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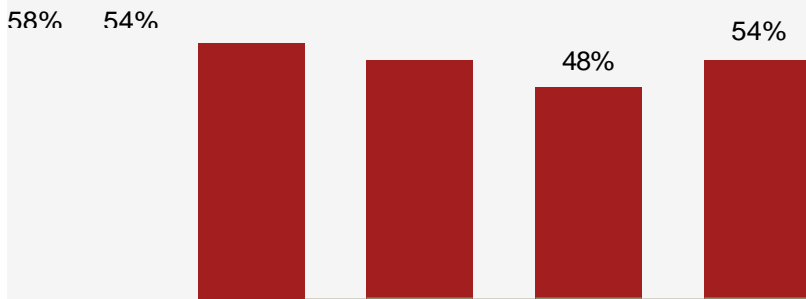
## *The eight attributes*

Delivering internal audit excellence as stakeholders expect more



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*Stakeholder expectations of Internal Audit are rising at the same time Internal Audit's mandate is becoming more complex. As expectations rise, PwC's trend data shows that Internal Audit has increased the value it delivers. While this is a positive trend, there is room for improvement as*



*stakeholder perception of Internal Audit performance has remained flat.*

**Figure 1:**  
**Stakeholder perception of internal audit value**

2013      2014      2015      2016

**% of stakeholders reporting internal audit adds significant value**

Source: PwC State of the Internal Audit Profession Study, 2013-2016



Our research tells us that only 11% of stakeholders (board members and senior management) characterize their internal audit functions as providing value-added services and proactive advice. Chief Audit Executives (CAEs) clearly know that more is being expected with 66% indicating they will be evolving their delivery model to provide these services in the next five years.

## The eight attributes: Delivering internal audit excellence as stakeholders expect more

### Finding your focus – keeping pace with stakeholder expectations

Discussions with stakeholders and CAEs as well as our experience delivering internal audit services have consistently pointed to the importance of eight core attributes (Figure 2) shared by well-regarded internal audit functions, regardless of their mandate, scope of work, or size. PwC introduced these attributes in 2010 and our research continues to tell us that there is a strong correlation between stakeholders' perception of value and internal audit's performance against these attributes. Stakeholders also shared that the highest performing internal audit functions, those adding the greatest value to their organizations, are not only delivering on their core mandate

of providing assurance but are aspiring to deliver value as a trusted advisor, a concept introduced by PwC in 2013 and further explained in Figure 3.

In this paper, we provide more insight into these eight attributes, and how internal audit leaders can think about their own performance in delivering the value stakeholders expect.

Figure 2:  
Eight core attributes

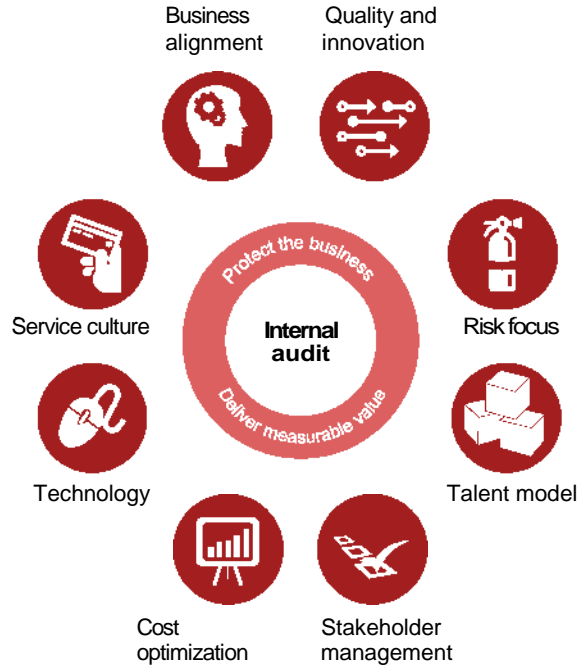
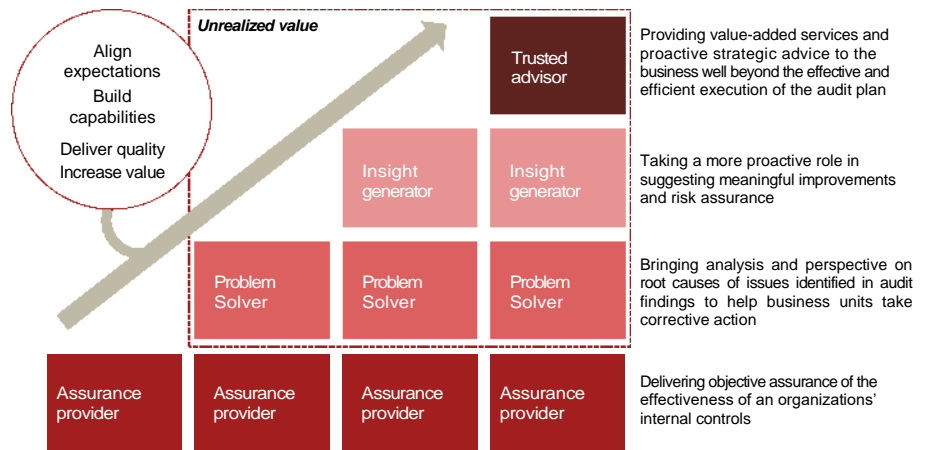


