



# 2018 NORTH AMERICAN PULSE OF INTERNAL AUDIT

JOHN WSZELAKI, CIA, CRMA, CFE

DIRECTOR, AMERICAN CENTER FOR GOVERNMENT AUDITING  
THE INSTITUTE OF INTERNAL AUDITORS

**2018** NORTH AMERICAN  
PULSE OF INTERNAL AUDIT

The Internal Audit Transformation Imperative



## Public Sector Focus

# 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.**

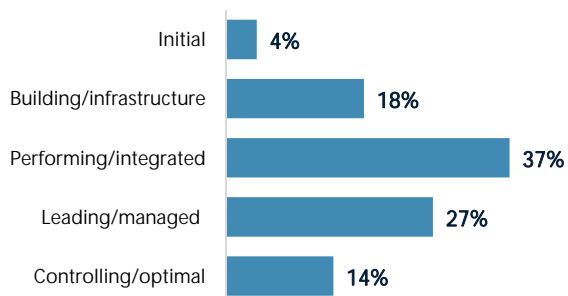




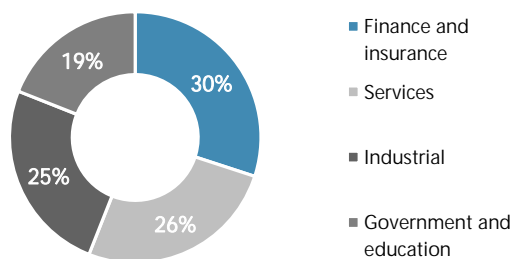
# Demographics

# ALL RESPONDENT DEMOGRAPHICS

Internal Audit Maturity (Self-Assessed)



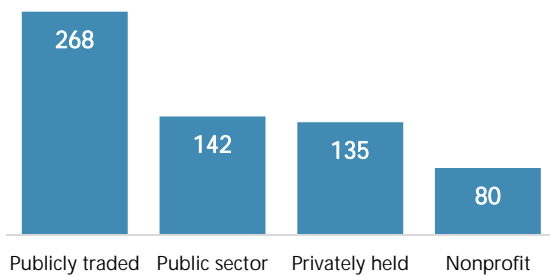
Industry Groupings\*



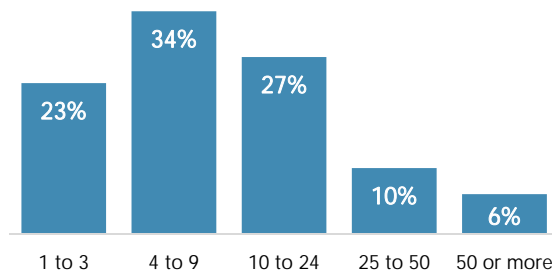
Number of Responses

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

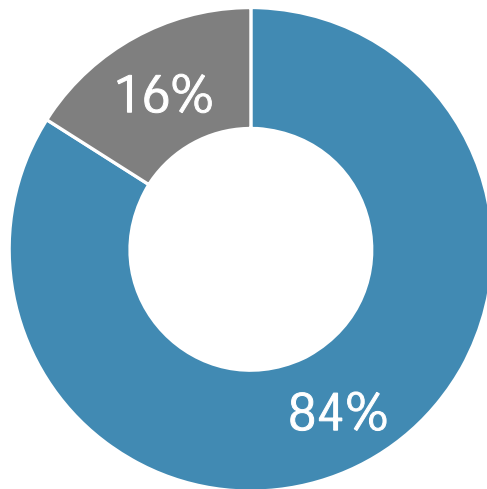
Organization Type (Number of Responses)



Internal Audit Function Size (FTEs)



# PUBLIC SECTOR INTERNAL AUDIT POSITION

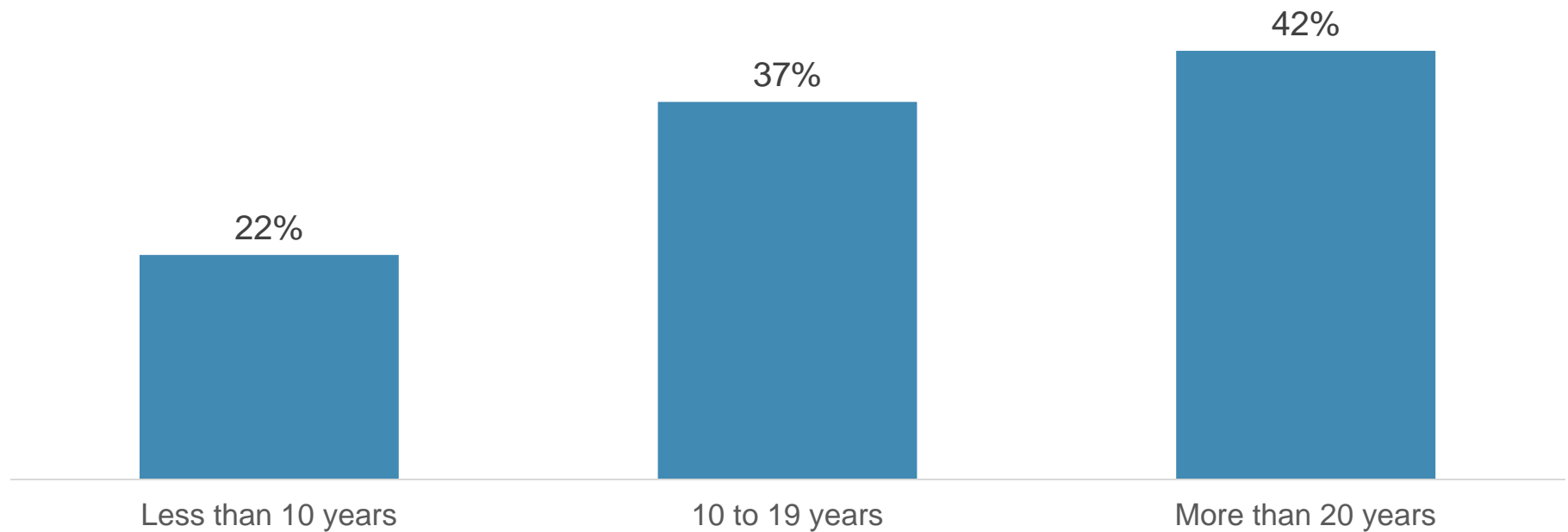


■ CAEs ■ Directors/senior managers

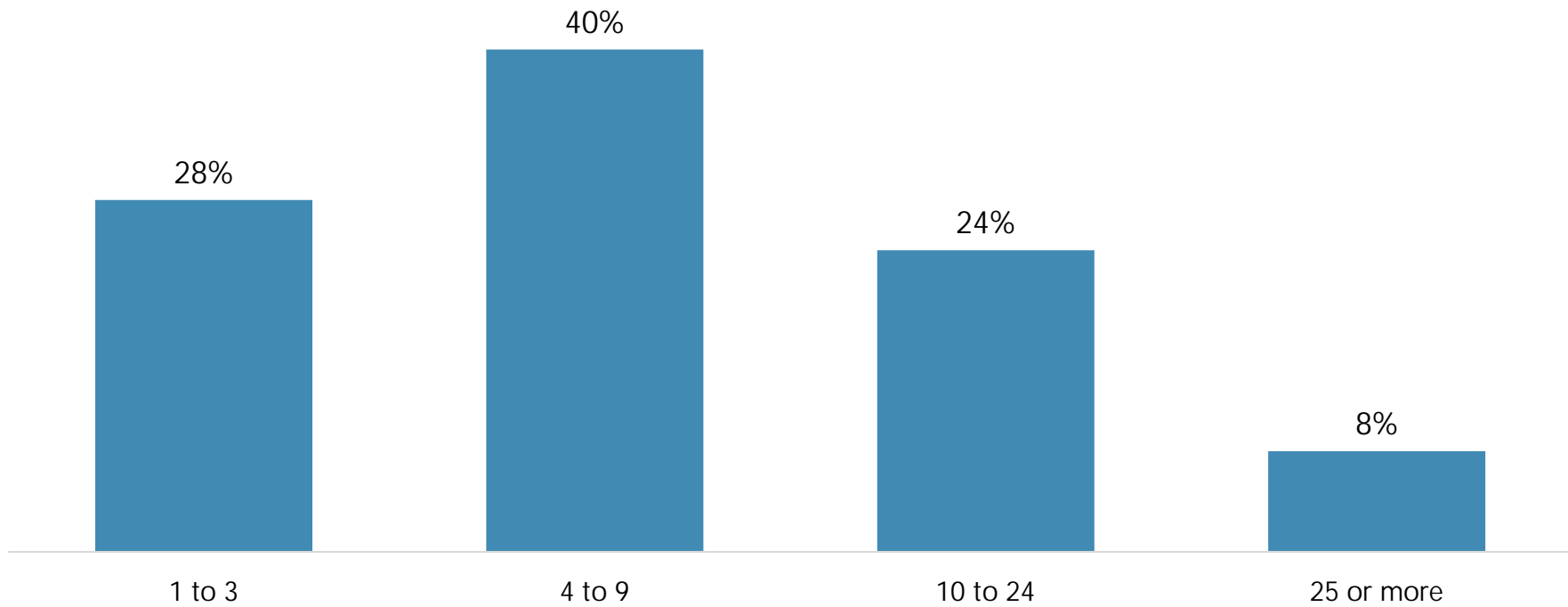
Public Sector Internal Audit Position	
CAEs	119
Directors/ senior managers	23
<b>Total</b>	<b>142</b>

