cost, high-quality professional development; networking opportunities for knowledge sharing among public sector stakeholders; and ongoing, timely, and relevant reporting on trends, benchmarking, and thought leadership in the profession. The ACGA is committed to advancing the professional practice of auditing in the public sector by aggregating industry news, innovations, and key insights into a singular resource. [Learn more](#) or check out our [frequently asked questions](#).

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• ACGA Home
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• ACGA Benefits
• Board Calendar

• Guidance & Resources
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• AUDITING
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Enhanced Resources

News & Information for Government Auditors

Monthly *Government Audit SmartBrief*

Regular Knowledge Briefs

Public Sector Blog

Professional Development

ACGA Webinars & Symposiums

eLearning Opportunities

Public Sector Training by Public Sector Experts

Guidance, Resources & Thought Leadership

Standards (IPPF & GAGAS)

Leading Practices

Stakeholder Advocacy & Education

Capability Model

COSO Resource Center

Networking Opportunities

Exclusive LinkedIn Group (Coming Soon)

Follow us on Twitter @IIA_ACGA

Attend peer-to-peer networking events

Training

Free Training

- At least 10 Free CPEs for members
 - ACGA Webinars (x2)
 - 1CPE each
 - ACGA Virtual Symposiums (x2)
 - 4 CPEs each

Next Virtual Symposium (Nov 5)
ERM in the Public Sector

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2015 Calendar of Events

Mark your Calendars and Register Early

eWorkshops*

Fraud and Abuse: What Is It to You?	January 20 & 22
CGAP Exam Review	February 3, 5, 10, 12
Basic Data Integrity, Mining, and Analysis in Excel	February 17, 19, 24, 26
Auditor Roles in Improving Government Performance Management	March 16, 18, 23
Six Sigma Tools for High Impact Government Audits	April 14, 16, 21, 23
Risk based Annual Audit Planning for Maximum Impact	May 11, 13, 18, 20
Emerging Issues in Grants Management	June 2, 4, 9, 11
Auditing Procurement System Performance	June 16, 18, 23
CGAP Exam Review	Aug. 25, 27, Sept. 1, 3
Auditor Roles in Improving Government Performance Management	September 21, 23, 28
Using Excel to Extract, Analyze, and Report on Audit Samples	October 6, 8, 13, 15
Strategies for Effective Purchasing Card Audits	October 27 & 29
Fraud and Abuse: What Is It to You?	December 1 & 3

*Save 20% (US\$50) per eWorkshop for current ACGA Members

Complimentary CPE Opportunities

Webinars

Green Book & COSO	March 19
Big Data in the Public Sector	September 17

Virtual Symposiums**

Emerging Issues in the Public Sector	May 21
ERM in the Public Sector	November 5

**Register to attend and receive a free ACGA membership. Subject to qualification. Subjects may change

Not a member? Visit acga.theiia.org to Join Now! Have a question? Email us at acga@theiia.org.

Knowledge Briefs



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Stakeholder Education

GOVERNANCE IN THE PUBLIC SECTOR

Governance is the combination of processes and standards represented by the board (governing body) to create, direct, manage, and monitor the activities of the organization toward the achievement of objectives. Stated another way, governance is the exercise of authority, direction, and control over an organization.

THE UNDERLYING PRINCIPLES OF GOOD GOVERNANCE



ETHICAL CONDUCT includes defining acceptable behaviors and expectations and clearly communicating them to employees at all levels in the organization.

PERSONAL INTEGRITY involves government leaders and employees operating with an attitude that is objective, open, honest, and inclusion of all those they serve.

ORGANIZATIONAL VALUES are the beliefs held so strongly by the organization that they drive behavior and influence the organization's culture. These underlying principles set the foundation for good governance.

GOOD GOVERNANCE = PERFORMANCE, ACCOUNTABILITY, AND TRANSPARENCY

Organizations with good governance practices ensure that adequate processes and structures have been implemented to support performance, accountability, and transparency in their daily activities.

