



# 2018 North American Pulse of Internal Audit

## Public Sector Focus

The Internal Audit  
Transformation Imperative

# Overview

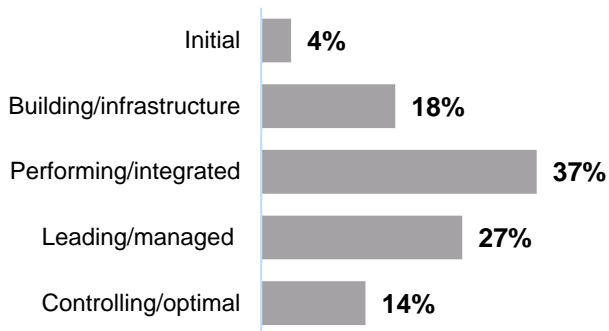
- About Pulse
- Topics
  - Agility: Embrace to Confront Disruption
  - Innovation: Pursue Quantum Leaps
  - Talent: Focus on Tomorrow's Risks
  - Board: Move from Oversight to Engagement
  - Risk Insight: Organizational Use of Data Analytics
- Wrap Up
  - Note: Totals in some exhibits may not equal 100% due to rounding.



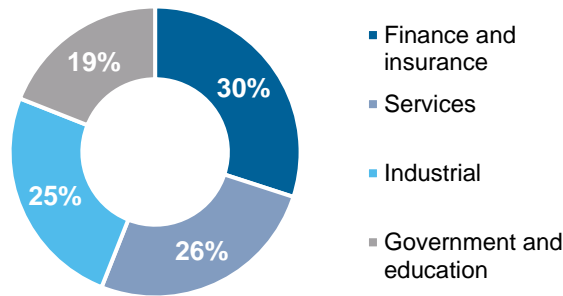
# Demographics

# All Respondent Demographics

**Internal Audit Maturity (Self-Assessed)**



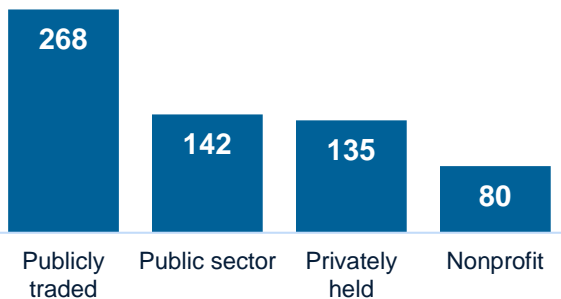
**Industry Groupings\***



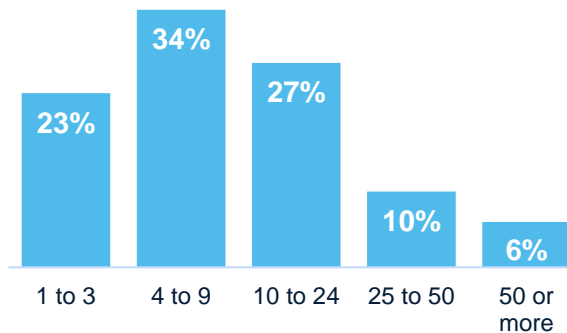
**Number of Responses**

CAEs	552
Directors/ senior managers	84
<b>Total</b>	<b>636</b>

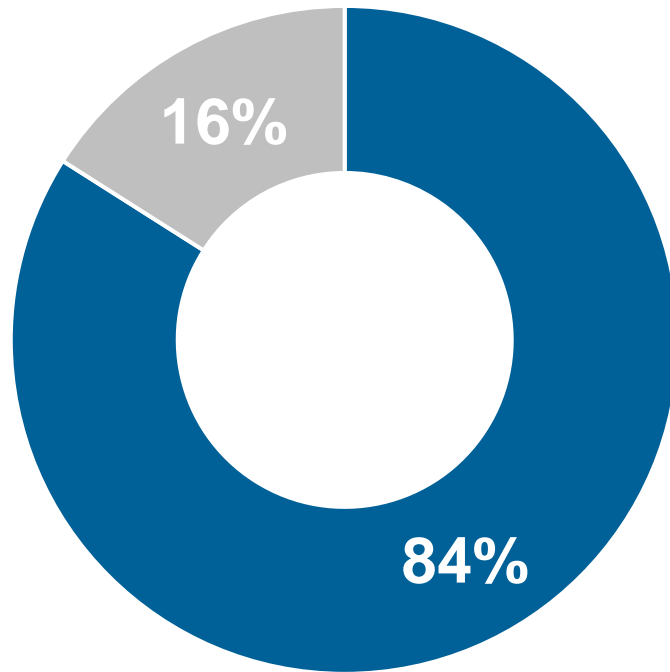
**Organization Type (Number of Responses)**



**Internal Audit Function Size (FTEs)**



# Public Sector Internal Audit Position

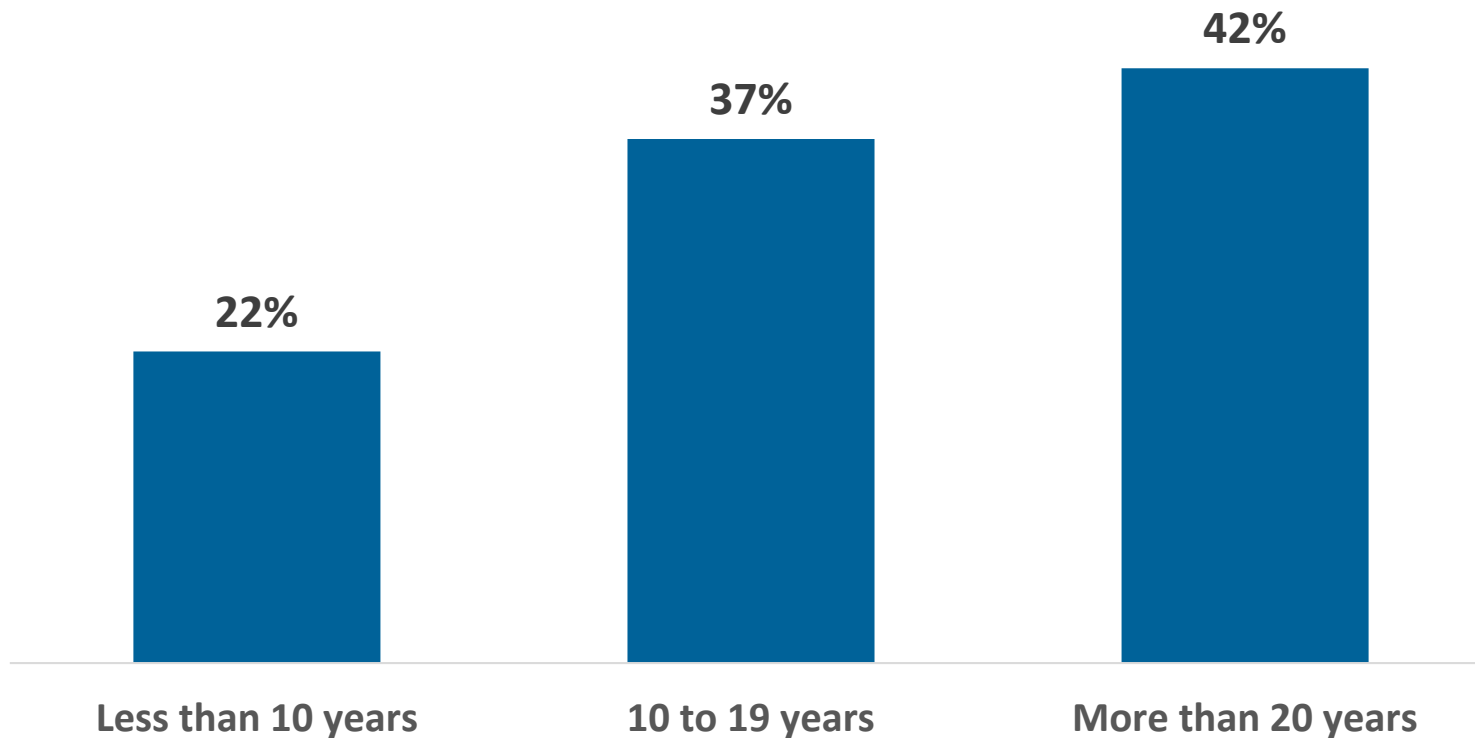


■ CAEs   ■ Directors/senior managers

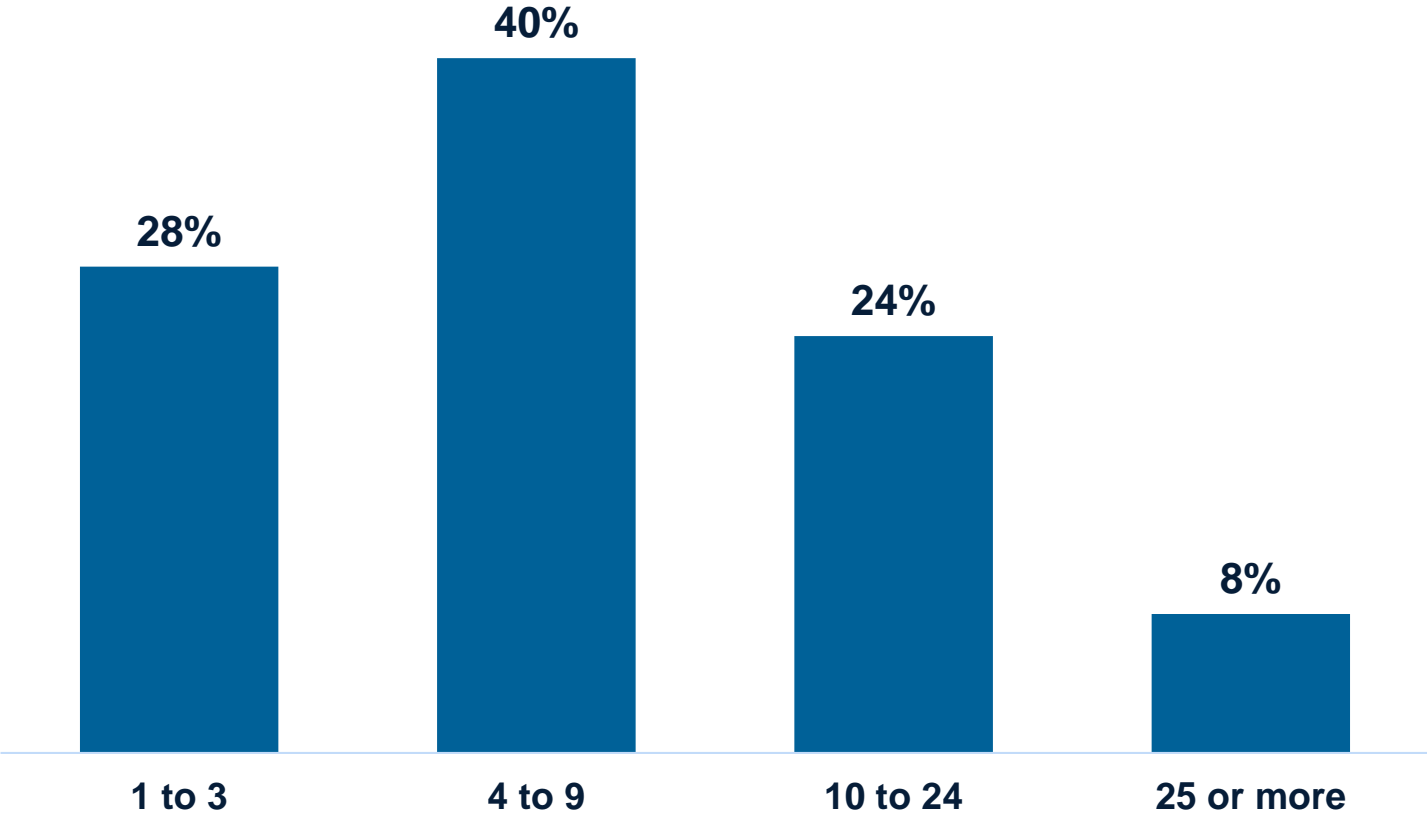
Public Sector Internal Audit Position	
CAEs	119
Directors/ senior managers	23
Total	142

# Years of Internal Audit Experience

## Public Sector CAEs and Directors



# Public Sector Internal Audit Function Size

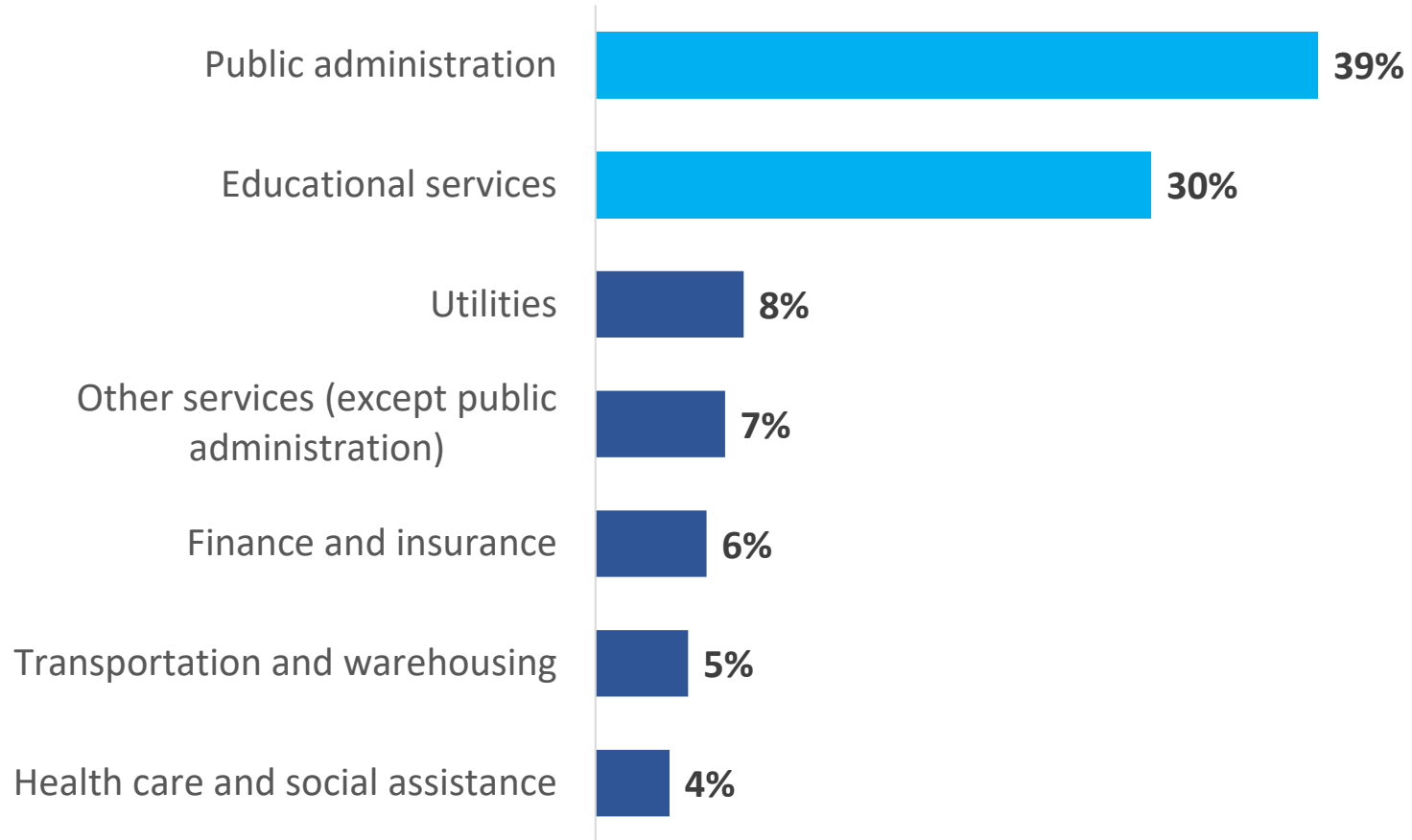


# Public Sector Types

Public Sector Types	%	Number of Responses
State/provincial	43%	61
Local/city/county	30%	42
Federal/national	13%	19
Government-sponsored enterprises	8%	11
None of the above	4%	6
International or multinational	2%	3
<b>Total</b>	<b>100%</b>	<b>142</b>