# YEARS OF INTERNAL AUDIT EXPERIENCE

## Public Sector CAEs and Directors



# PUBLIC SECTOR INTERNAL AUDIT FUNCTION SIZE

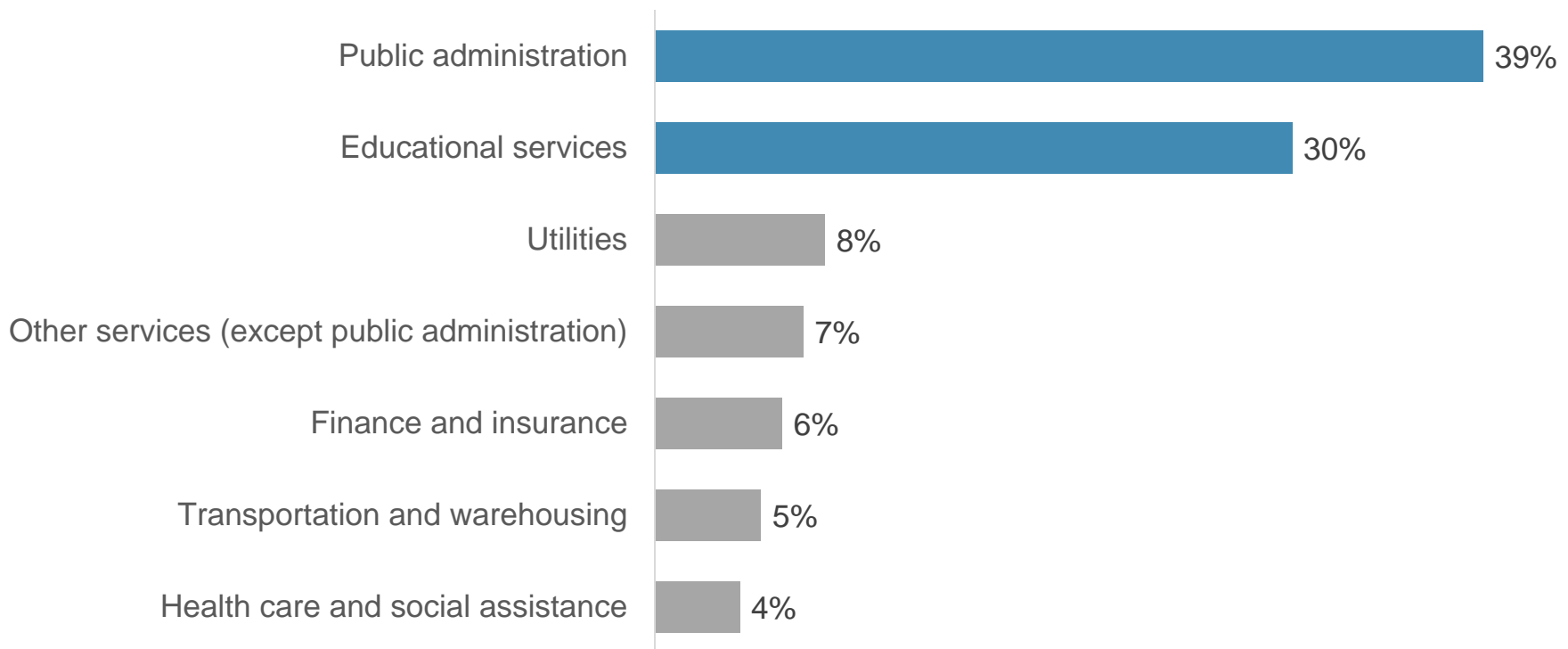




## PUBLIC SECTOR TYPES

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>

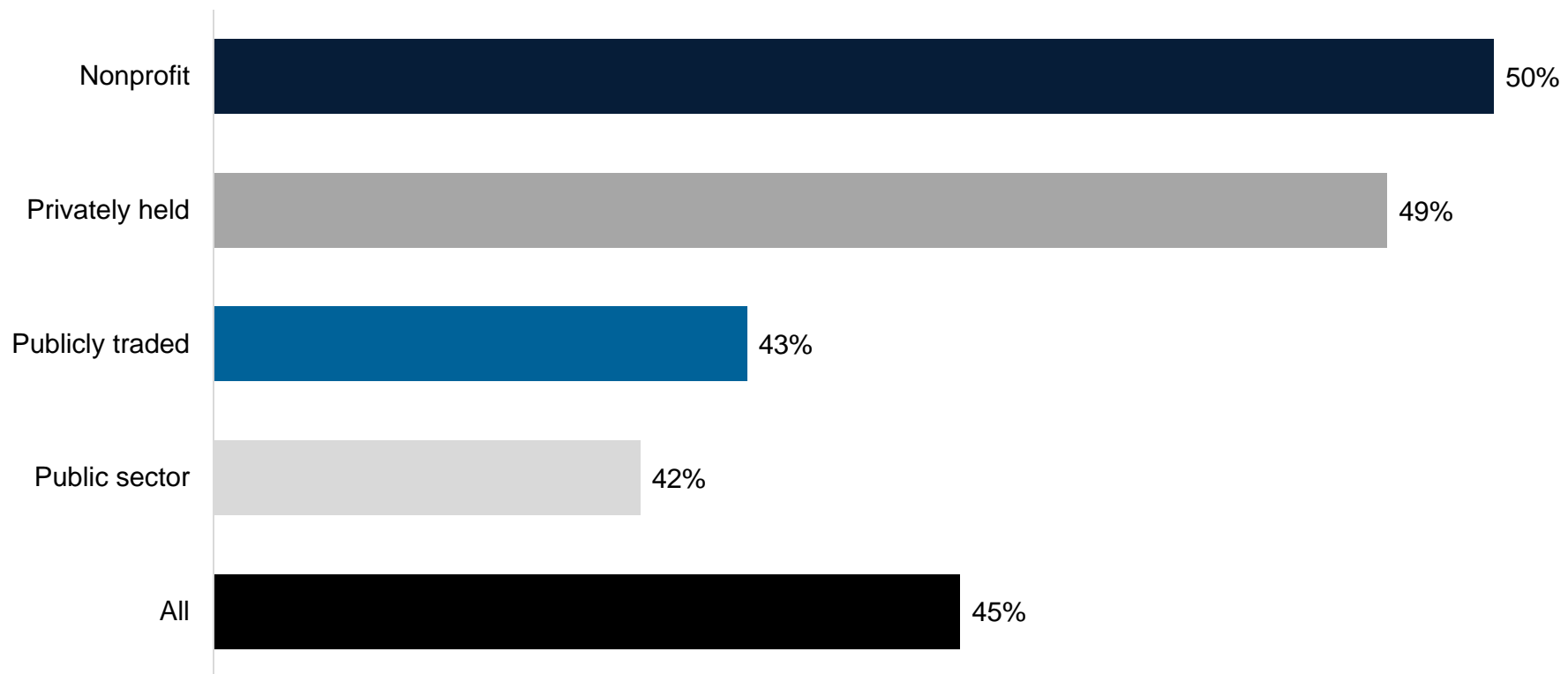
# PUBLIC SECTOR INDUSTRY GROUPINGS





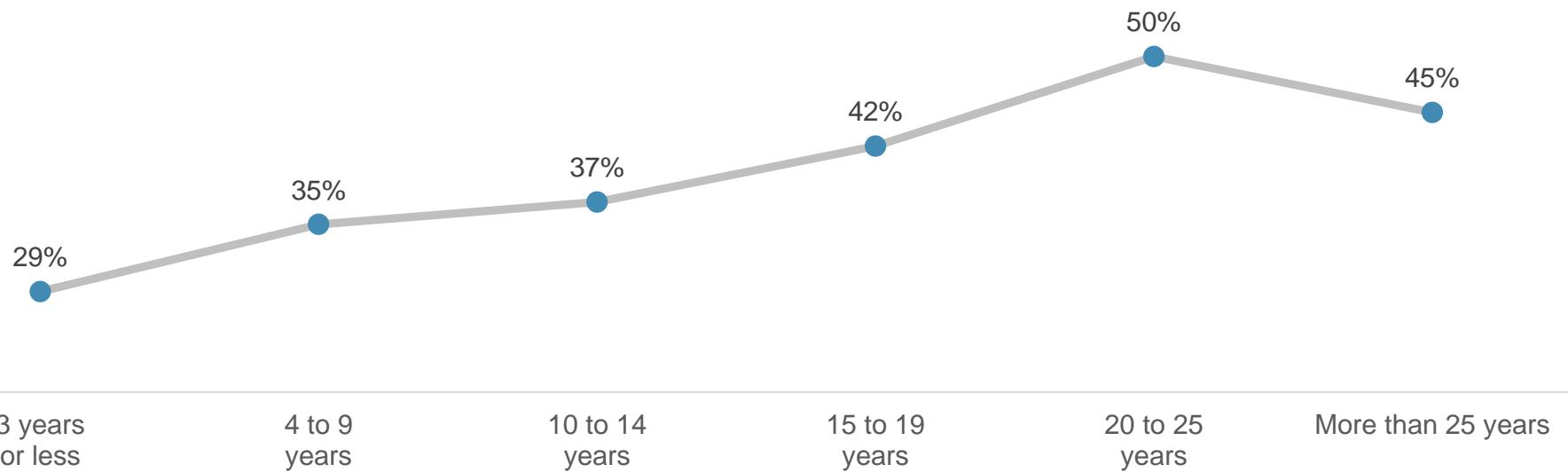
# Agility: Embrace to Confront Disruption

# CAE CONSIDERS INTERNAL AUDIT TO BE "VERY" OR "EXTREMELY" AGILE



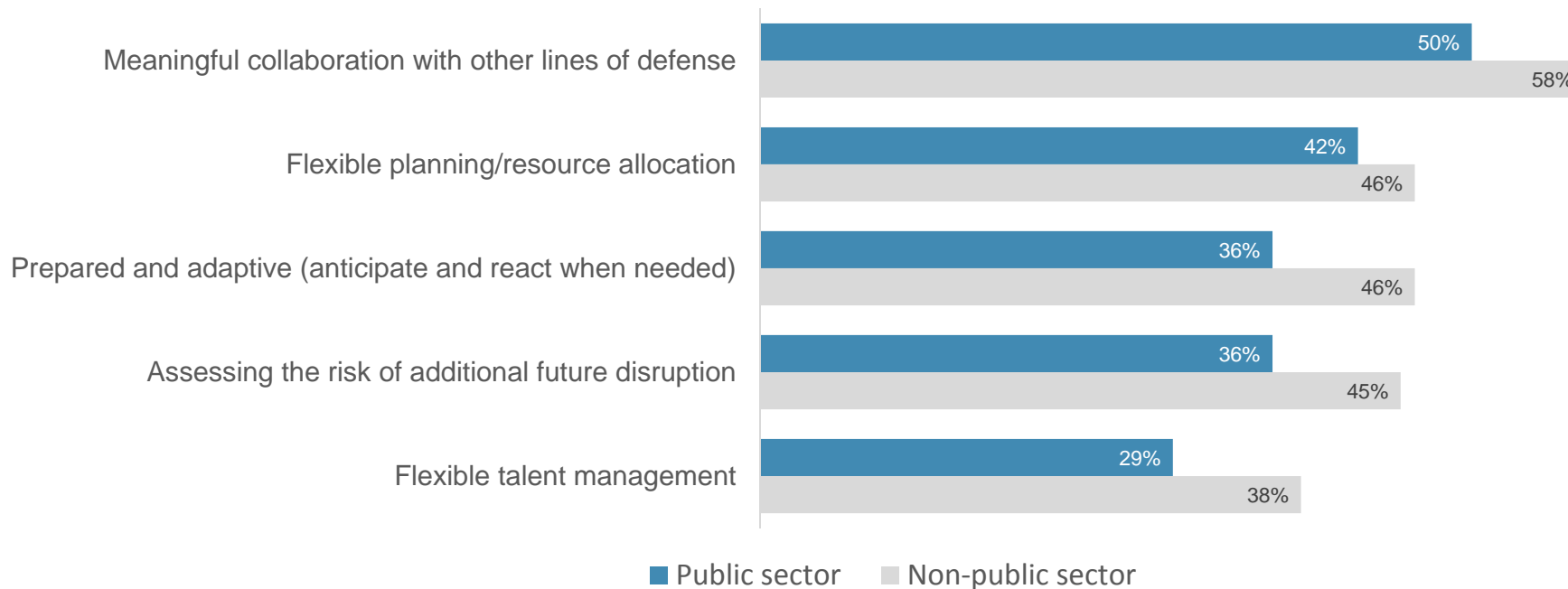
# RELATIONSHIP BETWEEN AGILITY AND CAE EXPERIENCE