ENTERPRISE RISK MANAGEMENT IN THE PUBLIC SECTOR

The importance of strong governance practices has been increasingly acknowledged as critical to organizational success. Government organizations are under increasing pressure to identify all risks they face: social, ethical and environmental as well as reliability of reporting (financial or otherwise), compliance and operational. In addition, they must be able to explain how they manage risks to an acceptable level. Meanwhile, the use of enterprise risk management (ERM) frameworks has expanded, as governments recognize their advantages over less coordinated approaches to risk management.

WHAT IS ENTERPRISE RISK MANAGEMENT?



Organizations undertake risk management activities to identify, assess, manage, and control all kinds of events or situations. These can range from single projects or narrowly defined types of risk, such as information security risk, to the threats and opportunities facing the organization as a whole. ERM is a structured, consistent and continuous process across the whole organization for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of its objectives.

Benefits of ERM

- ERM will contribute to an organization's success by providing:
- A greater likelihood of achieving objectives.
 - Consolidated reporting of disparate risks at the governing body level.
 - An improved understanding of the key risks and their wider implications.
 - Greater management focus on issues that matter.
 - Fewer surprises or crises, and
 - More focus internally on doing the right things in the right way.
 - Providing assurance to the public.

THE THREE LINES OF DEFENSE IN EFFECTIVE RISK MANAGEMENT & CONTROL

Public Sector organizations are facing ever increasing risks that continue to develop in the face of increased demand for services while budgets and resources generally remain constrained. A coordinated approach within the organization is necessary to effectively mitigate these risks. Fortunately, best practices are emerging that can help organizations delegate and coordinate essential risk management duties with a systematic approach. Consider the Three Lines of Defense.



UNDERSTANDING THE VARIETY OF RISKS FACING YOUR ORGANIZATION

Operational Risks. Risks associated with the effective and efficient use of resources. These risks may adversely affect the achievement of operational objectives such as quality and efficiency of services, safety of the community, and safeguarding of assets and resources (including people and data).

Reporting Risks. Risk associated with internal and external financial and non-financial reporting. These risks may adversely affect the reliability, timeliness, transparency, and accountability of reporting.

Compliance Risks. Risks associated with adherence to laws and regulations. These risks may result in non-compliance with grant requirements or other contractual obligations as well as litigation, code of conduct violations, ERM/OSHA violations, and other investigations.

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ACGA Podcast: *The Audit Report*



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Advocacy



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Volunteer Opportunities

- ACGA Advisory Committee
- Contributions to Knowledge Briefs
- Speakers for Webinars and Virtual Symposia