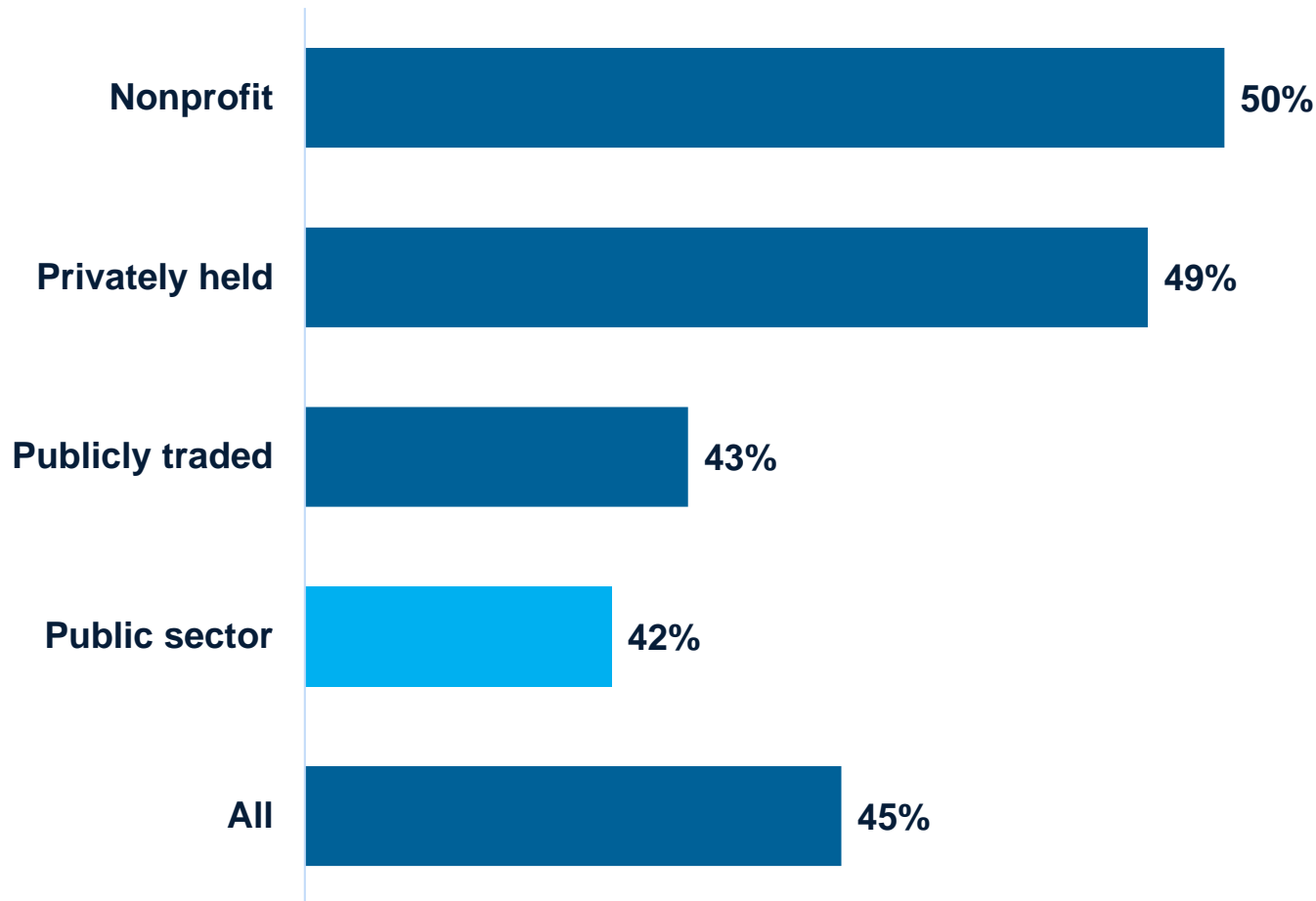


# Public Sector Industry Groupings



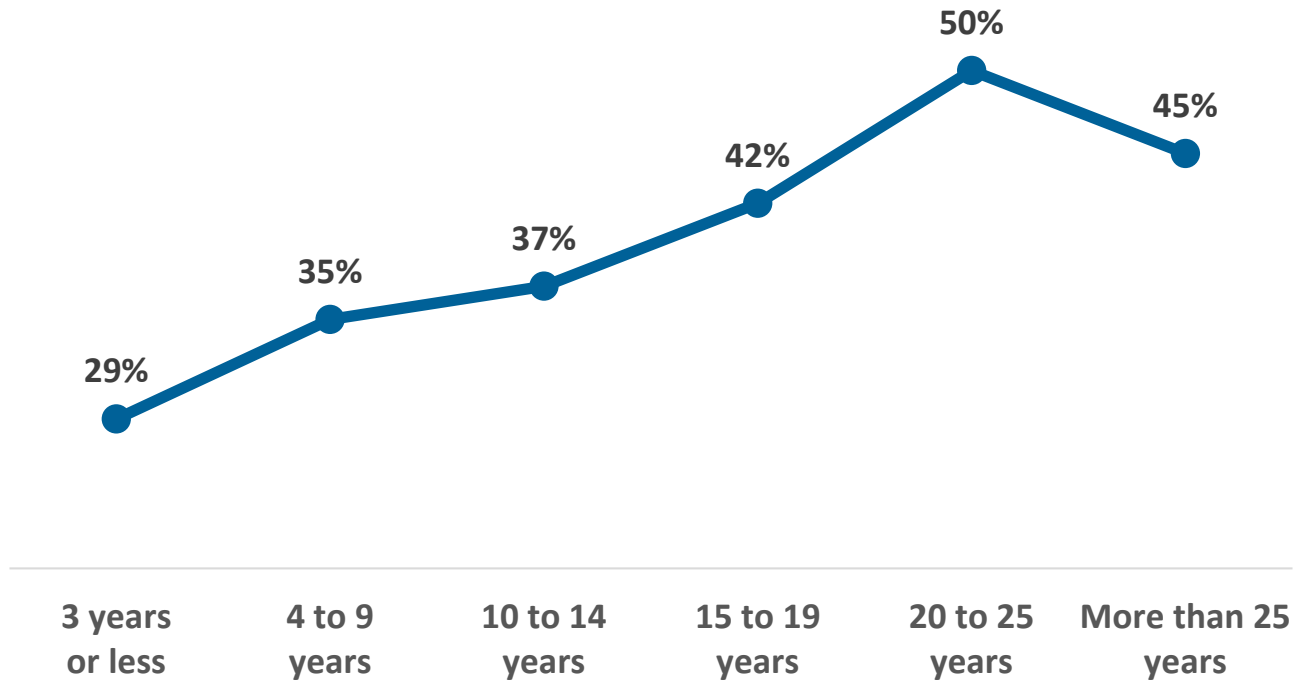
# Agility: Embrace to Confront Disruption

# CAE Considers Internal Audit to Be “Very” or “Extremely” Agile



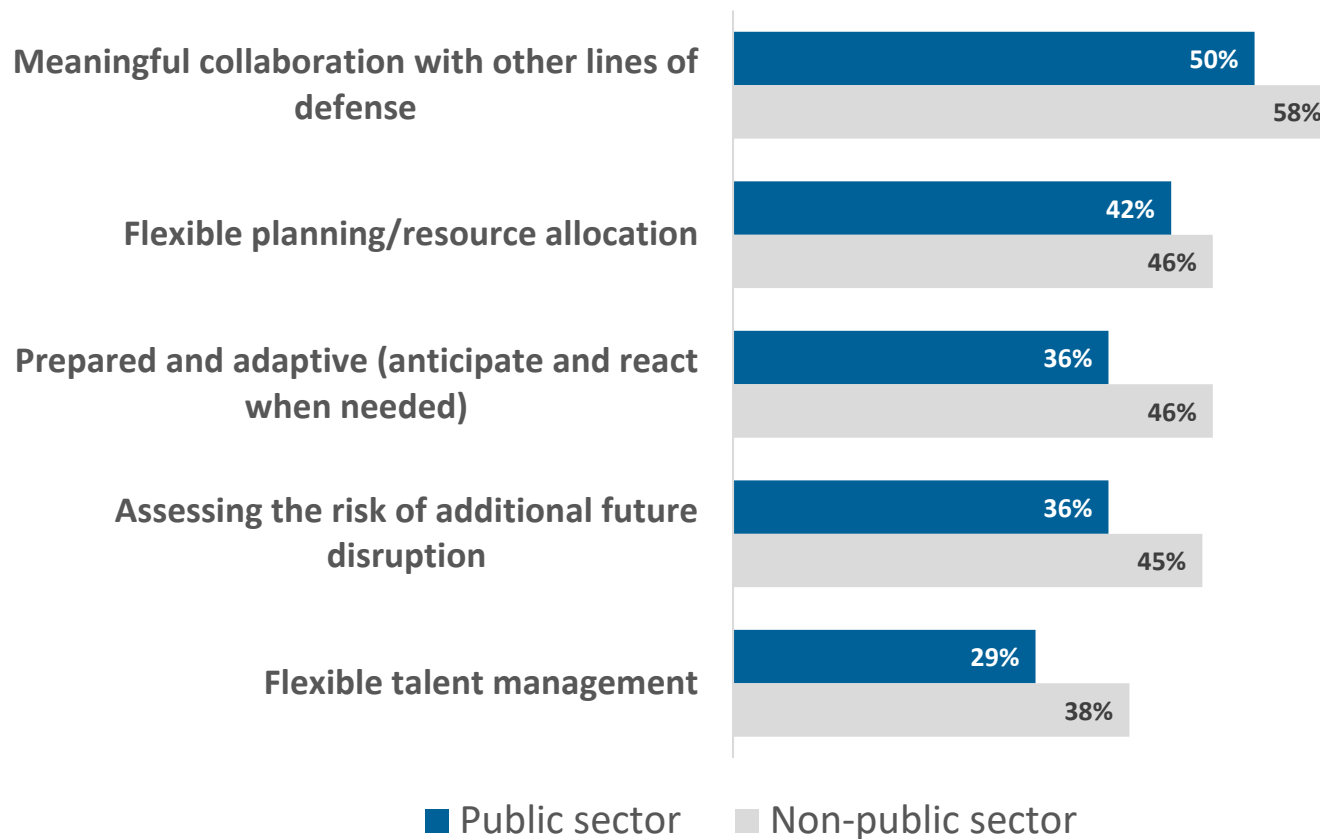
# Relationship Between Agility and CAE Experience

Internal Audit Considered to Be "Very" or "Extremely" Agile Compared to CAE's Years of Experience



# Internal Audit Strategies for Preparing to Respond to Disruption (Public Sector vs Non-Public Sector)

## “Full” or “Partial” Implementation



# Challenges to Internal Audit Agility

## Issues Perceived as Roadblocks to Agility



# Addressing Agility

## Start With a Change in Mindset

- Refocus processes
- Rethink resources
- Reposition your resources



# Addressing Agility

## Prepare to Quickly Refocus on Disruptive Risks and Opportunities

- Risk identification and assessments need to be fluid, timely, and forward focused
- Concentrate on future risks and what may be obscured
- Focus on updating your plan and approach as stakeholder expectations and events impact your workload





# Addressing Agility

## Prioritize Work According to What Matters Most

- Auditors can audit anything but they should not audit everything
- Look at highest risk and biggest impact areas
- Explore new technologies and audit approaches while still being disciplined, systematic, accurate, and timely



# Addressing Agility

## Break the Mold and Create Teams with the Right Blend of Skills

- Well-rounded flexible resources bring a variety of competencies that are best able to respond to disruption
- Top three skills CAE's need are analytical/critical thinking, communication, and business acumen



# Addressing Agility

## Coordinate with Other Resources in the Organization

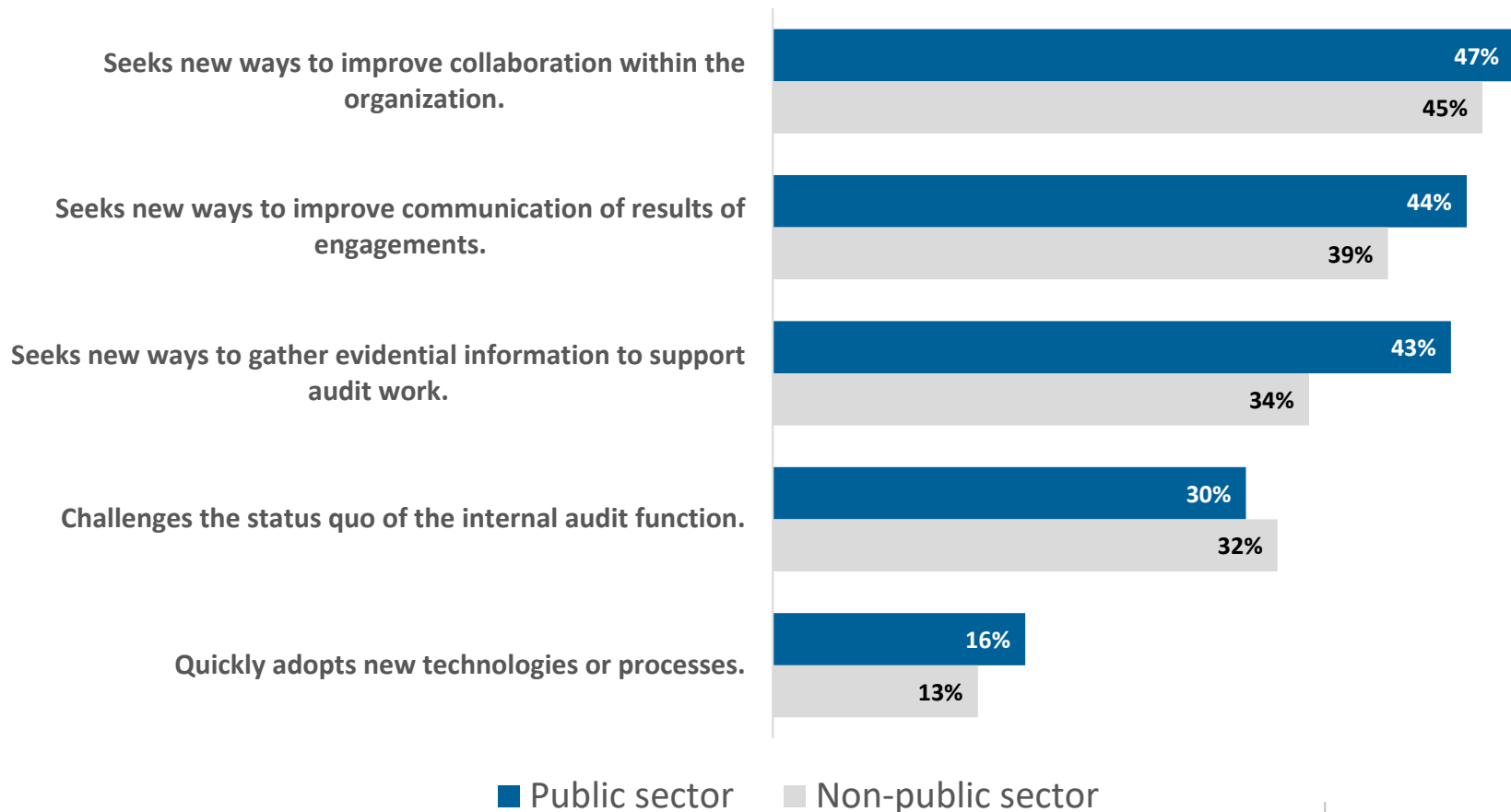
- Internal audit should not operate as an island
- Consider collaboration with the other lines of defense