Figure 3:



84% of Internal Audit functions classified by stakeholders as Trusted Advisors report very effective leadership

## The eight attributes: Delivering internal audit excellence as stakeholders expect more

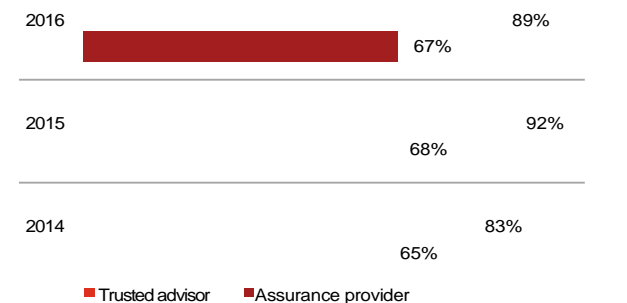
### Business alignment

#### What it means

Internal Audit has a clear understanding of the strategic direction of the company and the expectations of its stakeholders. It aligns its scope and resulting audit plan with the business direction in the context of these expectations. The function maintains alignment through strategic planning and coordination with other lines of defense. Internal Audit incorporates stakeholder expectations into its mission and vision and clearly defines the value it will deliver to the organization.

Measurement of progress toward the mission and vision and resulting actions to align with the business are communicated. To deliver on this attribute, Internal Audit routinely stays abreast of business goals, objectives and decisions while keeping a pulse on the company through its regulatory filings, competitor and industry information, and insights gained through participation in strategic discussions.

#### How internal audit is performing



% of companies where Internal Audit is performing well at business alignment

Source: PwC State of the Internal Audit Survey Study, 2014-2016

### Capturing unrealized value

Alignment with the business is critical to Internal Audit achieving its mandate to serve the company. Research reveals one-third of stakeholders who perceive their internal audit function as providing assurance level service do not feel they are performing well at this attribute. We often speak about internal audit leadership having a “seat at the table,” and many believe this is accomplished through regular attendance in strategic meetings. However, it is what CAEs do with that seat at the table that changes the perception of stakeholders. Assurance providers often remain on the periphery of the discussion

and focus resources on auditing risks and controls related to initiatives once the business moves forward. From the vantage point of the stakeholder, a trusted advisor typically has a more collaborative and active seat at the table, providing a proactive point of view on risk. Trusted advisors are sharing insights on how to navigate the most critical risks as strategic decisions are made and aligning their talent model to address risks as they unfold.

### Attributes at work

*Intuit is a financial software company headquartered in the U.S. Seven years ago Intuit's internal audit function was comprised of six people. Today it has evolved into a highly valued function five times its earlier size. Internal Audit is seen as having a very strong brand and a holistic outlook. Team members are viewed as subject matter experts with insights and access across the company.*

*During this transition, two strong professionals led the elevation of the function's status within the organization. Initially, Internal Audit's leader was an executive from inside Intuit, deeply knowledgeable about many facets of Intuit's business. This worked to position Internal Audit as a team that could help drive change and evaluate decision options. When areas such as security, logical access and large system implementations were identified, the company began turning to Internal Audit for expertise. As the function matured and elevated in value, Intuit hired a new internal audit executive – a seasoned internal audit professional and strong leader. This individual has been instrumental in bringing in innovative internal audit practices, and building the current team and breadth of skills required. Internal Audit is now a conduit for top caliber talent joining the function and often going on to other management roles. This broad set of skills and ability to attract top talent, allows internal audit to more closely align with the business, provide proactive advice, and add value regardless of where risks are arising in the business.*