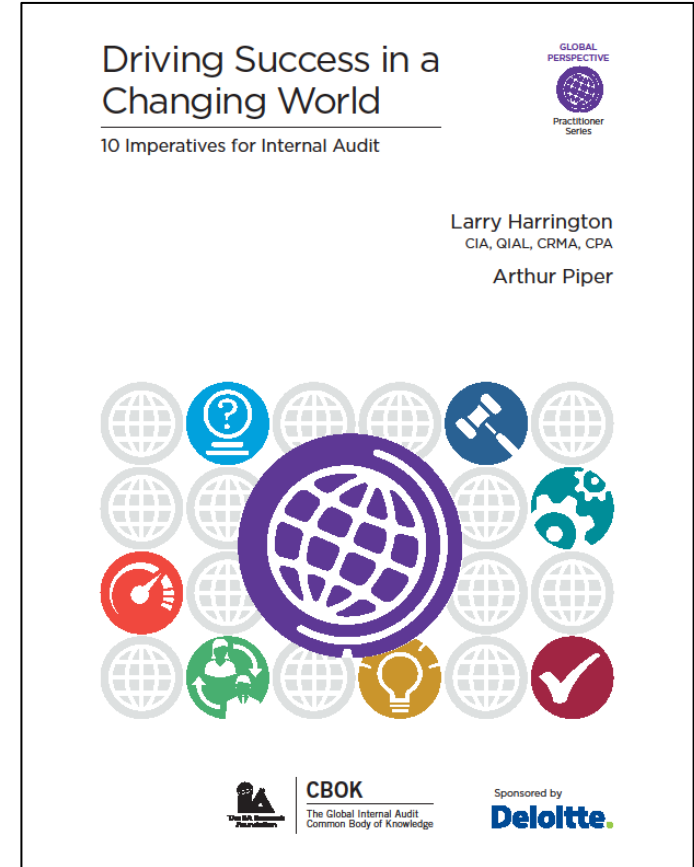
10 Imperatives for Internal Audit

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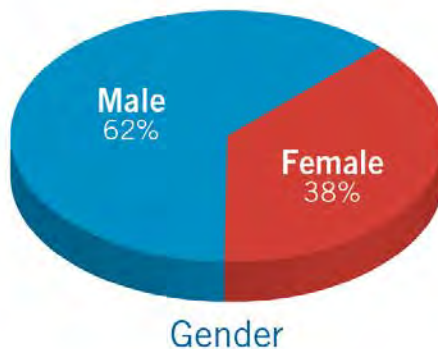
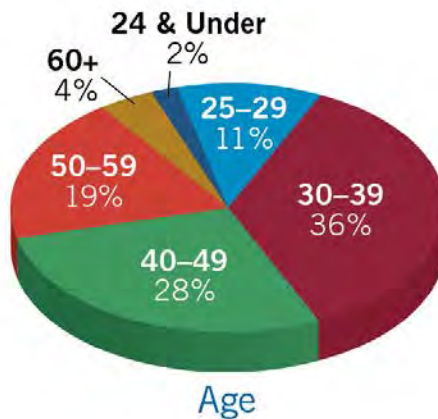


CBOK 2015 Practitioner Survey

- Practitioner Survey Results
 - Survey completed April 1, 2015
 - 14,518 usable survey responses
- Participation Levels
 - 100% representation from IIA institutes
 - Responses from 166 countries
 - 23 languages



CBOK 2015 Practitioner Study



10 Imperatives for Internal Audit

Play a Leading Role

1. Anticipate the needs of stakeholders.
2. Develop forward-looking risk management practices.
3. Continually advise the board and audit committee.
4. Be courageous.

Beat the Expectations Gap

5. Support the organization's objectives.
6. Identify, monitor, and deal with emerging technology risks.
7. Enhance audit findings through greater use of data analytics.
8. Go beyond The IIA's Standards.

Invest in Excellence

9. Invest in yourself.
10. Recruit, motivate, and retain great team members.



8 Challenges in the Year Ahead

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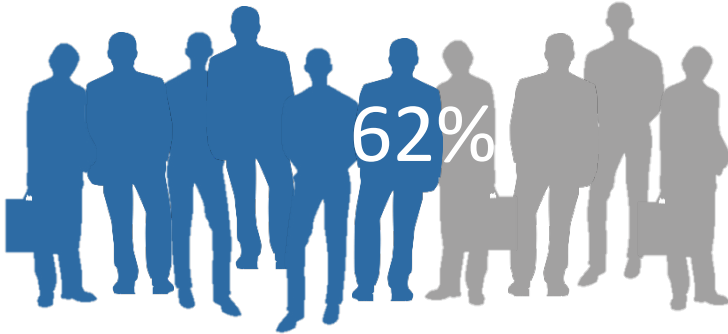


8 Challenges in the Year Ahead

- ☐ Misalignment with stakeholder expectations
- ☐ Ability to identify emerging risks
- ☐ Inadequate or inaccurate assurance on key enterprise risks
- ☐ Lack of adequate resources
- ☐ Lack of sufficient expertise to address key risks
- ☐ Rising tolerance for waste
- ☐ The Paradox of “Structural Expectations”
- ☐ Blurring Lines of Defense

A Key in Risk in 2015: Misalignment with Stakeholder Expectations

Audit Committee: “Internal Audit’s role should extend beyond financial reporting and controls”



Audit Committee: “Internal Audit has the skills and resources for the role I envision”



Source: 2014 Global Audit Committee Survey © 2014 KPMG
Based on published responses for United States and Canada.