# Innovation: Pursue Quantum Leaps

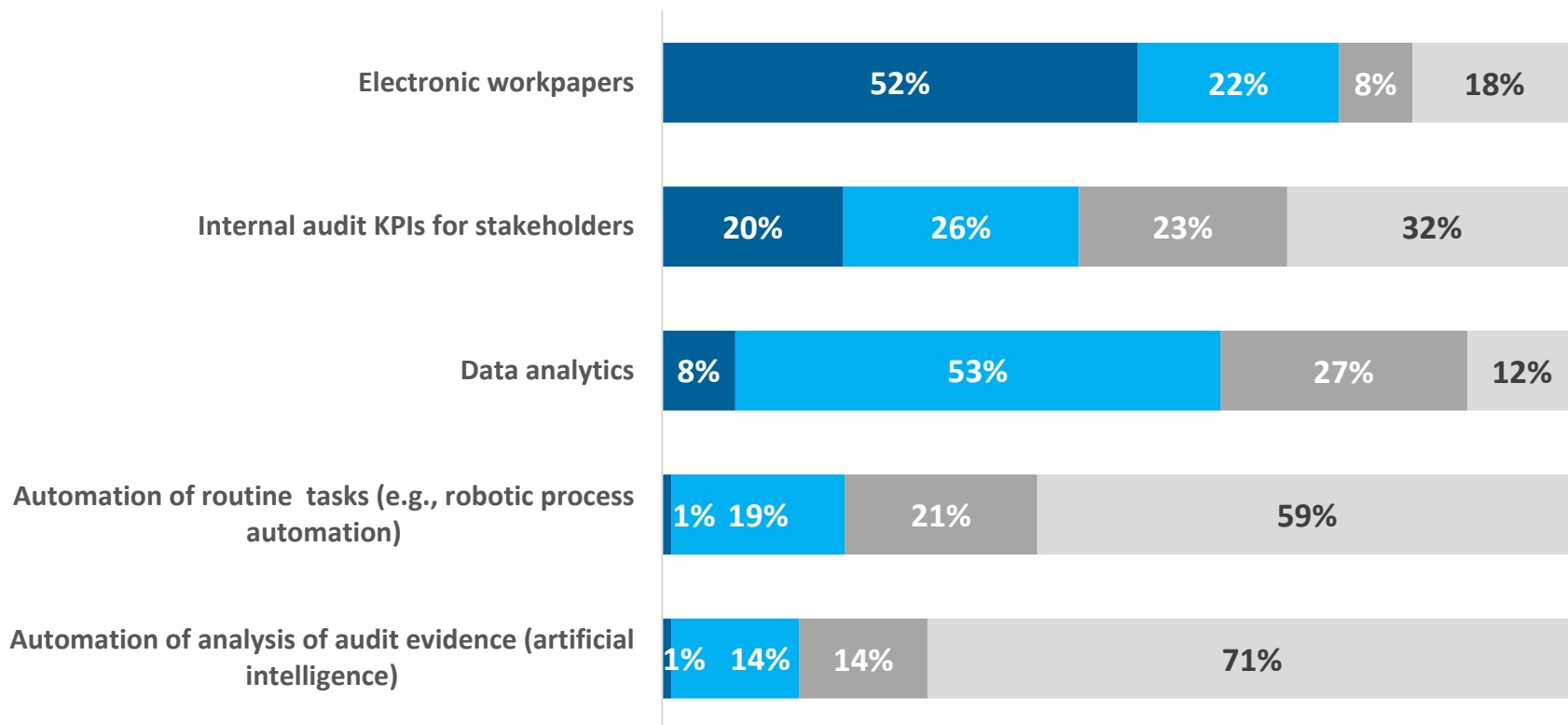
# CAE Assessment of Internal Audit Innovation

## CAEs Who "Strongly Agree" the Statement Characterizes Their Internal Audit Function



# Implementation of New Technology and Ideas

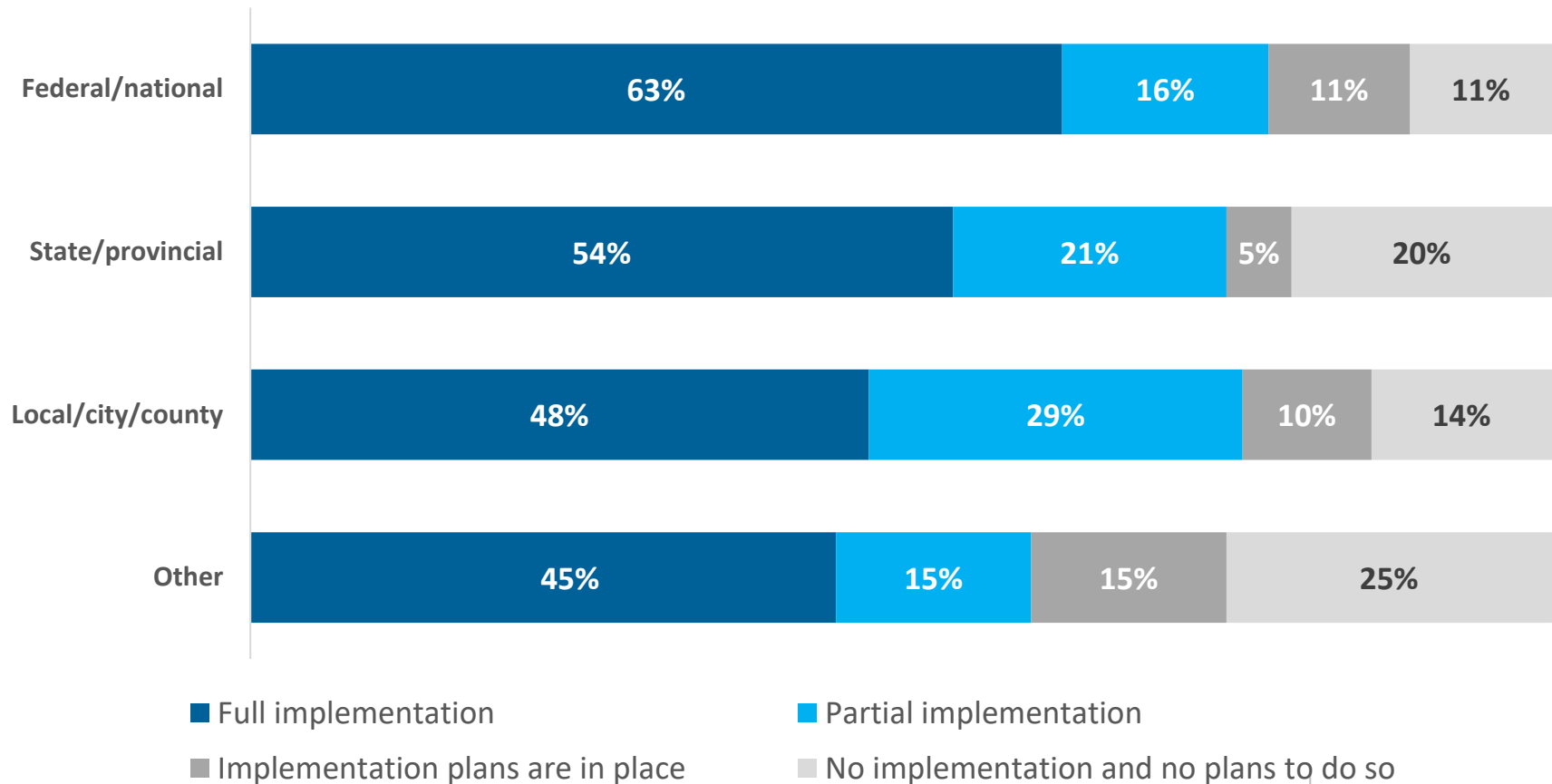
## Implementation Levels – Full, Partial, Plans in Place, None



■ Full implementation ■ Partial implementation ■ Implementation plans are in place ■ No implementation and no plans to do so

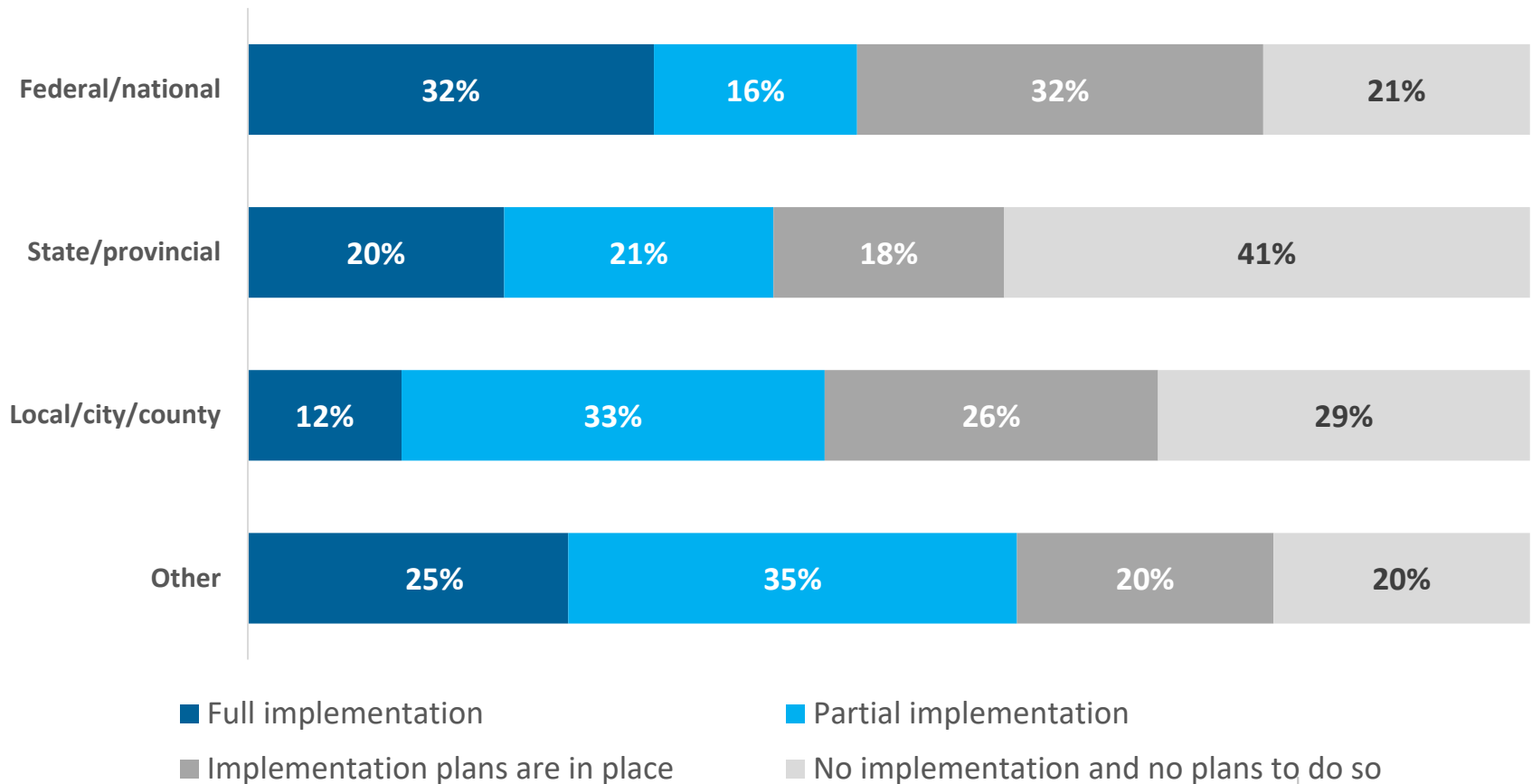
# Electronic Workpapers

## Implementation of Electronic Workpapers Compared to Public Sector Type



# Internal Audit KPIs for Stakeholders

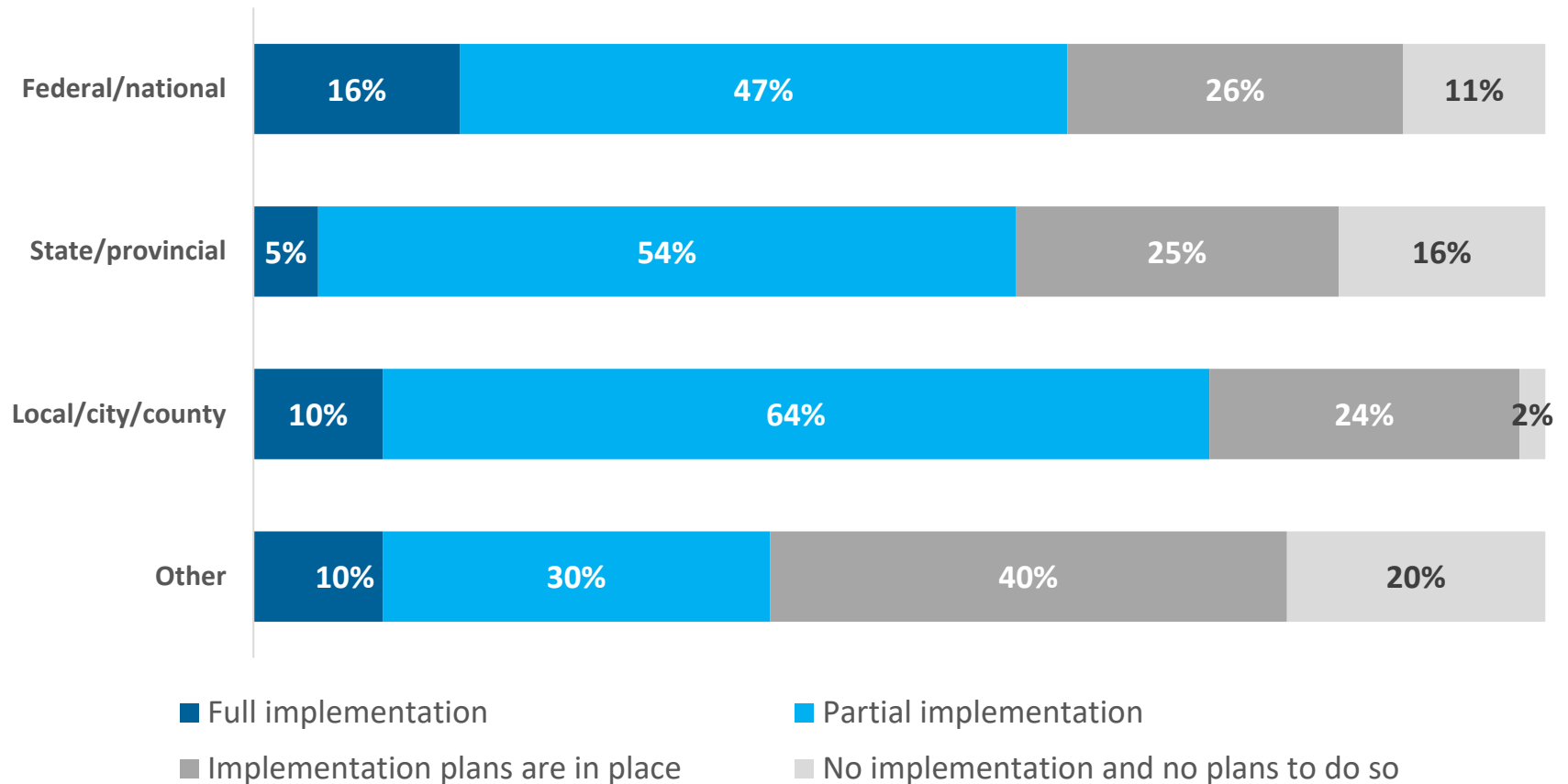
Implementation of KPIs for Stakeholders Compared to Public Sector Type





