

## AUDIT TECHNOLOGY INSIGHTS

# *Strengthen Audit Committee Value: A 10-Step Approach*

# 2015



# STRENGTHEN YOUR VALUE PROPOSITION

How can internal audit functions provide more value to their audit committee stakeholders?

To find answers to this question, **TeamMate's 2014 Internal Audit Technology Survey** focused on audit committee materials and reporting. Survey results pointed to the benefits of automated reporting, of providing trending data as opposed to periodic results alone, and of conducting combined reporting activities with other risk-and-control functions. Our findings also suggested ways to expand the scope of risk information provided to audit committees, demonstrated how to report on internal audit quality and performance, and described how the use of color and graphics can help audit committees prioritize their activities.

To build on our 2014 survey results, and to gain first-hand insights from informed experts about enhancing internal audit value to audit committees, we interviewed six leading audit committee experts, including the current and two past chairs of COSO (The Committee of Sponsoring Organizations of the Treadway Commission), which provides thought leadership and guidance on internal controls, enterprise risk management and fraud deterrence. Our **10-Step Plan to Strengthen Audit Committee Value**, which follows, reflects input from **Dennis Chookaszian**, former chairman and CEO of CNA Insurance Companies, who has served on a total of 62 boards in his career, including 50 in the private sector, and who currently serves as audit committee chair for several public companies; **Bob Hirth**, a senior executive with Protiviti and former head of the firm's internal audit consulting practice who is the current chair of COSO; **David Landsittel**, a retired Arthur Andersen partner and former head of COSO who is an experienced audit committee chair; **William A. "Bill" Linnenbringer**, a retired PricewaterhouseCoopers partner and former global head of PwC's Financial Services Practice who is a member of the SunTrust Banks audit committee; **Larry Rittenberg, Ph.D.**, Emeritus Professor of Accounting at the University of Wisconsin, a former chair of COSO who currently serves as audit committee chair for Woodward, Inc., an aerospace and energy company based in Ft. Collins, Colorado; and **Joe N. Steakley**, Senior Vice President of Internal Audit and Enterprise Risk Services for Nashville, Tennessee-based HCA (Hospital Corporation of America), one of the leading healthcare-services companies in the United States.


This report, which we developed with Richard J. "Dick" Anderson of DePaul University and J. Christopher Svare of Partners in Communication, reflects a long-term commitment from TeamMate and Wolters Kluwer to share ideas and insights to strengthen internal audit performance.

As always, we look forward to your feedback.

Mike Gowell  
General Manager and Senior Vice President, TeamMate



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# 1. Help the audit committee focus and set priorities

One of the basic challenges facing audit committees is the need to sort through volumes of material to determine what really matters to their work. For internal auditors looking to provide value to their primary stakeholders, this challenge spells opportunity. That's why it was so surprising to see that 73% of the TeamMate 2014 Internal Audit Technology Survey (IATS) respondents do not use any specific techniques to help their audit committees focus and set priorities.

What to make of this finding? Our experience, coupled with that of audit committee experts interviewed for this report, suggests that internal audit functions can provide significant value to their audit committee stakeholders by adopting one or more communication techniques to help their audit committees identify and focus on key issues.

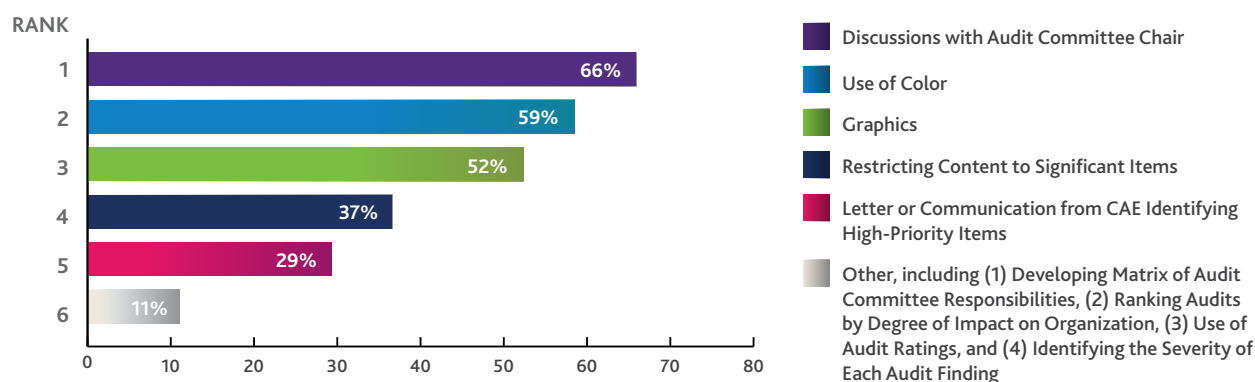
## Tools to Improve Audit Committee Communications

Looking for ways to communicate more effectively with the audit committee? For starters, **consider expanding the use of color and graphics** to create visual appeal and impact and the use of **bullet points and lists** to make it easier to digest and assimilate information. Then take a look at what you're now sending to the audit committee and, under the "less is more" heading, explore using **summary-level reporting** and other techniques to cut down on report copy and communicate more effectively.

CAEs, in particular, can help facilitate audit committee discussion on key issues, says **Larry Rittenberg, Ph.D., CIA, CPA, Emeritus Professor of Accounting at the University of Wisconsin**. Although the audit committee chair is responsible for setting the audit committee agenda, Dr. Rittenberg suggests that a pre-meeting telephone call between the CAE and audit committee chair provides the CAE with an opportunity to play the role of advisor and recommend specific areas of focus for the audit committee agenda, such as updating construction audits or inventory management in a lean manufacturing environment. He also recommends that CAEs send out deep-dive background information to their audit committees well before meeting dates. A former chair of COSO (The Committee of Sponsoring Organizations of the Treadway Commission), and a former audit committee member of Petro China, Rittenberg currently serves as audit committee chair for Woodward, Inc., an aerospace and energy company based in Ft. Collins, Colorado.

For the audit committee at SunTrust Banks, Inc., keeping a close watch on current issues includes receiving a report on cybersecurity at every meeting, according to **William A. "Bill" Linnenbringer**, a retired PricewaterhouseCoopers partner who is a member of the SunTrust Banks audit committee. Linnenbringer also advocates the use of **heatmaps** to assess risk-level classifications and to summarize internal audit issues as well as Sarbanes-Oxley compliance. Another heatmap advocate is **Dennis Chookaszian**, former chairman and CEO of CNA Insurance, who has served on 12 public company boards and 50 private company boards over the course of his career. Chookaszian, who chairs the audit committees of several public companies, also favors the use of **dashboards** to help monitor controls and risks, taking into account aging and related factors.