CAEs: “We provide value-added services and proactive advice”



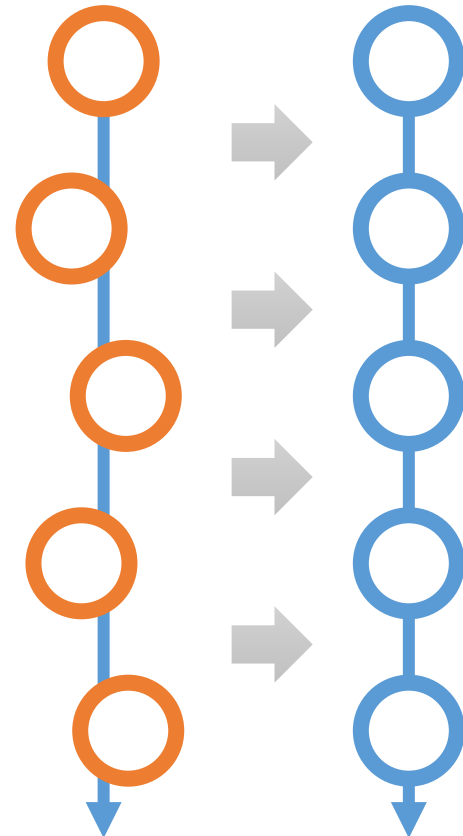
CAEs: “We need to be doing this within the next five years”



Source: PwC’s 2015 State of the Internal Audit Profession Study

A Key in Risk in 2015: Misalignment with Stakeholder Expectations

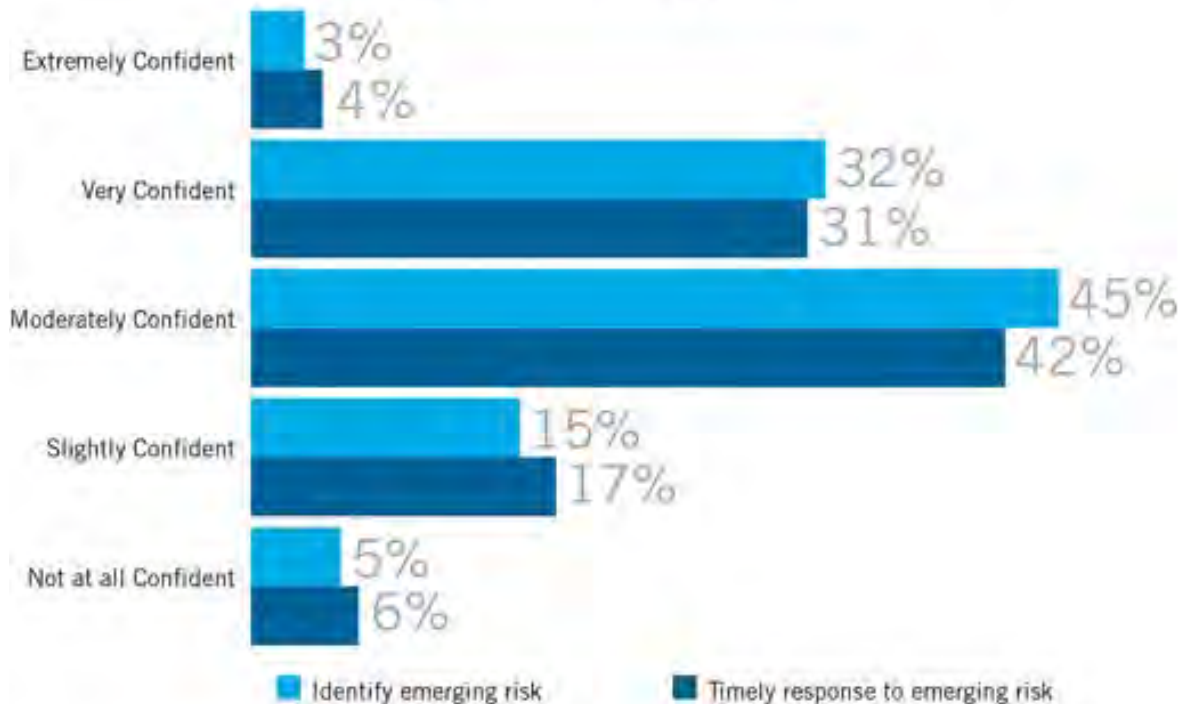
- Strategies for Success:
 - Maintain continuous dialogue
 - Foster awareness about your capabilities
 - Know your stakeholders and their priorities
 - Recognize that expectations change
 - Involve them in audit planning.
 - Ask stakeholders what they think about the value of your work.
 - Secure, retain, and effectively use a seat at the table