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

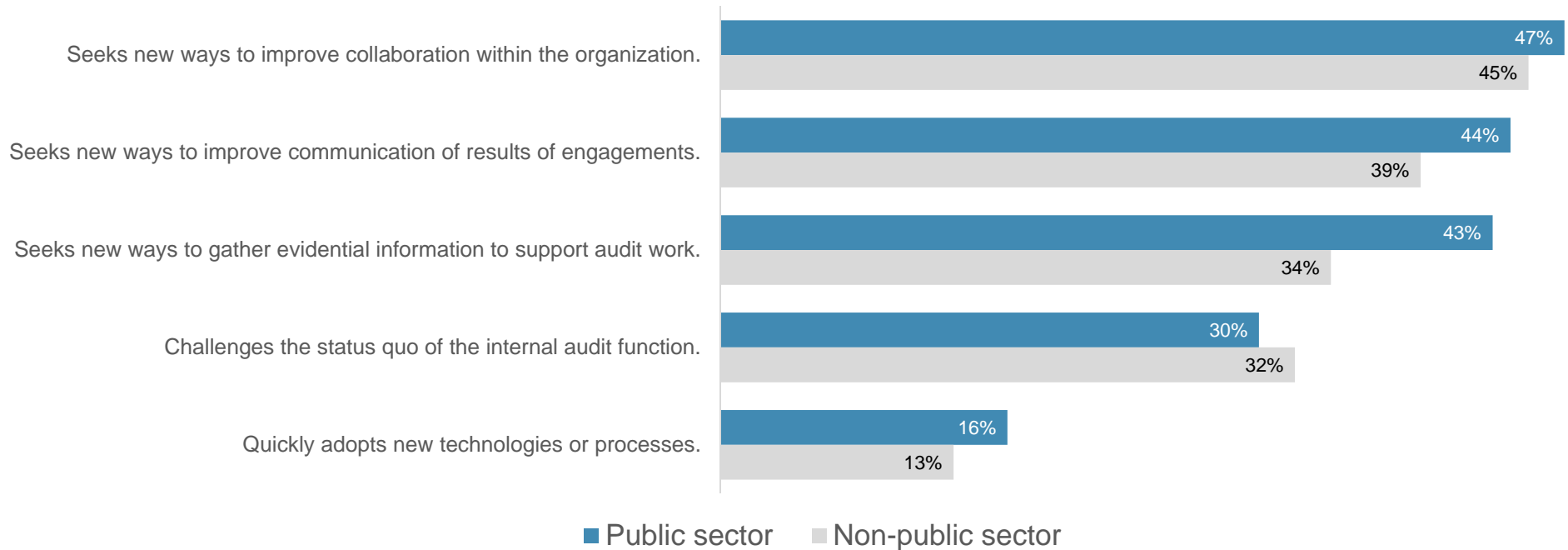




# Innovation: Pursue Quantum Leaps

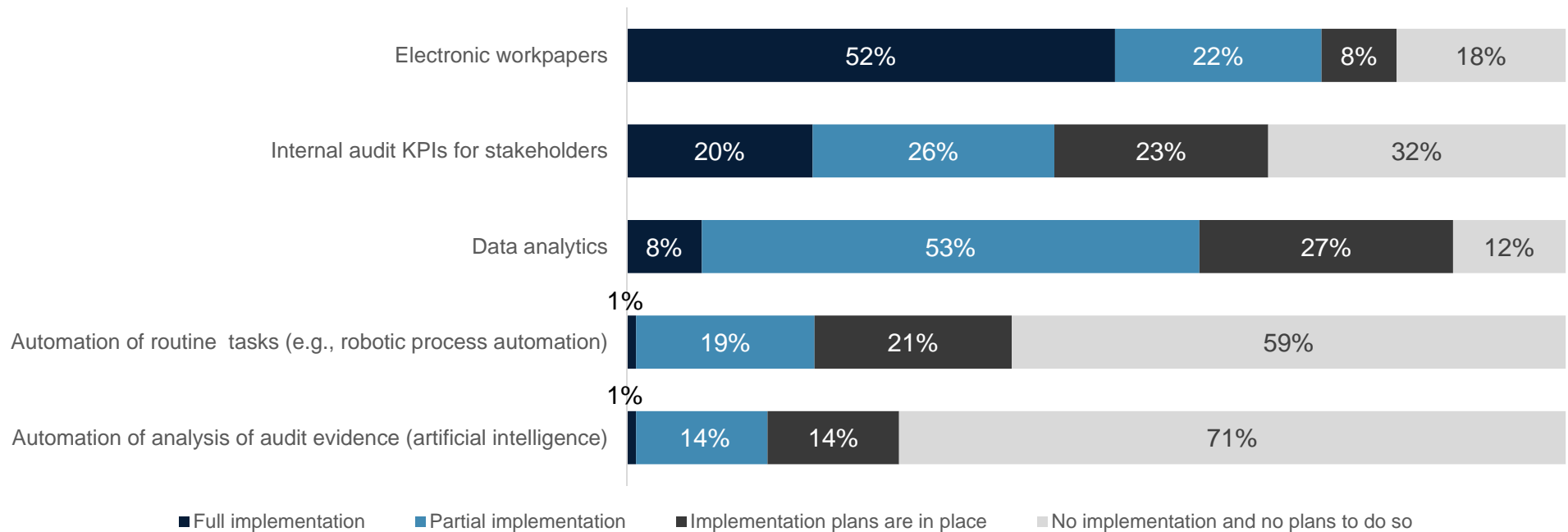
# CAE ASSESSMENT OF INTERNAL AUDIT INNOVATION

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



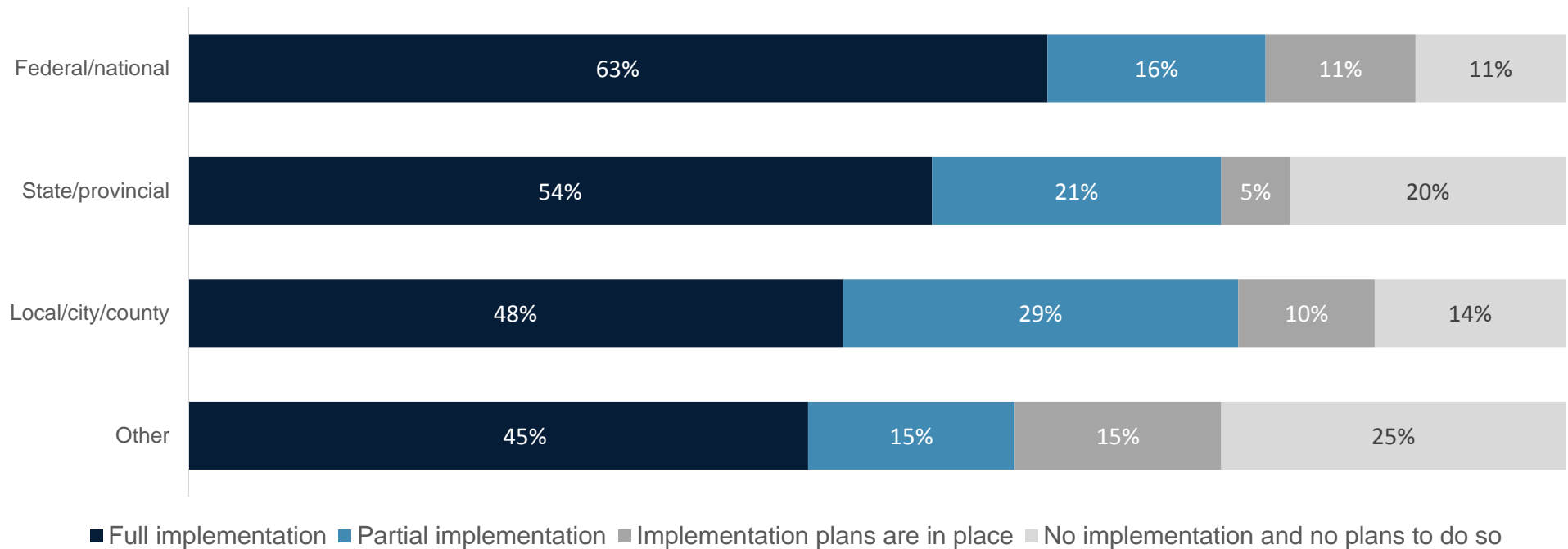
# IMPLEMENTATION OF NEW TECHNOLOGY AND IDEAS

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



# ELECTRONIC WORKPAPERS

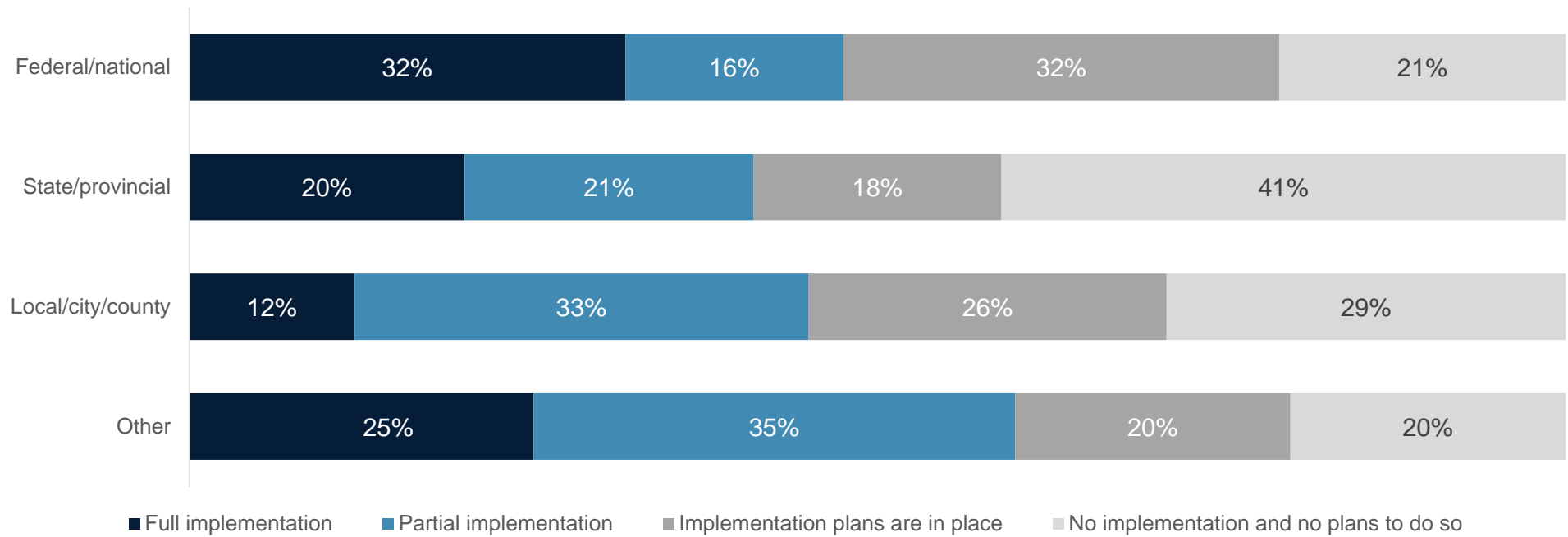
Implementation of Electronic Workpapers Compared to Public Sector Type





