

Banking and Capital Markets

# Managing in a downturn

## Driving efficiencies and value from internal audit



Winter 2008/09

# Foreword

In a climate of economic uncertainty and increasing cost pressures, internal audit budgets and plans are likely to face robust challenges in 2009.

Effective planning of internal audit spend has become more important than ever.

Internal audit functions should take the initiative to help their boards and audit committees understand how their investment in internal audit is utilised and how this compares with peers and high performing functions. This survey report is designed to help that understanding, providing insights and data on internal audit spend within the banking and capital markets sector. Looking forward, the survey may suggest a potential path for future development of internal audit, including how this investment might be allocated most effectively.

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# A rocky road for internal audit?

Internal audit has already undergone considerable change in the recent drive for improved quality. The Institute of Internal Auditors' requirement to carry out an independent review of internal audit has focused attention on effectiveness and driven efforts to make internal audit a strong and robust function.

However, for many Heads of Internal Audit (HIAs) this is their first experience of managing the function through a downturn. This management challenge is heightened by the particular circumstances in which they now find themselves. Some will have new stakeholders to satisfy, particularly governments whose motivations will differ.

For many, the dramatic events of the second half of 2008 have increased the regulatory spotlight on authorised businesses. Understanding of business models and their stress points, together with the linkage between risk and reward are under particular scrutiny.

In today's turbulent environment senior management has enhanced expectations of, and reliance on, HIAs to provide greater assurance and comfort — but this also needs to be delivered with greater efficiency.

Organisations are under increasing cost pressures and looking to cut back overheads. The budgetary knife may well be poised over internal audit itself. But would a wiser move be to increase investment in internal audit in order to provide boards with much needed assurance in these difficult times? This is a question HIAs must help their boards and audit committees answer.

# Executive summary

Modest increases in internal audit spending are expected to continue, but this investment could be better leveraged to provide management with greater assurance in these challenging times. HIAs could achieve more value from their internal audit spend by improving process efficiency, strengthening risk-based approaches and adopting flexible resourcing models.

## Internal audit spending: an upward curve

Across the banking and capital markets sector, internal audit spend is expected to increase by 4%, which is consistent with the previous year. The proportion of total entity expenditure allocated to internal audit is what we would expect. However, this is low for some respondents when compared to investment in other bank functions.

Less productive functions are expecting budget cuts in 2009 – suggesting a vicious circle of underinvestment.

- An average 0.44% of total firm expenditure was spent on internal audit
- In 2009 predicted budget increases are 4%
- 50% expect a budget increase and 21% expect a decrease
- Spend per internal audit staff member is £103,410, compared with £155,086 for bank staff

## Focused where it counts?

Internal audit's work is becoming more risk-centric, enabling higher audit universe coverage.

Areas of expected increased focus in 2009 include treasury/liquidity risk, business risk and credit risk.

HIAs need to increase engagement with senior management. In larger functions more time could be spent on providing management with valuable insight rather than on functional management, planning and the delivery of audits. This could be achieved by improving the efficiency of internal audit procedures, to free up time to build relationships with the business.

- 77% plan to increase focus on treasury/liquidity risk and 60% on business and credit risk
- 27% plan to decrease focus on branch inspections and 23% on Sarbanes-Oxley
- On average, large organisations spent 23% of their time on functional management and planning; 62% on audit execution and fieldwork; and only 15% on business communications and reporting

## Flexible resourcing: agility is key

The majority of internal audit functions are struggling to meet headcount targets, which could impact the achievement of plans. Organisations of all sizes are increasingly using co-sourcing/outsourcing not only to fill headcount gaps, but also to upskill in-house teams and increase their ability to address areas of increasing focus for internal audit work.

HIAs are increasingly investing in training their staff. However, overall training levels are quite low. More senior staff receive higher levels of training.

- 62% of functions will not hit their target headcount
- External recruitment costs accounted for 17% of external spend
- 50% of respondents who co-source do so in seven or more key skill areas
- In 2008, organisations were spending 14% of total external spend on training, an increase of 3% on the previous year

## Productivity: the biggest prize

Internal audit productivity levels are surprisingly low. Average audit days per auditor to deliver the audit plan are lower than we would expect.

Risk-based approaches are enabling relatively high audit universe coverage.

Little use is made of automation. Even where tools are used, they have surprisingly little impact on productivity.

- In 2008 the average number of assurance days per auditor was expected to be 166. In 2007 this was 163
- The average cost of an audit report is £59,442
- Respondents cover 48% of their audit universe on average
- In 2008 planned number of days from fieldwork to report is 24, a fall from 2007 figures of 28
- Only 21% found audit systems to be fully effective

## Key findings

- Internal audit spending is expected to increase moderately
- Bigger banks are expecting to spend a greater percentage of their total entity expenditure on internal audit
- Investment in internal audit, when compared to other functions, is modest
- Spend across the different internal audit cost components remains consistent, although co-sourcing is predicted to decrease

# Internal audit spend: an upward curve

Across the banking and capital markets sector, spending on internal audit is expected to increase modestly – but does this go far enough given current market conditions? Budgets are under pressure across the sector yet regulatory scrutiny of financial services is more intense. This is therefore a time when internal audit requires investment, so that it can provide necessary assurance to management while also fulfilling the need to provide robust challenge.

## Internal audit spending is expected to increase moderately

On average, 2008 expenditure was 4% up on 2007 levels. This correlates with growth trends in the size of functions. Between 2006 and 2007 average FTE growth was 8%, whereas growth in 2008 was only 3%.