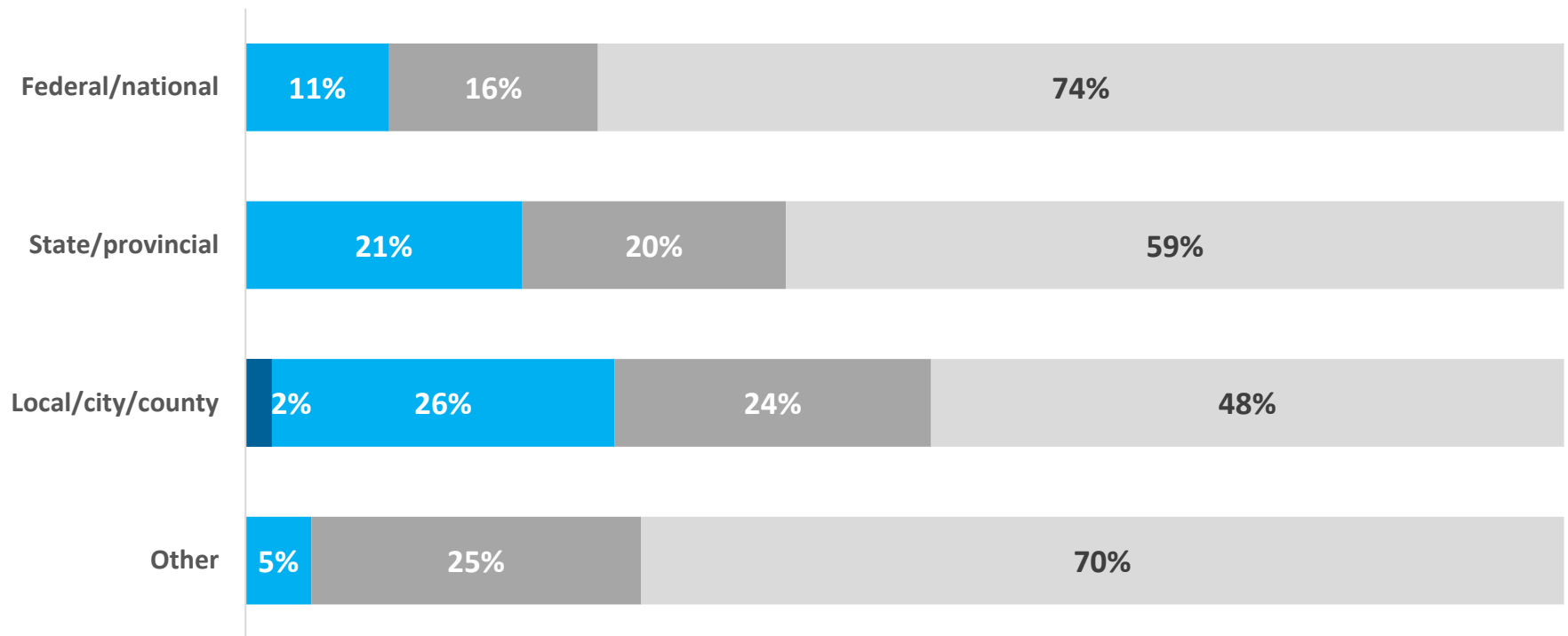
# Internal Audit Use of Data Analytics

## Implementation of Data Analytics in the Internal Audit Function



# Automation of Routine Internal Audit Tasks (Robotics)

Automation of Routine Internal Audit Tasks (Robotics)



■ Full implementation

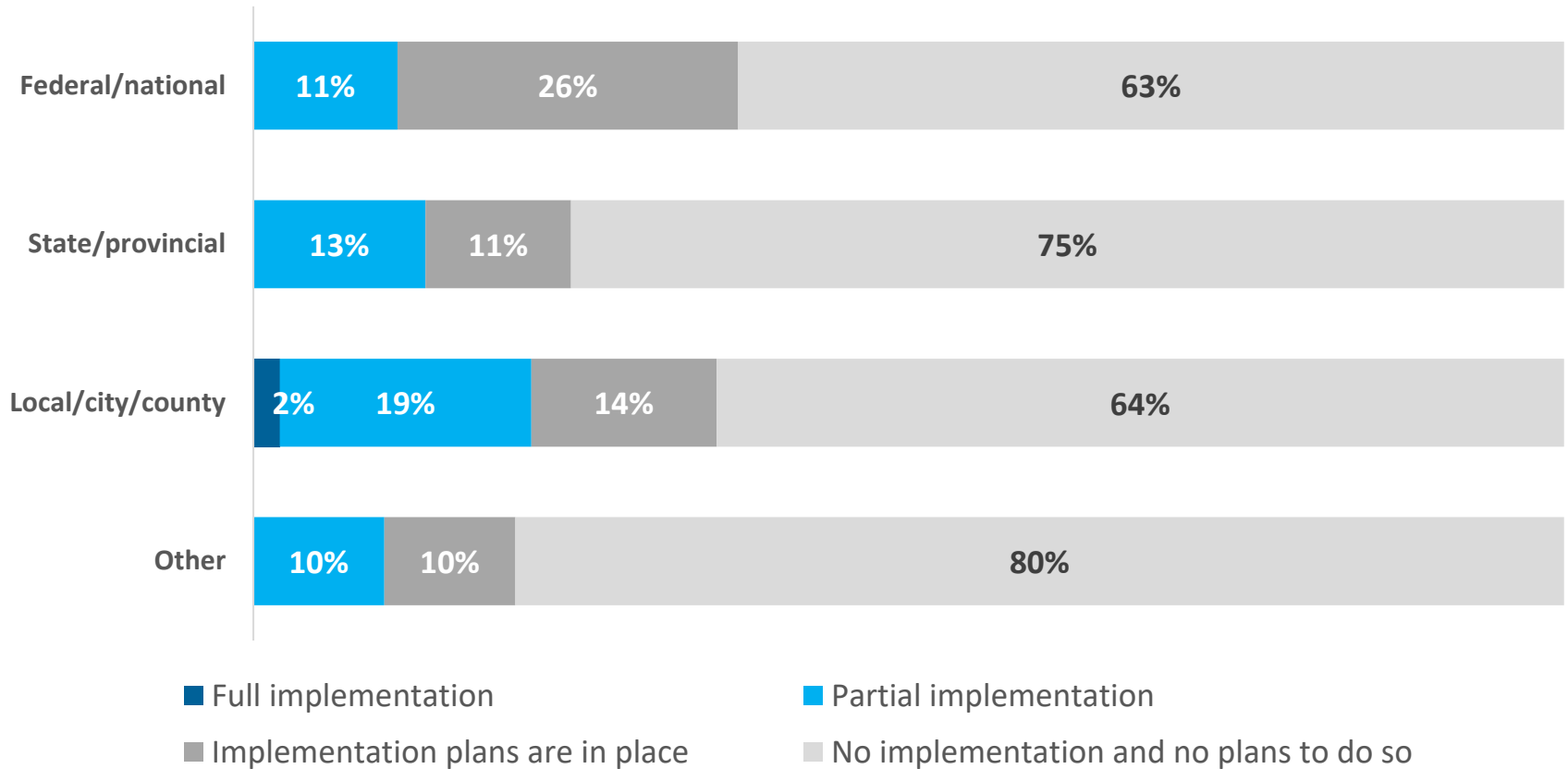
■ Partial implementation

■ Implementation plans are in place

■ No implementation and no plans to do so

# Automated Analysis of Evidence (Artificial Intelligence)

Automated Analysis of Evidence (Artificial Intelligence)



# Addressing Innovation

## Recognize the Need for Self-Assessment and Challenge how Objectives are Being Accomplished

- Internal auditors need to devote time and effort to challenge themselves and search for opportunities to innovate
- Give staff time for self-assessment and opportunities to challenge the status quo



# Addressing Innovation

## Embrace Technological Advances

- Only 13% of CAE's strongly agree that their internal audit functions are quick to adopt new technologies or processes
- There has been very little adoption of automated routine audit tasks (robotic process automation or automated analysis of audit evidence a type of artificial intelligence)



# Addressing Innovation

## Do Not Blame the Failure to Innovate on the Lack of Resources

- Obtaining more or different resources requires agreement of the audit committee and support of management
- Need to change the mindset and it only requires a few people or examples to move the bar



# Addressing Innovation

## Develop and Communicate the Case for Internal Audit to Actively Pursue Innovation

- Requires investment in time and return on investment through improved effectiveness, efficiency, and agility
- Specific proposals need to explain why changes in the audit approach and resource management will achieve internal audit's overall objective