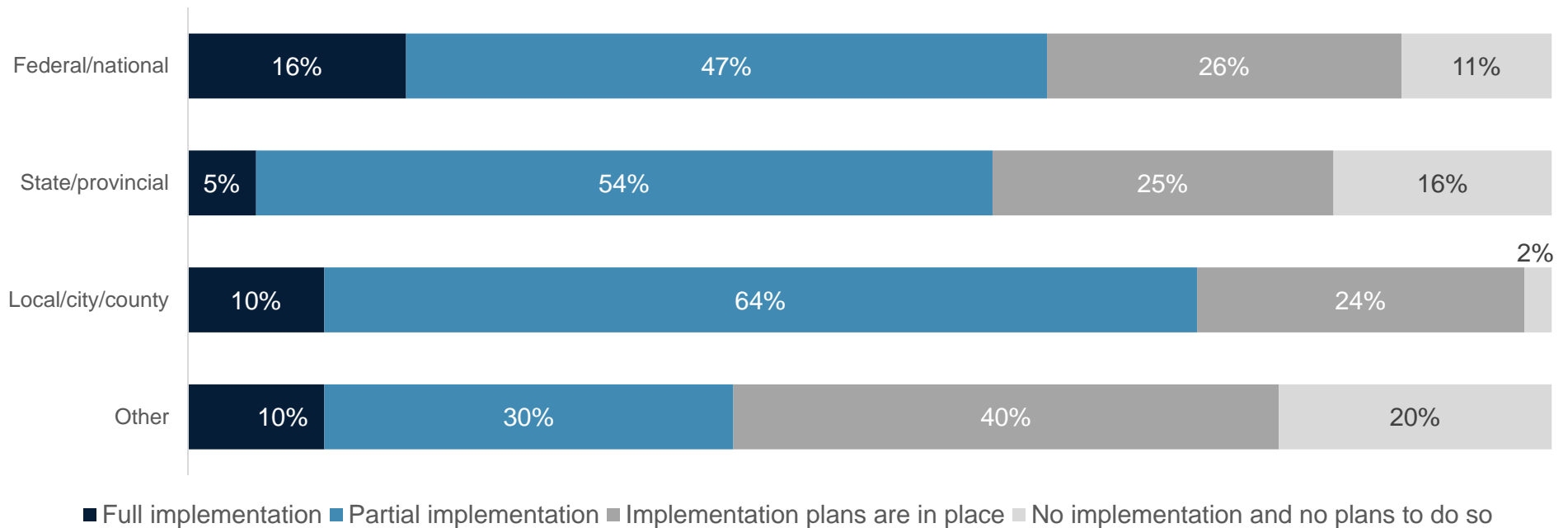
# INTERNAL AUDIT KPIS FOR STAKEHOLDERS

Implementation of KPIs for Stakeholders Compared to Public Sector Type



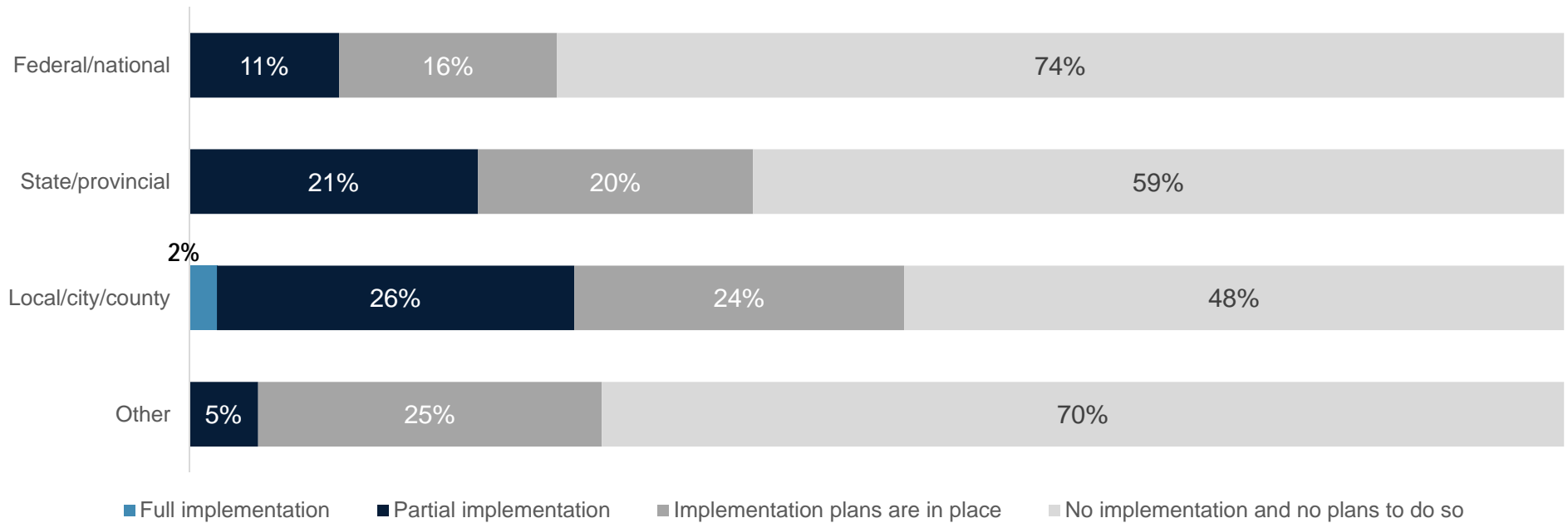
# INTERNAL AUDIT USE OF DATA ANALYTICS

Implementation of Data Analytics in the Internal Audit Function



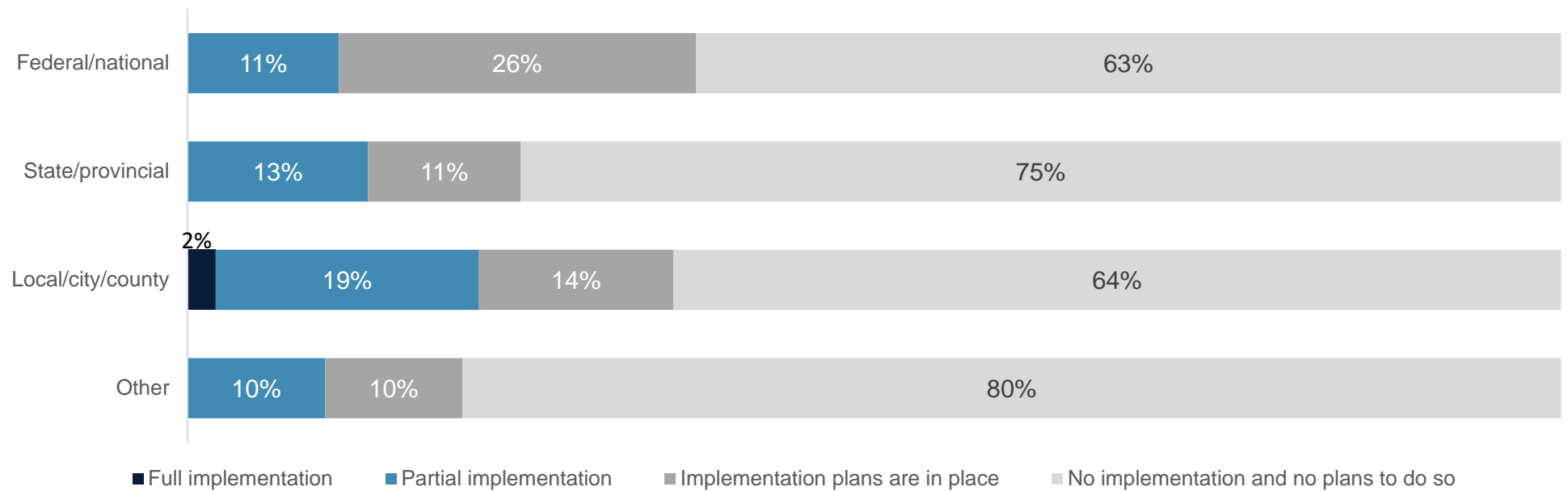
# AUTOMATION OF ROUTINE INTERNAL AUDIT TASKS (ROBOTICS)

Automation of Routine Internal Audit Tasks (Robotics)