However, the proportion of total entity expenditure allocated to internal audit has remained constant – 0.44% for 2007 and 2008 (see figure 1). The mean for large and global organisations is even lower, at 0.34%. By sector, market infrastructure entities have proportionately the highest internal audit spend at 0.62% and by size of internal audit function, the middle size functions (25-75 FTE) have proportionately the highest spend at 0.58%.

Bigger banks are expecting to spend more on internal audit than smaller organisations, with a 6% increase on average. A few anticipate double digit percentage increases. Entities spending over £10m on internal audit tend to be those looking for the biggest increase in internal audit expenditure, an average of 7%, compared to 3% in organisations that spend less than £10m. This indicates the value being placed on the work of internal audit by larger organisations.

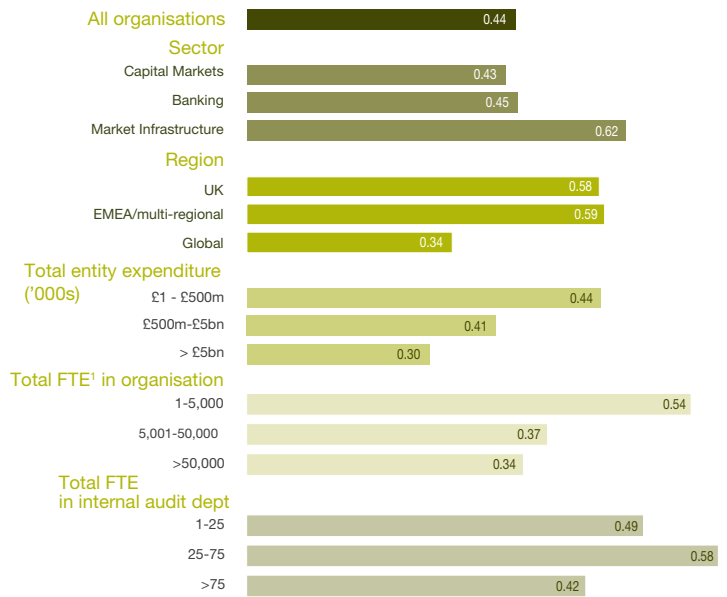


Figure 1: % of internal audit spend to total entity expenditure

# 4%

## average budget increase planned for 2009

Looking to 2009, total budgeted internal audit costs are expected to increase marginally – by 4% on average (see figure 2). However, market infrastructure entities predicted overall budget cuts.

Inefficient departments expect budget cuts. Organisations anticipating budget reductions are more likely to be relatively inefficient in the average number of audit assurance days per auditor they achieve – 153 compared to 170 for those expecting a budget increase. This could suggest some internal audit functions are trapped in a vicious circle of underinvestment, deprived of the funding and commitment required to support development of the function.

## More value will need to be extracted from internal audit spend

HIAs will need to argue the case for continued investment in internal audit. This is essential if internal audit functions are to remain aligned with business needs, keep their skills and processes up to date and be able to continue adding value and reassurance to management.

In the long term, internal audit functions are likely to face more pressure to reduce budgets. Although the effects of mergers and acquisitions, restructurings and changes in strategy may not hit internal audit immediately, they will in time. As banks re-size, their internal audit functions must adjust and be flexible.

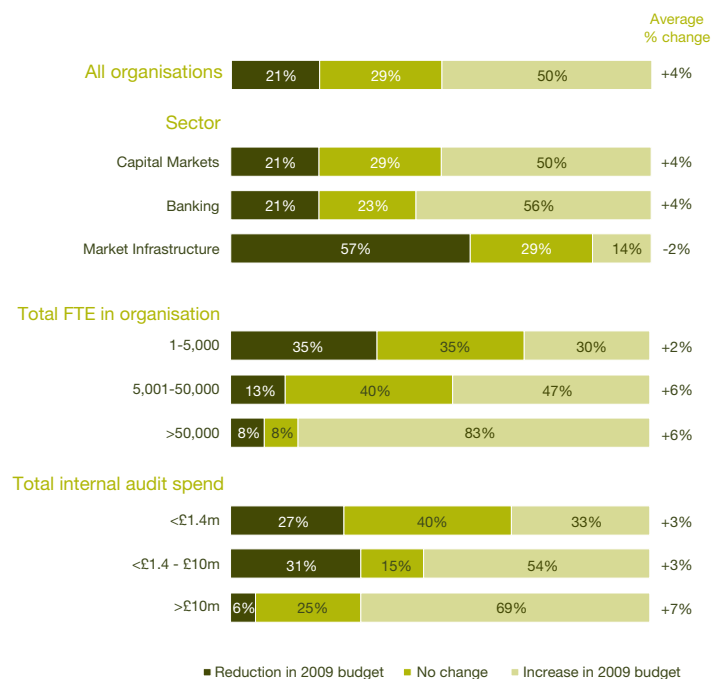


Figure 2: Outlook on internal audit budget for 2009 – % of organisations stating each response

<sup>1</sup> FTE = Full Time Equivalent

Average entity spend for each bank member of staff is £155,086.  
Average spend for internal audit staff is £103,410

