

State of the Internal
Audit Profession
Study
July 2011

Lights, camera, action...

Scripting internal audit
for a changed world-
Territory report for India

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Foreword



The respondents to PwC's annual Global CEO Survey displayed a gratifying level of confidence in the country. Most CEOs consider India one of the most important countries for future growth. A need to grow the business in emerging markets, adopt innovative technologies and respond to a rapidly changing regulatory environment is key to succeeding in today's business environment. These also underpin the critical risks facing today's businesses.

As companies and their CEOs step onto a larger stage, internal auditors should be taking a similar approach by preparing for a best supporting actor role. And as their companies focus outward, internal auditors would be wise to expand their reach to encompass a more diverse set of risks and engage stakeholders on the need for support in non-traditional areas. Internal audit leaders can help their audit committees and management understand an extraordinarily dynamic and complex risk environment and make it easier to adapt to a rapidly changing world. Those who succeed in this endeavour will add tremendous value. Those who do not seize this opportunity risk losing relevance within their organisations.

If your internal audit function is not involved in significant organisation initiatives, ask why. Is it because your team lacks the required knowledge or skills to contribute? Or, is it because your internal audit function hasn't earned a seat at the table?

To dwell on some of these issues, we are happy to bring to you this seventh annual State of the Internal Audit Profession Study. This survey captures responses from across 45 countries covering more than 2500 participants including over 70 participants from within India.

Satyavati Berera

Leader, Internal Audit Services, India

The heart of the matter

Growth and risk are in the spotlight

Only half the world is growing at a robust rate. Although the International Monetary Fund (IMF) forecasts global growth at 4.2% for 2011, developed countries—which make up 52% of the world economy—are growing at half that pace. In contrast, emerging markets are booming, with Indonesia, India and China all forecast to grow faster than six per cent.

In addition, the balance of corporate power continues to shift. Shareholders and regulators demand transparency, accountability and more input on issues once reserved for management and the board of directors. New rules, further disclosures and strict enforcement are causing dramatic changes for businesses around the globe, including banking and capital markets, health-care, private equity and nearly every other industry.

Confidence returns

The 14th Annual Global CEO Survey results reflect confidence, innovation and the need to bridge skills gaps to meet emerging growth opportunities. The prospect of robust growth in emerging markets is the primary reason why 84% of the CEOs who participated in our survey say they've changed their organisation strategy. Of those, a third described these changes as 'fundamental'. However, many felt growth prospects would be uneven and would vary.

Because of this, companies continue to invest in technology to enhance internal efficiency and employ emerging applications such as social media, mobile devices and cloud computing.

These opportunities also represent heightened risks associated with reputation and brand damage, data leakage and security. However, if these risks are well managed, opportunities for reduced costs and access to new revenue streams can be great.

Internal audit responds

As internal audit functions strive to transition from financial controls oversight to advising on a wide range of strategic, business and compliance risks, it's imperative that they establish credibility with organisation leaders by demonstrating their skills and capabilities in these areas.

If you understand those risk areas, develop and demonstrate capabilities to address them and then ask for a seat at the table, you'll be invited as long as you deliver value. What follows is an analysis of how our 2011 State of the Internal Audit Profession Study participants are preparing for a changed world and how their actions compare with what leading internal audit professionals are doing to meet those very challenges.

An in-depth discussion

Scripting internal audit for a changed world

New growth, new risks

When asked specifically about internal audit's involvement in the leading growth opportunities identified in our CEO surveys, growth in newer geographic markets (an area with arguably the greatest risk) was the lowest priority among the 2011 State of the Internal Audit Profession Study participants.

The most striking aspect was that only six to 24% of the participants from India and 10 to 17% globally, indicated 'significant involvement' in any of the growth initiatives.

"Internal audit must concentrate on inherent and residual high risks and remove low-risk, low-impact audits off our annual plans. Also, we should remove low-risk, low-impact audit steps from our audit programmes."

Joel Kramer managing director,

MIS Training Institute

(One of the international leaders in audit and information security training)

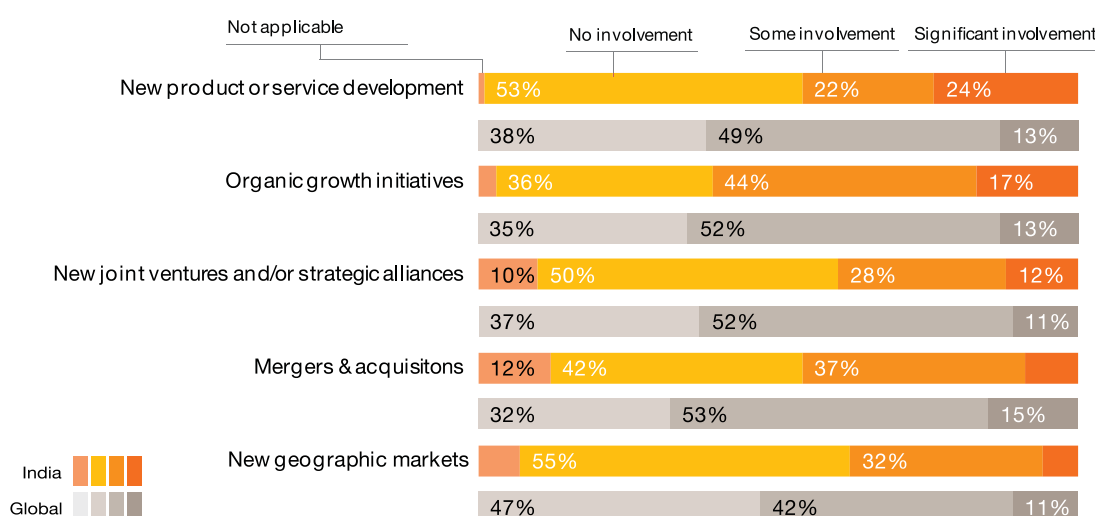
Merger and acquisition (M&A) activity

Inorganic growth through mergers and acquisitions can accelerate growth. Alongside, it involves an array of risks. Internal audit can help management identify and assess these risks. Moreover, internal audit can play an important role after the deal is consummated by helping management realise synergies and reduce costs.

Leading internal audit functions become involved in the M&A process from the pre-acquisition due diligence phase to the post-deal integration by taking the following actions:

- Conducting pre-acquisition assessments of the governance, risk and control environment.

Rate your Internal Audit function's level of involvement in the following area.



- Assessing opportunities and developing plans for the integration of internal audit, Sarbanes-Oxley compliance, risk management and other compliance functions.
- Becoming an advisor to post-deal integration teams with respect to process and control design; IT system integration; data migration, quality and security; validation and tracking of benefits and cost savings; and project management assurance.
- Conducting audits within a short time after closing the deal for routine acquisitions. For large acquisitions in new geographies, internal audit should become part of the integration team to make sure control standards are met from day one and prior control weaknesses are remediated.