# 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



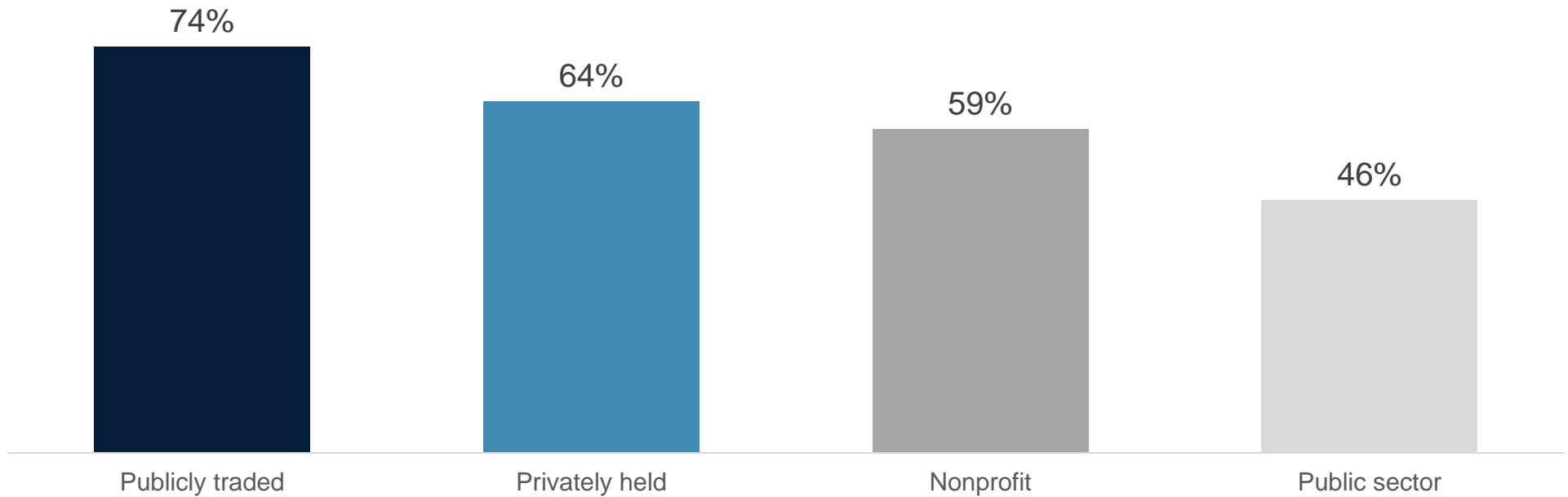




# Talent: Focus on Tomorrow's Risks

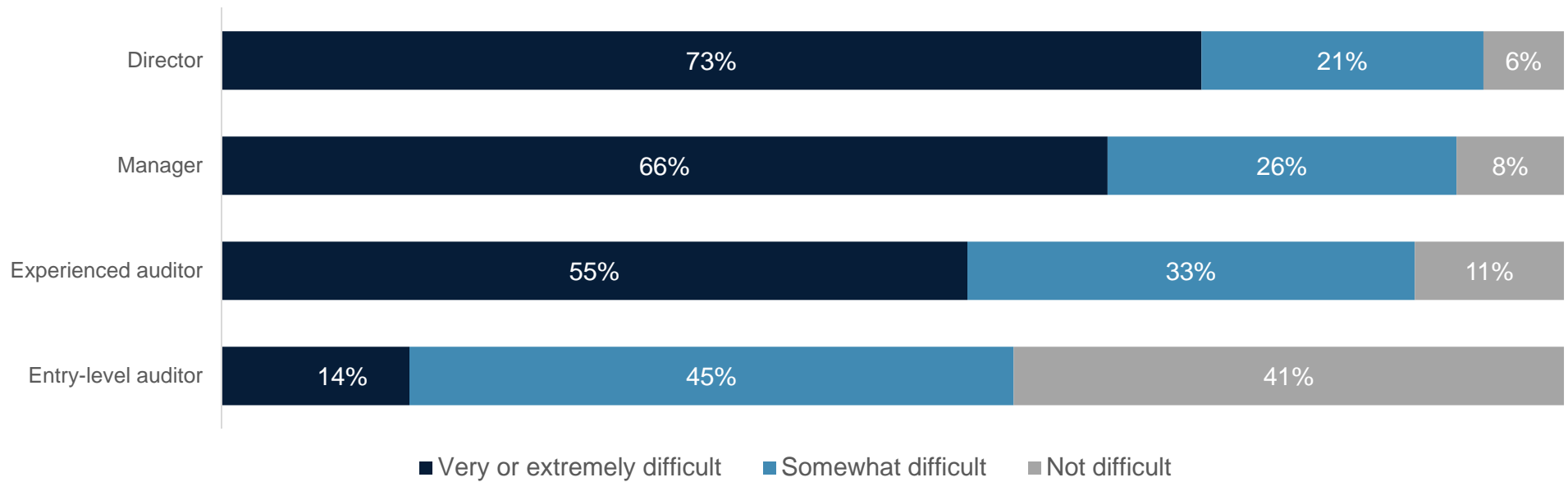
# SUFFICIENT STAFF TO ACHIEVE OBJECTIVES

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



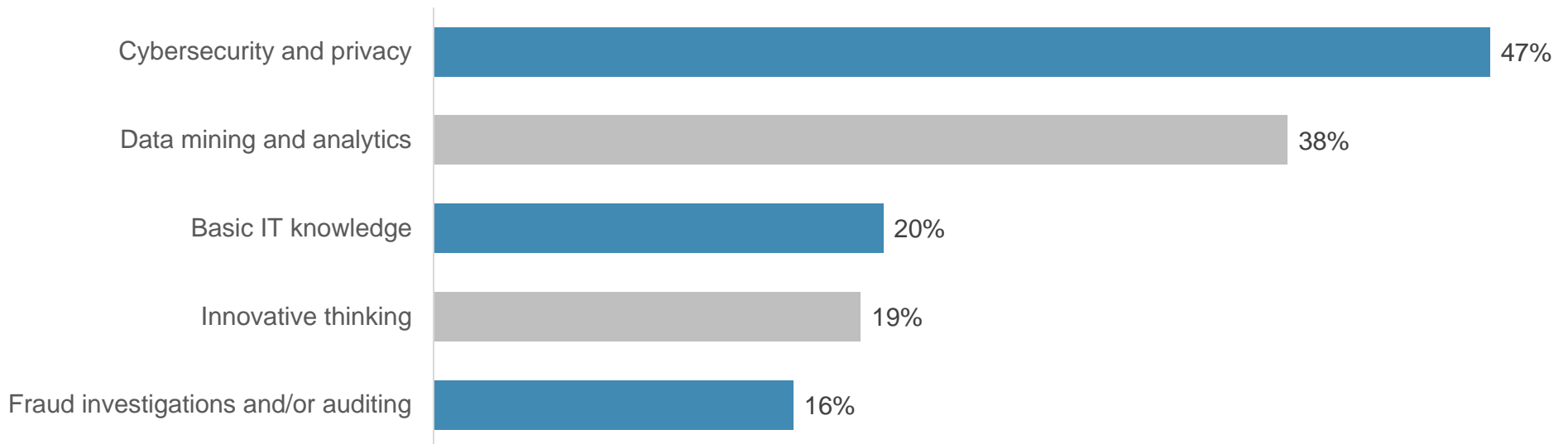
# RECRUITING DIFFICULTY PER STAFF LEVEL

Level of Difficulty



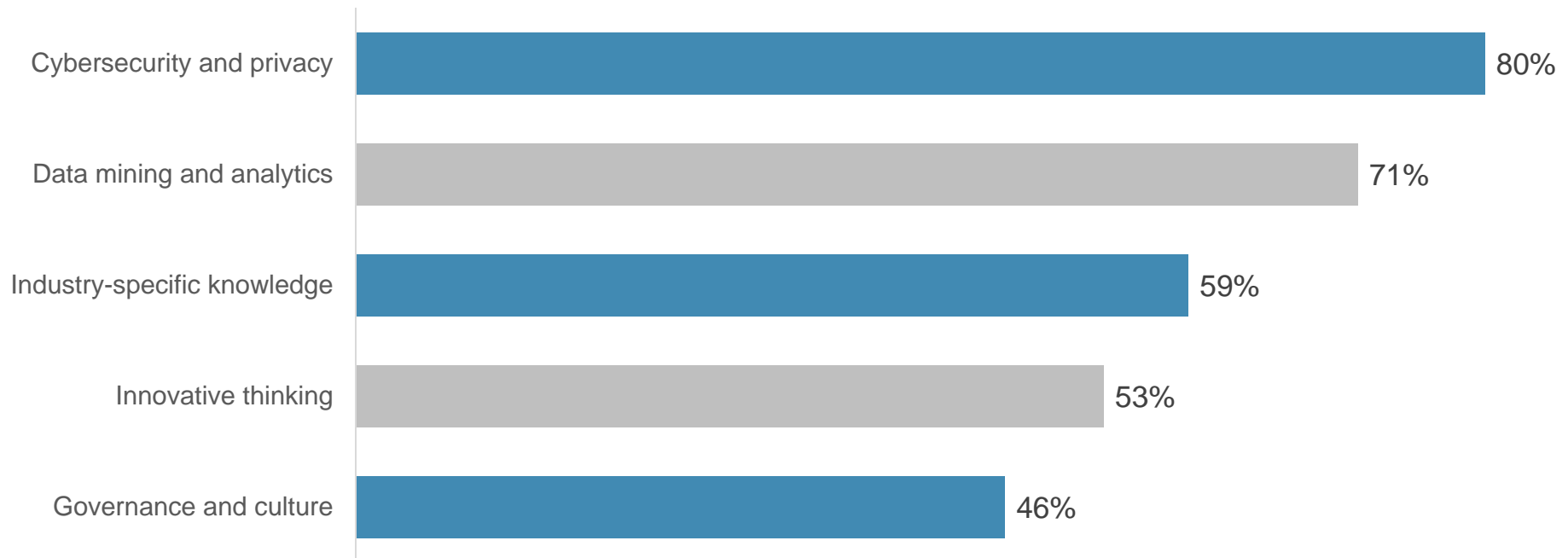
# SKILLS FOR WHICH COLLECTIVE COMPETENCY IS NOT ADEQUATE

"Strongly" or "Somewhat" Disagree Competency Is Sufficient



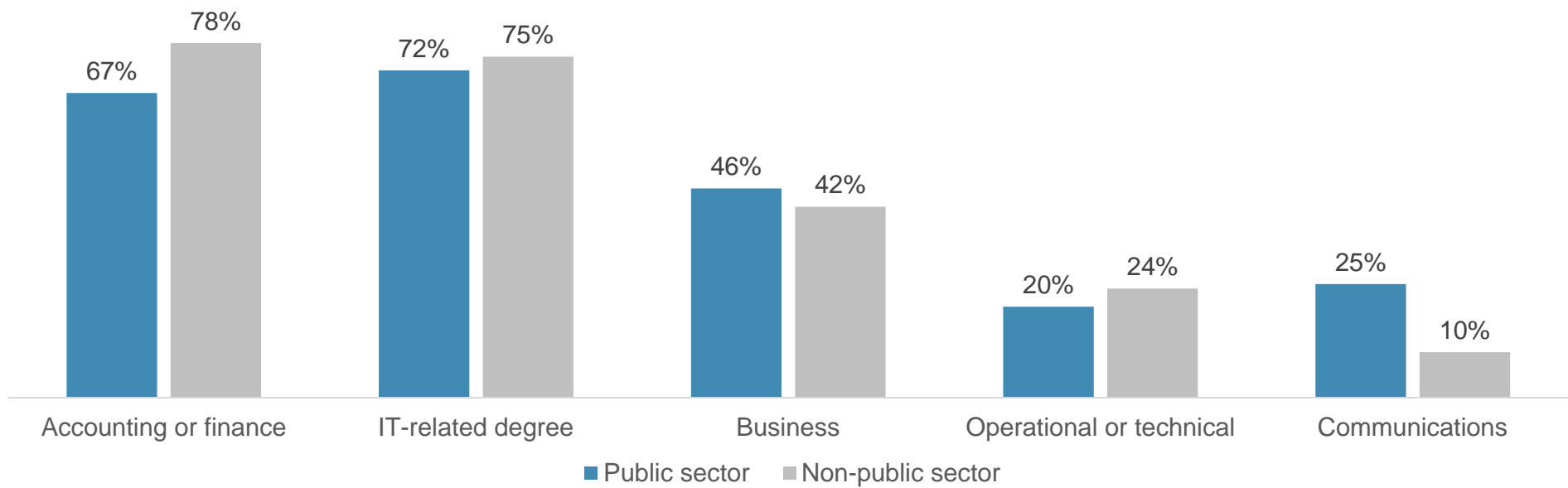
# COMPETENCIES WITH MOST RECRUITING DIFFICULTY