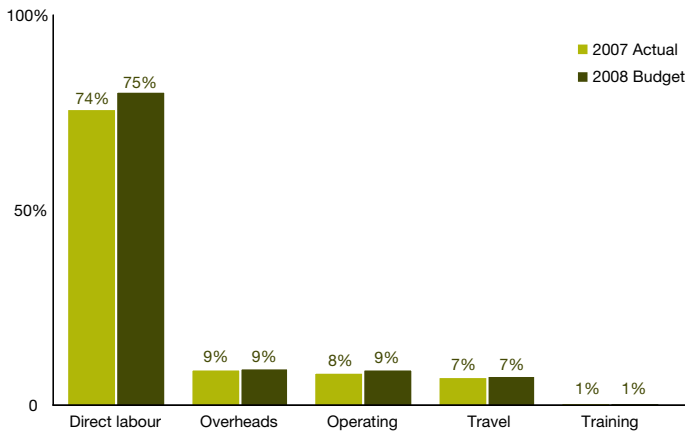


Figure 3: Survey average % internal spend, by expense category, for 2007 and 2008

### Investment in internal audit staff is lower than for other bank personnel

HIAs may be interested to see how the average full cost for an individual staff member in internal audit compares with the average full cost per employee for organisations as a whole. On average we found that an entity spends £155,086 for each member of staff it employs. For internal audit staff this figure sits at £103,410. This indicates the relative level of investment made in the internal audit function tends to be low.

HIAs may also want to compare the data for their own organisation, to see how internal audit fares in relation to other functions such as finance, risk or compliance. Having access to such data may be useful when internal audit budgets are being formed, rather than being completed on a standalone basis. It is essential to compare like with like – figures would be expected to be higher for an investment bank than a retail bank, for example.

### Cost profiles for internal spend remain consistent across the sector

Budgeted internal audit spend on internal expenses in 2008 increased from 2007 actual expenditure by an average of 14%.

Unsurprisingly, direct labour consistently accounts for the majority (74%) of internal spend, and there is little variation between 2007 and 2008 figures in expenditure on other internal costs, such as training, travel and operating expenses (see figure 3).

# 14%

Average anticipated increase in internal spend from 2007 to 2008

# 80%

Internal audit spend on resources and internal costs



## External spend is expected to contract, but may underestimate the need for specialist skills

External spend accounts for 20% of total spend on average. There is significant variation by organisation size for 2008 spend – large organisations are spending proportionally more on training and small organisations are spending more on co-sourcing. Of organisations which co-source, the smaller functions spend almost half of their total internal audit budget on this.

Co-sourcing is the largest single area of external spend across all organisations, accounting for 51% in 2007, slipping slightly to 44% in 2008 budgets (see figure 4).

Spending in 2009 is also likely to be affected by the expected increase in internal audit focus on key areas such as treasury/liquidity, business risk, credit risk, market risk and regulatory risk. Given that many organisations experience difficulty when recruiting in such areas, external spending will be required both for recruitment activity and for co-sourcing arrangements to fill skill gaps. Anticipated 2009 budgets may underestimate the impact of these skills demands.

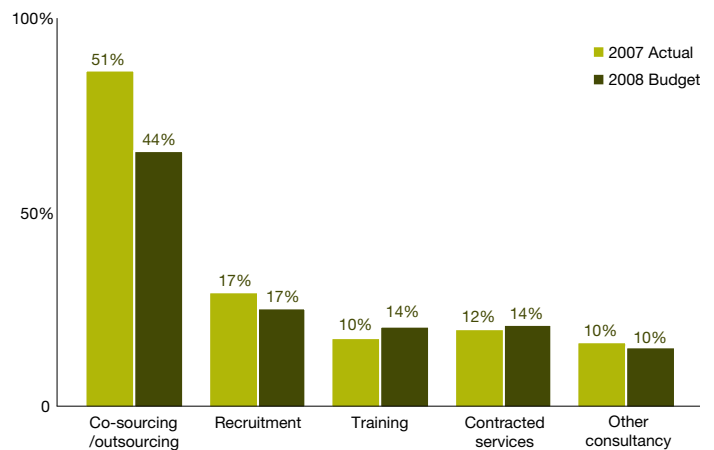


Figure 4: Survey average % external spend, by expense category, for 2007 and 2008

# 51%

average proportion of total external spend on co-sourcing

## Key findings

- A greater risk focus is enabling higher coverage of the audit universe in any year
- In 2009 internal audit activity is expected to become directed towards treasury/liquidity risk, business risk and credit risk
- Internal audit functions in large institutions spend relatively little time engaging with, and providing insight to management
- Internal audit functions in large organisations are spending more time on planning, potentially reflecting greater complexity and sophistication. Smaller functions may not be spending enough

# Focused where it counts?

The downturn poses serious challenges, with risks materialising from a number of different directions and having significant business impact. Much of the impact will be experienced over an extended period and could require internal audit to re-align its focus. Some issues, however, have potentially significant short term impact and require prompt consideration. Audit committees will be seeking assurance over the adequacy of internal audit's coverage, approach and skill sets in these key risk areas.

In addition, HIAs need to reassure themselves that their teams are doing the right things. Balancing the time spent between managing the team, planning, performing audits and delivering insight is a challenge for most functions.

## Internal audit functions are applying a more risk-centric approach

The risks an organisation faces will change and HIAs need to ensure that they conduct a frequent evaluation of these, whilst not losing sight of the fundamentals. Determining where to focus scarce resources will be a challenge.

The survey supported our view that internal audit's work is becoming more risk-centric. Three areas where HIAs say they are most likely to increase their function's focus in 2009 are treasury/liquidity risk, business risk and credit risk (see figure 5).