## Techniques to Help Audit Committee Set Priorities



## Annual All-Day Audit Committee Chair Planning at HCA

Every January, the audit committee chair for Nashville, Tennessee-based HCA (Hospital Corporation of America), one of the leading healthcare-services companies in the United States, meets with HCA's chief audit executive and other top company officers in a full-day planning session to discuss major issues facing the company and establish priorities for the audit committee and internal audit for the coming year. The night before, the audit committee chair and the CAE are joined for dinner by a group of senior HCA officers including the CEO, CFO, corporate controller, and chief compliance officer in addition to the lead partner from HCA's external auditor, Ernst & Young.

"Our goal is to discuss and establish priorities for the audit committee and internal audit for the year," says **Joe N. Steakley, Senior Vice President of Internal Audit and Enterprise Risk Services for HCA**, which operates more than 160 hospitals and 110 freestanding surgery centers in the United States and Europe. "The audit chair provides input on issues he wants covered during the year and we describe the top 10 risks to the company, as we see them, along with a secondary list of risks that warrant close observation." Steakley also assigns time frames to key activities, such as income tax updates, and discusses when internal audit will be taking an in-depth look at major issues ranging from information systems and shared services to internal audit quality assurance.



## 2. Provide more risk information to the audit committee

The need to understand an organization's risks and risk management practices is a fundamental challenge for audit committees. For chief audit executives and their staffs, providing insight and information to help the audit committee address this challenge is another significant area of opportunity.

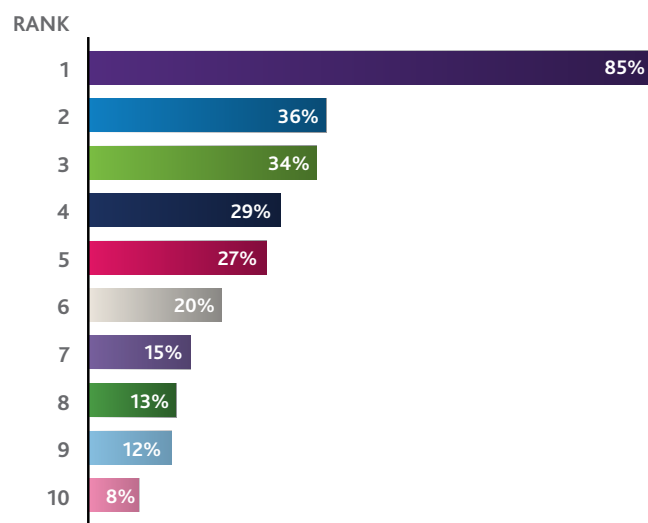
What do internal audit functions typically provide to the audit committee? Nearly 85% of the 2014 TeamMate Internal Audit Technology Survey respondents provide their audit committees with the results of internal audit's annual risk assessment along with the annual audit plan. Significantly smaller percentages of respondents provide their audit committees with periodic updates of the annual risk assessment, periodic identification of emerging risks, an enterprise-wide risk profile, and risks specifically related to the organization's business plans or objectives.

Given that audit committees place a high priority on risk information, a fact confirmed by multiple outside surveys, there appears to be ample opportunity for internal audit groups to expand the scope of the risk information provided to audit committees. When we asked our audit experts to weigh in on this topic, we received a number of valuable suggestions:

- During the annual planning for the audit committee meetings, **develop a schedule of risk discussions** and **discuss some element of risk at every audit committee meeting**, such as significant risks, risk volatility, and risks related to company strategy, suggests **Dennis Chookaszian**, former chairman and CEO of CNA Insurance Companies, who sits on multiple boards in both the public and private sectors.
- **Link risk information to the organization's activities and strategies**, advise our audit experts. At HCA, the internal audit group maps its audit coverage and resources to the organization's strategies and the risks in those strategies, says **Joe N. Steakley**, Senior Vice President of Internal Audit and Enterprise Risk Services.
- **Larry Rittenberg, Ph.D.**, who chairs the audit committee at Woodward, Inc., an aerospace and energy company, believes internal audit needs to understand the relationship between an organization's business objectives and its risk-and-control framework. Linking the two in audit reports, he suggests, helps put internal audit and the audit committee on the same page, which increases overall effectiveness.
- Think in terms of providing the audit committee with **"useful intelligence"** suggests Protiviti's **Bob Hirth**, current chair of COSO. *Inform the committee about risk concepts* to better equip them to understand the organization's risks and provide continual updates on company activities with a significant risk dimension, he adds. Another audit expert suggests *demonstrating the direct linkage between changes to the organization's risk profile and changes to the audit plan*.
- **Tell the audit committee about areas or risks not covered by the internal audit plan, and why**, advise our audit experts, so that the audit committee has a clear, comprehensive picture of the organization's risk exposure. In addition, *provide increased information about risk responses, periodically update your risk profile, ensure that developing risks are included in your internal audit reports, and keep a sharp focus on regulatory and compliance issues with major risk considerations*.

- Finally, if your organization's board of directors has a Risk Committee that operates separately from the audit committee, help the committees *interact in ways that avoid duplication of effort yet provide essential risk coverage*, advise our experts. With two board committees focusing on risk, there is always the potential to overlook a key risk factor, they add.

## Types of Risk Information Provided



- Results of Annual Risk Assessment Reported with Annual Audit Plan
- Periodic Updates of Annual Risk Assessment
- Periodic Identification of Emerging Risks
- Enterprise-Wide Risk Profile
- Risks Specifically Related to the Organization's Business Plans or Objectives
- Residual Risks Accepted by Management
- Specific Risks Not Covered by Internal Audit
- Results of Monitoring Key Risk Indicators
- Periodic-Risk Dashboard
- Comparisons Against Organization's Risk Appetite

## Think about the Unthinkable

**Dennis Chookaszian**, a former CEO and audit committee veteran, is a strong believer that audit committees should set aside time each year to consider the types of "unthinkable" or "unrecognized" risks that could pose a serious threat to the company. Acknowledging that it is difficult to anticipate the unexpected, he nonetheless sees significant value in audit committees having open discussions on such possibilities. In his role as an audit committee chair, he frames such discussions around scenarios in which the organization has incurred a significant loss and asks committee members to consider how the loss might have been averted.