A Key in Risk in 2015: Ability to Identify Emerging Risks

Identifying and Responding to Emerging Risks

Survey participants were asked to rate their levels of confidence in the ability of *their organization* to identify emerging risks and respond to emerging risks in a timely manner.



52 percent of CAEs consider identifying emerging risks to be their biggest challenge in 2015.

*Based on 311 responses from chief audit executives (CAEs) and directors in North America

Source: The Institute of Internal Auditors Audit Executive Center's "2015 North American Pulse of Internal Audit" report

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A Key in Risk in 2015:

Ability to Identify Emerging Risks

- No surprises means “NO SURPRISES”
- Understand the organization’s strategic, business, legal, and compliance risks.
- We must audit “at the speed of risk”
- Continuous risk assessment
 - Formal methods
 - Risk assessment by “walking around”
 - Set your antenna high
- Develop in-depth knowledge of the business.



A Key in Risk in 2015:

Ability to Identify Emerging Risks

The degree to which internal audit utilizes these methodologies to continuously assess risk	Extensively Utilized
Periodically Interview Management to Identify Changes in the Organization's Risk Profile	33%
Initiate Formal Updates of the Internal Audit Risk Assessment & Audit Plan	29%
Initiate Informal or Ad Hoc Updates of the Internal Audit Risk Assessment & Audit Plan	26%
Periodically Update Risk Assessment Based on Changes to Risk Ratings Identified During Ongoing Audit Operations	22%
Periodic Manual Monitoring of KRIs	9%
Using Technology to Continuously Monitor KRIs	2%

Source: The Pulse of Internal Audit survey: © 2015 The IIA Audit Executive Center.

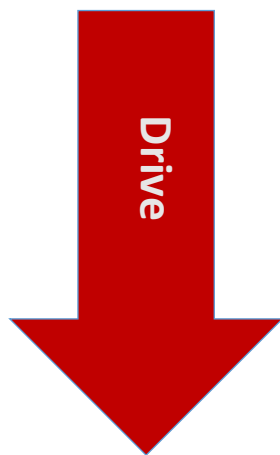
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A Key Risk in 2015: Lack of Adequate Resources

Conceptually:

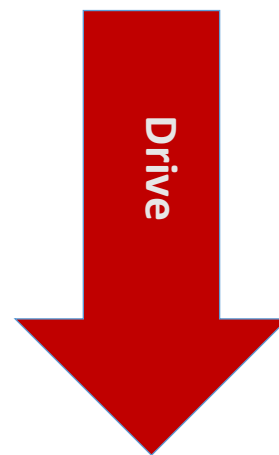
Risk



Audit Coverage

In Practice:

Resources



Audit Coverage

Source: The Pulse of Internal Audit survey: © 2015 The IIA Audit Executive Center.
Total may not equal 100% due to rounding.