"Very" or "Extremely" Difficult



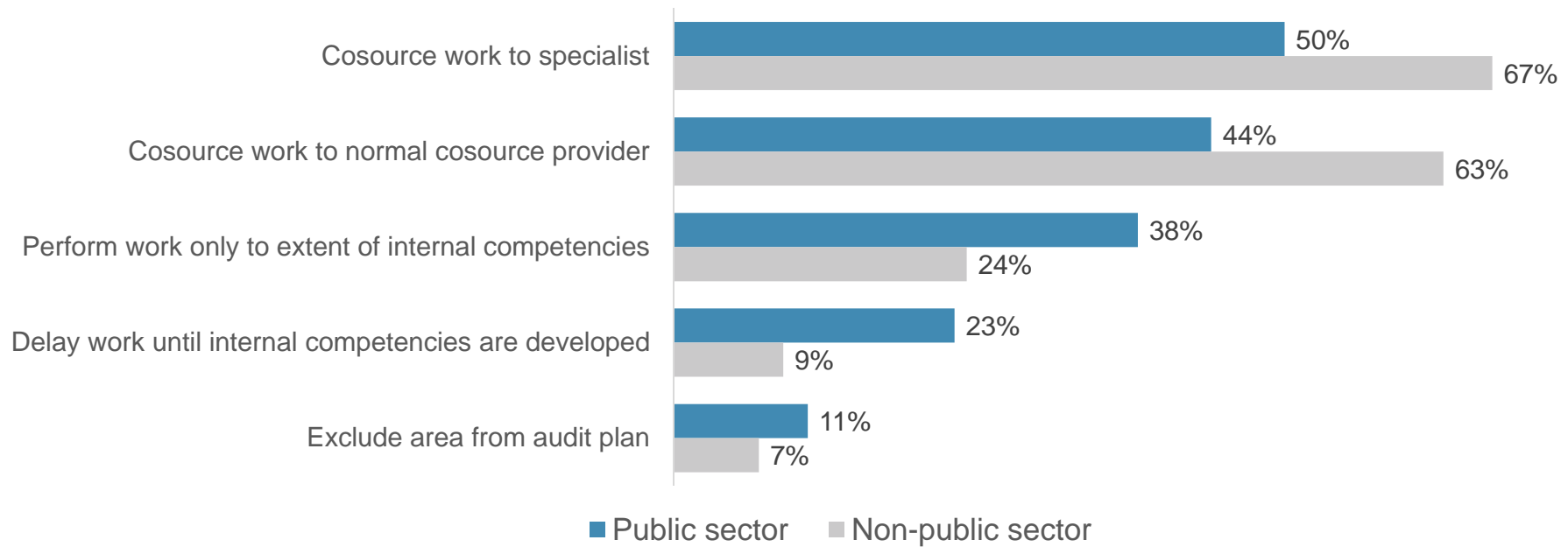
# ACADEMIC DEGREES PREFERRED IN RECRUITING

"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

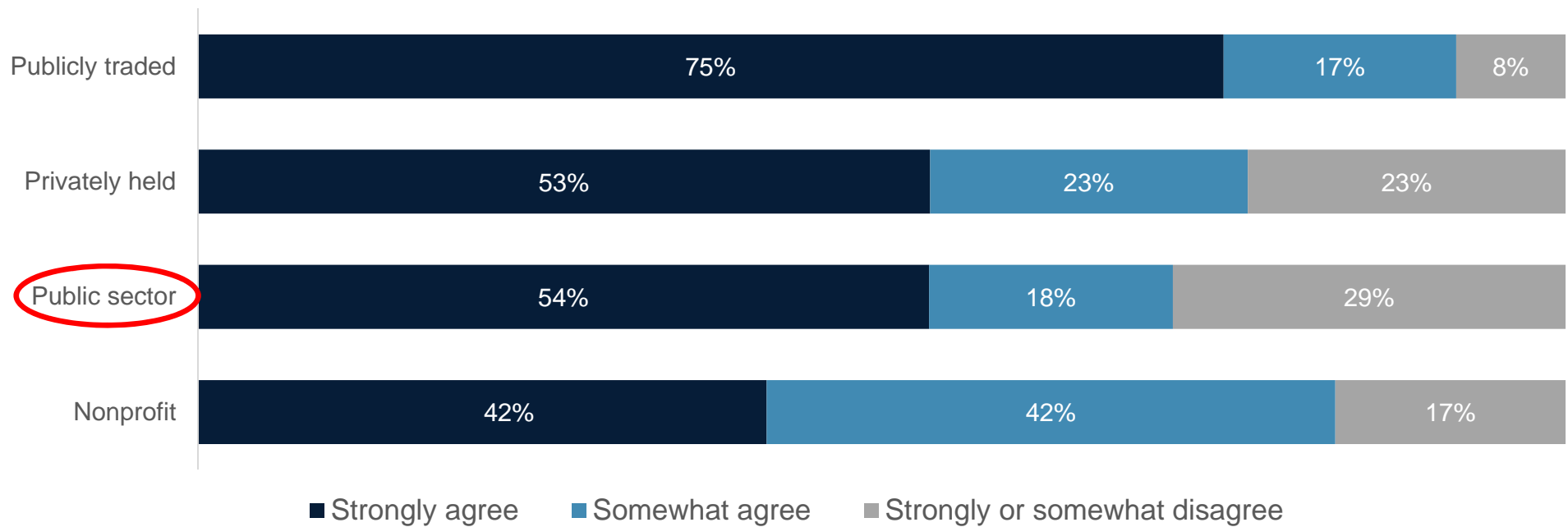
- Professional development and nonconventional training opportunities including one-on-one coaching, team coaching, and self directed or high impact learning opportunities wiled influence when attempting to recruit and retain employees
- Need a supportive culture for professional development
- Develop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