### 3. Provide more periodic trending information

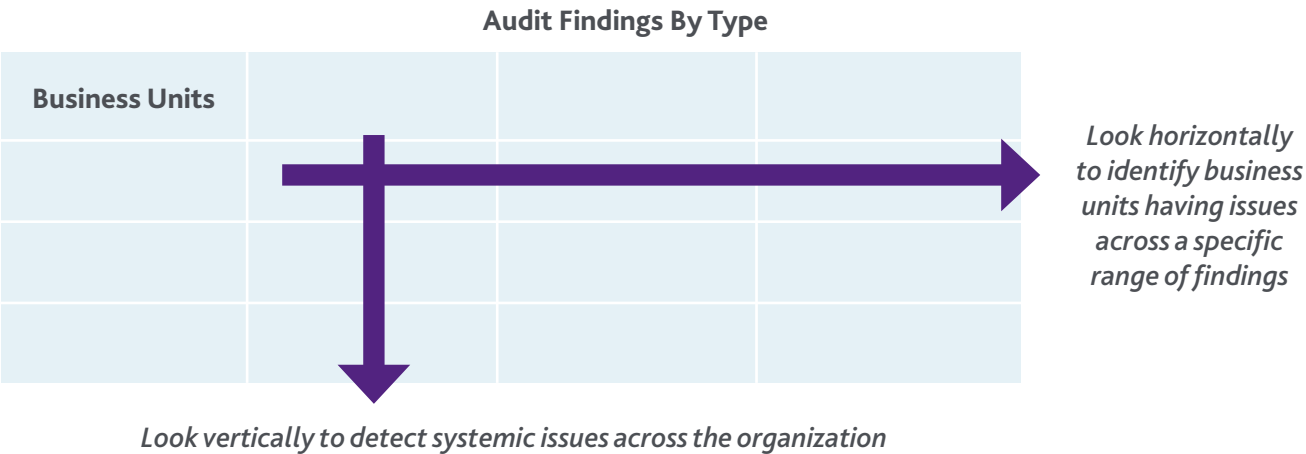
Our experience indicates that audit committees gain significant value from trending types of information that helps them gain a sound overall assessment of an organization’s systemic and thematic risk-and-control issues. To this end, search for ways to increase the scope of trending data and analysis you are currently providing to your audit committee.

Start by examining the results of the 2014 TeamMate Internal Audit Technology Survey. When we asked survey participants about the types of trending information they were providing to their audit committees, nearly 7 in 10 reported that they provide regular updates on the *Aging of Significant Issues & Aging Trends*, which was

top-ranked among the types of trending information shared with audit committees. Other categories ranking highly in this category include *Audit Results by Type of Issue or Finding*, with 58%, *Audit Results by Business Unit*, with more than 53%, *Risk Trends* with 51%, and *Trends in Status of Internal Controls*, with 38%.

Looking beyond these measures, consider revising your internal audit processes to capture trending data. Also explore tracking audit findings by business unit and across the organization. By employing the following type of grid, for example, you can pinpoint where business units are having problems and where you might be having broader, more systemic issues.

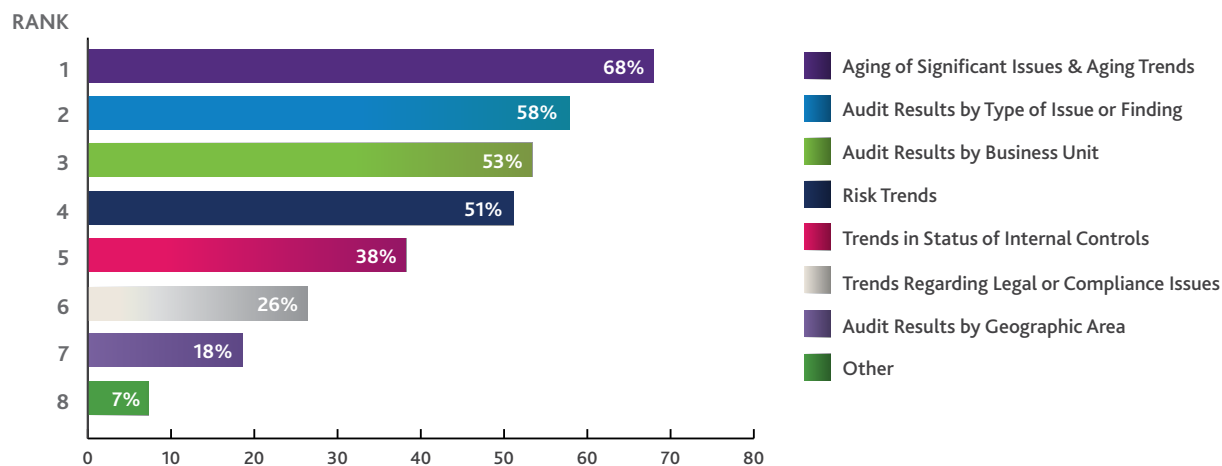
#### Tracking Information on Audit Findings







## Types of Trending Information Provided



To provide enhanced value to trending information, Protiviti's **Bob Hirth** suggests asking senior management and members of the audit committee what types of trending information they would find most valuable. He also advocates *ranking issues by their sense of urgency* and how quickly they need to be fixed and *taking into account the culture and operating style of the audit committee*. Such measures can help the audit committee chair allocate sufficient time during committee meetings to more critical matters, says Hirth.

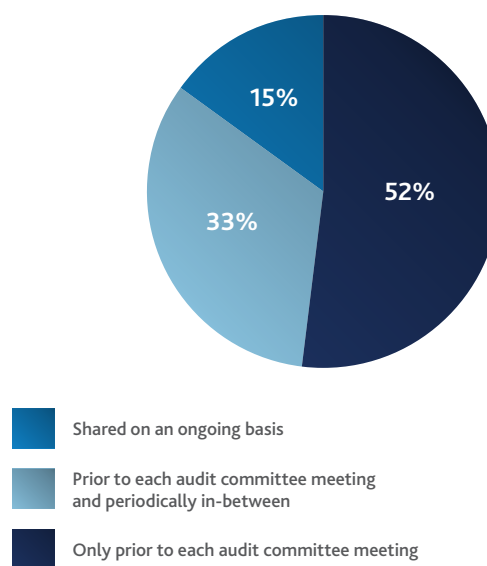
While noting the importance of trending data, **Bill Linnenbringer**, the former global head of PricewaterhouseCooper's Financial Services Practice who sits on the SunTrust Banks, Inc. audit committee, also stressed the need to *include information on controls* as well as risks when providing reports to the audit committee. Finally, HCA's **Joe N. Steakley**, who believes providing trending and grading information is a "must" for internal audit, says audit leaders should seek to *tell a story* when presenting trending data, indicating whether things are getting better or worse and adding interpretation to put trend data into perspective.