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A Key Risk in 2015: Lack of Adequate Resources

- Staffing and resources should be driven by enterprise risks – not the other way around
- Develop an audit plan based on the “real risks”
- Identify areas where resources and expertise gaps exist
- Have candid conversations with management and the audit committee regarding:
 - Resource shortfalls
 - Expertise gaps
 - Risks that may fall victim
 - A plan of action
- Develop a long-term strategy for addressing gaps

70% of CAE's viewed cyberattacks as a high or critical priority

Source: The Pulse of Internal Audit survey: © 2015 The IIA Audit Executive Center.

Yet!

Only **53%** say auditing cybersecurity risk is part of this year's plan

Source: Protiviti 2015 IA Capabilities and Needs Survey Report

A Key Risk in 2015: Lack of Adequate Resources

Are we
sabotaging
ourselves



Typical IA
Job Posting

Senior Auditor

Qualifications:

- Bachelor's degree in Accounting, Finance, or related field
- 5+ years of experience in audit and financial reporting
- Big 4 / CPA strongly preferred

Auditor

Qualifications

- Minimum 2 years experience at a Public Accounting firm
- BA/BS in Accounting, Finance, or Business Administration

A Key Risk in 2015: Lack of Sufficient Expertise

- Auditing specialized risks requires expertise
- No internal audit function can address every risk with equal acumen
- Understand and address capabilities:
 - Identify existing competency gaps
 - Frame a knowledge management strategy to address major gaps in expertise
 - Develop an appropriate sourcing strategy

Cybersecurity & Privacy



Data Mining & Analytics



A Key Risk in 2015: Inadequate/Inaccurate Assurance

- Success originates with the risk assessment:
 - Comprehensive
 - Collaborative
 - Dynamic
- And, continues at the engagement level...
 - Assess risks in engagement planning
 - Deploy the right expertise on engagements
 - Communicate/coordinate carefully with clients
- Risks can be mitigated with an effective quality assurance and improvement program

A Key Risk in 2015: Rising Tolerance for Waste

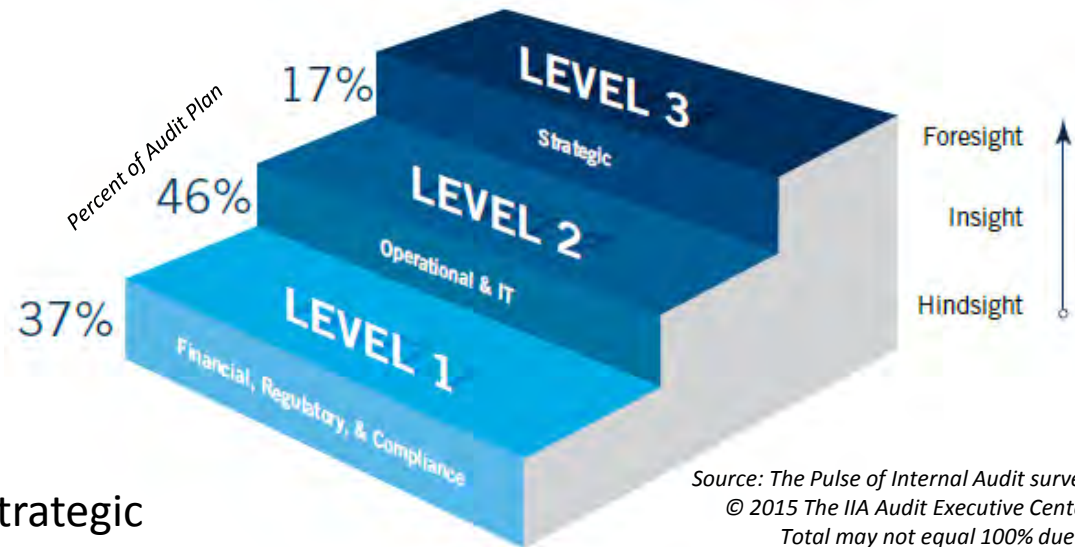
- Call out stakeholders as they attempt to rationalize certain actions
- Communicate clearly and comprehensively to reduce desensitization