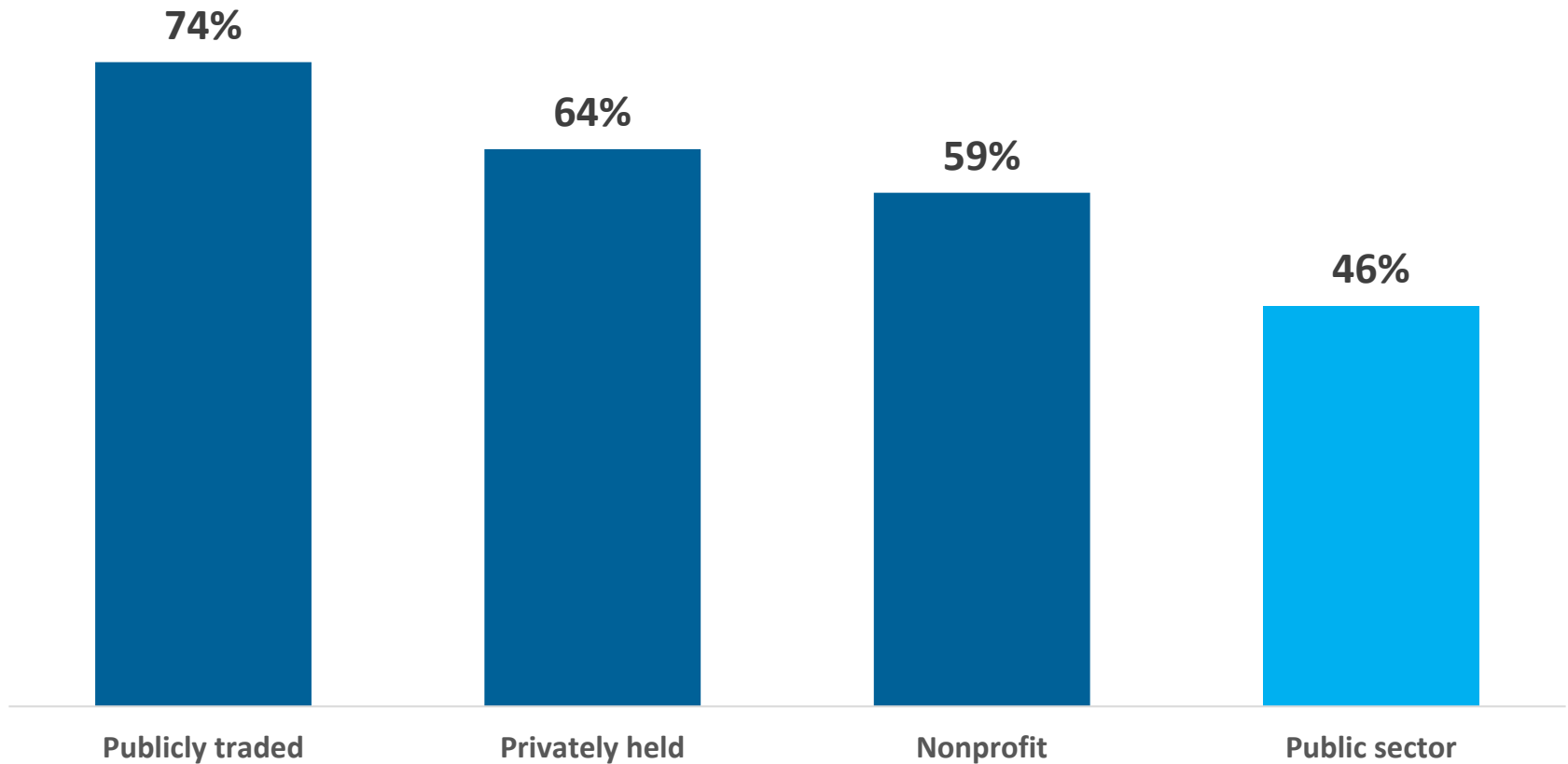


# Talent: Focus on Tomorrow's Risks

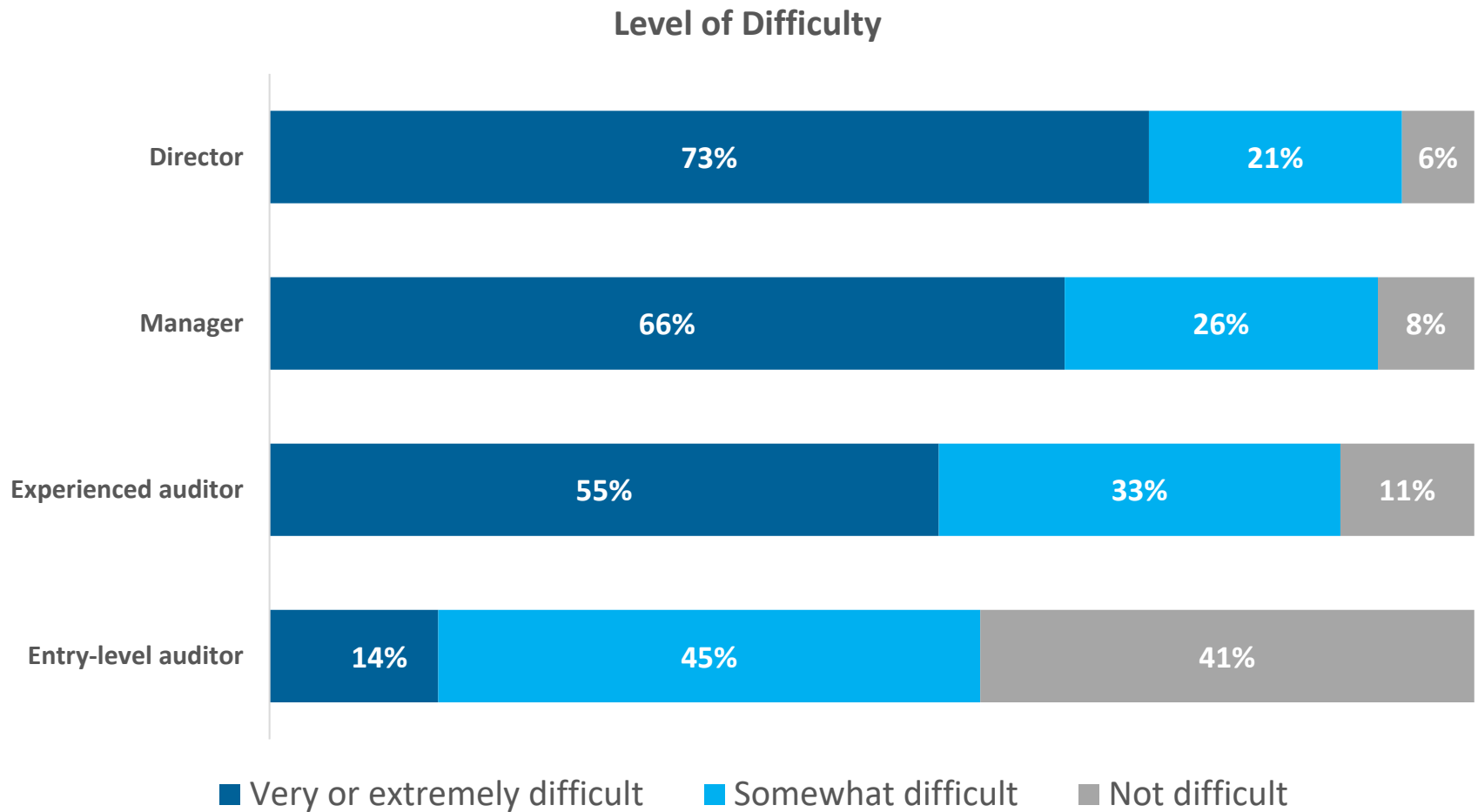


# Sufficient Staff to Achieve Objectives

"Somewhat" or "Strongly" Agree That Staff Is Sufficient

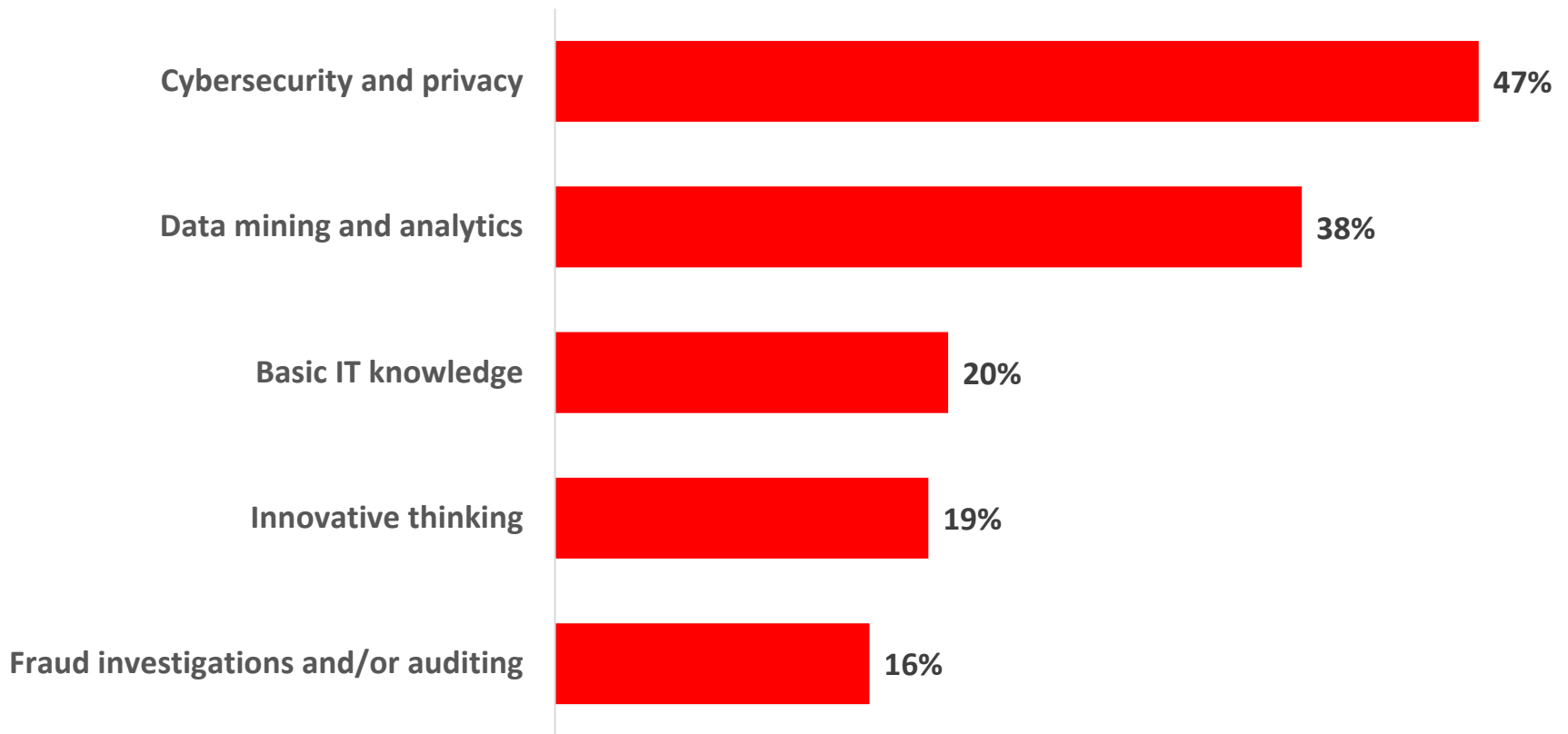


# Recruiting Difficulty per Staff Level



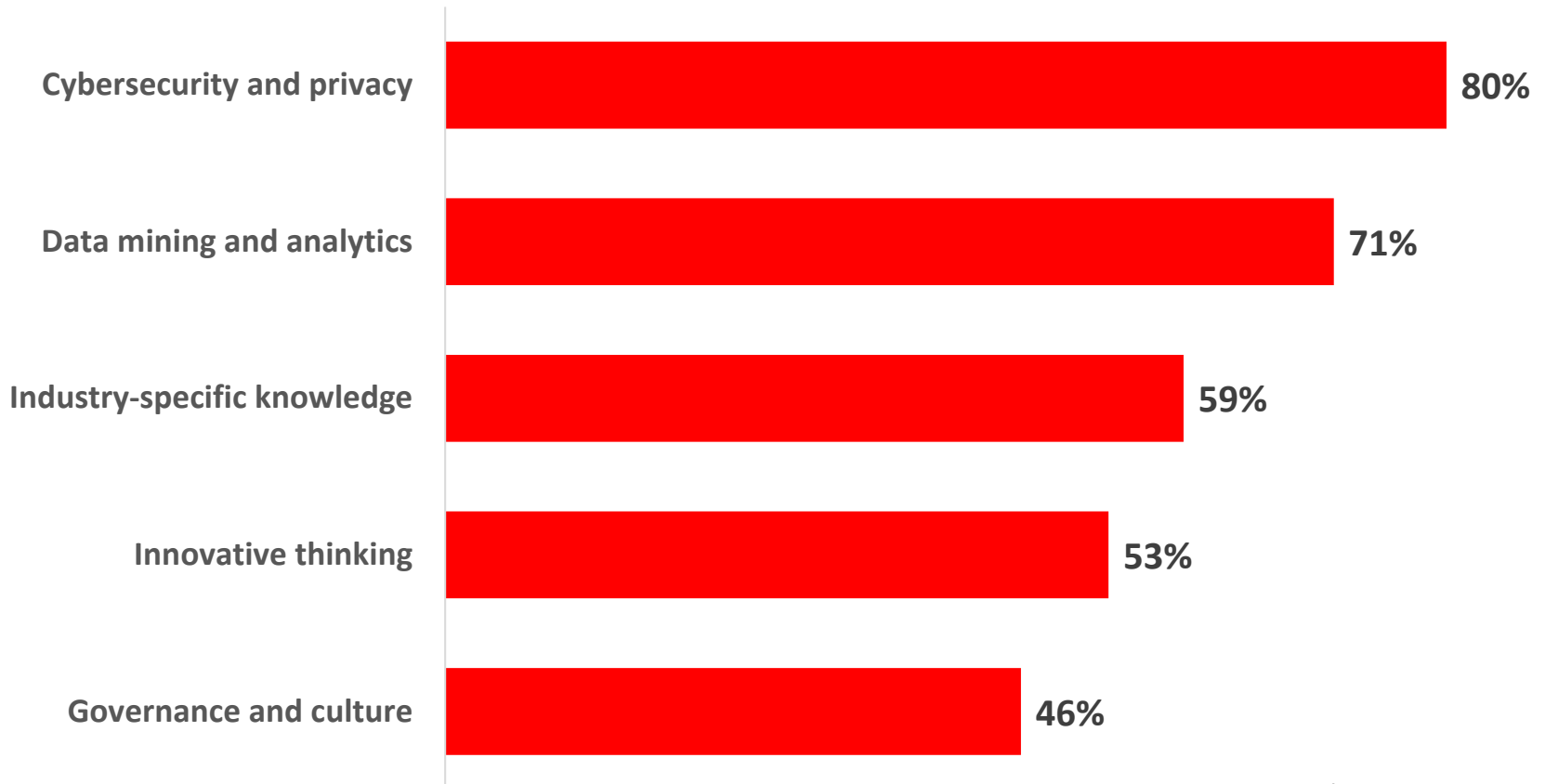
# Skills for Which Collective Competency Is Not Adequate

"Strongly" or "Somewhat" Disagree Competency Is Sufficient



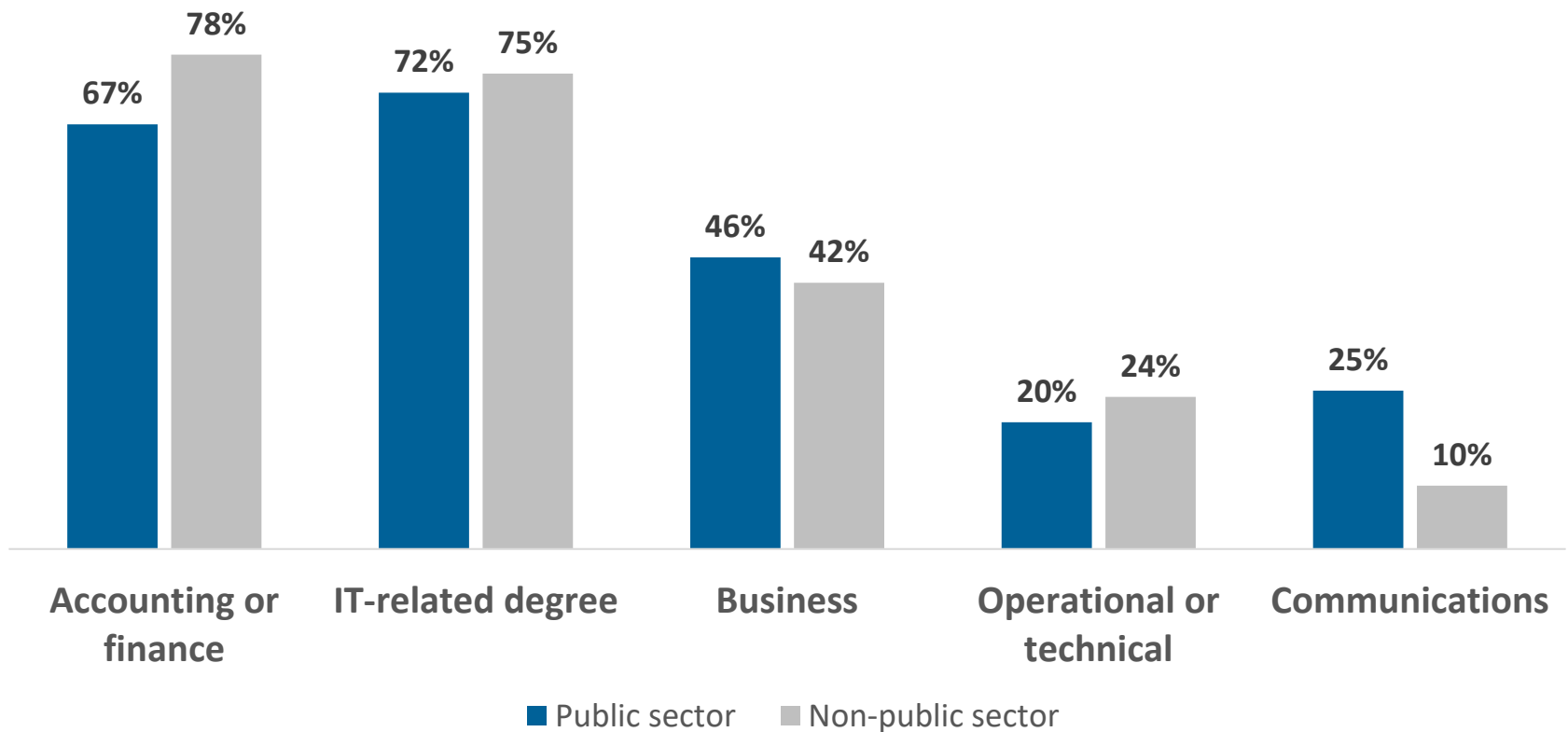
# Competencies with Most Recruiting Difficulty