## 4. Ensure your materials meet audit committee needs

According to the audit committee experts interviewed for this report, communications between an internal audit function and the audit committee it serves should be an ongoing, continual process focused broadly on knowledge and information and centered on building strategic relationships and trust. During the audit committee's annual self-assessment, include a review of the quality and sufficiency of the audit committee materials to determine whether the materials are meeting their needs, suggest our experts, and provide ongoing feedback on the materials to the internal audit function, one way or the other.

Given the importance of ongoing communications to our audit committee experts, it would appear that the vast majority of internal audit functions around the world would do well to place greater emphasis on the continual nature of their communications. Only 15% of the participants in the 2014 TeamMate Internal Audit Technology Survey (IATS) share materials with their audit committees on an ongoing basis. Another 33% share materials with their audit committees prior to each audit committee meeting and periodically in-between, and more than half (52%) only share materials prior to each audit committee meeting. Those numbers suggest there is much room for improvement.

### Sharing of Audit Committee Materials



Although our audit committee interviewees cited the importance of informal and verbal communications, there is also much to be said for a periodic formal review of your audit committee materials, which can identify what needs to be enhanced in order to strengthen audit committee effectiveness. To this point, more than a third of the 2014 IATS respondents reported that they had yet to conduct a formal review of the content and format of their audit committee materials with the audit committee chair, suggesting that this tactic could be usefully employed by a large number of internal audit groups.




### Other suggestions for strengthening audit committee communications:

- Since audit committees don't necessarily know what they need, ask them for what they want, and keep asking.
- Changes in audit committee membership present internal audit with a communications opportunity: Ask about the new person's experience, views and requests; learn what worked well for the new member in the past that might have application to the new situation.
- According to KPMG's 2015 Global Audit Committee Survey, audit committee members rate much of the information they receive as good but are searching for more and better information in the areas of cyber risk and technology change, talent management, and growth and innovation.

### Checklist for Enhancing Audit Committee Materials

Protiviti's **Bob Hirth** offers an 8-point checklist for audit leaders

- Make it look "Interesting"
  - Synthesize the issue – get to the point
  - Make it clear why this is important – explain the relevance, significance, or risk
  - Explain what needs to get done
  - Have facts and evidence in your back pocket or in the back of your report
  - Gain advance support on key issues from management and the external auditor
  - Use appendices to shorten core material
  - Constantly pursue opportunities to educate; always include something in the back of a report to improve the committee's knowledge of a relevant matter
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# 5. Pursue greater management follow-up on reporting issues

As indicated by the results of the 2014 TeamMate Internal Audit Technology Survey (IATS), the vast majority of internal audit functions take primary responsibility for reporting on the status of open audit issues. At the same time, given that management is responsible for following up on reporting activities and taking corrective actions to address open audit issues, there appears to be ample opportunity for internal audit functions to foster greater involvement from management in the reporting process. Such efforts, while hard to achieve, can create greater buy-in from management on corrective actions and significantly enhance the stature and positioning of internal audit in the process.

## Handling of Open Audit Issues, Including Management Responses and Follow-Up

2014 TeamMate Internal Audit Technology Survey	Results
Internal audit develops an updated status-report on open audit issues, including management responses and follow-up, and discusses the report with the audit committee	71%
Management develops an updated status-report on open audit issues and internal audit briefs the audit committee on report findings	16%
Management develops an updated status-report on open audit issues and reviews report with audit committee	4%
Other	9%

### HCA’s Audit Issues Book

**Joe N. Steakley**, Senior Vice President of Internal Audit and Enterprise Risk Services for HCA (Hospital Corporation of America), one of the leading healthcare-services companies in the United States, prepares an Audit Issues Book for every audit committee meeting that provides 90-day and past-year summaries of key audit issues, reports on the status of open issues across the company, and suggests topics for audit committee consideration. In turn, the audit committee reviews the book at every one of its meetings and uses it to focus on the status of key issues. Steakley and his staff also facilitate a semi-annual meeting attended by HCA’s CEO and CFO at which HCA business owners update the status of their open issues. At those meetings, internal audit is available to comment on the status of management’s reporting.



## A 3-step process to increase management's responsibility for reporting on the status of open audit issues:

**Step 1** Find a champion within management to help shift the reporting of management's corrective actions to management. You need someone who can speak for management and is clearly committed to resolving issues; oftentimes that person can be either the CFO or chief operations officer. The benefit of having someone in the champion role is to demonstrate to the directors that management is serious, engaged, and taking ownership of corrective actions.

**Step 2** Working with the champion, reposition internal audit as a function **providing assurance on management actions and reporting** as opposed to the group with primary responsibility for the reporting of management's actions. This repositioning of internal audit achieves multiple objectives: First, it takes internal audit out of the

middle between management and the audit committee; second, it puts pressure on management to fulfill its reporting responsibilities; third, it repositions internal audit as a provider of assurance on management actions and responses; and fourth, it helps the audit committee fulfill its "trust but verify" objectives — *trust* that management will fulfill its responsibilities but have internal audit *verify* that designated actions have been performed.

**Step 3** Assist management with its reporting process by providing a streamlined technology solution to facilitate management's ability to track and report on management's corrective actions.

*As the following case study suggests, this 3-step process can help to address a situation where the audit committee is concerned about delays in corrective actions from management:*

### CASE STUDY

#### Shift in Management Follow-Up Reporting from Internal Audit to Management

**The Situation:** Management was failing to correct significant audit report findings, causing problems for the audit committee and internal audit. Management claimed it was being pulled in different directions by other organizational priorities.

**Solution: Management Follow-Up Challenge** Internal audit initiated discussions with executive management on how to correct significant audit report findings in a timely manner and rebuild management's strained relationship with the audit committee. Executive management agreed that management, under the direction and personal involvement of the CFO, should assume responsibility for providing the audit committee with updated reports on open audit issues. In turn, internal audit created a simple system to capture open audit issues and provide status updates to management.

Under the new arrangement, corporate staff updates the status of open audit issues on a monthly basis and reviews their findings with executive management, providing executive management with the opportunity to review the status of open audit items and take further corrective actions, if need be, prior to the next audit committee meeting. In turn, internal audit verifies the status of open audit issues and management (in this case, the CFO) updates the audit committee at each meeting on the status of open audit issues and the specific steps taken to address them.