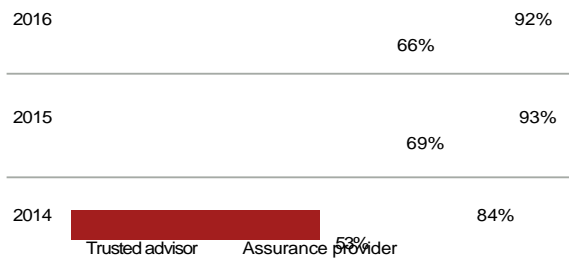
## The eight attributes: Delivering internal audit excellence as stakeholders expect more

### Risk focus

#### What it means

Internal Audit takes a holistic view of risks that considers internal, external and emerging risk factors. The function has a thorough understanding of the company's risk culture, the risk appetite of the business, and regulatory and legal requirements. Internal Audit invests the appropriate time to perform a dynamic risk assessment that encompasses top-down, strategic perspectives focused on identifying the most critical risks facing the business today and in the future. This strategic top-down risk focus is often calibrated with a bottoms-up approach centered on where risks are manifesting themselves in the business today. For certain areas, such as IT risks, a second-tier, more specific risk assessment is performed, leveraging subject matter experts to pinpoint where these risks may materialize. In anticipation of business changes and at regular intervals, the risk assessment is refreshed to keep the audit plan focused on the most critical and value added areas.

#### How internal audit is performing



% of companies where Internal Audit is performing well at risk focus

Source: PwC Assurance and Internal Audit Study, 2014-2016



2014-2016

### Capturing unrealized value

The risk assessment process is not only a requirement to meet IIA standards, but foundational to how Internal Audit develops both its strategic vision and audit plan. How a risk assessment is carried out, the frequency with which it is updated, coordination with other lines of defense and the resulting audit approach can make all the difference in the value Internal Audit delivers. Those internal audit functions delivering the greatest value are

continuously evaluating the risk profile of the organization and anticipating changes versus reacting to them. These functions understand the various second line of defense activities and their respective maturities. For example, often times Internal Audit is evaluating the Enterprise Risk Management function, adapting the internal audit plan to focus on management's response to risks and then refining the plan to focus on the residual risk.

While assurance providers are focusing on risks from an inside point of view, trusted advisors are gathering internal and external points of view by researching industry trends and leveraging subject matter expertise. Trusted advisors then incorporate these factors into their audit plan and share the insight gained with the business, enabling the business to more proactively manage or take advantage of the risks. Trusted advisors do not limit their audit plans based on their in-house capabilities, they go outside to find the right resources to address the risks facing the business. Leveraging the power of data analytics, reporting and visualization tools, they influence business decisions, and adapt audit coverage to deliver the greatest value.



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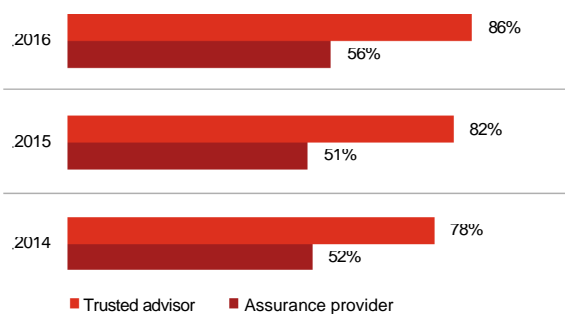
### Stakeholder management

#### What it means

Internal Audit effectively understands and manages relationships with a broad set of stakeholders. Stakeholder expectations are well understood across the function and communication protocols are in place. The internal audit strategic plan is calibrated to align with these expectations. A shared definition of value is measured through one-on-one feedback sessions and surveys allowing for timely action on feedback. Internal Audit communicates with impact, leading value-driven conversations. An effective stakeholder management plan often enhances business alignment and elevates Internal Audit's awareness and resulting focus on critical risks.