"Very" or "Extremely" Difficult



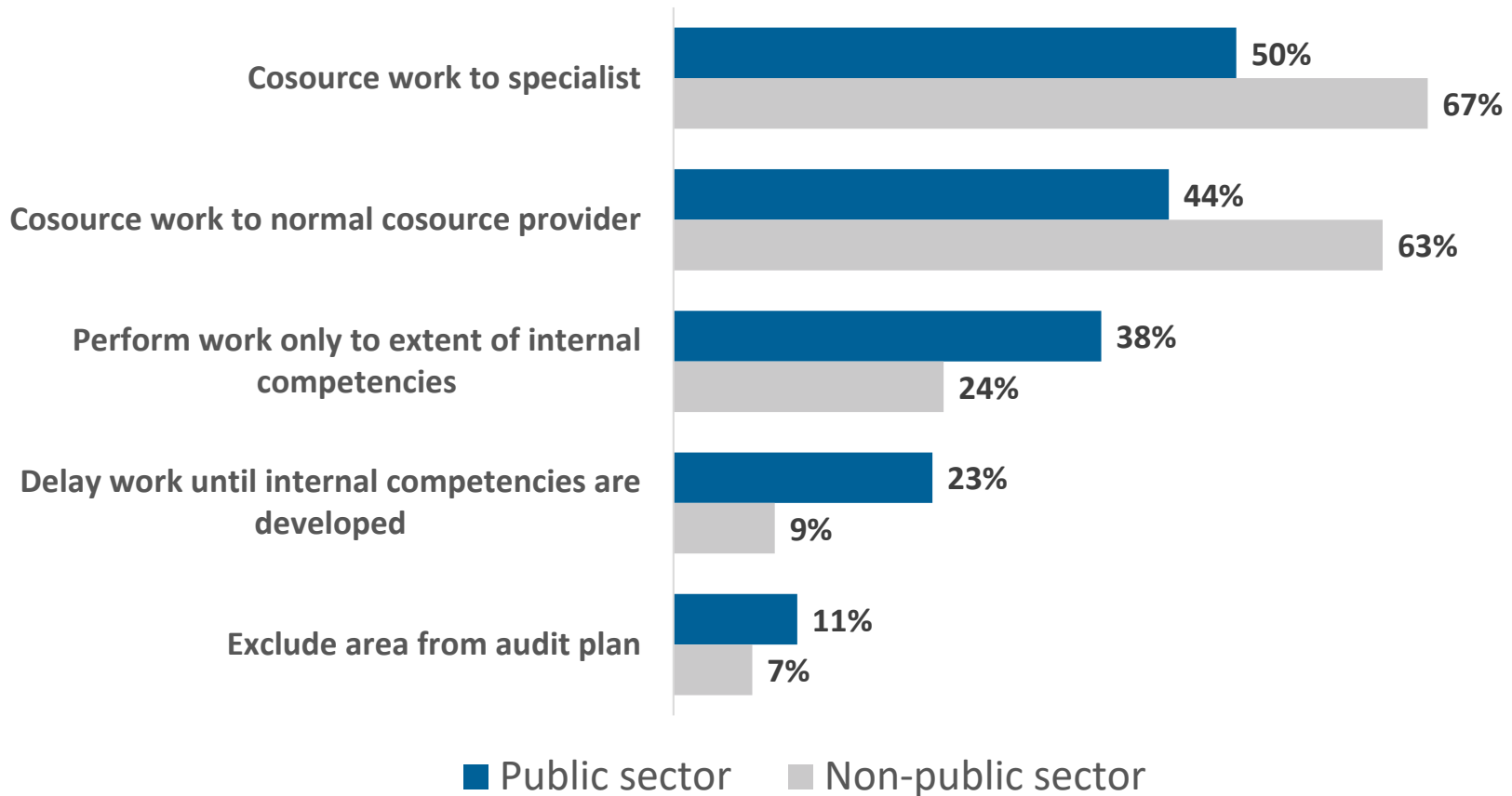
# Academic Degrees Preferred in Recruiting

"Very" or "Extremely" Desirable



# Responding to Competency Gaps

"Very" or "Extremely" Likely



# Addressing Talent

## Make Sure the Risks that Drive Internal Audit's Scope Drive Staff Competencies and Not the Reverse

- Most CAE's feel they do not have the quantity an/or quality of personnel they believe they need.
- Most common solution is to co-source work.
- Altering scope to avoid risk cannot be a long-term strategy



# Addressing Talent

## Develop a Talent Strategy to Ensure the Right Pipeline of Qualified Personnel

- Look at skills and level of resources needed and develop plan to ensure they are available
- Limitations to scope should not be part of the strategy
- Use of co-sourcing resources can be a valid part of a well planned talent strategy





# Addressing Talent

## Engage Stakeholders and Obtain Their Support for Internal Audit's Talent Management Strategy

- Such a strategy needs to be communicated and approved by executive management and the audit committee



# Addressing Talent

## Start Looking for Candidates with Different Backgrounds

- Most recruited degrees are accounting and finance followed by IT
- When looking for analytical/critical thinking, communication, and business acumen consider operational and technical backgrounds



# Addressing Talent

## Reconsider Which Skills are Most Essential for Success

- Half of the CAE's say data mining/analytics and cybersecurity are only somewhat or not essential skills
- However they are rated the lowest when evaluating the collective competencies of their function
- Data analytics can be used as a key enabler for innovation and cybersecurity is a key risk area that needs to be addressed and both these competencies need to be elevated



# Addressing Talent

## **Include Future Focused Training and Development Programs Geared Towards Specific Levels of Staff**

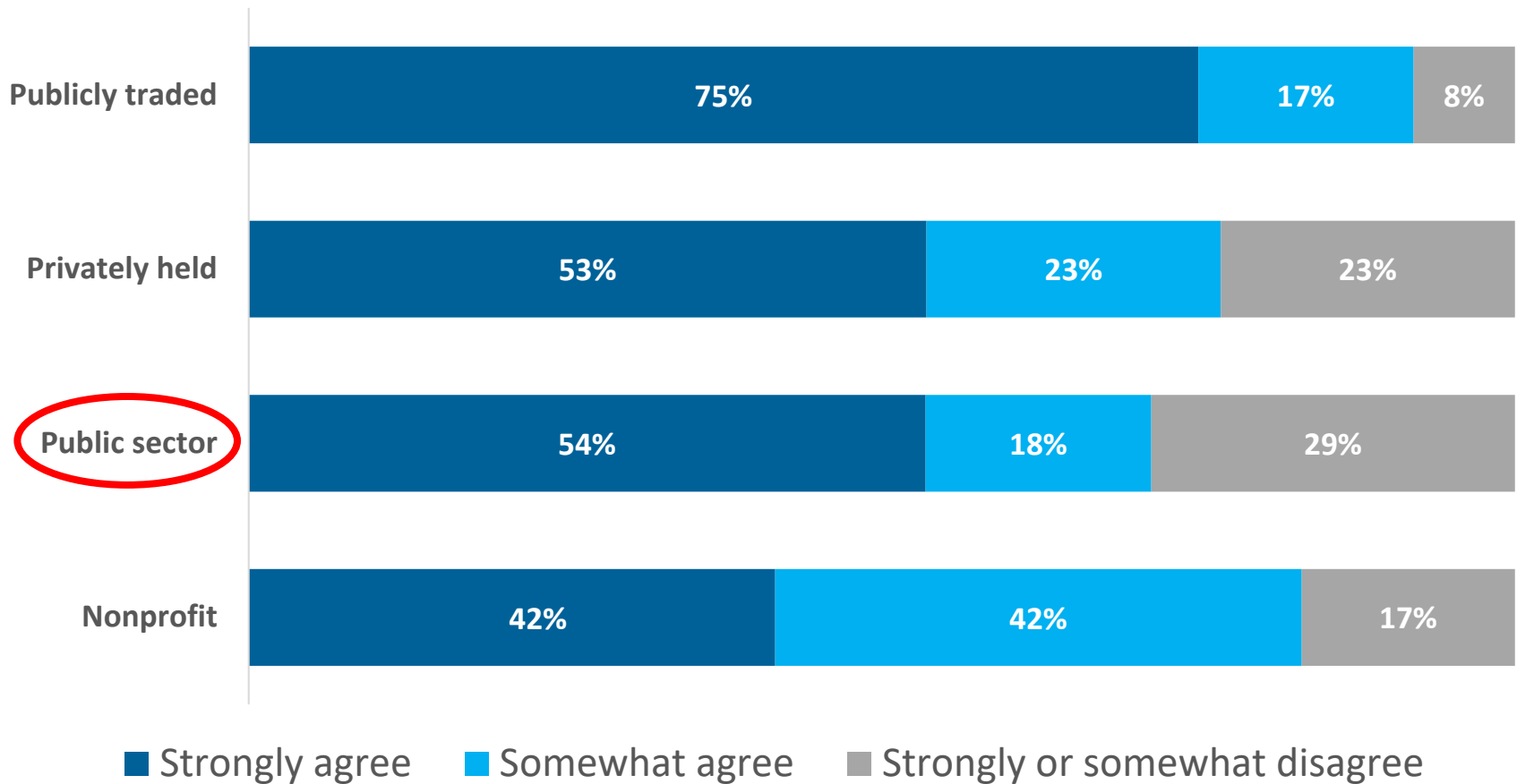
- CAE's will not be able to hire their way out of this skills shortage
- Innovative thinking, communication, technology, and other skills that support innovation and agility are in short supply
- CAE's need to focus on building these skills among existing staff

# Addressing Talent

- Professional development and nonconventional training opportunities including one-on-one coaching, team coaching, and self directed or high impact learning opportunities wiled influence when attempting to recruit and retain employees
- Need a supportive culture for professional development
- Develop specific annual targets and provisions for training to help ensure a high level of collective proficiency

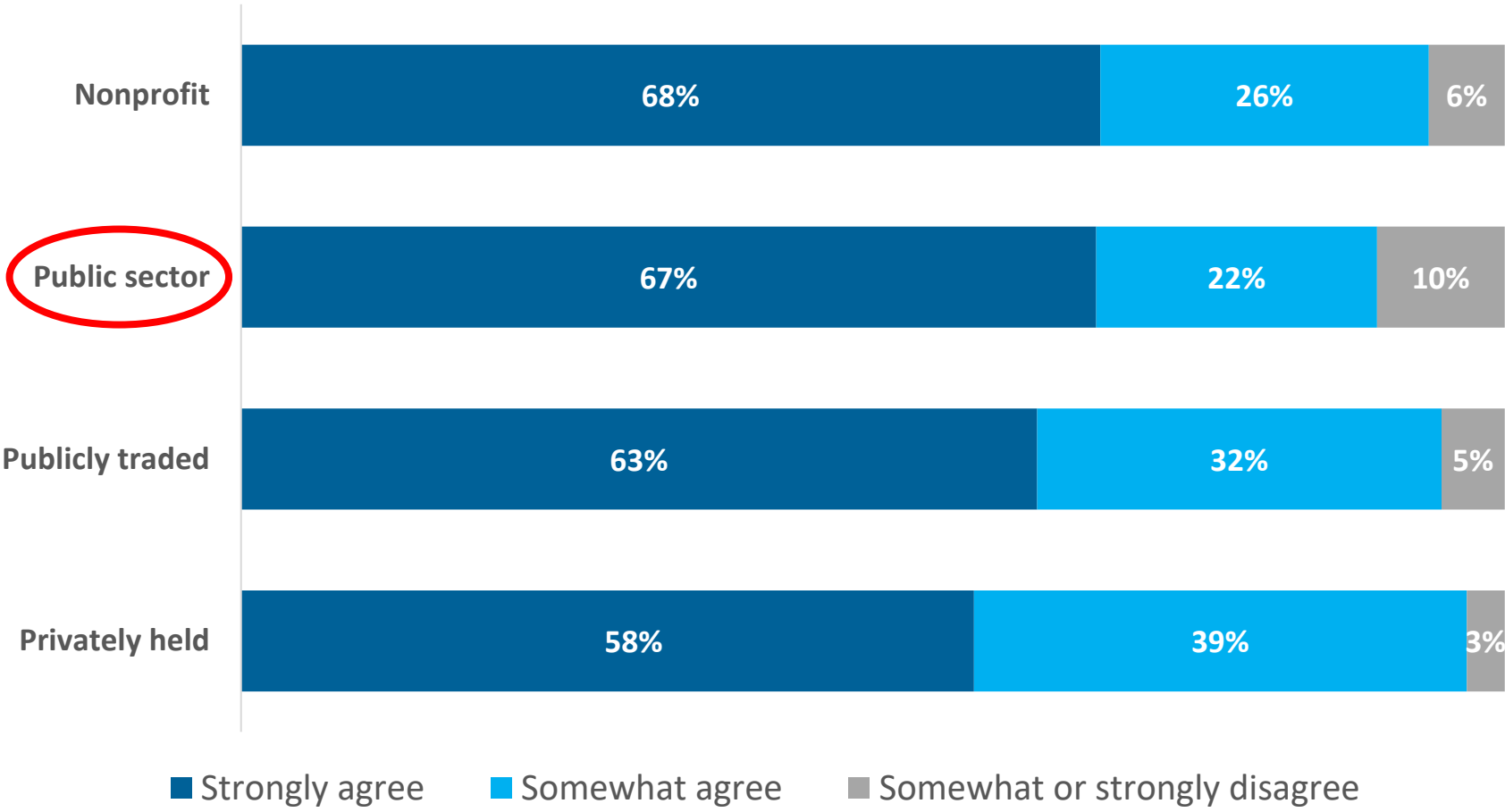
# Board: Move from Oversight to Engagement

# CAE Meets with Audit Committee Chair Without Management\*



\*Among those with audit committees

# Audit Committee Input Included in Internal Audit Plan



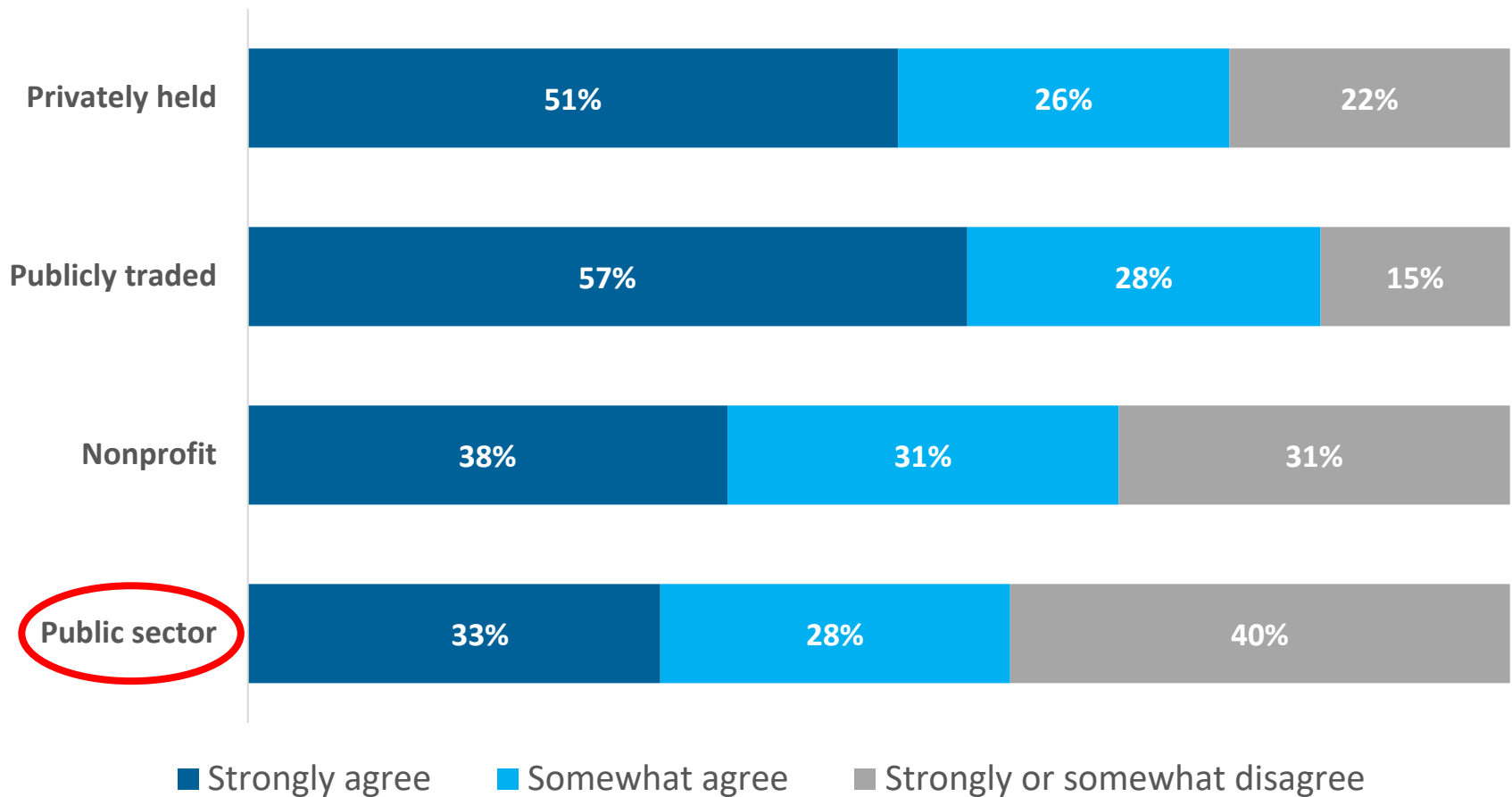
\*Among those with audit committees



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# Audit Committee Approving Staff and Budgets