**The End Result:** Management assumed full responsibility for tracking and reporting on open audit issues and for taking whatever corrective measures are required to address open audit issues in a timely manner. With its new direction, internal audit assumed responsibility for providing the audit committee with assurance that management is meeting audit committee expectations with regard to reporting on and correcting open audit issues. With all parties performing in a more than satisfactory manner, the relationship between the audit committee and executive management was much improved.



## 6. Utilize more automated reporting support

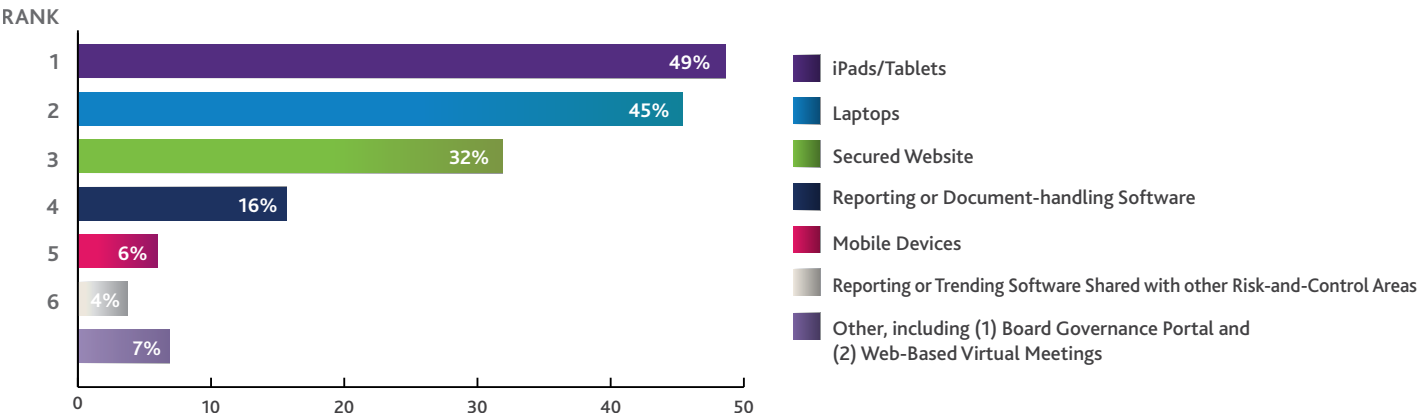
Internal auditors from around the world are leveraging technology to enhance their value to audit committees. Nearly half of the 2014 TeamMate Internal Audit Technology Survey respondents, for example, reported using either **iPads** or **tablet technology** to deliver audit committee materials or to increase the effectiveness of audit committee meetings—and 45% are using **laptops** for the same purpose. In addition, nearly a third of our IATS respondents are using a **secured website** to provide security around their audit committee support and about one in six are employing **report- or document-handling software** to pursue a similar objective.

**Board portals**, in particular, appear to be gaining acceptance as secure, efficient platforms for distributing sensitive materials to and communicating with directors, according to our audit committee experts, a number of whom noted portals are in use on their boards. Speaking from direct experience about portal benefits, our interviewees cite the ability of portals to streamline scheduling and provide greater security and confidentiality when communicating with board members and distributing board and committee materials to them. At the same time, cautions one of our interviewees, be wary about leaving electronic notes within a portal that could become discoverable information in a legal proceeding.

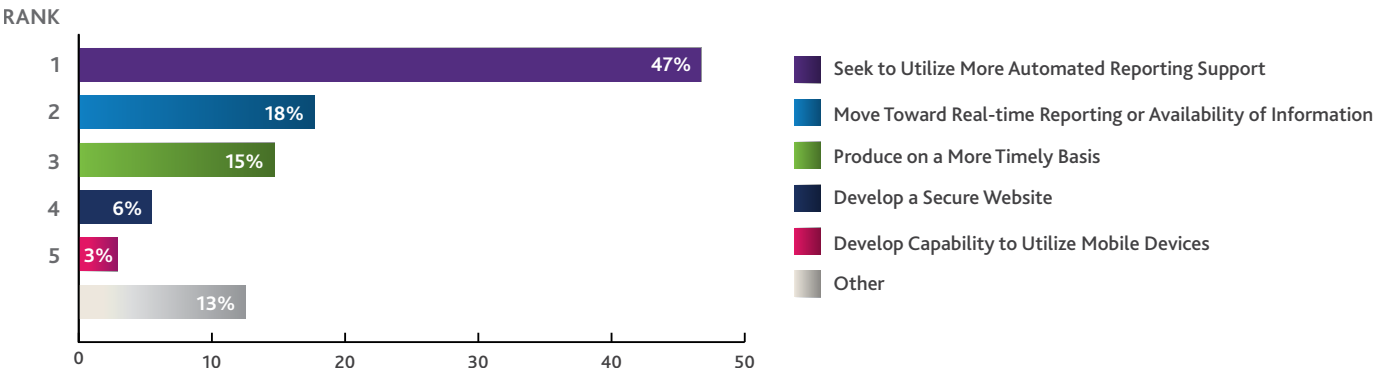
In exploring how to increase automated reporting at your organization, meet with the audit committee to review options, assess director receptivity to newer technology, and take your corporate culture into account. Also consider developing an overall technology strategy encompassing the entire board of directors and all of its committees as opposed to the audit committee alone. Finally, look for ways to partner with other corporate groups providing support to the board and board committees in terms of how you might collectively leverage technology to enhance information-sharing and expand your overall scope of activities.



## Technology Used to Support Development of Audit Committee Materials or to Increase the Effectiveness of Audit Committee Meetings



## Ways to Enhance Audit Committee Materials: Current Considerations





## 7. Enhance reporting on internal audit quality and performance

When reporting on the performance or quality of their internal audit functions, more than 52% of TeamMate's 2014 Internal Audit technology Survey (IATS) respondents focus on the Levels of Education and/or Certifications of the internal audit staff. In addition, more than 46% address the Results of External Quality Reviews and nearly that percentage focus on Periodic Reports of Performance Based on Key Metrics.

Ideally, internal audit functions should also provide their audit committee stakeholders with performance reports reflecting internal audit performance against the specific performance expectations that have been established with these key stakeholders. That's why it was surprising to note that only 13% of the 2014 IATS participants provide their audit committees with such reports. Given the importance of meeting and exceeding stakeholder expectations -- a critical factor in assessing internal audit performance and value that is regularly noted in IIA publications and cited by leading professional firms -- this could suggest a significant lack of alignment between internal audit and its key stakeholders that needs to be addressed.