Innovation and new product development

As companies notice signs of economic recovery, they are striving to be the first to get back in the game and asking how they will do it.

The answer is innovation and new product development. Alongside, achieving efficiencies need to cut and sustain costs, improve performance and compete in an increasingly automated business environment.

Traditionally, internal audit functions have been reluctant to venture into strategic initiatives such as these, believing strategic risks should remain in the domain of senior management. After all, what qualifies internal audit to question organisation strategy? What do they

know about product development?

In our view, and in the opinion of other leading chief audit executives (CAEs), internal audit can play a substantial role in supporting strategic initiatives without venturing into strategy development or second-guessing strategic decisions. Virtually all strategic initiatives have projects, processes, controls, and metrics to ensure their successful execution.

Internal audit plays an important role in evaluating execution risks and providing assurance to management and the audit committee that such risks are appropriately communicated and managed.

For example, internal audit is playing a role by doing the following:

- Evaluating project management structure, governance procedures, project risk assessments and issue resolution processes.
- Assessing processes for tracking and reporting key project data and performing tests for data integrity.
- Participating in the steering committees of significant strategic initiatives to provide an objective and transparent view of project risks, status reporting and benefits realisation.
- Auditing and monitoring business innovation execution risks by auditing the research and development roadmap, engineering processes, finance authorisations and new product development gating processes.
- Developing an approach for auditing third-party product development

where it has become a new and significant component of the organisation's innovation strategy.

- Becoming knowledgeable about emerging business models and communicating associated risks to management and the audit committee.

Only six per cent of the audit project time is envisaged to be devoted to strategic initiatives and programmes. However the respondents, (both global and Indian) believe that the focus will increase by over 75% over the next three years.

New geographic market

The prospect of growth in new geographic markets is enticing businesses to invest and grow their footprint into emerging markets.

To help their companies address the risks associated with emerging market expansion, leading internal audit functions are taking the following actions :

- Getting involved early in the development stage to establish a strong system of internal controls.
- Using detailed data analytics to remotely plan location audits thereby sharpening audit focus, shortening their duration and making it possible for more audits to be performed.
- Working with management to develop targets and recommended actions to achieve acceptable control environments for operations in emerging markets.
- Building local or regional satellite functions and partnering with other risk and compliance functions to develop local knowledge of business practices, regulatory standards and culture.
- Playing a primary role in monitoring risks through site visits; reviews of significant financial and operating metrics and participating in training delivery.
- Primary areas of focus within these high-risk locations included order-to-cash, treasury, procurement, capital expenditures and regulatory compliance.

Given the extensive and globalised economy, 76% of Indian respondents plan to support their CEOs and senior management by increasing coverage at international locations.



Ups and downs of emerging technologies

Close to 70% of the CEOs who participated in our survey are investing in IT to reduce costs and become more efficient, while 54% are channelising money toward growth initiatives, including emerging technologies in mobile devices, social media and data analytics. As emerging media and communications technologies grow more popular, brand protection, security and privacy risks are on the rise.

When asked about specific areas of technology risk that will receive audit attention, our survey participants almost universally planned involvement in traditional areas such as security, data integrity, system implementations and business continuity.

The CAEs we talked to about technology were unanimous in saying that the risk lies in the speed in which advances are made. Who could have predicted just three years ago the predominance of social media in today's business world or that an entire IT department could be outsourced to the cloud?

Within the realm of technology, the greatest areas of concern for leading internal audit professionals include organisation plans for new or upgrades to existing ERP systems and the pervasive use of social media, e-mobility devices and cloud computing.

Cloud computing

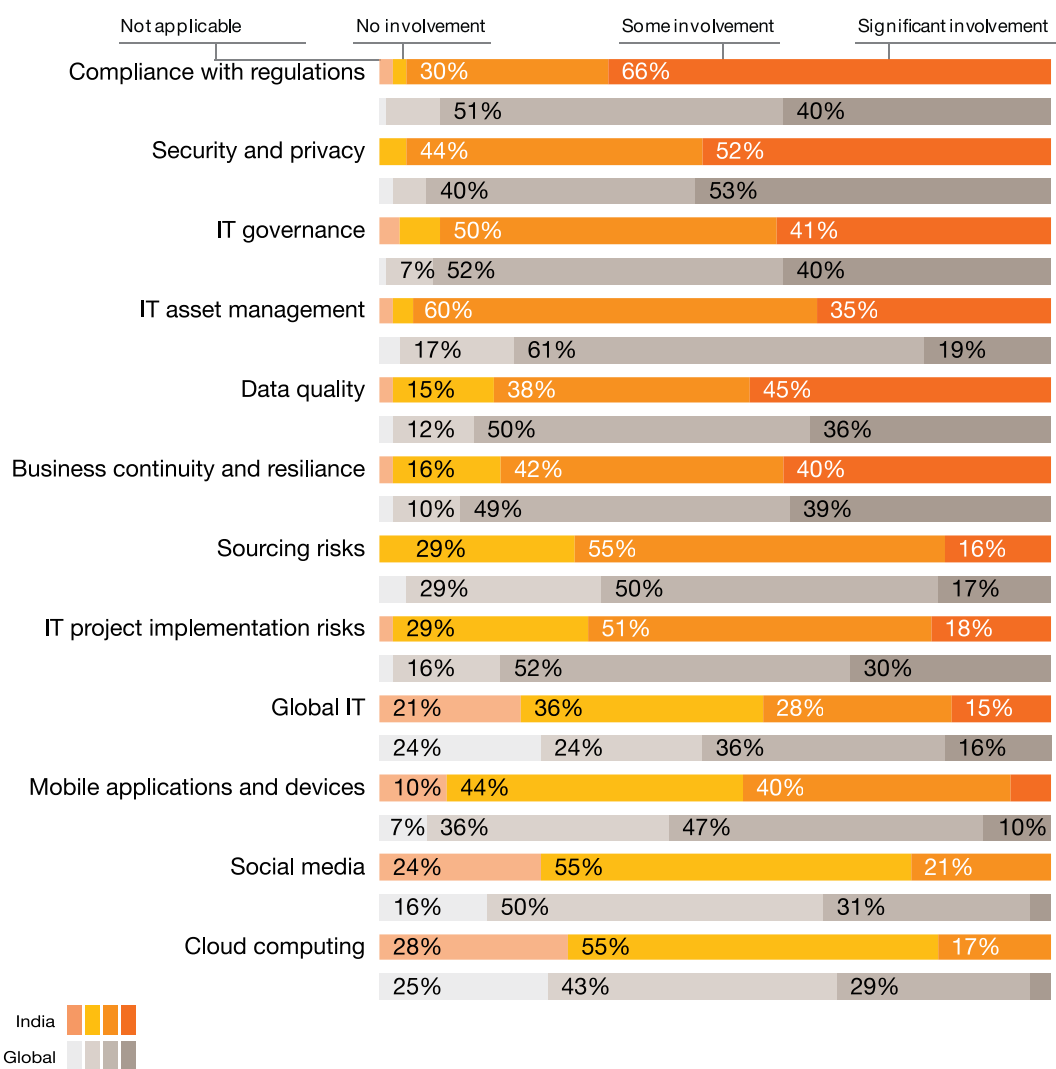
ERP upgrades and implementations

e-mobility

Social media



To what extent are you devoting audit effort to the following areas of technology risk?