A Key Risk in 2015:

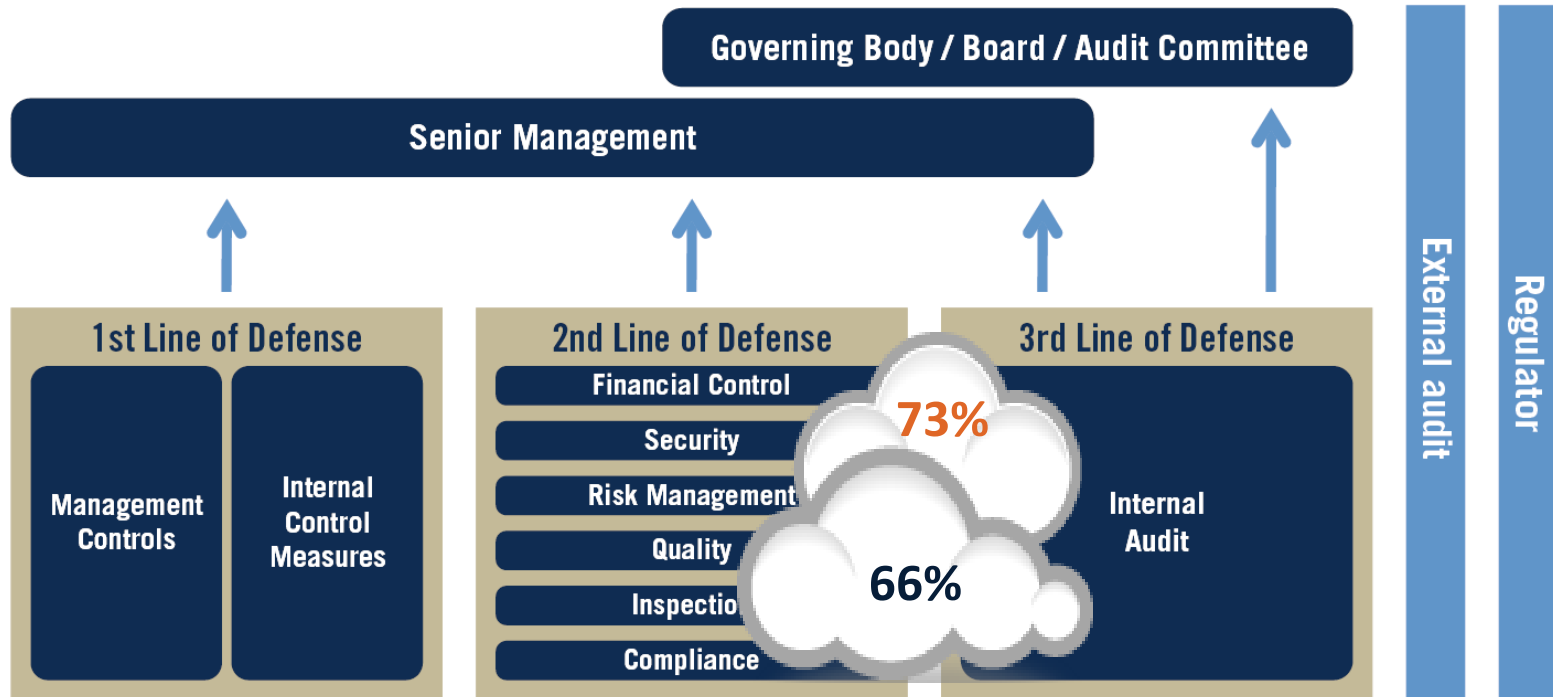
The Paradox of “Structural Expectations”

- Stakeholders often expect base level of coverage:
 - Financial risks
 - Regulatory risks
 - Compliance risks
- Once base is addressed:
 - Operating risks
 - IT risks
- Only then, is there interest in strategic and business risks
- The paradox:
 - Base level coverage often provides the lowest perceived value



Source: The Pulse of Internal Audit survey:
© 2015 The IIA Audit Executive Center.
Total may not equal 100% due to rounding.