# Board: Move from Oversight to Engagement

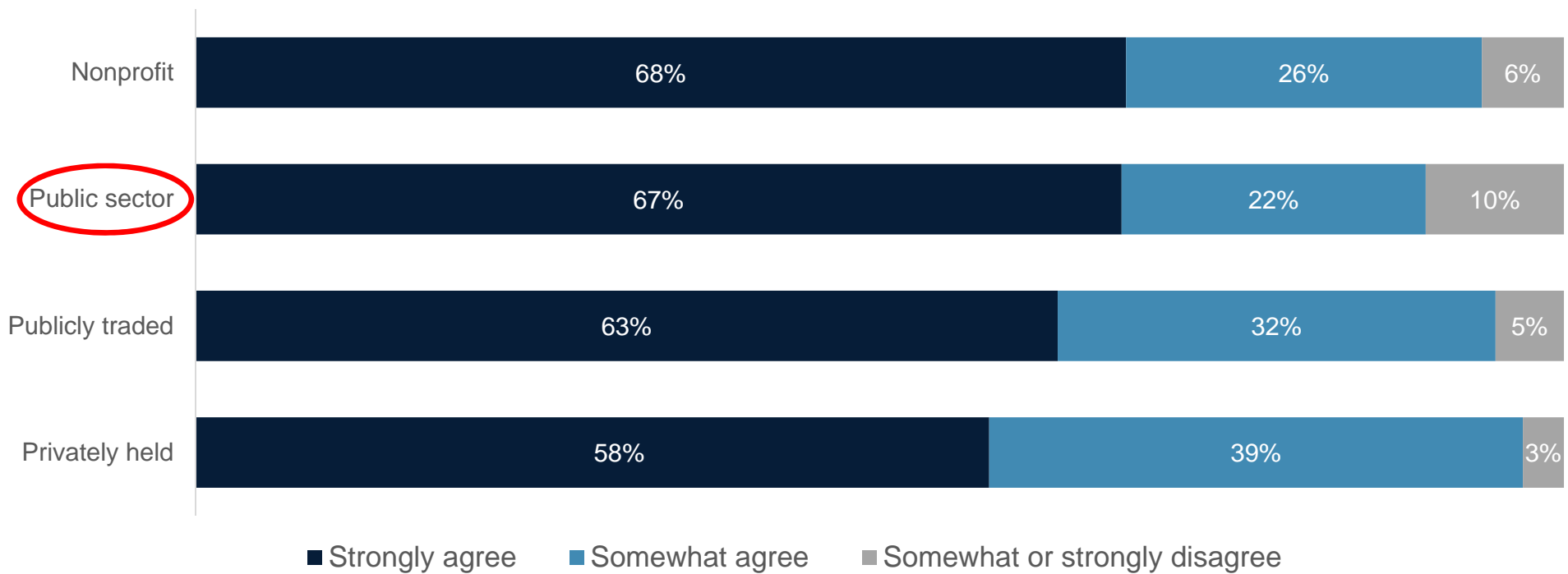
# CAE MEETS WITH AUDIT COMMITTEE CHAIR WITHOUT MANAGEMENT\*



\*Among those with audit committees

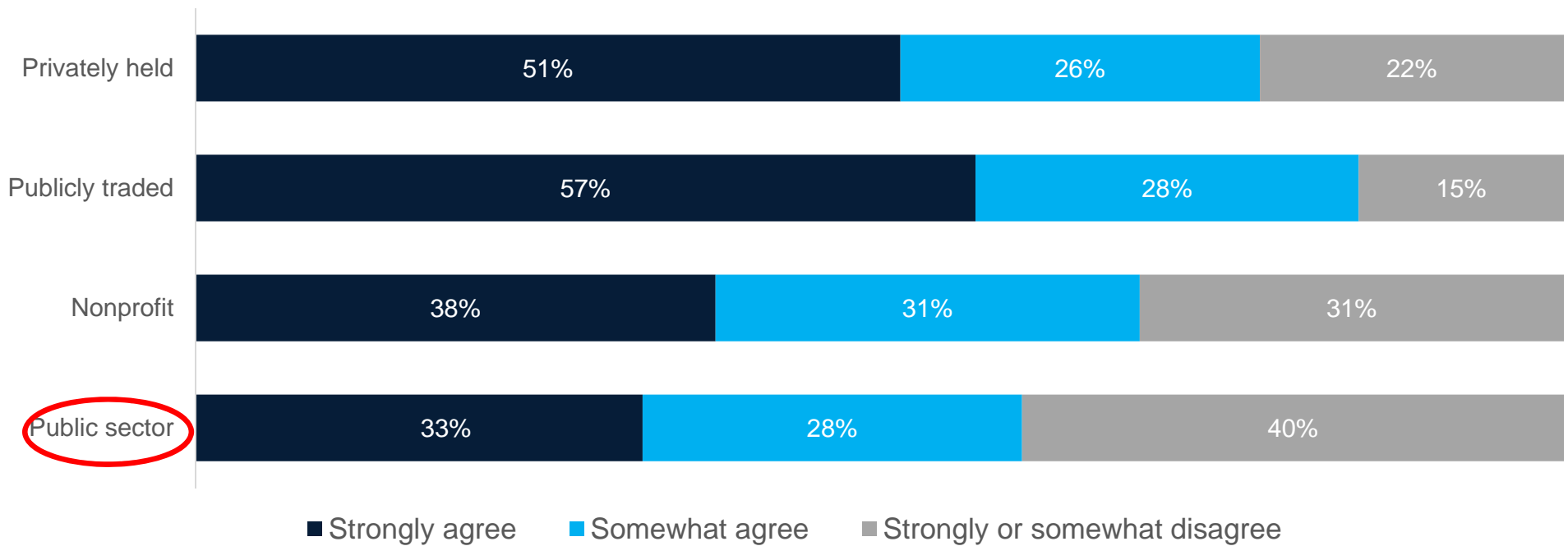


# AUDIT COMMITTEE INPUT INCLUDED IN INTERNAL AUDIT PLAN



\*Among those with audit committees

# 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

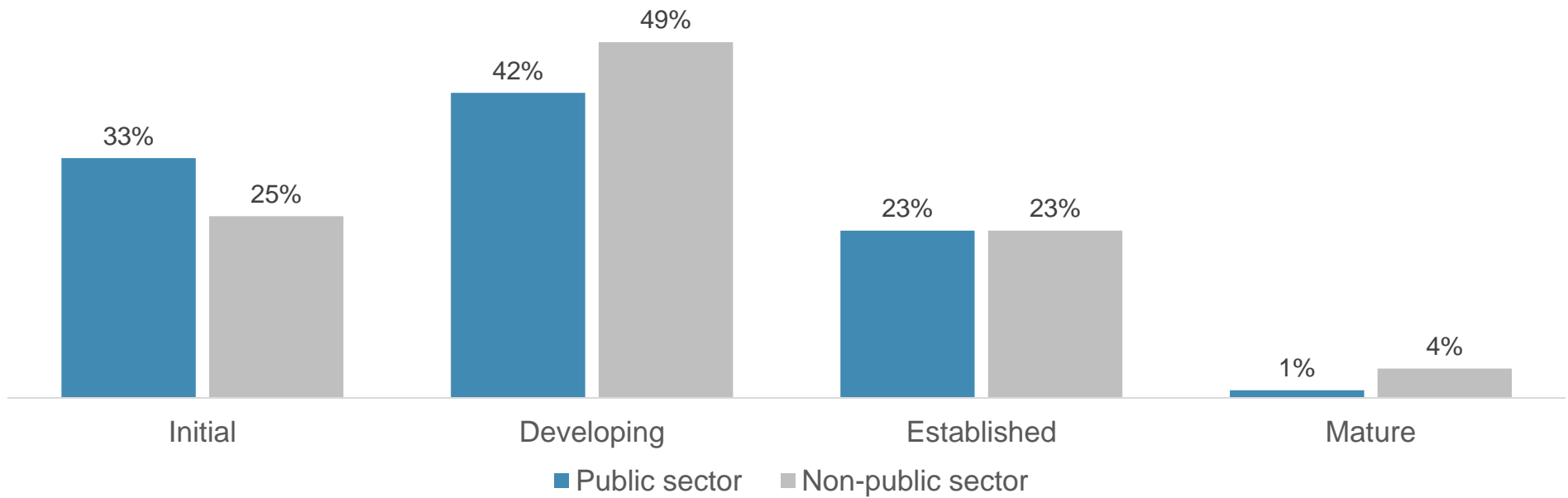
- Relationships with management can vary substantially over time and within the organization
- CAE's should work to build awareness among audit committee members that the audit committee is the true driver and enabler of internal audit effectiveness
- The audit committee needs to fully understand internal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





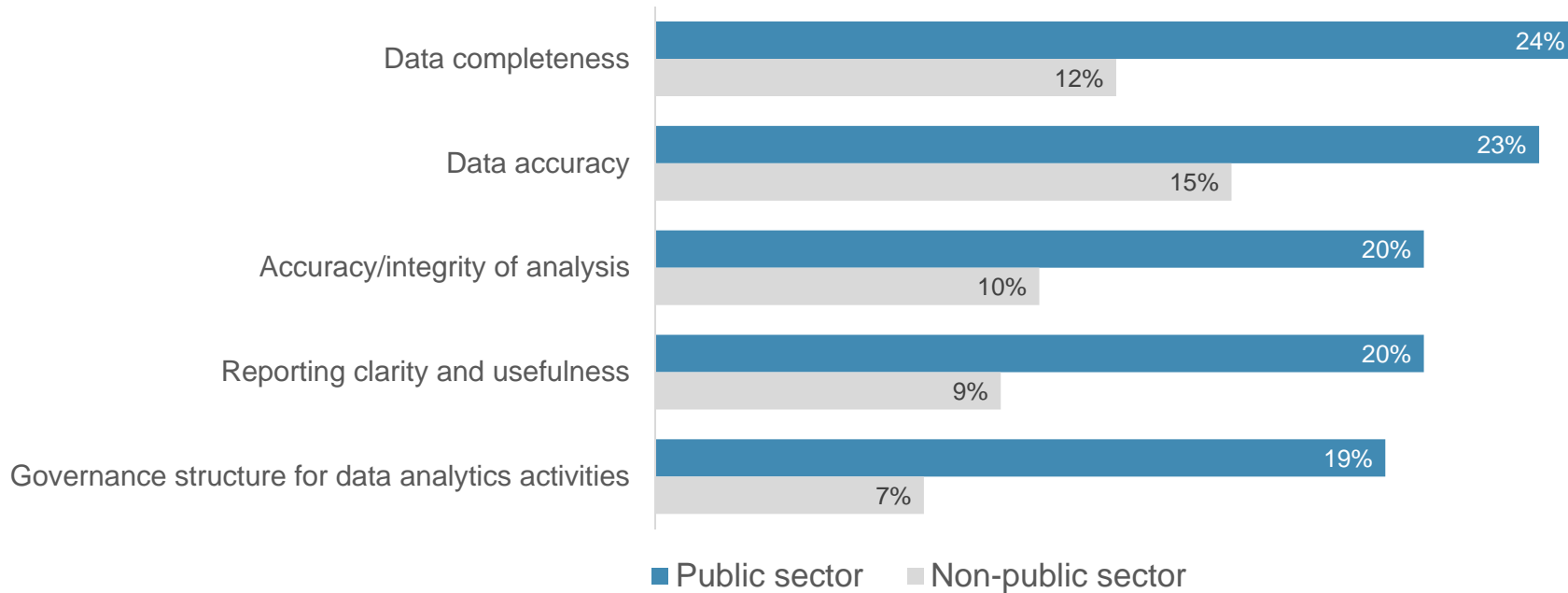
# Risk Insight: Organizational Use of Data Analytics

# ORGANIZATIONAL MATURITY FOR USE OF DATA ANALYTICS



# RESIDUAL RISK RELATED TO ORGANIZATION'S DATA ANALYTICS

Residual Risk Rated as "Extensive"