#### How internal audit is performing

##### Capturing unrealized value



% of companies where Internal Audit is performing well at stakeholder management

Source: PwC State of the Internal Audit Profession, 2014-2016

A strategically designed communication plan is at the core of stakeholder management. Many internal audit functions believe they communicate well. They share the audit plan, hold audit kick off meetings, report out on findings and observations, follow up on resolution of audit issues and listen to the auditees throughout the process. Yet, often there is limited interaction outside of these activities, resulting in misalignment between expectations and what Internal Audit is delivering. Trusted advisors often drive accountability

across their teams by structurally aligning individual team members to specific stakeholders, providing clear expectations to expand interaction beyond the audit and routinely measuring results and driving actions to improve performance. When done well, value is delivered. Internal audit team members enhance their understanding of the business and its risks through these interactions and are in turn able to be more responsive in adapting audit plans and talent model as new risk areas emerge.

#### Attributes at work

*At Hewlett Packard Enterprises (“HP”), Internal Audit collaborates across the business in multiple ways, maintaining alignment while still achieving objectivity. They are an active participant within the company’s Risk Council that convenes enterprise risk management, legal and regulatory compliance, cyber security, and global resiliency to discuss global risk management activities and explore opportunities to optimize risk management. They are an advisor to the ethics and compliance committee and work with ERM to identify mega risks for the company and provide input to the risk vetting process.*

*Many of HP’s business units have a compliance function and sub-specialties within that such as global trade or sales operations. Internal Audit routinely interacts with these areas to share knowledge and build awareness. Further, Internal Audit offers a certification program for the various second line of defense functions wanting to build their skill sets and achieve higher levels of maturity, which enables a higher level of reliance on the work product and conclusions of these other assurance providers by Internal Audit and others and drives improved alignment between the various risk and compliance functions and internal audit.*

*Internal Audit’s active effort to remain aligned to the business and engage in strategic initiatives pays off. Stakeholders view Internal Audit as innovative and adaptive to business change. Internal Audit is seen as a valuable strategic partner that understands risks and sees issues across the enterprise and is called upon to contribute thought leadership on navigating risks through many of HP’s business opportunities and challenges.*



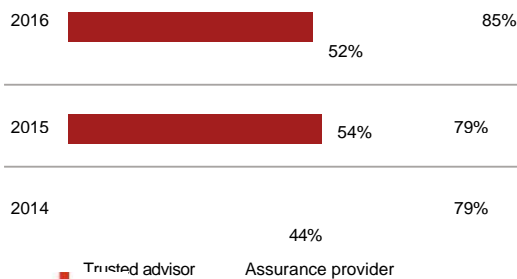
## The eight attributes: Delivering internal audit excellence as stakeholders expect more

### Cost optimization

#### What it means

Internal Audit optimizes cost by delivering efficient and value-added services through robust, well communicated audit methodology and processes. Methodology is regularly evaluated, the use of analytics is embedded throughout, and processes are standardized and simplified to maximize effectiveness while optimizing cost. Flexible staffing models are inclusive of: internal and external resources; various staff levels; strategically positioned resources (globally, if applicable); and specialized skillsets (such as IT and sector expertise). Processes are in place, such as time reporting, to measure productivity and cost-effectiveness of services. Investments in internal audit infrastructure are aligned to the same metrics used by other service functions within the business.

#### How internal audit is performing



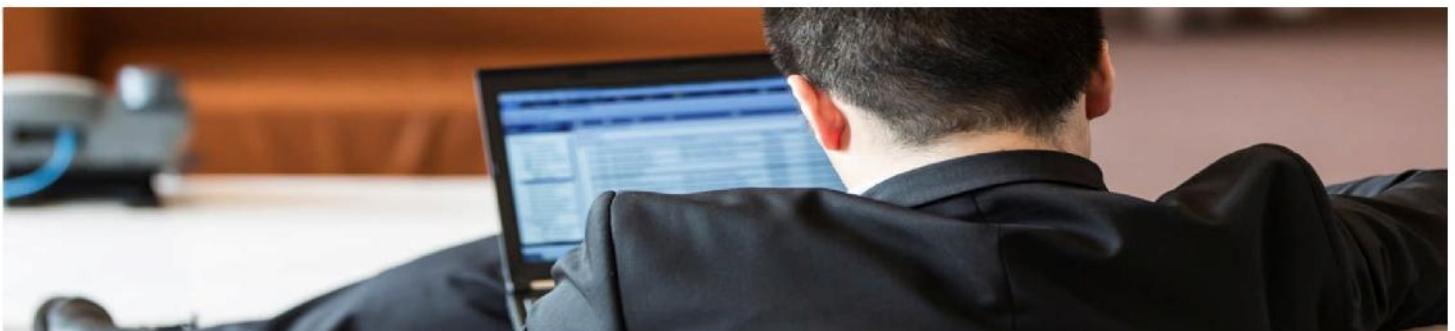
% of companies where Internal Audit is performing well at risk focus