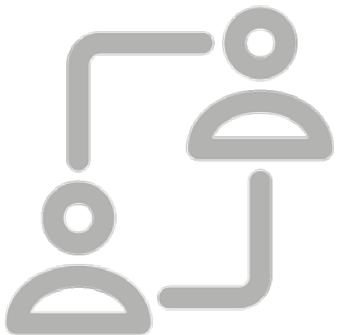


\*Among those with audit committees

# Addressing Board Engagement

## Increase the Audit Committee's Involvement with Internal Audit's Resources and Performance

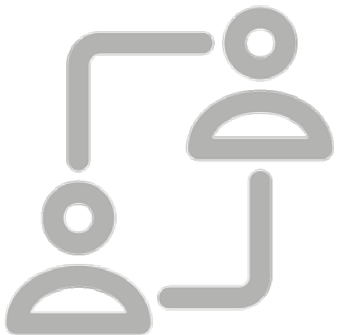
- Having audit committee members more involved in reviewing and approving resources and providing direct feedback on performance will enable the committee to better support the work of internal audit



# Addressing Board Engagement

## Improve the Audit Committee's Understanding of the Risks the Organization Faces

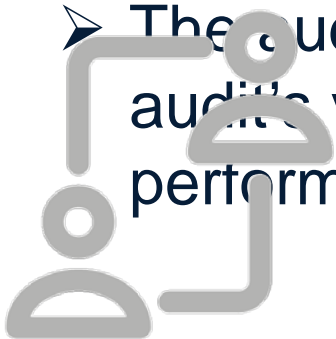
- CAE's need to help audit committee members become more knowledgeable about risk management and internal control systems



# Addressing Board Engagement

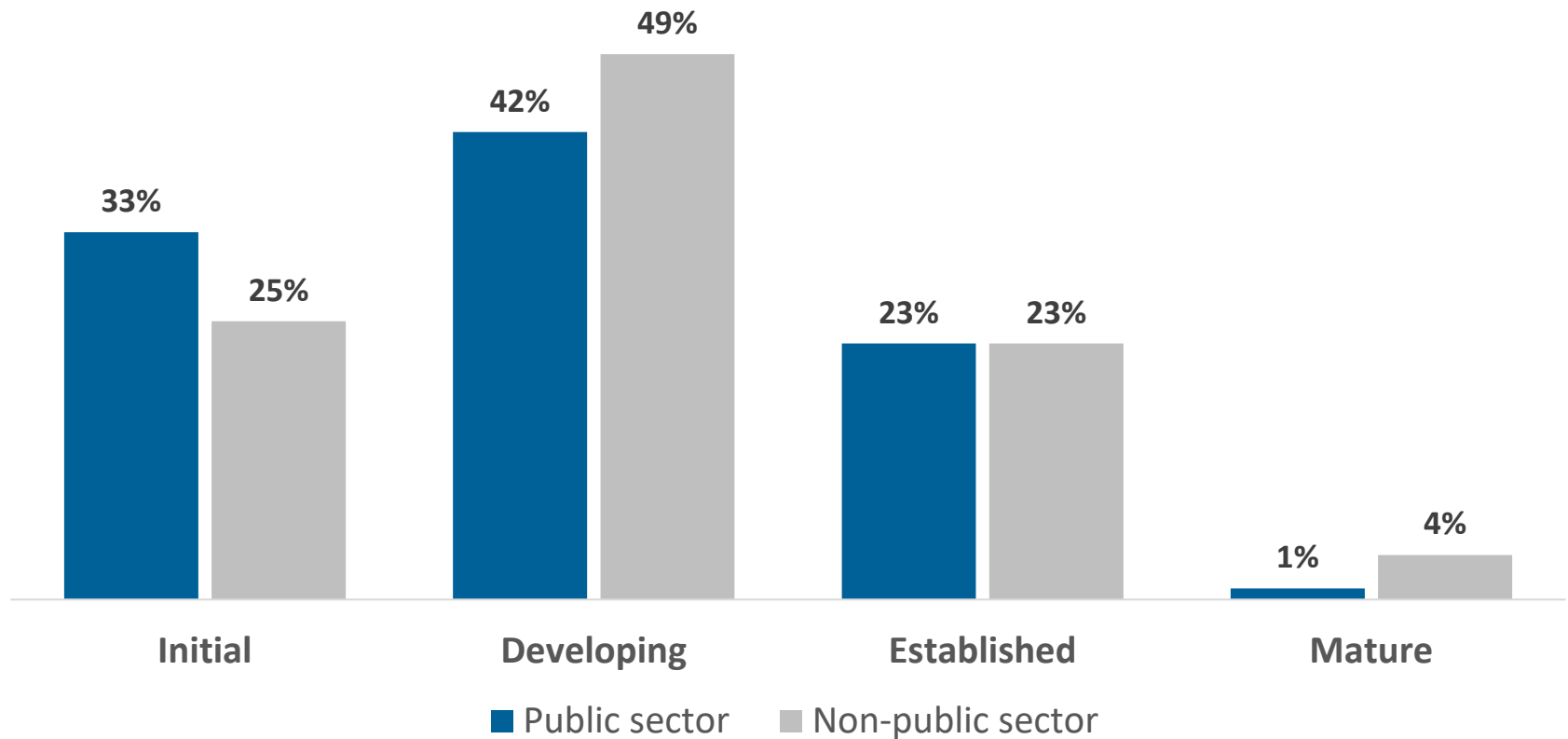
## Discuss with the Audit Committee Those Situations Where the CAE Disagrees with Management

- Relationships with management can vary substantially over time and within the organization
- CAE's should work to build awareness among audit committee members that the audit committee is the true driver and enabler of internal audit effectiveness
- The audit committee needs to fully understand internal audit's views on risk, control, resources, and performance and stand with IA on any disputes



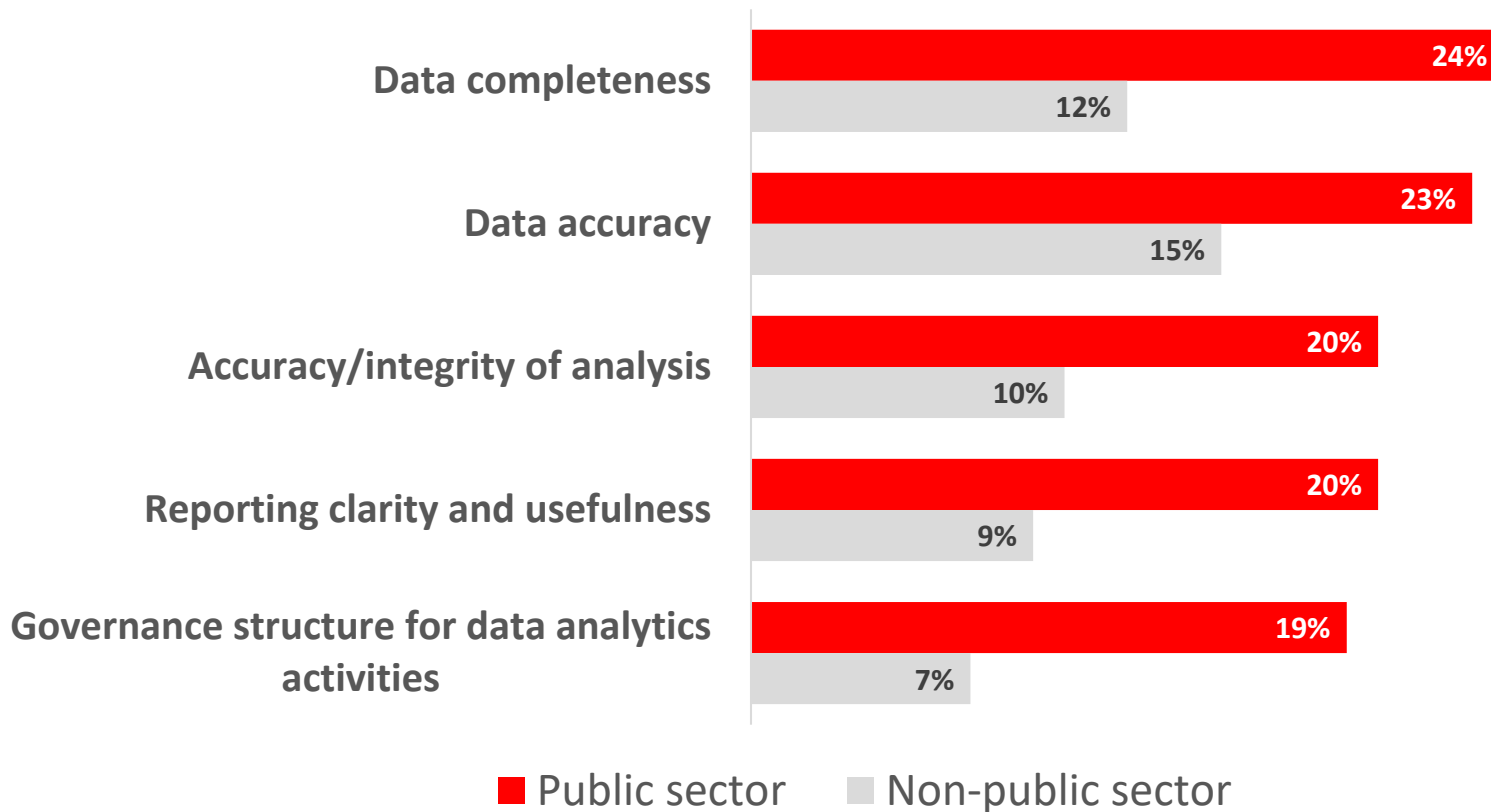
# Risk Insight: Organizational Use of Data Analytics

# Organizational Maturity for Use of Data Analytics



# Residual Risk Related to Organization's Data Analytics

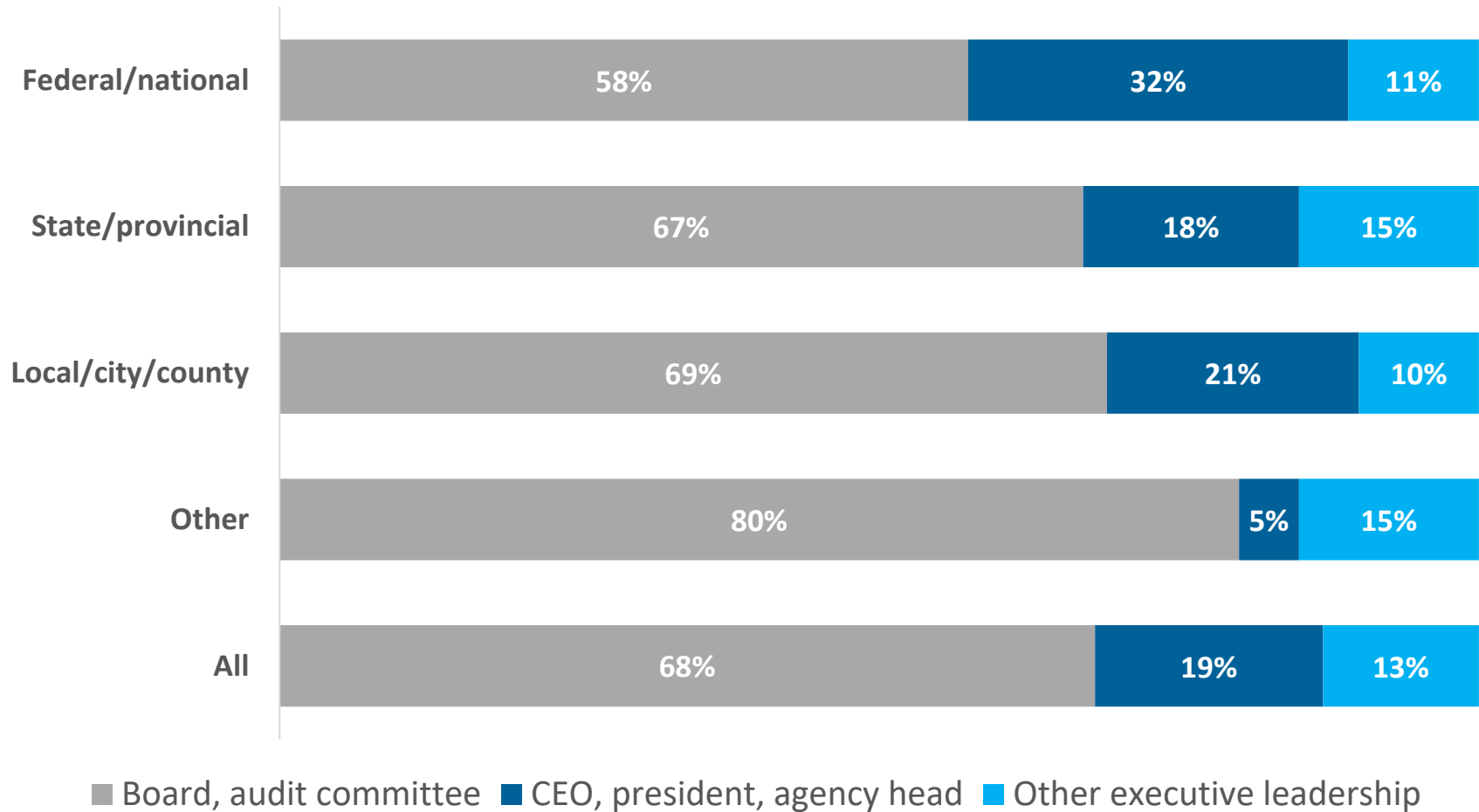
## Residual Risk Rated as "Extensive"