Social media and e-mobility

Social media and networking technology refers to a range of software programs that are often web-based and allow users to interact and share data with other users. This computer-mediated communication has become popular with websites such as Facebook, Twitter and MySpace, as well as media sites such as Flickr and YouTube and commercial sites such as Amazon.com and eBay.

For businesses, social networking and e-mobility can be a transformational phenomenon, introducing new ways of engaging consumers to build brand loyalty and easily share ideas and also introduce new ways to empower and engage employees and stakeholders. However, with this opportunity comes increased risk:

- **Damage to brand:** Social networking provides customers with an outlet to share comments about an organisation, its products and services. This can be valuable if constructive. However, if done maliciously, this can taint an organisation's brand image.
- **Data loss:** With employees having a direct connection with so many people, there is an increased risk of proprietary information accidentally or intentionally leaking to the public. These multiple connections can also lead to customer data loss due to hacking.
- **Distribution of malware:** Due to increased connectivity with social networking, even a minor system hack can spread quickly.

“For us, the focus on social media is very heavy. We want to stop inappropriate use and at the same time we’re pushing social media for recruiting. We need to find a balance.”

A leading CAE

Cloud computing

A PwC report found that cloud computing is poised to be the most transformative, technology-driven development in business since the emergence of the Internet. Leading companies are beginning to recognise and capitalise on the cloud's cost effectiveness, flexibility and speed to enable increased innovation and new business opportunities. Costs can be reduced by more effectively using the IT infrastructure, whether owned by the organisation or a third party, across multiple business units or companies.

However, the sharing of infrastructure and platform service resources introduces new risks resulting from a shift in responsibility for system support, access and maintenance. Stakeholders will likely seek assurance that their data will continue to be as accessible,

available and secure in the cloud as it was when directly controlled by the organisation. Also, data storage and protection requirements will need to be defined in accordance with the data type (e.g., financial or operational) and regulatory requirements and standards.

Less than half of the respondents to our State of the Internal Audit Profession Study indicated that they will be involved in auditing risks associated with cloud computing or social media. Although over 45% of the Indian respondents expect to be involved in addressing risks associated with mobile applications, we noticed that nearly 60% of the global respondents were addressing these risks.

“When you think about the differences between technology changes and accounting standards changes, you’re talking night and day. Think about cloud computing; it’s changing at the speed of light compared to changes to accounting standards. Think about how quickly a virus can infect your systems. These are things you have to deal with right now.”

A leading CAE

ERP upgrades and implementations

Companies who postponed or delayed ERP system implementations and upgrades as a result of the financial crisis, are now moving ahead with the plan. Management is looking not only for help in ensuring that these systems are secure and well-controlled but also that they are getting the most from their ERP investment.

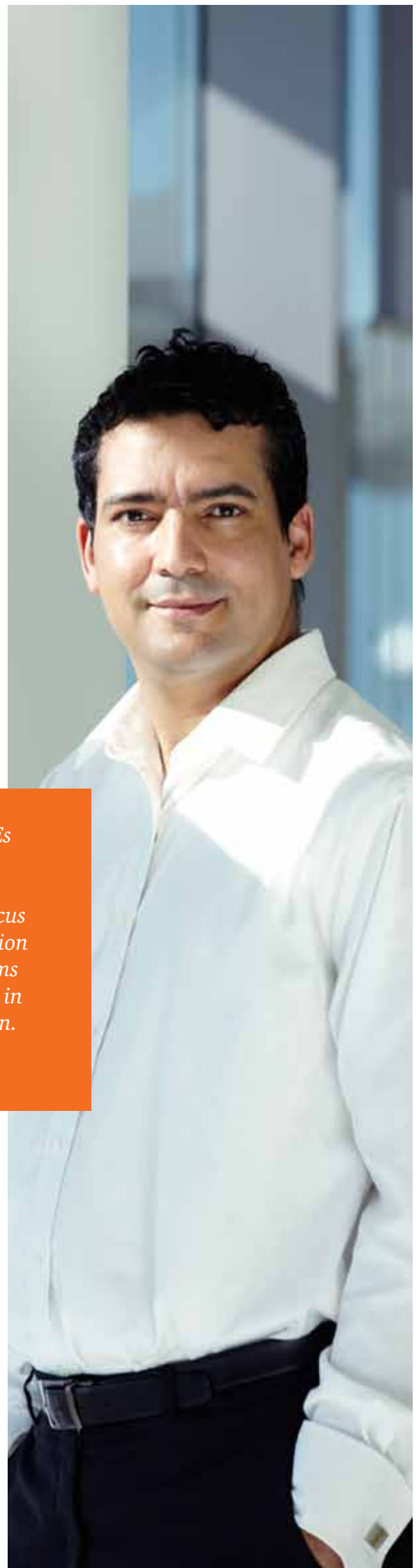
Although many internal audit functions have had some level of involvement in IT system implementation projects, the breadth and depth of that involvement varies widely. Leading functions are being integrated into the implementation project teams and are viewed as key advisors in managing a broad range of technical, business process and project risks.

Leading internal audit functions are delivering value throughout a variety of pre- and post-implementation activities:

- Evaluation of manual and automated control designs in new business processes.
- Assessment of modifications to business processes, including development of documentation and optimisation of the control environment.
- Evaluation and monitoring of project risk and project management protocols.
- Evaluation of the benefits framework and measurement process.
- Evaluation of system security and segregation of duty models.
- Assessment of data migration strategies and testing of data quality and integrity.

The vast majority of our survey respondents indicated that they will concentrate on technology risks in the next three years, with over 90%, both globally and in India, saying they will increase focus on new system implementations. At the same time, survey respondents said specialised technology expertise is one of the areas where new skills and capabilities are most needed.

Over 90% of CAEs (globally and in India) expect to increase audit focus on new information technology systems being introduced in their organisation.



Navigating the regulatory labyrinth

Through good and bad economic times, over-regulation ranks among CEOs' top concerns, according to the results in our 2011 CEO survey.

In today's changed business environment, there is an abundance of regulation as government policy-makers around the globe attempt to constrain risky activities, restore consumer and investor confidence and change how governments are engaging the business community.