Source: PwC Center for Internal Audit Process Study 2014-2016 20

### Capturing unrealized value

While the business environment and resulting risks continue to evolve dramatically, internal audit budgets are not increasing at the same pace, driving internal audit leaders to continuously do more with the same or less budget. How internal audit functions address these realities is often indicative of where they fall on the value spectrum. Assurance providers are cost conscious and focused on monitoring budgets and staffing levels, limiting expenses and taking corrective actions. With advancements in technology they are also looking to enable processes with better audit management systems and adapt audit strategies to incorporate the power of data analytics within traditional sampling methodologies.

Those internal audit functions delivering at a higher value level have been re-thinking the audit equation from risk assessment to reporting. They are honing in on residual risk by gaining a deeper understanding of second line of defense activities, embedding data analytics to monitor the more traditional risks and creating more cost-effective approaches to audit more complicated risk areas by employing flexible staffing models that more effectively match the supply of specialized skills against demand.



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*The eight attributes: Delivering internal audit excellence as stakeholders expect more*

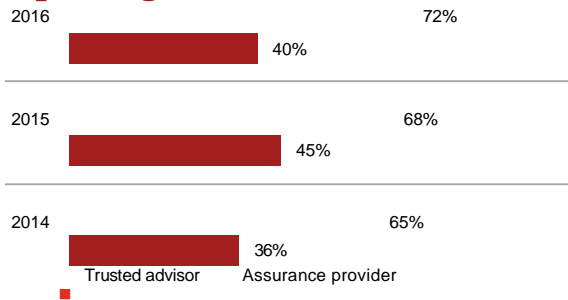
**Talent model**

*What it means*

Internal Audit possesses the appropriate mix of core internal audit talent, subject matter expertise, business acumen and position parity to align to its mandate and meet expectations of stakeholders, including regulators. The talent model is flexible, balancing the need for specific industry and risk expertise against the likely utilization of that expertise. The model includes the incorporation of regular training and performance feedback to enhance the department and facilitate growth and individual leadership development. Talent is managed to include the appropriate balance of technical skills and softer skills such as conflict management, intellectual curiosity, critical thinking, relationship development, and overall leadership.

**How internal audit is performing**

**Capturing unrealized value**



% of companies where Internal Audit is performing well at talent management

Source: PwC State of the Internal Audit Profession 2014-2016

This attribute continues to receive low performance scores from stakeholders—even from those who view Internal Audit as a trusted advisor—indicating the talent model within Internal Audit may not be keeping stride with the changing risk profile of the organization it serves. With the vast majority of functions reporting that financial controls (95%), general information technology (90%) and compliance (89%) skills make up the core of their departments, it is clear that the core skill sets have remained relatively unchanged in the past decade. Meanwhile, risk profiles of companies beyond controls over financial reporting and general IT are increasing in complexity and stakeholders’ demands for Internal Audit’s involvement in these areas is increasing. Those internal

audit functions that are proactively adapting their talent model to address this expanding risk profile are delivering greater value.

This is not an easy undertaking. It requires a dynamic staffing model, which is complex to manage. In these organizations, rotations in Internal Audit are valued and supported by the business leadership, beyond finance. These functions delivering the greatest value are strategic in their use of a co-sourcing partner. Internal audit functions delivering this higher level of value know they have gotten it right when the business takes clear actions based on their recommendations and their talent is sought after by stakeholders to fill business leadership needs beyond financial reporting roles.