Balanced scorecards can provide internal audit leaders with an effective means to report on all key aspects of their performance, including the degree to which internal audit is meeting the needs of its key stakeholders. The balanced scorecard technique also helps to avoid reporting solely on measures or metrics dealing directly with internal audit operational processes that may have limited relevance or value to stakeholders.

Our interviews with audit experts also suggest that many audit committee members are not familiar with *The International Standards for the Professional Performance of Internal Auditing* (The "Standards") and the role they play. This lack of familiarity provides an opportunity for CAEs to

inform their audit committees about the Standards, including Standards-related requirements for ongoing *internal* quality processes as well as periodic *external* QARs (Quality Assurance Reviews) and their potential importance to audit committees and internal audit functions alike. Educating the audit committee on these key topics also serves to enhance internal audit credibility, according to our interviewees.

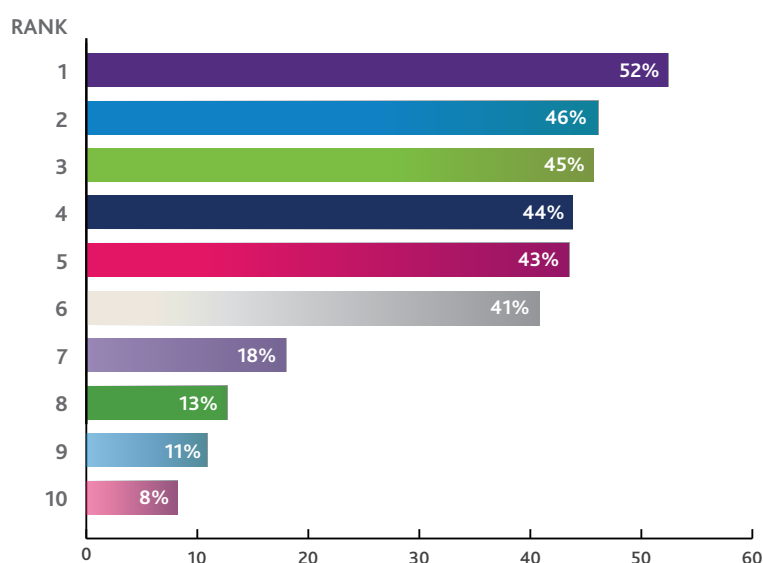
For an audit committee to gain a good reading on the quality of an internal audit function, suggests **David Landsittel**, former head of COSO, the audit chair should make inquiries within the organization to assess how well the chief audit executive is respected. Landsittel, a retired Arthur Andersen partner and experienced audit committee chair, also believes it is important to assess the quality of a CAE's advice in discussing and suggesting both internal audit and audit committee priorities and the CAE's insights with regard to organizational culture. He also believes audit chairs can gain significant value from attending dinners or other informal functions with senior members of the internal audit staff or the entire staff, if the number is manageable. Such interactions, he adds, provide a great opportunity to assess staff quality and presence and build relationships.

Another former COSO chair, **Larry Rittenberg, Ph.D.**, Emeritus Professor of Accounting at the University of Wisconsin, suggests that an internal audit function can build audit committee confidence in its activities by informing the committee about the basis for its reported conclusions. In providing such information, says Rittenberg, internal auditors need to think beyond merely stating, for example, that internal audit took a sample of 25 and found three failures so the company should take X, Y or Z actions as a result. Instead, says Rittenberg, who is audit committee chair for Woodward, Inc., an aerospace and energy company based in Ft. Collins,



Colorado, the audit committee is looking for internal audit to link its audit findings to the importance of the process being reviewed and to point out why management, the audit committee, and the board of directors should be interested in the findings. Such interpretive information, he adds, can help the audit committee understand the rationale behind reported conclusions and determine how much confidence it can place on internal audit findings.

### Approaches to Reporting on Internal Audit Performance or Quality



- Levels of Education and/or Certifications of Internal Audit Staff
- Results of External Quality Reviews
- Periodic Reports of Performance Based on Key Metrics
- Annual Review of Internal Audit Quality Based on Internal QA Process
- Reporting on Compliance with IIA Standards
- Results of Internal Feedback Process with Auditees
- Reporting Using Balanced Scorecard
- Results Compared to Specific Expectations Agreed to with Key Stakeholders
- Reporting of Results of Expenses Saved or Recovered
- Other, including (1) Management Acceptance and Implementation of Internal Audit Recommendations and (2) Audit Plan Completion

## Enhancing Relationships & Building Confidence

How can an audit committee strengthen its relationships with internal audit and develop a deeper understanding of the quality of internal audit's efforts? Here is a short checklist to get you started:

- Expand the range of internal audit presenters to the audit committee to include direct reports to the CAE and other internal audit staff as appropriate.
- Set up a series of informal meetings or events involving the audit committee and members of the internal audit staff.
- Have members of the audit committee conduct a critical review of internal audit's reports. Do they provide valuable insight? Do they reflect a strong knowledge of the organization and your primary areas of operation?
- Explore the basis for internal audit conclusions: What are they based on? How comfortable can we be in the findings?

The answers to these and related questions will help the audit committee determine how much confidence it can place in internal audit findings and functional leadership.



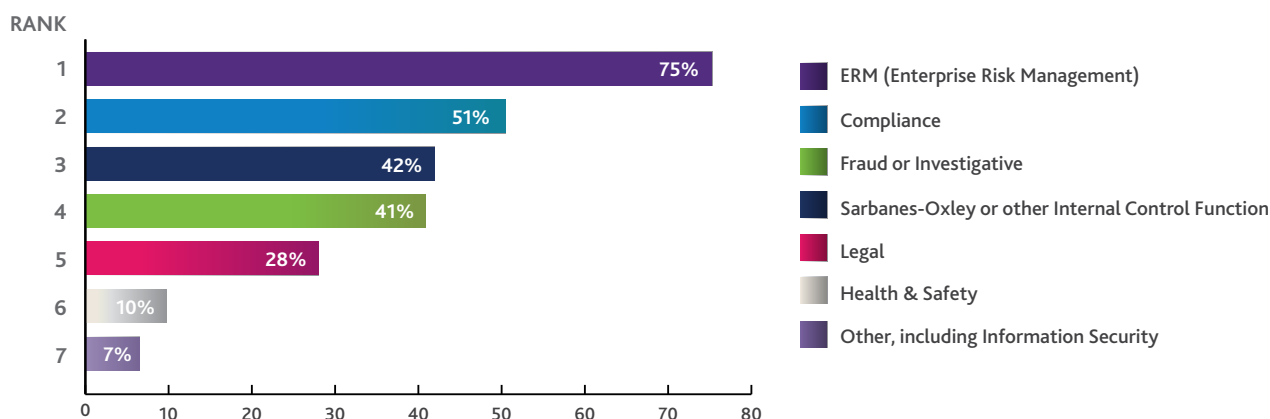
## 8. Consider combined reporting with other risk-and-control functions

Audit committees appreciate and value combined reporting that contributes to consensus-building and the development of sound, enterprise-wide profiles of risks and controls. Yet only 28% of the 2014 Internal Audit Technology Survey (IATS) respondents prepare any materials on a combined basis with other risk-and-control functions. That suggests the potential for many internal audit groups to increase stakeholder value by exploring additional opportunities for combined reporting.