Survey respondents on average covered 48% of their audit universe in 2007, and 51% in 2008 (see figure 14). Higher coverage, and the lack of any variation according to whether companies are subject to Sarbanes-Oxley requirements or not, suggests widespread planning of internal audit work is based on risk analysis.

Areas more likely to see decreasing internal audit focus are branch inspections and Sarbanes-Oxley compliance, again suggesting that organisations are moving away from traditional rotation plans.

Previous research for the PwC report *Internal Audit 2012* (see [www.pwc.com](http://www.pwc.com)) found evidence of internal audit functions rethinking their fundamental value propositions, shifting to a model where risk and control assurance are based on the effectiveness of risk management processes developed by management. This trend is likely to strengthen over time as corporate risk management frameworks and control processes reach advanced levels of maturity.

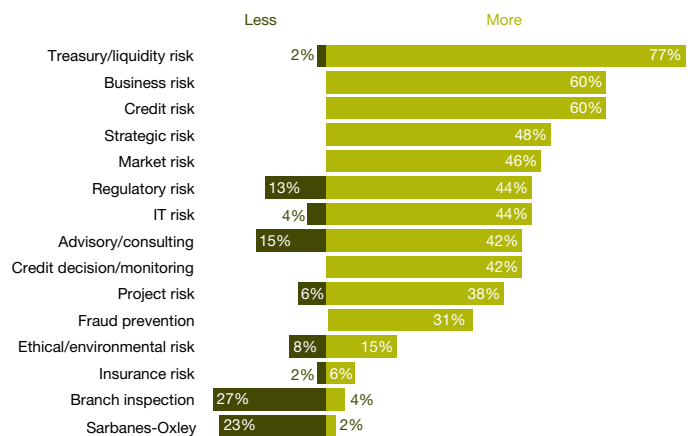


Figure 5: % of all organisations stating 2009 focus on each area will change

**77%**  
plan to increase focus on treasury/  
liquidity risk

**27%**  
plan to decrease focus on branch  
inspections

On average, organisations spent 18% of their time on functional management and planning, 62% on audit execution and fieldwork and 20% on business communications and reporting

### By size of organisation

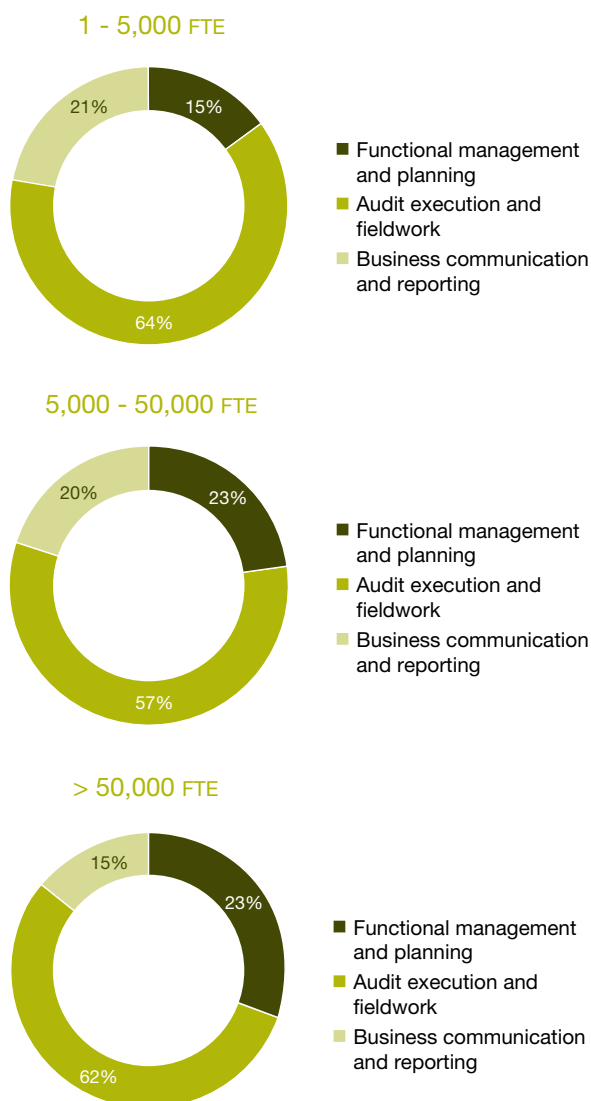


Figure 6: Average % of time spent on different activities

### Internal audit staff are focused on action rather than insight

HIAs need to consider the balance of activity related to planning and management of the function, audit execution and providing insight to management. Improving the efficiency of internal audit procedures may be necessary to free up more time for the more value-adding activities, such as analysis and provision of management insight. Boards and audit committees value insight and foresight, yet many HIAs do not spend much of their time on this.

On average, internal audit functions across all organisations are spending 20% on business communications and reporting; 18% of their time on functional management and planning; and 62% on audit execution and fieldwork.

Internal audit functions in large organisations are spending significantly more time planning than their counterparts in small organisations, which reflects complexity and suggests smaller functions are much less sophisticated in their approach. On average, large organisations spend 23% of their time on functional management and planning, compared with 15% for small organisations (see figure 6). However, large organisations only spend 15% of their time on business communication, which we would expect to be higher. Time spent on providing valuable insight seems to suffer with the high degree of time spent on functional management and planning. Efficiencies in management structure appear to decline in large organisations.

There is an opportunity for internal audit functions to revisit some of the controls and fieldwork activities they undertake. This could be done by reconsidering how certain control activities are undertaken. For example, utilising control self assessments and partnering more effectively with the business when following up agreed internal audit actions could increase time available for value-adding activities.