The added responsibility of staying ahead of new regulation as it is enacted may challenge internal audit organisations' capacity.

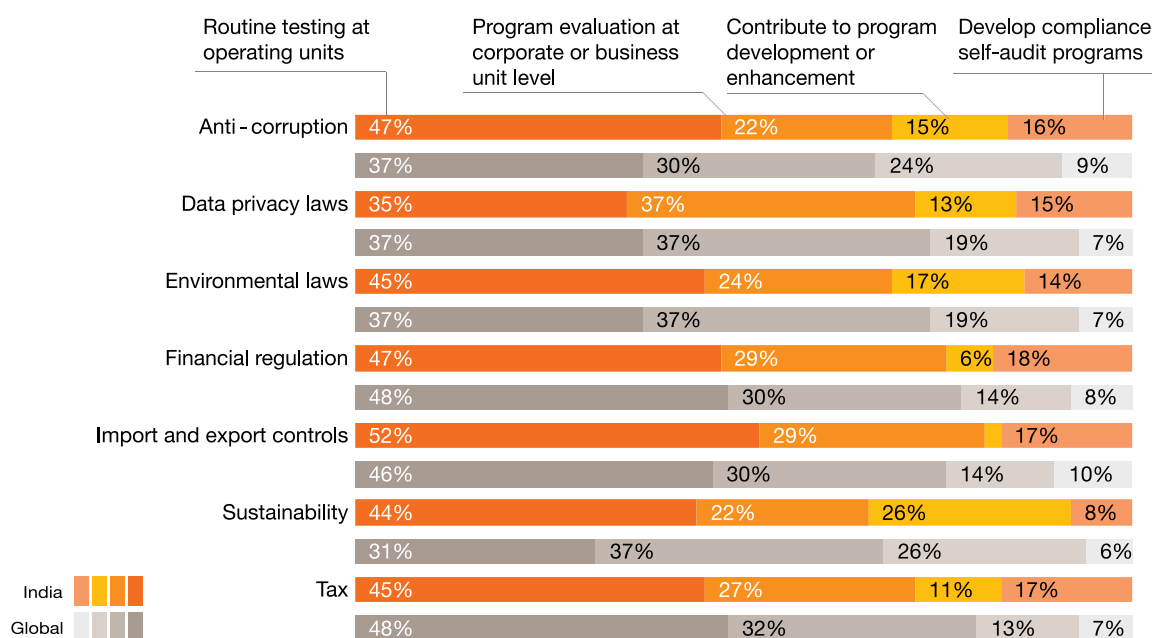
Sixty per cent of our State of the Internal Audit Profession Study respondents expect an increase in attention to regulatory compliance programmes in their audit plans.

The complexity, diversity and global reach of regulatory change have caused internal audit organisations to think creatively about how they address these risks and how they assess the response by management to the changing environment.

Leading internal audit functions use internal legal and compliance resources as well as specific industry and global regulatory expertise from third parties.

For Indian as well as global respondents, in the next three years, the focus on regulatory compliance programmes is expected to increase by over 60%.

Indicate which activities best characterise your internal audit function's role in the following regulatory compliance issues.



Sustainability: Attaining the societal goal

For participants in many industries, much of this recent regulatory movement has focused on a variety of sustainability concerns. Although still an emerging area for many companies, the pace of regulatory developments and the breadth of social issues they are intended to address show no sign of subsiding. Regulatory changes may have a profound effect on the environment, employee health and workplace safety.

As a result, companies are developing more robust processes to comply with these regulations and many are proactively using the sustainability movement to achieve a competitive advantage.

Corporate social responsibility reports are becoming commonplace and sales and marketing groups are making social responsibility statements in advertising and promotion materials. Companies should look closely at their ability to collect and report data to both regulatory agencies and the public to ensure that these assertions are plausible.

Our State of the Internal Audit Profession Study indicates that corporate social responsibility and sustainability are growing areas of internal audit interest, with 22% of the Indian respondents and 35% from around the globe, indicating that their audit plans explicitly address these issues.

Our discussions with leading CAEs also indicated increasing focus in these areas. While audit approaches are continuing to evolve, leading

internal audit functions are actively engaging in the business to better understand risks and exposures.

Approaches include the following:

- Compiling an inventory of regulatory reports and public statements and assessing the potential brand risks.
- Performing data-mapping exercises and assessing the processes and controls to ensure accuracy.
- Assisting in the development of policies and procedures for review and approval of public statements about social responsibility.
- Assisting in the development of regulatory compliance programmes.

Internal audit should play an important assurance role in the design, implementation and monitoring of processes and controls around corporate social responsibility and sustainability.



Fraud: The enemy within

Fraud continues to be a prominent issue and has become increasingly important in the eyes of regulators—both in India and around the world. Given the nature of fraud and its cross-border implications, it is not surprising that enforcement of fraud penalty is increasingly global in its nature and regulators are cooperating with each other to prosecute fraud perpetrators including senior executives.

When we asked the CAEs how their internal audit function addresses the risk of fraud in its programme, over 20% chose evaluating operational and financial controls as a measure. This clearly shows that the respondents view these areas as fraud threats.

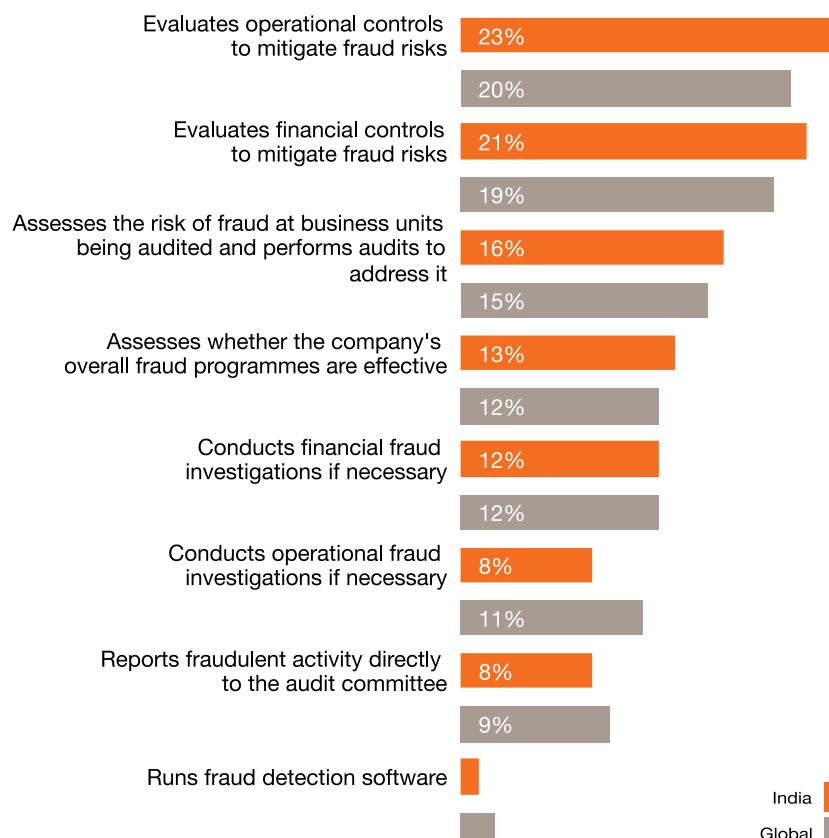
Identifying and responding to incidents of fraud continues to be a challenge for even the most sophisticated organisations.