When it comes to collaborating with other risk-and-control functions on combined audit committee materials, *Enterprise Risk Management (ERM)* leads the way, with more than three in four 2014 IATS respondents following this practice, followed by *Compliance* at 51%, *Fraud or Investigative* activities at 42%, and Sarbanes-Oxley and related controls at 41%. In like manner, enterprise-wide risks are the top focal point for those managing combined reporting activities, with more than eight in 10 IATS respondents selecting this category. This focus is consistent with survey findings indicating that ERM is the area most frequently taking part in combined reporting with internal audit.

While there are benefits to combined reporting of certain audit committee materials by risk-and-control units, the feasibility of combined reporting depends largely on the size of the organization and the industry it serves. In smaller companies, for example, certain control functions can be combined organizationally, and in financial services and other highly regulated sectors, combined reporting might be easier to accomplish and create more value.

### Areas Where Internal Audit Prepares Audit Committee Materials on a Combined Basis with other Risk-and-Control Functions





In exploring opportunities to partner with other risk-and-control functions on joint-reporting activities, audit leaders should keep in mind the following key success factors:

**Play the role of catalyst:** Start with one other unit, determine the most promising areas for combined reporting activities, and identify issues to overcome

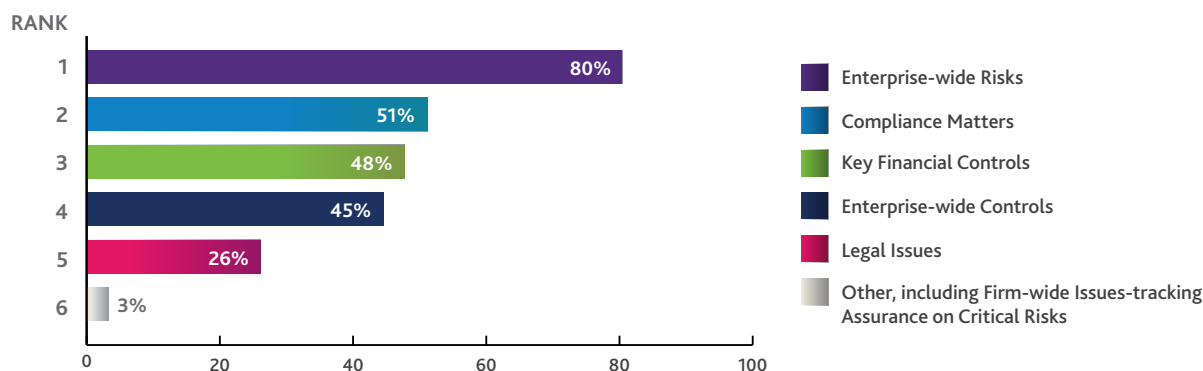
**Develop a common framework** or structure for defining what issues go to the audit committee, taking into account the fact that most risk-and-control units have their own definitions of significance

**Think about cooperation and working together,** not about changes in organizational structure

**Be aware of potential silo issues** among risk-and-control functions: If you can't see all the dots, you can't connect them

**View the exploration of combined-reporting activities as an opportunity to increase information- and knowledge-sharing** with other risk-and-control functions

## Areas of Focus for Functions Engaged in Combined Reporting at Some Level





## 9. Reassess the type, nature and frequency of internal audit communications with the audit committee chair

Ideally, communications between a chief audit executive and his or her audit committee chair are an ongoing, iterative process centered on building relationships and trust. The goal is to establish a clear and effective channel between the two parties that works to their combined advantage and serves the organization well.

When we asked our 2014 Internal Audit Technology Survey (IATS) respondents about their communication patterns, nearly two-thirds reported that they **hold discussions with the audit committee chair** to help the audit committee set priorities and 30% indicated that they **send a letter, e-mail or memo to the chair** to identify high-priority items. The only thing surprising about these numbers is that they were not higher, given the basic nature of these communication techniques, which many would consider essential.

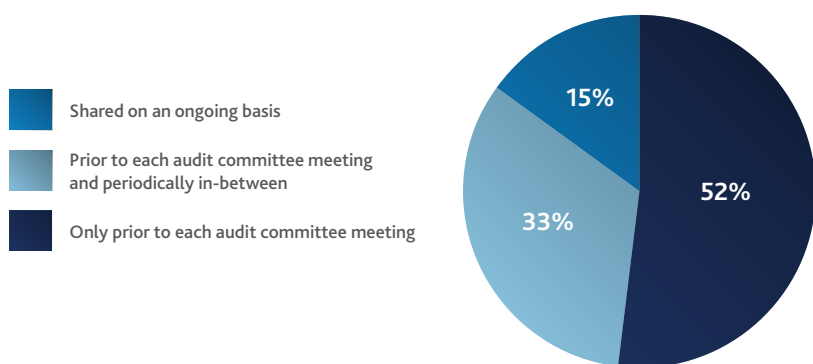
Looking at communications from the audit committee perspective, our audit committee experts expressed the need for ongoing, regular communications between a CAE and his or her audit committee chair coupled with ad hoc communications on an as-needed basis when dealing with matters of significance and urgency. They also stressed the importance of timely and candid verbal communications which, they believe, can take priority over written materials.




Protiviti's **Bob Hirth**, current COSO chair, thinks it's important for internal audit functions to "respect the process and calendar" of the organization as a whole with respect to communicating with the audit chair and committee. He is suggesting that the process used by internal audit to prepare and submit materials to the audit committee should be aligned with organizational communications processes governing the board and its other committees.