Looking ahead, HIAs need to consider the balance between these three areas and align it to their business model. HIAs may need to have a higher level of engagement with senior management to develop that commercial understanding.

**15%**  
average time spent by large functions engaging with senior management through relationship and reporting activities



## Key findings

- Many functions are experiencing difficulties in recruiting the staff they need
- Many HIAs lack confidence in their staff's ability to meet the demands placed on them
- HIAs are beginning to take a more strategic approach to resourcing models and use co-sourcing in a wide range of areas
- Investment in training and development of staff is increasing across the sector

# Flexible resourcing: agility is key

HIAs should be considering making changes within the function that will help them remain agile and responsive to the changing needs of the organisation.

The challenges faced by internal audit functions are growing, driven by demand from the business for increased focus on more areas of activity and by greater regulatory pressure. HIAs are meeting these challenges in a number of ways: using more flexible resourcing models, such as outsourcing/co-sourcing to increase agility in a rapidly changing world, as well as investing in the training and development of internal personnel.

## Organisations have a wide variety of staff models

One of the key themes was the range of the staff mix in internal audit functions in the sector. On average, internal audit functions consist of 63% staff grades and 37% in management and leadership grades (see figure 7). Large organisations are able to leverage economies of scale better, with significantly leaner leadership structures. Smaller organisations have the opposite challenge, with approaching equal balance in senior and junior resources. While the metrics are not out of line with expectations, smaller functions seem better able to use this senior resource mix to engage with the business and are less prone to getting distracted by functional management and over engineered annual planning. However, focus on value and quality is a key as we noted that functions expecting budget reductions in 2009, tended to have richer resource mixes.

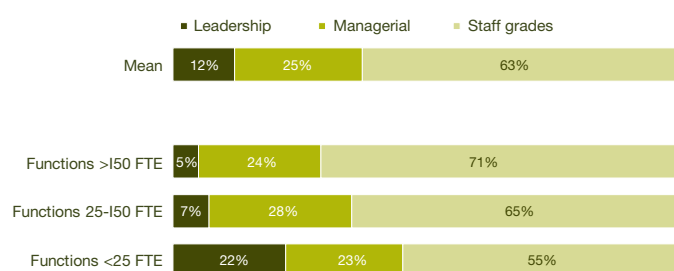


Figure 7: % of all organisations at each level of staff

## Organisations are struggling to fill the skills gap

In today's increasingly challenging environment, with sharpened regulatory focus and changing stakeholder concerns, internal audit functions may increasingly find they lack staff with sufficient seniority and appropriate depth of experience.

Achieving target headcounts is already a problem: 62% of functions in 2008 believed they would not hit their target headcount. Not only may this impact the delivery of the internal audit plan, but the cost of replacing staff is high. External recruitment costs accounted for 17% of 2007 actual external spend and 18% of 2008 budgeted spend.

However, despite talent pressures, only one organisation is expecting an increase in offshoring. In general, few participants in this survey are using offshore centres.

Smaller organisations do not find it as difficult to recruit as larger ones – 12% of which say they are having difficulty attracting the quality of staff they need.

For all organisations, however, recent turmoil in the banking sector with its associated mergers and reconstructions could create opportunities to recruit high quality personnel that would not normally be available in the market place – potentially those with skills currently lacking but perceived as valuable and in areas of increasing internal audit focus.