**Attributes at work**

*Eli Lilly and Company is a global pharmaceutical company headquartered in the U.S. In addition to covering Sarbanes Oxley (SOX) and financial audits, Internal Audit is heavily focused on IT. Not only does the function require auditors to have specific IT skills, they also must have the global business acumen to work as peers with stakeholders and external auditors. This is what the risk profile of the company demands and stakeholders expect.*

*The department is comprised of a mix of internally and externally recruited talent. The largest source of internal talent comes from the finance and IT organizations but, given Eli Lilly is highly regulated, Internal Audit also recruits from HR, legal, and ethics and compliance. Resources are also recruited with specific industry or regulatory knowledge such as Foreign Corrupt Practices Act, pharmacodes or high-risk areas with health care providers. While technical background is vital, strong critical thinking skills and communication skills are seen as equally important.*

*The function is structured for 100% rotation with an average commitment of three to five years. Resources are also rotated in from the business for short-term assignments, such as to help with SOX audits, and for help with an audit in a specific geography. The function is seen as an attractive career step that offers international travel and has a track record of developing people sought out by the business who are promoted upon leaving the function.*

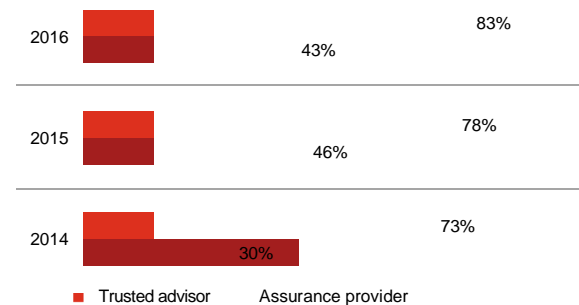
## The eight attributes: Delivering internal audit excellence as stakeholders expect more

### Quality and Innovation

#### What it means

Internal Audit promotes quality and innovation through well-defined standards that align to overall IIA standards (and any sector specific regulatory or domain standards). The function performs formal quality and promotes a culture that rewards innovation and continuous improvement of core processes. The audit plan aligns with the company's risk profile and changes as risks change. The form and message of internal audit reports and communications are based on facts, support the achievement of Internal Audit's mission and strategic objectives and influence stakeholders to take action. A function that consistently delivers a quality service and product is also focused on the strategic imperatives of the business. Data analytics, reporting and visualization tools are consistently used to deliver on the core mandate and innovate.

#### How internal audit is performing



% of companies where Internal Audit is performing well at quality and innovation

Source: PwC State of the Internal Audit Profession Study 2014-2016

### Capturing unrealized value

Assurance providers take purposeful action to develop and maintain a quality program that aligns to IIA standards, to consistently train the team, to ensure proper oversight and to monitor quality on an ongoing basis. Trusted advisors

embed innovation in the culture of the function, whether that is making wholesale changes to risk assessment and execution methodologies by leveraging data visualization tools, creating new reliance approaches across the other lines of defense, or re-inventing reporting techniques to enhance the stakeholder experience. Trusted advisors provide benchmarking and points of view on the maturity of business processes and visually present audit findings in ways that enable them to assess the business impact of a process/control breakdown. They consistently identify opportunities to innovate.

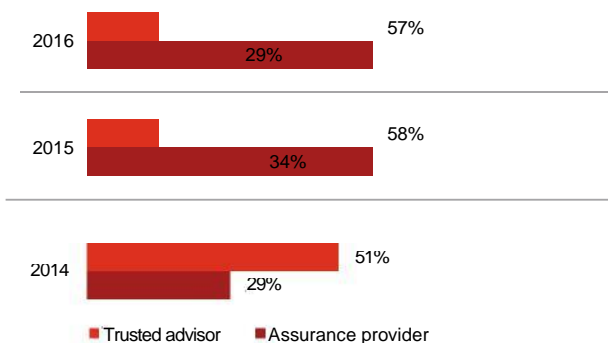
## The eight attributes: Delivering internal audit excellence as stakeholders expect more

### Technology

#### What it means

Internal Audit leverages technology effectively in the execution of the entire lifecycle of the audit process. Robust audit management systems are either interfacing with or embedded into enterprise wide governance, risk and compliance (GRC) tools. Data analytics are designed and deployed enabling focus on the right risk areas and business issues as well as generating efficiencies throughout the audit process. Analytics and visualization tools are used to enhance the understanding and evaluation of risks and to identify business process and control breakdowns. Continuous auditing techniques are leveraged to increase coverage or provide early warning of risk indicators to the business. To deliver on this attribute, the internal audit team must understand the complexities of their company's systems architecture and innovate by using technology to drive audit efficiency.