In our view, fraud detection, fraud risk assessments and fraud investigations are three key aspects of a comprehensive anti-fraud programme and internal auditors play an imminent role in ensuring that an organisation has the right control framework to identify and respond to these threats.

They undertake the following:

- Identify the potential inherent fraud risks.
- Assess the likelihood and significance of the occurrence of identified fraud risks.
- Evaluate the people and departments most likely to commit fraud and their likely methods.
- Identify and map existing preventive and detective controls to relevant fraud risks.
- Evaluate whether identified controls are operating effectively and efficiently.
- Identify and evaluate residual fraud risks resulting from ineffective or non-existent controls.
- Respond to residual fraud risks.

How does internal audit address the risk of fraud?



Adapt and align

In this constantly changing world, leaders of successful companies are continually evolving their strategies, organisations and capabilities.

Just as organisations leadership is pursuing new approaches in a changing world, internal audit leaders must also adapt to a dynamic external environment and align internally with organisation leadership, their strategies and priorities. New and innovative approaches to risk assessment, the use of technology and cost-effective audit methodologies will continue to be important.

In 2010, PwC introduced the concept of eight attributes shared by high-performing internal audit functions, regardless of their scope of work.

In our 2011 survey, we again asked participants to rate these attributes in order of importance. We also asked participants to identify those attributes where they plan to focus improvement efforts.

Once again, focusing on critical risks and issues and aligning internal audit's activities with stakeholder expectations were identified as the most important attributes of a high-performing internal audit function. These attributes were also among the most cited for improvement efforts in the coming years. Most IA professionals would acknowledge, and we would agree, that these are critical factors in internal audit's ability to deliver value.

But leaders in the profession also recognise that these attributes are often the result of a sustained focus on other enabling attributes.

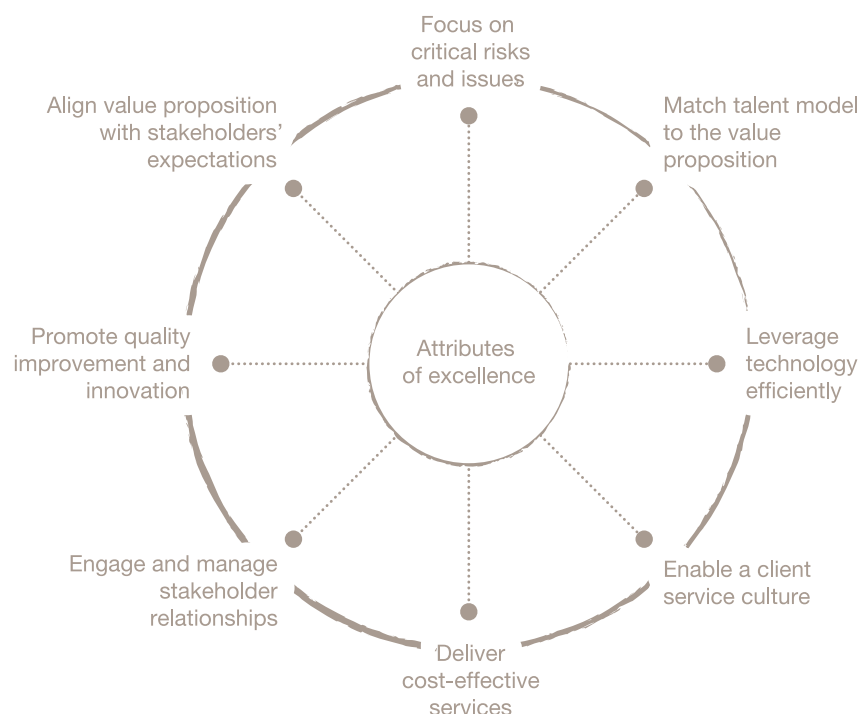
These include, engaging and managing stakeholder relationships and enabling a client service culture to maintain and improve internal audit's stature in the organisation.

Our experience tells us that the 'softer' attributes of audit performance are increasingly critical to the success of internal audit functions.

"How to audit is simple, the question is 'what to audit?' You have to audit risk. There are four levels—risk that is unique to the process, to the organisation, to the industry and to the environment. Whether you are an eight-person or an 80-person department, every audit you do should reconcile to one of these risks. Every internal auditor needs to know what can bring the organisation to its knees."

Joel Kramer,
Managing Director,
MIS Training Institute

Internal audit's attributes of excellence



Communication and relationship management

Our discussions with leading CAEs and our experience in working with high-performing internal audit functions have consistently pointed to the importance of communication, relationship management and establishing a 'client service' culture and approach.

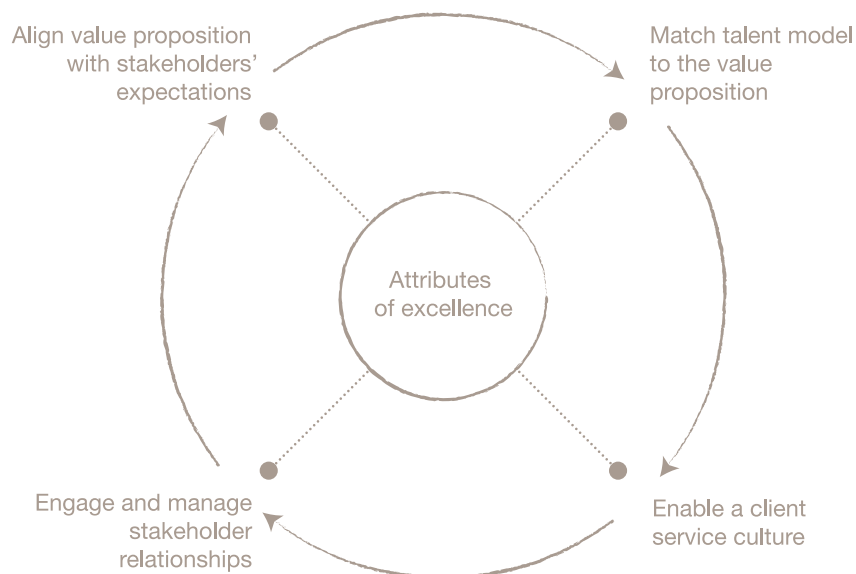
Today's dynamic risk environment demands that internal audit plans and activities remain adaptive,

relevant and aligned with the needs and expectations of important stakeholders and the most critical risks of the organisation.