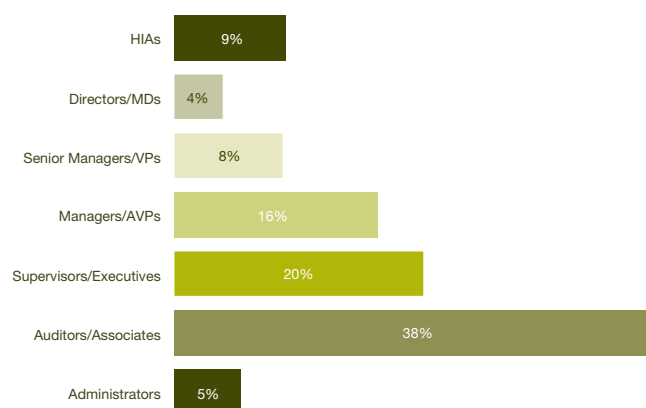


Figure 8: Average internal audit staff mix across all organisations

# 62%

of functions did not hit their headcount in 2008

# 5%

average shortfall against budgeted headcount

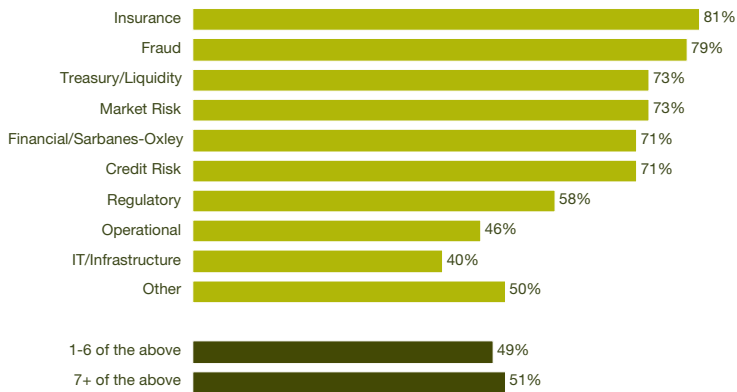


Figure 9: % of all organisations investing externally in each skill set

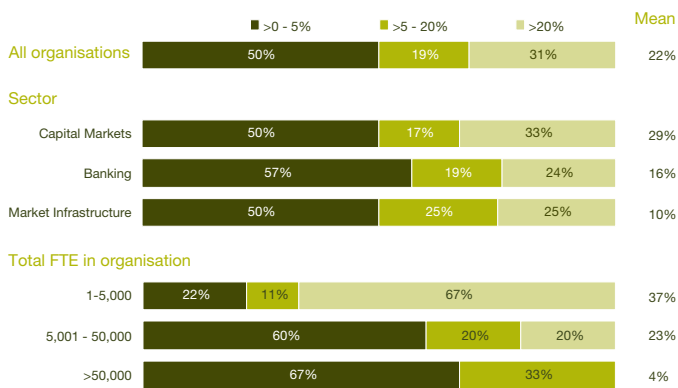


Figure 10: % of total spend on co-sourcing, by organisations that use external support

# 37%

average budget spent on co-sourcing by small organisations\*

\*By those that use external support

## The flexibility of co-sourcing is being recognised

With the struggle to meet headcount targets creates a need for additional external resource in order to meet audit work schedules. 2008 budgeted co-sourcing spend was lower than 2007 actuals, but in reality as the financial year progresses and recruitment falls behind targeted levels, co-sourcing spend tends to increase. We expect that 2008 actual spend was higher than budgeted. This is a trend we anticipate to continue in 2009 due to regulatory imperatives.

There are signs that HIAs are starting to view co-sourcing in a more strategic light – not just as a back-up resource to make up for headcount shortages. The way organisations are using co-sourcing resources is evolving. Initially we saw external resources being utilised narrowly. Now over 50% of respondents who co-source are relying on them in seven or more areas, the most popular being insurance, fraud, treasury/liquidity and market risk (see figure 9). However, co-sourcing is little used for IT/infrastructure and regulatory matters.

Strategic use of co-sourcing is increasing among organisations of all sizes. Traditionally, smaller organisations have been the dominant users. Two thirds of smaller organisations are spending more than 20% of their total internal audit budget on co-sourcing (see figure 10). Large organisations in comparison only spend 4% of their budget on co-sourcing. There are signs that larger players are now exploring operating models that include co-sourcing, in recognition of the increasingly complex banking environment, the growing demands made on internal audit functions and the challenge in meeting internal headcount targets. Such arrangements not only provide access to key skills, but are increasingly used to improve quality in key areas and to share good practices in both methods and productivity management.

## Training is increasing... but not at all levels

HIAs are also investing in their own people which may help to retain staff. Survey respondents expected their proportionate spending on training to increase in 2008, having budgeted to spend 14% of total external spend on average, as opposed to 11% in 2007. Nevertheless, training levels are still quite low, even when allowing for the very limited training investment made by some respondent organisations which pushed down the mean.

HIAs receive an average of 6.8 training days – more than allocated to directors, senior managers/vice presidents and managers/assistant VPs (see figure 11). Only auditors/associates typically received more training days (9.4 on average). HIAs' training days may reflect participation in conferences and networking events.

Internal audit staff in larger organisations receive more training – 8.9 days for those in entities with total expenditure greater than £5bn, almost three times as much as staff in the smallest organisations (3.4 days on average). However, the largest organisations also have the largest numbers of auditors/associates, who generally receive the most training.

When assessing training provision, HIAs should consider whether all major components of an effective development plan are included: professional training in order to gain qualifications or continue professional development; personal development, such as communication and relationship-building skills; and technical training, addressing specific issues in the banking and capital markets sector.

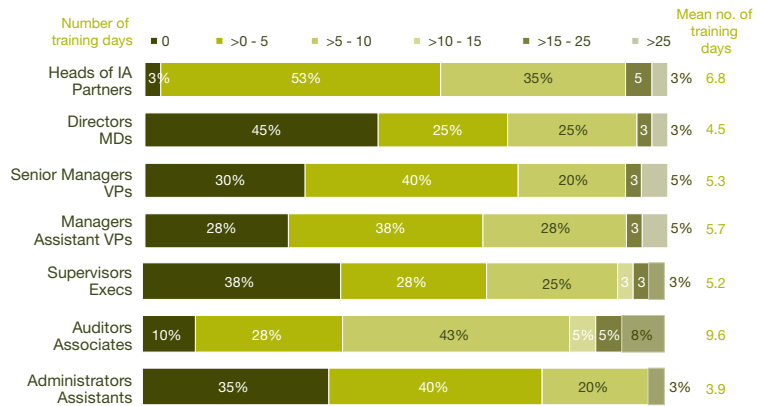


Figure 11: % of all organisations at each level of training days (per FTE)

# 7

average days training per auditor per annum

In large organisations staff receive almost 9 days. In small organisations staff receive less than 4 days

## Key findings

- Productivity levels appear surprisingly low, with respondents reporting 163 assurance days per member of internal audit staff on average in 2007. Only a small increase was expected for 2008
- Internal audit departments anticipating budget reductions in 2009 are more likely to have lower staff productivity
- Typical audit universe coverage is high – over half of functions achieve 40% or more coverage of the audit universe on average. This is indicative of internal audit's increasingly risk-based approach
- Investments in automated tools are not generating efficiency gains in internal audit functions or increased productivity
- Scope exists for producing audit reports more efficiently. This has been a focus area in 2008 with functions, on average, seeking to reduce the period between completion of fieldwork to report issuance to 24 days

# Productivity: the biggest prize

In a difficult economy, cost challenges from above are particularly likely. By addressing any inefficiencies, future costs can be avoided and resource freed up for more value-adding activities. The experiences of some suggest that those that do not improve their cost effectiveness will have the decisions made for them.