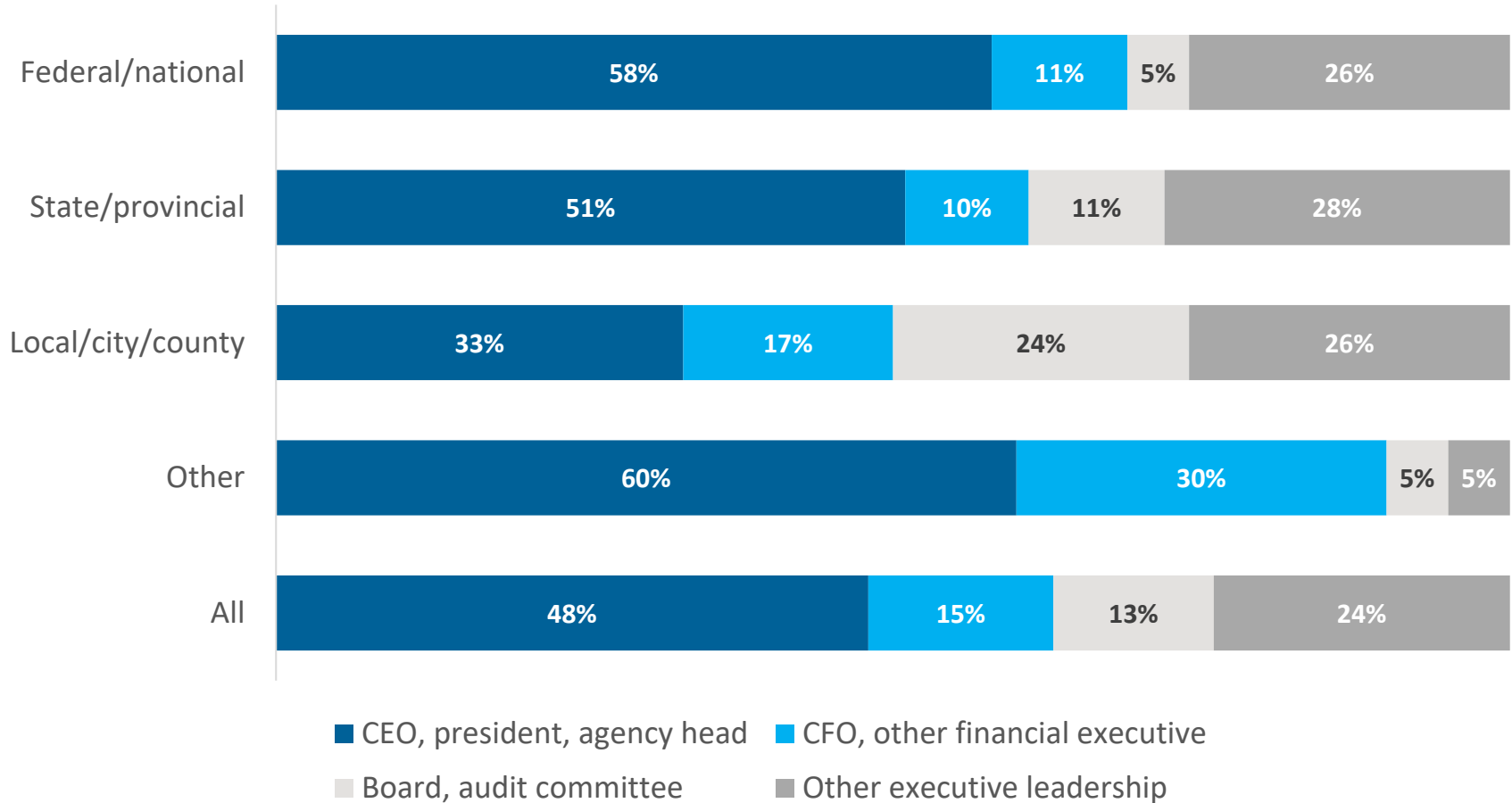
# Internal Audit Management Insights Public Sector



# Functional Reporting Lines



# Administrative Reporting Lines

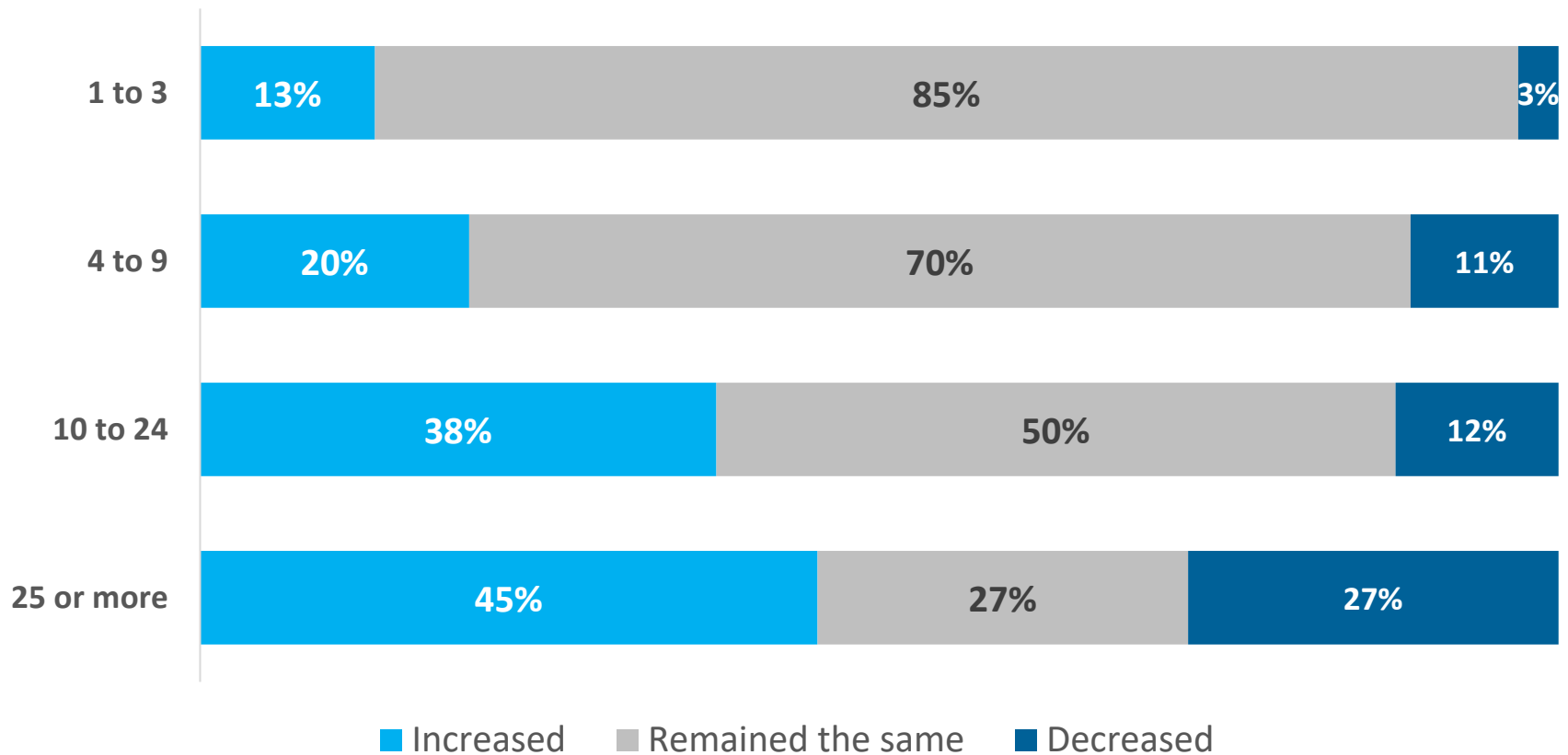


# Allocation of Audit Effort by Risk Area



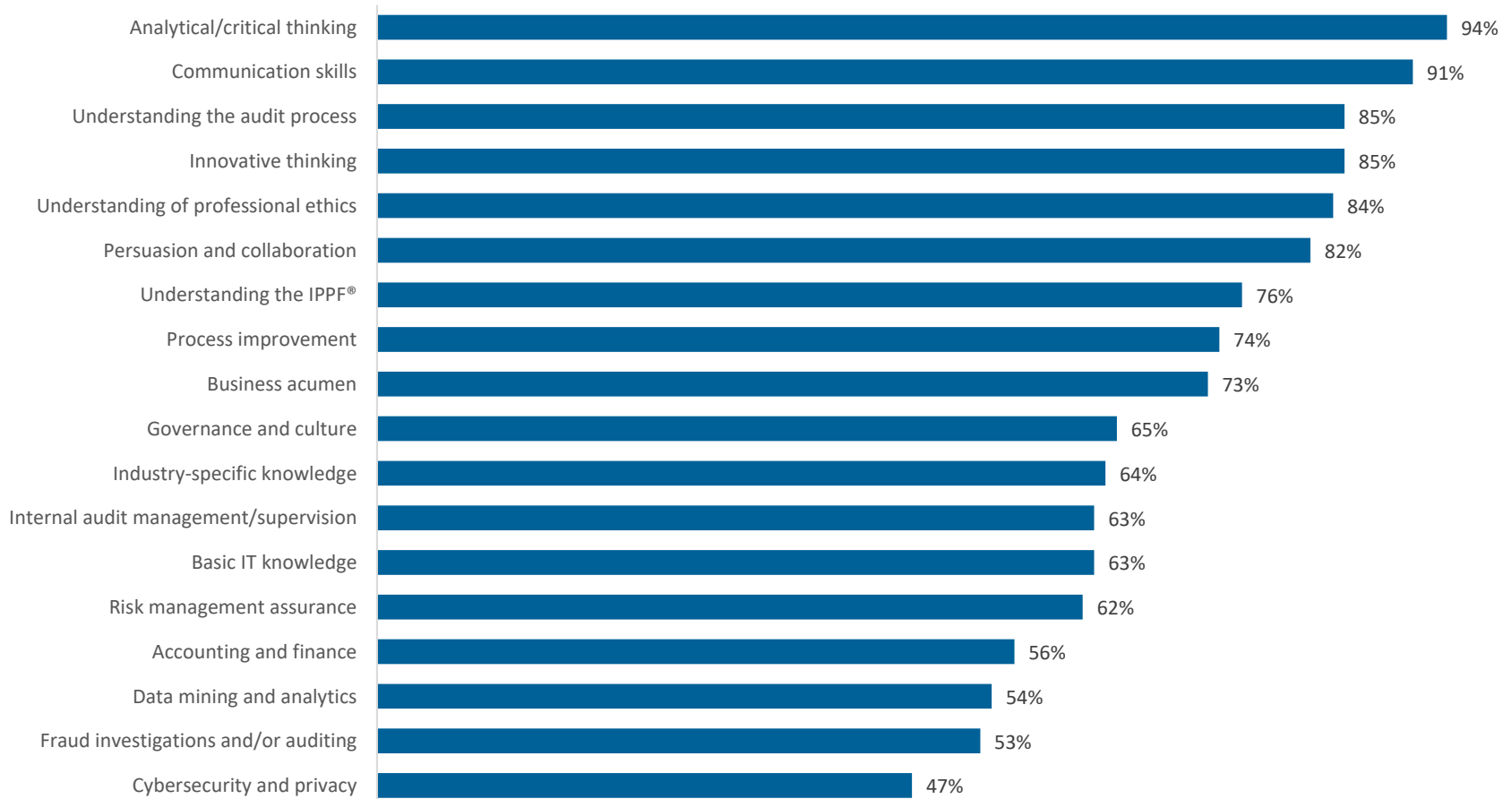
# Staffing

## Staff Size Changes in the Past 12 Months



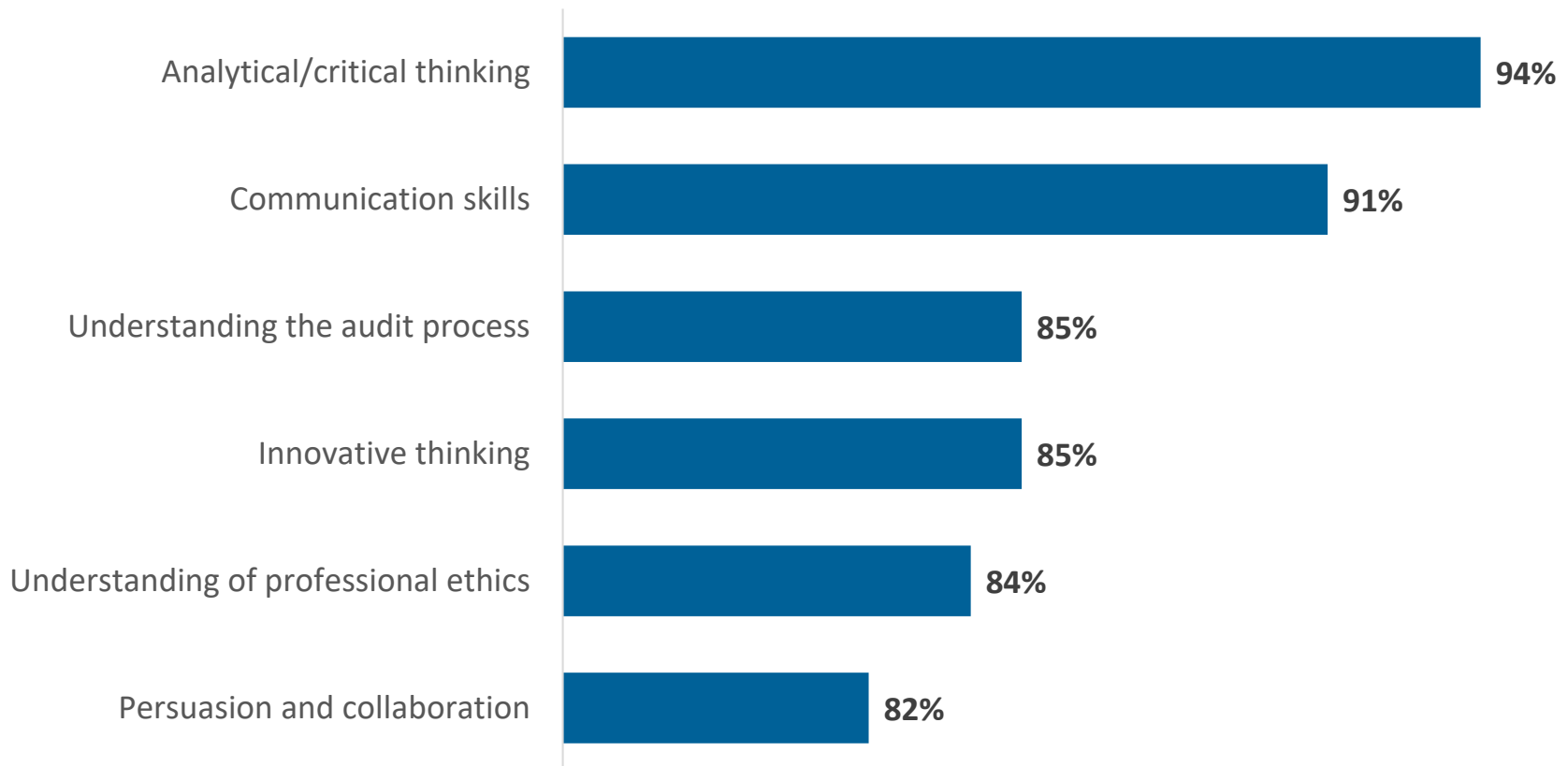
# Skill Importance for Internal Audit - Overview

"Most" or "Very" Essential



# Skill Importance for Internal Audit – Top 6

## "Most" or "Very" Essential (Top 6)



Questions?

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# Thank you

## **The Institute of Internal Auditors**

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John Wszelaki

Director, Public Sector Audit Center

[John.Wszelaki@theiia.org](mailto:John.Wszelaki@theiia.org)

407-937-1409