As such, these softer skills are vitally important to internal audit leaders' ability to stay close to organisation leadership and aligned with the key strategies and priorities of the organisation.

Leading internal audit functions look beyond the confines of their department and seek partners both within and outside the business. Audit teams of every size can benefit from some form of co-sourcing and an active interaction with the business and compliance functions to identify and manage significant risks. That's our most significant takeaway from speaking with leaders in the profession.

Softer skills vital to remaining aligned with key priorities of the company



Our survey does indicate, however, a broadening of the interactions internal auditors are having with organisation leaders. While the highest level of interaction remains with traditional finance and accounting leaders, our survey also shows a considerable level of contact with an organisation's operations leaders, such as business unit leaders, the COO and the CIO.

Such relationships with operational leaders will be critical to internal auditors' ability to identify and respond to a broader range of risks and continue the migration from

financial risks to more operational and strategic risks.

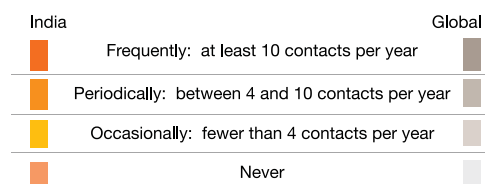
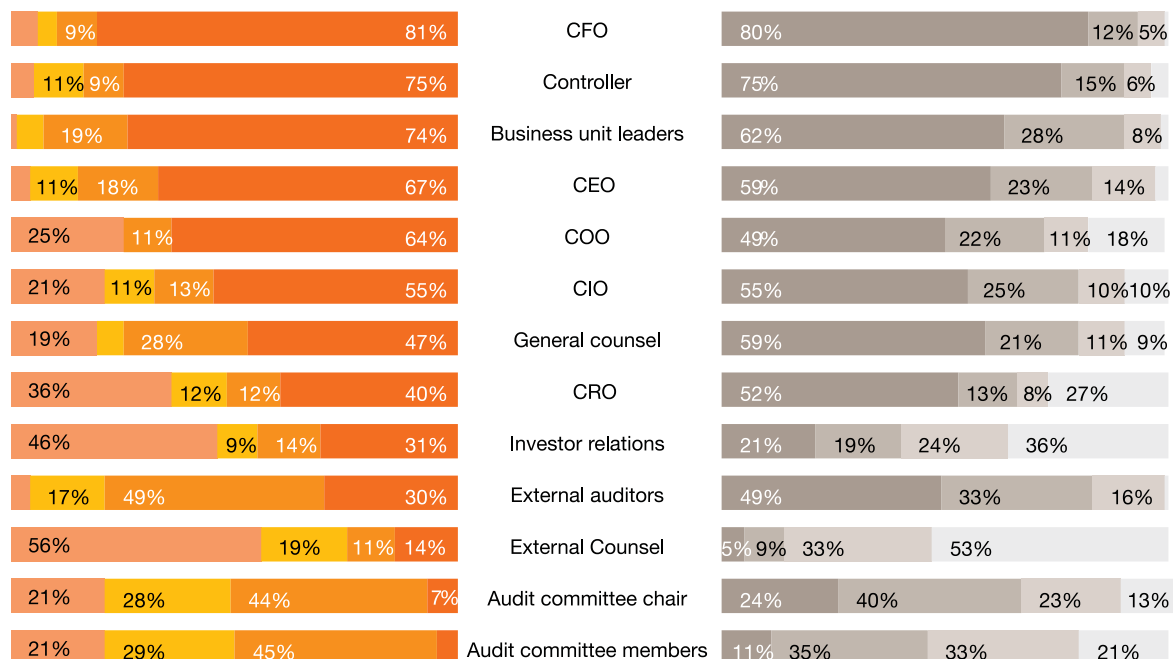
Gone are the days when an annual risk assessment and a five-year rotational audit plan was a standard practice in the profession. In order for internal audit to return real value to the organisation, today's audit plans have to be flexible, responsive and aligned with organisation strategy.

Many CAEs have developed formal relationship management programmes that align their departments with the business units of the organisation.

"I meet with the audit committee chair regardless of whether there is a formal meeting coming up and wouldn't hesitate to pick up the phone and call the audit committee chair if I needed to."

A leading CAE

Apart from audit committee meetings, how much contact do you have with the following individuals?



Those that have been able to engrain this into their department's culture often find that their audit plans are more demand-driven by the business, as opposed to a supply of resources imposed upon the business. They often find themselves with a 'seat at the table' for important strategic initiatives. Above all, these CAEs are viewed as leaders in the organisation and an integral part of the senior management team.

A strong relationship between the audit committee and internal audit is essential

Leading CAEs also consider the audit committee as a main component of their relationship management programmes, interacting with them frequently outside of scheduled meetings.

Establishing a good working relationship with the audit committee cannot be over-emphasised. Because internal audit is positioned well to see across the entire enterprise, it has the perspective and objectivity to help the audit committee understand significant challenges and risks. Those who invest in relationships and leverage knowledge across the business will be best positioned to serve the audit committee in this capacity.

The audit committee relies heavily on internal audit to provide an objective view on how the organisation is handling a number of key risks, including those relating to financial reporting and compliance.

The audit committee should hold regular private meetings with the internal audit director, ideally at each in-person audit committee

The audit committee can rely on internal audit's work and findings only if the function fulfills its responsibilities. And so it's important the committee periodically discuss the function's effectiveness.

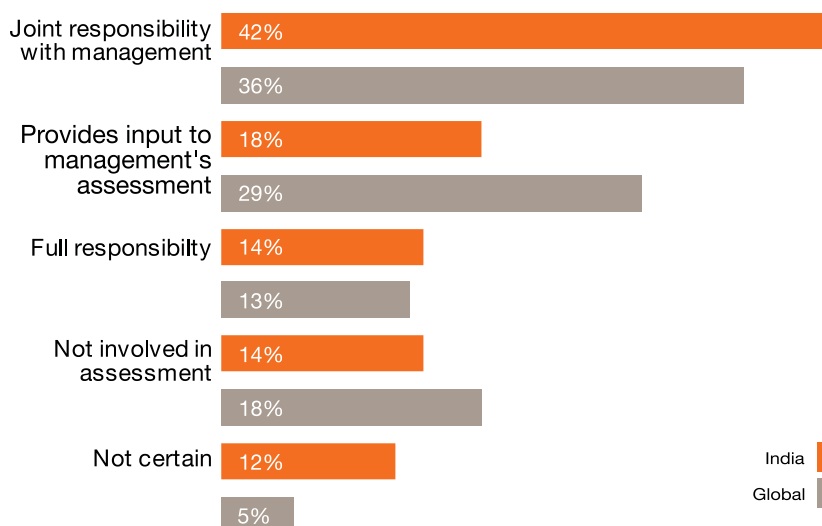
meeting. These private sessions should be scheduled as part of the agenda, and astute committee chairs to preserve time for the sessions, even when other agenda items run over. Although it is more typical for the session to be held at the end of the meeting, some committees schedule them at the beginning so the committee can be alert to issues when the discussion arises.