#### How internal audit is performing



% of companies where Internal Audit is performing well at leveraging analytics and technology

Source: PwC State of the Internal Audit Study, 2014-2016

### Capturing unrealized value

Our research shows that internal audit functions have improved their performance in the use of technology year over year. Yet, despite this improvement, stakeholders rate performance in this attribute lowest among the eight, which could indicate Internal Audit is not innovating at pace with technological advancements and stakeholders' expectations. For years, Internal Audit has leveraged computer assisted audit techniques (CAATS). Today, these techniques and associated tools are being outpaced by higher functioning technology that enables Internal Audit to embed analytics and visualization throughout the audit lifecycle. New data enabling tools are integrated into audit methodology and sometimes embedded into the audit management system. This path to enhancing the use

of technology is not easy and even trusted advisors experience resistance along the way. For example, the first time Internal Audit evaluates a full population of data and pinpoints the risks and related control failures stakeholders are not generally enthusiastic. However, as these roadblocks surface, strong internal audit leaders have the courage of their conviction and are able to influence stakeholders' perception. They are able to demonstrate the value being delivered and are

influencing the first and second lines of defense to begin leveraging data themselves to enhance the overall control environment and protect the company from control breakdowns.



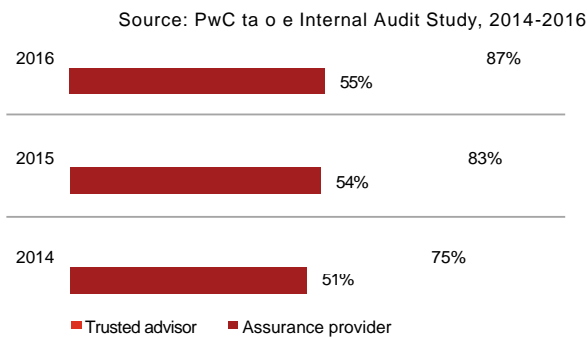
## The eight attributes: Delivering internal audit excellence as stakeholders expect more

### Service culture

#### What it means

Internal Audit serves its many stakeholders, while maintaining objectivity, by having a well-defined mandate (mission, vision and scope) and clear reporting lines. The internal audit team and the organization can succinctly articulate Internal Audit's mandate and brand. A client service plan is in place that drives purposeful engagement with the business, anticipates needs, drives timeliness and responsiveness, and focuses on bringing valuable insight to inform business decisions. Regular feedback is solicited from stakeholders, and the department measures results and develops improvement actions as needed.

#### How internal audit is performing



% of companies where Internal Audit is performing well at demonstrating a service culture

Source PwC State of the Internal Audit Profession Study, 2016

### Capturing unrealized value

While police/military forces serve and protect their communities, internal audit functions often dislike being referred to in this same characterization. Yet, when Internal Audit communicates by simply providing management with information about planned audits and discusses scope and objectives, it can feel to stakeholders a bit like receiving a citation. The best service culture oriented functions go beyond this, by anticipating stakeholder needs, and exhibiting broad business

awareness and unrelenting focus on getting to the root cause of issues. Internal audit functions delivering at this higher level are also active contributors in executive sessions and board meeting on matters beyond their immediate mandate because they have proactively positioned and educated themselves to have a point of view beyond today's risks and controls.

### Internal audit taking action & how PwC can help

Through our research, we have gained tremendous insight on collective stakeholder expectations, we know that the expectations of each individual organization's stakeholders vary dramatically. Consistent themes have emerged around those internal audit functions perceived as delivering great value: they proactively set a vision for how Internal Audit can deliver, they have the courage to get stakeholders aligned and they possess the courage to stay the course for the good of the company - even during this time of significant change. And, while trusted advisors consistently receive higher performance ratings in our surveys than those performing at the assurance provider level, we encourage internal audit leaders to gain a deeper understanding of stakeholder expectations and performance along the eight attributes before they take action. For some functions, understanding stakeholder expectations and perceived performance may result in a need to enhance their stakeholder management program by raising brand awareness, educating stakeholders on mandate, and improving risk focus and current capabilities. Other functions may identify the need to align their risk focus to the business, invest in underlying audit processes, enable the function with better technology and enhance their overall talent model. Bypassing this important step may result in over or under investing in the journey ahead.