A Key Risk in 2015: Blurring Lines of Defense



Adapted from ECIIA/FERMA *Guidance on the 8th EU Company Law Directive, article 41*

Assume a Leadership Role in Coordinating/Facilitating the 2nd and 3rd Lines of Defense

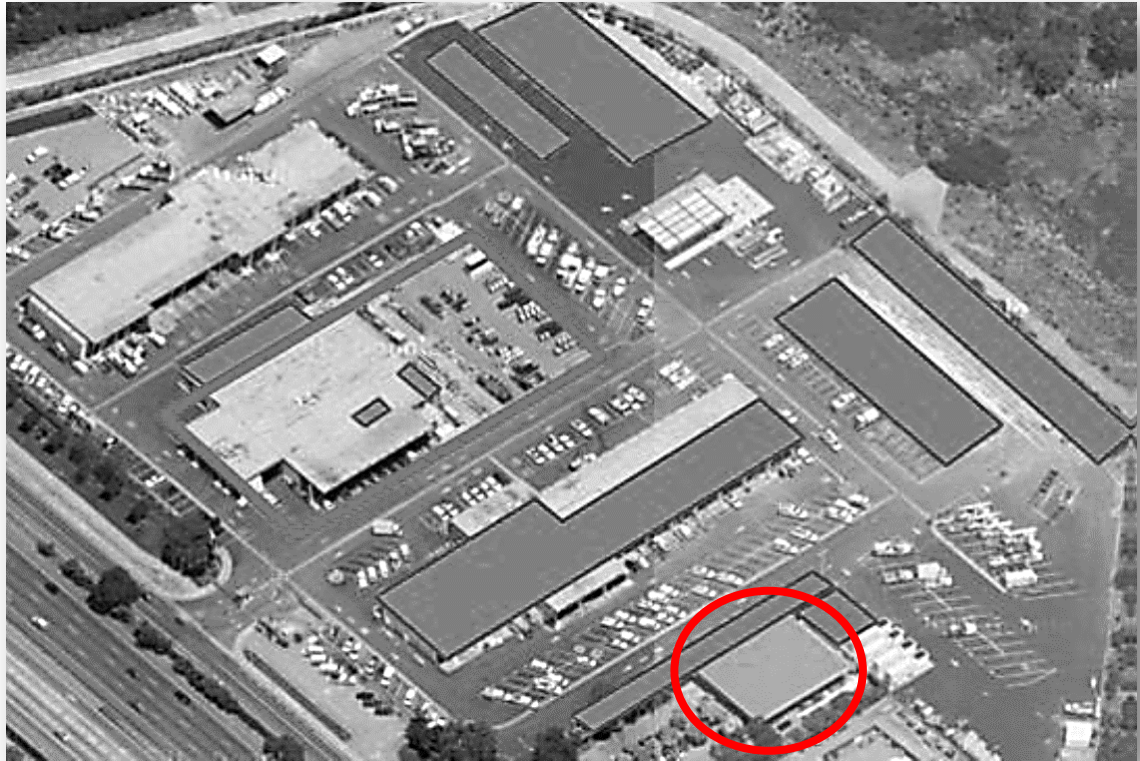
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Hot topics on the 2015 Risk Radar



Risks to Watch in 2015

- Cybersecurity – not “if”, “when”
 - Crisis response planning
- Interruption of services
- Talent management
- Compliance with new legislation and regulations



Questions

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