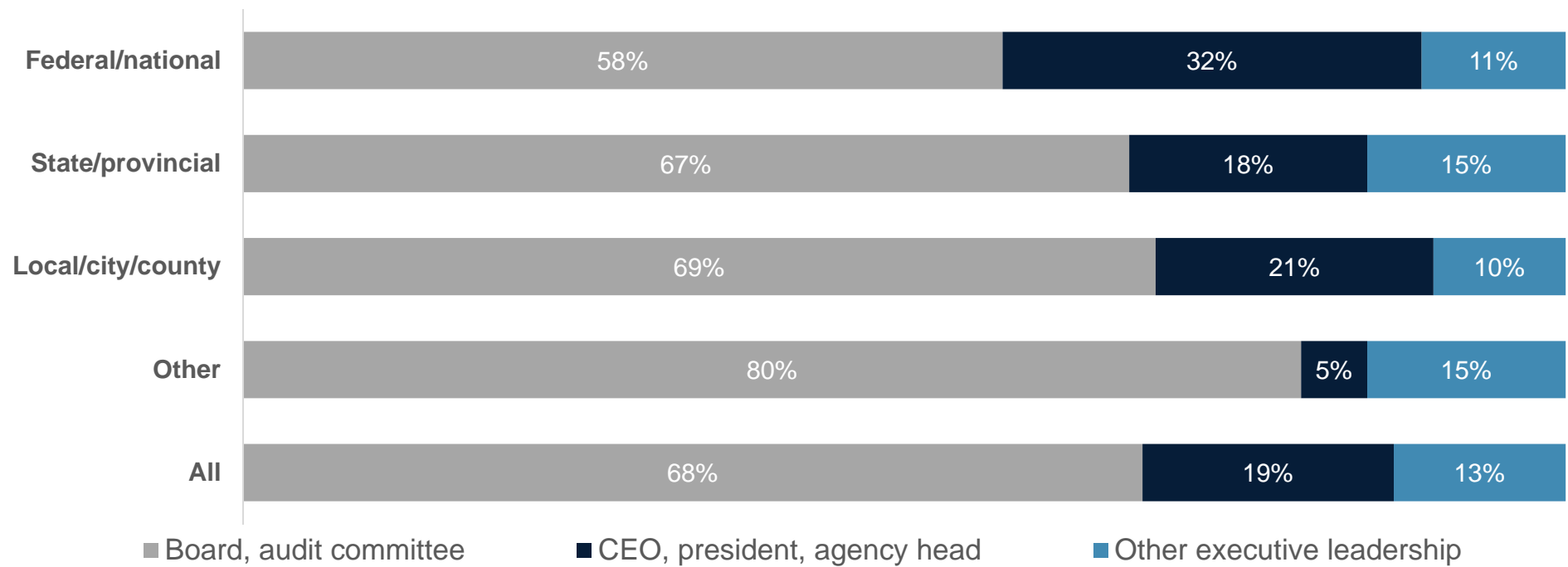




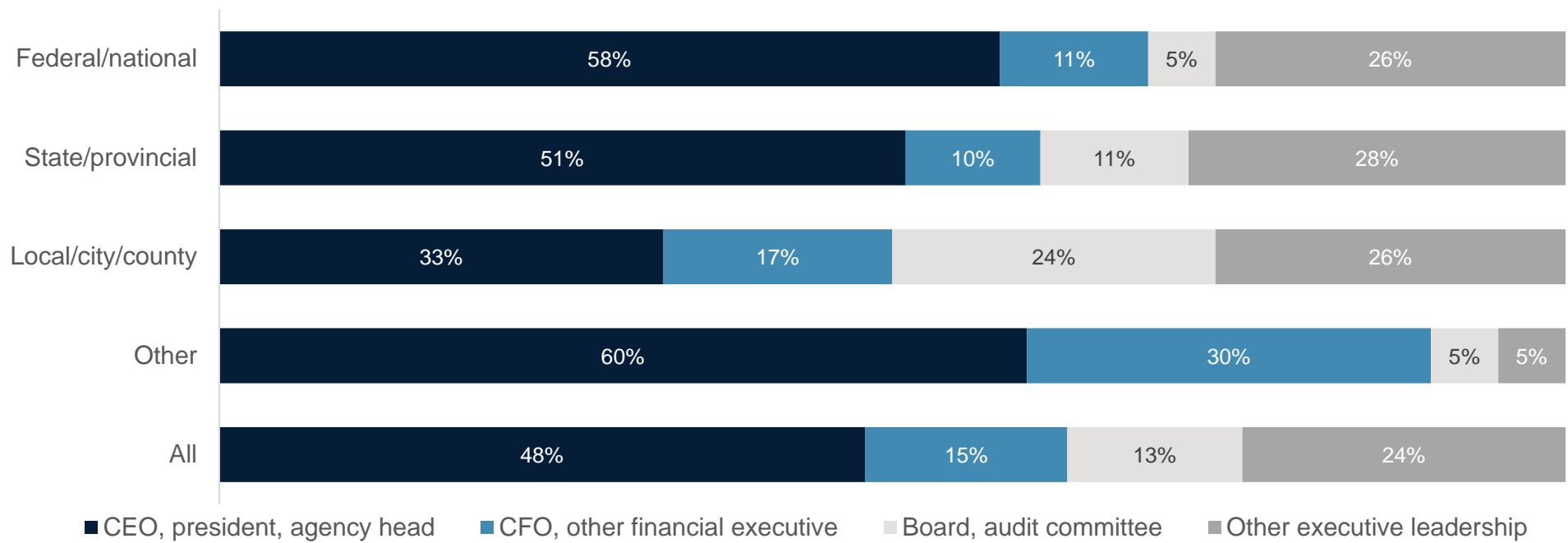
# Internal Audit Management Insights

## Public Sector

# FUNCTIONAL REPORTING LINES



# ADMINISTRATIVE REPORTING LINES

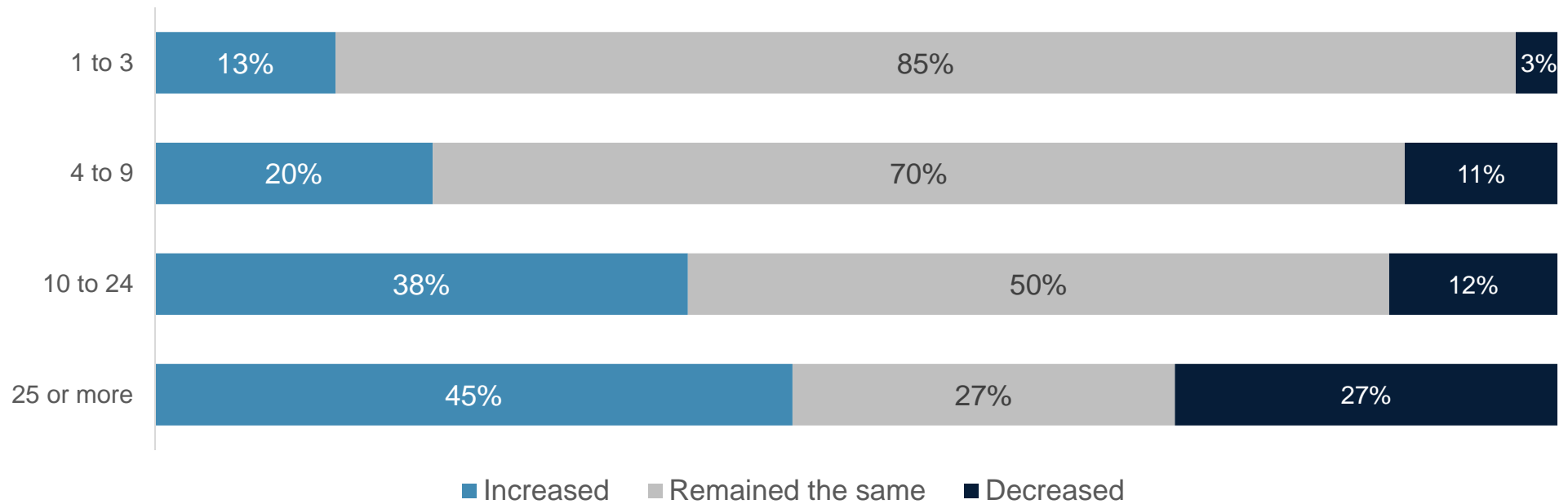


# ALLOCATION OF AUDIT EFFORT BY RISK AREA



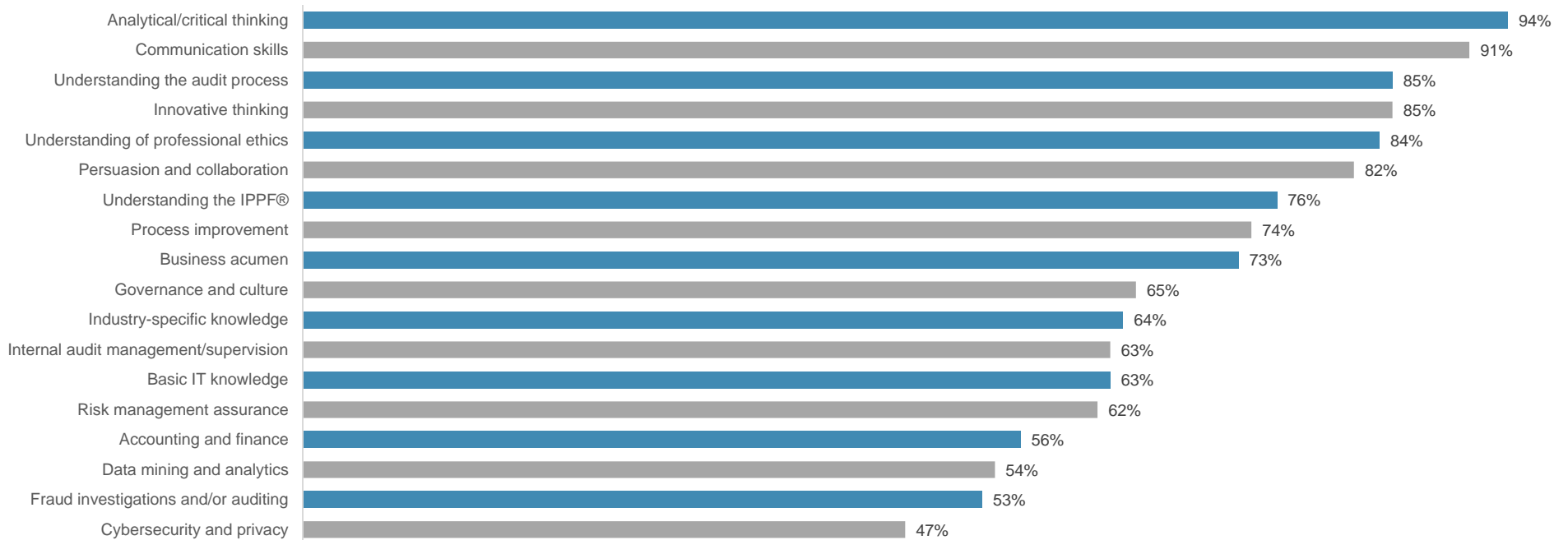
# STAFFING

Staff Size Changes in the Past 12 Months



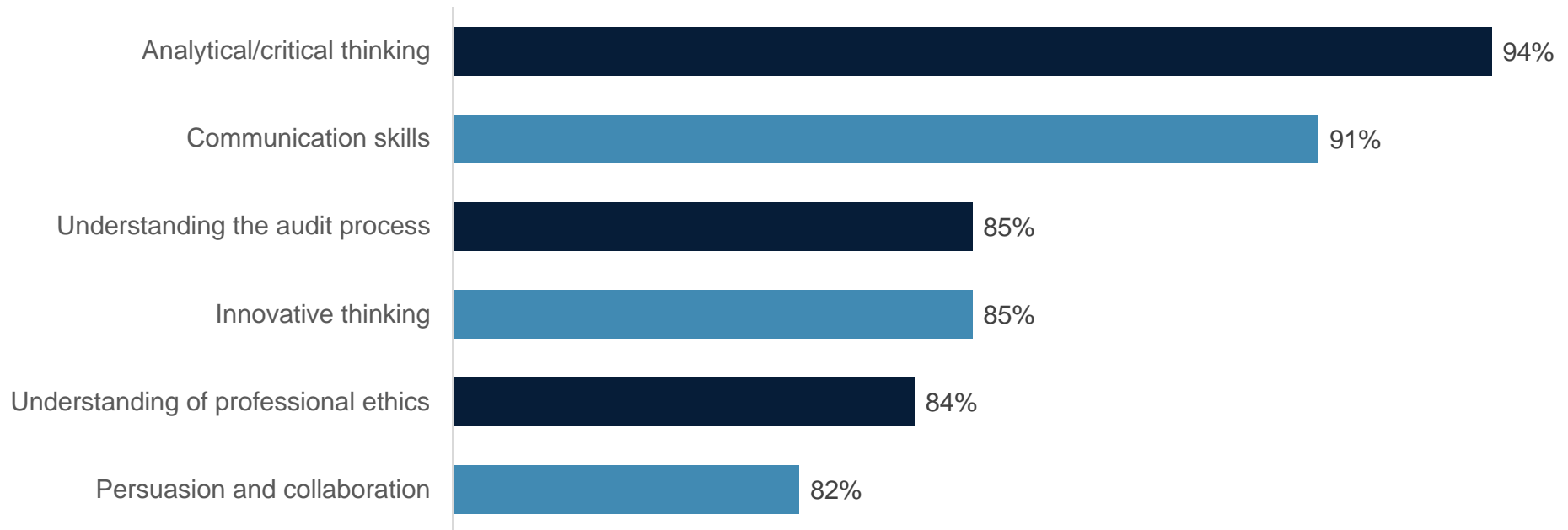
# SKILL IMPORTANCE FOR INTERNAL AUDIT - OVERVIEW

"Most" or "Very" Essential



# SKILL IMPORTANCE FOR INTERNAL AUDIT – TOP 6

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



## VIRTUAL SYMPOSIUM JULY 24, 2018

- Richard Chambers, President and CEO IIA “Challenges and Opportunities in the Public Sector in 2018 and Beyond”
- Janet St. Laurent, Director Center for Excellence, GAO, “Keeping Performance Auditing on Track, Tools and Techniques For Facilitating Critical Thinking”
- Theresa Grafenstine, Chairman of Board ISACA, “Cyber Security Threats in the Public Sector are you Prepared”
- Jon Rymer, Former Inspector General Department of Defense, “Shaping the Tone at the Top from the Audit Perspective”



# QUESTIONS

# THANK YOU FOR YOUR TIME AND ATTENTION!

IIA CHAPTER CHICAGO | 58<sup>TH</sup> ANNUAL SEMINAR



**John Wszelaki, CIA, CRMA, CFE**

Director, American Center of Government Auditing

The Institute of Internal Auditors

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

407-937-1409