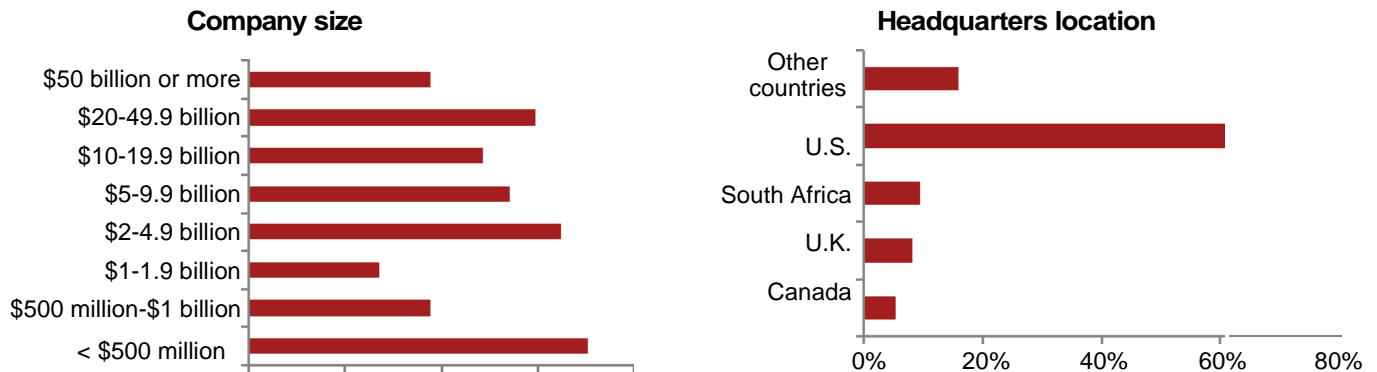
As Chief Audit Executives chart their course to enhancing the eight attributes of effective Internal Audit and capturing unrealized value, PwC can be of assistance. Organizations may benefit from performing an External Strategic Assessment leveraging PwC's proprietary Profiler tool or from a variety of Internal Audit services. To learn more about how we can enhance your journey visit [www.pwc.com/internalaudit](http://www.pwc.com/internalaudit).

## High performance crosses many company demographics

Oftentimes it is easier to see how high performance in each attribute can be accomplished in large organizations with significant internal audit resource. However, for each year that PwC has tracked performance on the eight attributes those internal audit functions delivering the most significant value and achieving the highest performance ratings represent a variety of department sizes.

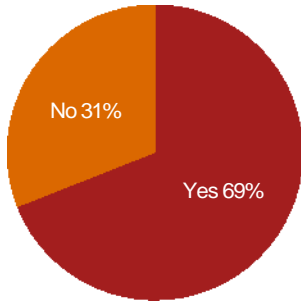
An analysis of the top 5% of internal audit functions (as determined by their company managing risks very well and their functions being highly valued by stakeholders) showed this group was diverse in company size, geography and industry. The top 5% also outperformed others on each of the eight attributes. Thus, regardless of the company or composition of Internal Audit, high performance in the eight attributes is both necessary and achievable.

### Demographics of the top performing 5% of internal audit functions

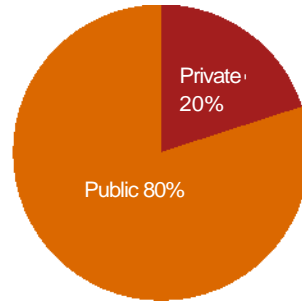


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**Subject to Sarbanes Oxley**



**Private vs. public companies**





To have a deeper conversation about how this subject may affect your business, contact:

**Jason Pett**

Partner  
US Internal Audit, Compliance & Risk Management  
Solutions Leader  
+1 410 659 3380  
[jason.pett@pwc.com](mailto:jason.pett@pwc.com)

**Rachael Person**

Partner  
Internal Audit, Compliance & Risk Management  
Solutions  
+1 646 471 1349  
[rachael.person@pwc.com](mailto:rachael.person@pwc.com)

**Michelle Hubble**

Partner  
Internal Audit, Compliance & Risk Management Solutions  
US Internal Audit Solutions Center of Excellence Leader  
+1 309 680 3230  
[michelle.hubble@pwc.com](mailto:michelle.hubble@pwc.com)