Internal auditing standards and the drive for Sarbanes-Oxley compliance have led to a general focus on effectiveness. While this is important, the data suggests that internal audit functions in the banking sector have placed less emphasis on process efficiency and staff productivity. Scope exists for improved professional practices in people and operational management.

## Productivity in terms of assurance days per auditor appears surprisingly low

The average number of audit assurance days per auditor reported for 2007 was 163, with only a small increase to 166 expected for 2008 (see figure 12). These levels seem unexpectedly low.

Most organisations appear to achieve similar levels of assurance days except for global entities which lag behind. This could be due to cultural issues related to working hours and the challenges of covering multiple geographies and time zones.

In a cost constrained world, increasing productivity levels will become more essential. Organisations that have high productivity invest in people management; introduce department and personal scorecards and KPIs; and leverage automation.

## Audit reports could be produced more efficiently

On average an audit report in 2007 cost £59,442. For small internal audit functions the typical cost was £29,954, compared to £100,470 for larger functions. Planned spend per audit report for 2008 in small functions was significantly higher than 2007, at £34,254. The disparity in spend between functions of differing size indicates that smaller functions generally conduct more focused audits.

When surveyed, entities were anticipating efficiency improvements in the time taken to produce an internal audit report after fieldwork is completed. On average they expected this to fall from 28 days in 2007 to 24 days in 2008 (see figure 13). As expected given the inherent complexity, respondents in the capital markets arena anticipated the longest time between fieldwork and report in 2008 – 29 days, compared to 25 for banking respondents and 21 for market infrastructure participants.

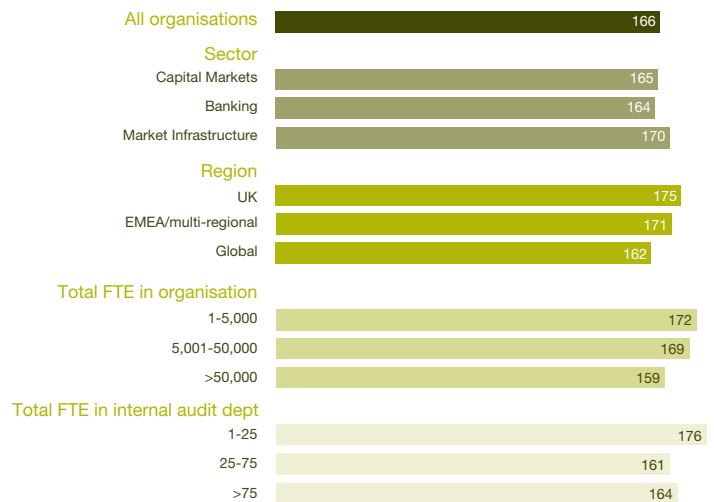


Figure 12: Average number of audit days per auditor – 2008 planned

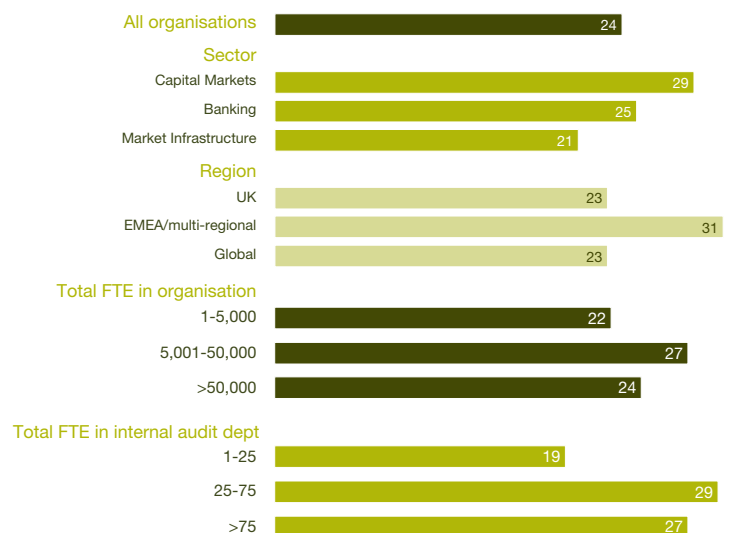


Figure 13: Number of days from fieldwork to report – 2008 planned

Typical cost of an audit report in small functions was £29,954, compared to £100,470 for larger functions

## A risk-centric approach supports higher audit universe coverage

On average, internal audit functions are covering around half (48% in 2007 and 51% in 2008) of their entity's audit universe in a given year (see figure 14). In 2008, 46% reported coverage of between 21% and 40%, a range indicative of an approach that is driven by a three or five year cycle. This suggests that whilst leading functions are moving towards a more risk-based approach, there is still a sizeable minority using a more traditional cycle approach.

The ability to focus internal audit activity on higher risk areas also extends to varying the intensity of effort within individual audits. Such approaches, which are emerging in the sector, require deep business knowledge and experience.

Developments in risk centric audit approaches have also been pursued following the release of Sarbanes-Oxley Auditing Standards No. 5 (AS5), with its less prescriptive and risk-based requirements. It is also worth noting the effect of Sarbanes-Oxley compliance on confidence levels. The enormous effort put into Sarbanes-Oxley compliance appears to have delivered some broader benefits — 57% of organisations subject to Sarbanes-Oxley were confident in their staff's ability, compared to 44% in non US-registered companies.