These private sessions allow more open and candid discussions than might otherwise occur with management present.

Some in the profession see a potential conflict between active relationship-building and maintaining auditor objectivity and independence.

Our belief is that meaningful and sustainable relationships are built on trust. For internal auditors, that trust is built through transparent and candid dialogue with stakeholders, and sharing a point of view that is not only fact-based but also reflects an understanding of the business, its strategies and risks.

What level of involvement does the audit committee have in assessing the performance and compensation of the chief internal auditor?



Bridging the skills gap

Against the backdrop of heightened governance awareness and growing stakeholder expectations, the right skills are vital in order to respond effectively within this more challenging environment.

Participants rated the soft skills of critical thinking and analysis along with leadership as the most important skills needed over the next three years. These were followed closely by a mixed blend of soft and technical skills that will be critical for success in this dynamic environment: understanding the strategy and business model and specific technology experience.

The relative importance of these skills underscores the notion that the auditor of the future will require

agility, flexibility and sharp business acumen to succeed. Another striking aspect of the survey results for this question is the breadth and depth of the skills deemed necessary for success.

For all 11 capabilities surveyed, a majority of respondents said the need for those skills would increase over the next three years.

These skills cover a broad range of technical and softer people skills. Therein lies one of the more significant challenges facing internal audit functions.

The technical skill needs are becoming more specialised. The risks are more diverse. Management expectations are expanding at a rapid pace.

One of the CAEs we interviewed put it this way:

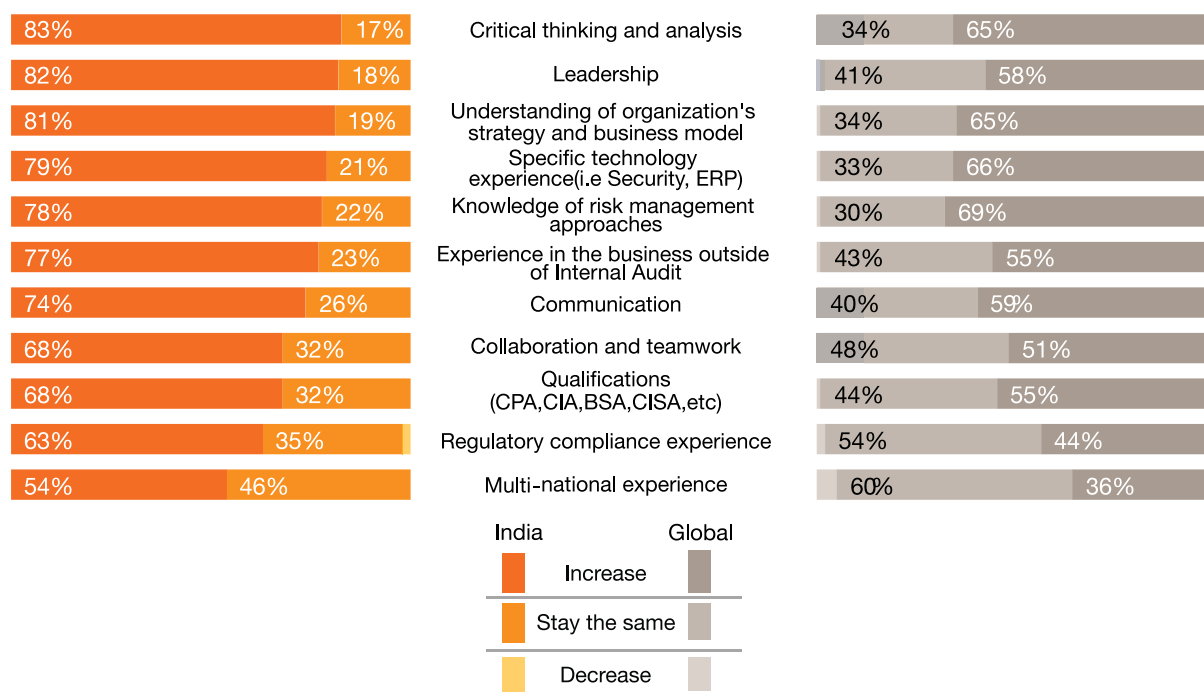
What we need are people in IT who can also be project manager thinkers and challenge what's going on within the organisation.

Do we have some of those people? Yes.

Do we have enough of them? No.

Seventy-eight per cent of the Indian participants say that internal audit expenditure is going to increase over the year. Forty-one per cent of them believe the increase will be between 10 to 25%.

Indicate whether the need for the following capabilities and depth of knowledge will increase, stay the same, or decrease over the next 3 years.



How does internal audit overcome this challenge? Are there a sufficient number of people who possess this diverse set of capabilities? Can you train and develop it? The CAEs interviewed use a number of varied approaches to fix this:

- Delivering training programmes that balance technical and professional development courses, with an increasing emphasis on interpersonal and leadership skills, including communication and presentation skills, coaching and people development capabilities, management and leadership approaches, negotiation skills and specific industry training.
- Sourcing specialised expertise from external service providers, either on a recurring basis or in a transitional mode. Even larger organisations that seek to build a particular skill may team with a third party to deliver audits jointly and provide on-the-job training in the process.
- Recruiting leaders from the business into internal audit, either on a permanent or 'guest' basis.
- Establishing hiring strategies that shift focus away from solely accounting and technical backgrounds to those with a better business experience. As audit plans broaden in scope, some are looking to non-traditional backgrounds such as engineering and manufacturing.

Although these times demand creative approaches to skill development and talent management, leading organisations have found that the most effective and lasting training and personal development occurs on the job.

As one CAE put it, "Being an internal auditor is like getting a paid MBA." But the internal audit MBA does not come from sitting in a classroom. Rather, it is only achieved by those who get out into the business, forge relationships with leaders across the organisation, and develop a thorough understanding of the strategy, risks, and operating model of the organisation.

For that reason, many of the CAEs interviewed have implemented formal relationship management programmes for their teams, from the newest staff members to the most experienced directors. For some, relationship-building has been built into their staff's performance expectations and personal development plans.

Through this form of on-the-job training, internal auditors can develop the business acumen, strategic thinking, interpersonal communication and leadership skills that are vital to delivering value and staying relevant.

When Indian CAEs were asked their reliance on third-party internal audit service providers to bring experienced expertise to the table:

- *Thirty per cent of the participants said they relied greater than 75%.*
- *Nearly 50% of the participants said they relied greater than 40%.*

What this means for your business

The curtain is rising. Are you ready?