**David Landsittel**, a former COSO chair who has also chaired multiple audit committees, believes audit chairs and committees have much to gain from conducting executive sessions with their chief audit executives. Such meetings, he says, provide the opportunity for the type of candid and constructive conversations that build rapport and strengthen the relationship between the audit committee and the CAE.

## Sharing of Audit Committee Materials





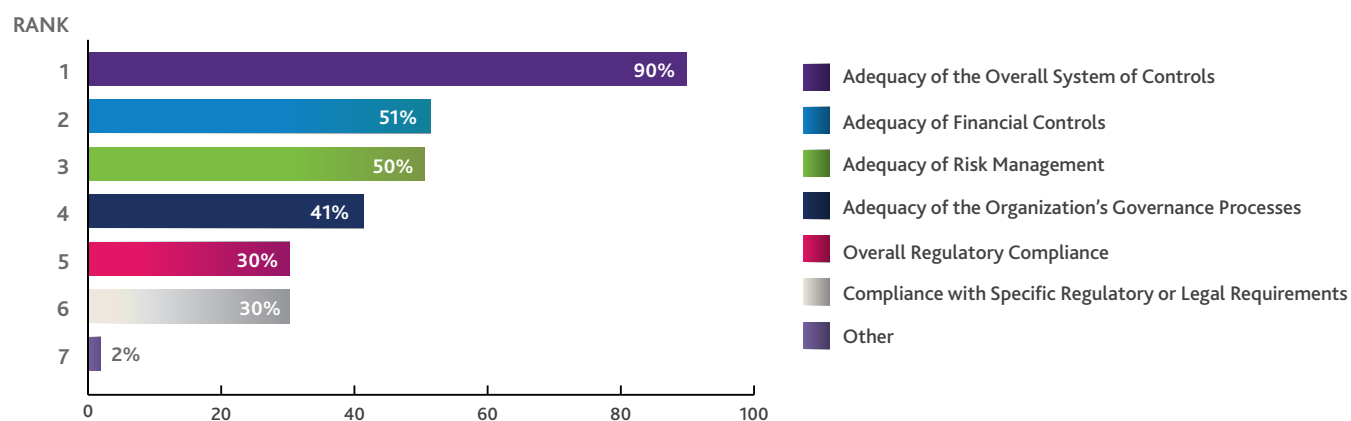
## 10. Determine what types of internal audit opinions (or selective assurance), if any, are valued by the audit committee

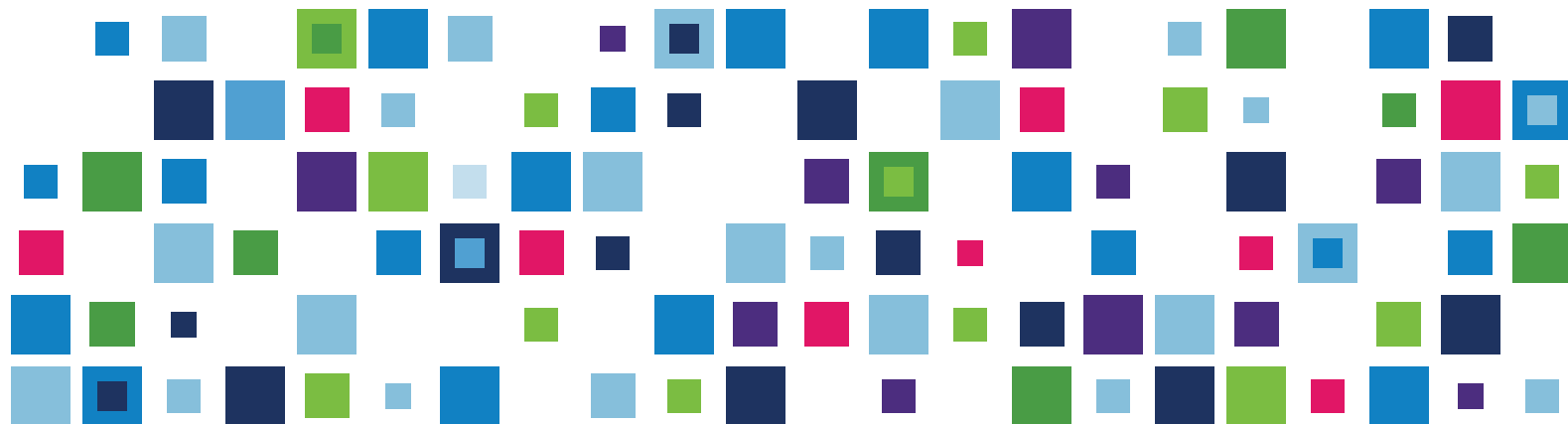
When it comes to providing an annual opinion to the audit committee, only 40% of the 2014 Internal Audit Technology Survey respondents do so. Of those that do, assessing the *Adequacy of the Overall System of Controls* is by far the top area of focus for annual overall internal audit opinions, with 90% of 2014 survey respondents selecting this category. Other areas of strong focus include assessing the *Adequacy of Financial Controls* and assessing the *Adequacy of Risk Management*, both selected by more than half of the 2014 IATS respondents, and providing an opinion on the *Adequacy of the Organization's Governance Processes*, with a 41% response rate.

CAEs who are not currently providing an internal audit opinion to their audit committees need to determine what type of opinion, if any, their stakeholders might value. A factor to keep in mind: None of the audit committee experts we interviewed for this report expressed a desire for an *overall* opinion from internal audit. At the same time, however, several of our interviewees suggest that internal audit can provide significant value to the audit committee by providing *selective assurance*, wherein internal audit provides an opinion on a specific area or process rather than an overall blanket opinion.

At HCA (Hospital Corporation of America), internal audit prepares a binder with documentation supporting management's opinion on financial controls, says **Joe N. Steakley**, Senior Vice President of Internal Audit and Enterprise Risk Services. As HCA's CAE, Steakley signs off on the binder, which he believes provides a much more focused level of assurance to the audit committee than does a general overall opinion on controls. Protiviti's **Bob Hirth**, current COSO chair, agrees with Steakley that this type of selective assurance may also be more appropriate for internal auditors given the scope and skills of many internal audit functions. A third interviewee, **Larry Rittenberg, Ph.D.**, Emeritus Professor of Accounting at the University of Wisconsin who serves as audit committee chair for Woodward, Inc., an aerospace and energy company based in Ft. Collins, Colorado, adds that he supports the selective assurance approach because it tends to focus on specific conclusions based on audit results as opposed to an opinion on the overall control process.

## Annual Overall Internal Audit Opinions: Areas of Focus





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