A year ago, PwC introduced the concept of an internal audit 2.0 to get organisations thinking about change. We also said, “The time to act is now, while internal audit has management’s attention.” We believe internal audit is still in the spotlight, but the pace of change has accelerated once again. Now, companies are poised to move quickly to seize the growth opportunities that lie ahead. In addition to dealing with a more intense regulatory environment and reputational risks stemming from the use of technology, internal audit must be razor-sharp if the profession is to maintain the stature it earned in the last decade.

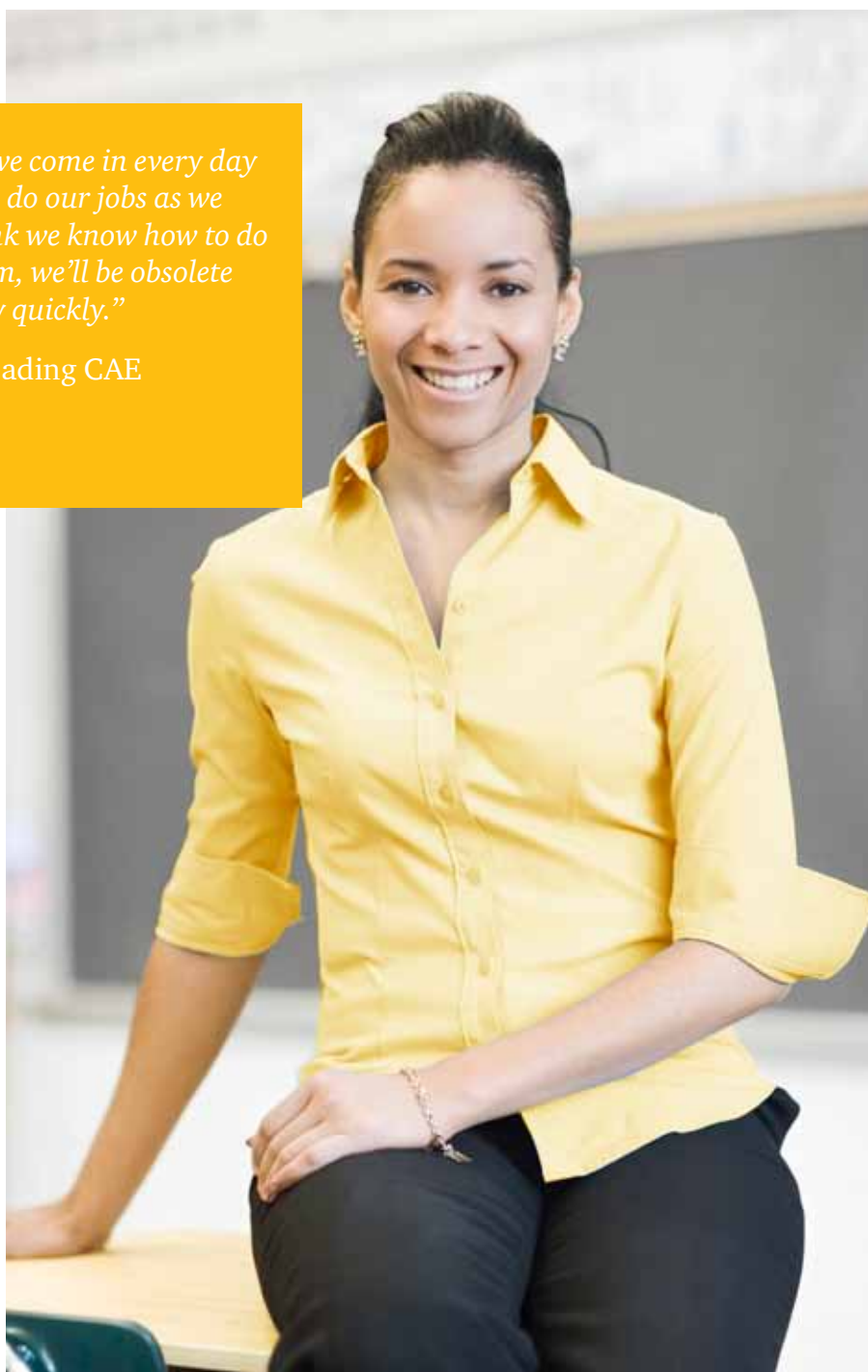
So the primary questions for an internal audit leader to reflect upon include:

- Are you keeping pace?
- Are you taking the right steps and making the right adjustments to stay relevant?
- Are you helping your company play both offense and defense?
- Are you creating a client service culture that is founded on strong relationships?

Internal audit leaders should be asking themselves these and other questions about the value they are delivering. We also suggested questions that executive management and audit committees should be asking themselves about internal audit. We hope these questions will encourage a productive dialogue about internal audit organisations.

“If we come in every day and do our jobs as we think we know how to do them, we’ll be obsolete very quickly.”

A leading CAE



Questions to ask about internal audit

Chief audit executive	Executive management	Audit committee
<i>Relevance and value</i>		
Have I engaged and worked with management and the audit committee to frame expectations?	Is the cost versus value of my internal audit department appropriate?	Does internal audit have a clear point of view about risk and the control environment?
Have I acted to adjust capabilities and approached to today's business environment?	Do I look to internal audit to sort through the toughest issues and initiatives?	Is internal audit forward looking when it comes to risk?
Do I really have a seat at the table? If I don't, what would it take to get one?	Do I view internal audit as an integral part of my executive leadership team?	Have we defined clear performance expectations and compensation criteria for internal audit?
	Do we have relevant performance criteria and expectations that are commensurate with relevant peers?	
<i>Business alignment</i>		
Am I leveraging my unique vantage point within the organisation to provide a clear point of view on the risks associated with the changing business environment?	Of my 10 risks and issues, how many is internal audit actively involved in?	How is internal audit providing a clear point of view on our top 10 critical risks and issues?
Do I have the capabilities to provide relevant insight and advice to the stakeholder group?	Do I view internal audit as an enable in executing our business strategy?	Is internal audit providing insight into emerging risks and trends?
Am I taking steps to prepare my people for what they will be doing two or three years from now?	Am I leveraging internal audit for talent development?	
<i>Client service culture</i>		
Am I continually improving the content and format of executive reports?	Am I getting pragmatic business insights and advice from internal audit?	Do I trust internal audit to make the really tough calls?
Do my training plans include improving business acumen and leadership skills?	Are we, as a organisation, committed to internal audit excellence?	Is internal audit making a concerted effort to engage me?
Am I focused on systematically building relationships?		Are audit committee reports relevant, concise and insightful?

About PwC

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The Indian firm has offices in Ahmedabad, Bangalore, Bhubaneswar, Chennai, Delhi NCR, Hyderabad, Kolkata, Mumbai and Pune.

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