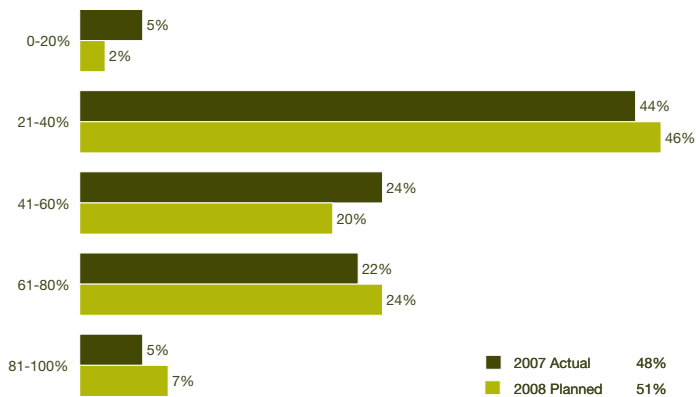


Figure 14: Estimated percentage of audit universe covered – 2007 actual vs. 2008 planned. All organisations

# 51%

of functions reported over 40% coverage of the audit universe in 2008



## The benefits of using tools are not being realised

Audit software tools, such as audit management systems, best practice databases and control self-assessment tools, can help internal audit functions to improve standardisation of procedures and processes, facilitate data sharing and enhance efficiency.

In general, this survey found surprisingly low usage of such tools (see figure 15). When tools are used, they appear to make relatively little difference to working efficiencies of functions. The extent of this is surprising – entities are not getting the benefits that they should from the introduction of automated processes. This may be due to resistance from the people expected to use the tools, inadequate training or flaws in automated processes.

Tools considered to be used most effectively include automated/electronic working papers, issue tracking tools, risk assessment/planning tools, electronic time recording systems and job scheduling systems. This corresponds with the finding that time recording and job scheduling are areas where people feel the most confident.

Respondents from larger organisations consider the tools they use to be more effective than do respondents from smaller entities. However, even where considered effective, tools still appear to have little impact on productivity or time taken from end of fieldwork to report.

In fact, those finding tools effective tended to take longer from fieldwork completion to report than those considering tools ineffective or not using them at all.

Looking forward, HIAs must focus on understanding where tools can be leveraged, invest in these and make full use of available functionality.

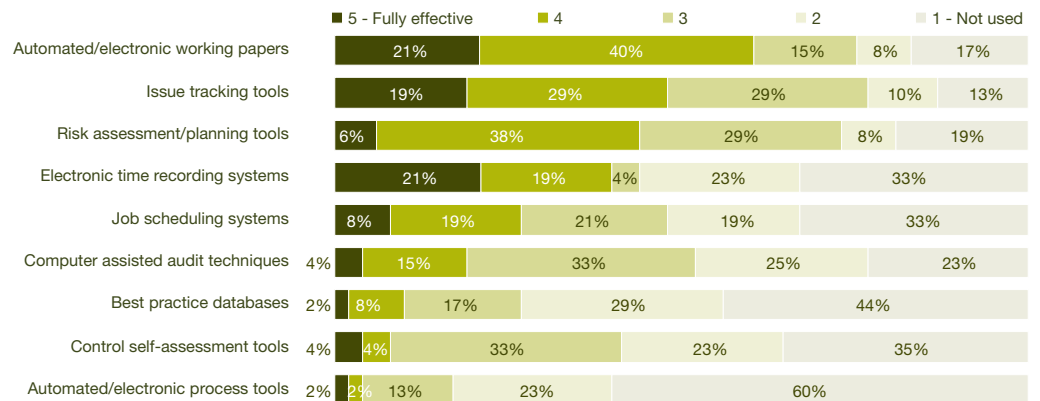


Figure 15: % of all organisations giving each rating for each tool

**21%**  
found automated audit systems to be fully effective

Internal audit is an evolving discipline with new standards of good practice emerging.

So what can internal audit functions be doing to manage their way through the downturn?



# Moving forward: realising value from internal audit during a downturn

## Challenge and opportunity

There are currently clear cost pressures for organisations within banking and capital markets, but this does not necessarily mean internal audit functions should be suffering budget cuts. In fact, investment now in internal audit could be particularly justified, as boards seek reassurance that the efficiencies they are driving are appropriate and not jeopardising the organisation's future.

## Next steps for Heads of Internal Audit

The downturn provides a real opportunity for HIAs to re-evaluate and re-focus the role of internal audit to ensure that it provides the increased assurance that boards and audit committees are looking for in these testing times. Common principles we see in top performing functions include:

### 1 Improving productivity and efficiency

Drive hard to increase the productivity and efficiency of your function. Functions should challenge their processes and staff management practices to avoid budget increases. Improved productivity will demonstrate value and help avoid budget increases. Invest in scheduling and resource management and consider using productivity measures in both function and staff scorecards. These measures can help reduce the cost per audit report and increase the number of assurance days from staff. This may mean focusing on what really matters and improving the use of and value derived from management tools and technology.

### 2 Taking a risk-based approach

The risks in banking and capital markets have varied in their significance in recent years. You need to ensure that you conduct a more frequent evaluation of the organisation's risks – ie a responsive risk-based approach. Be agile to emerging risks and flexible in the way your function aligns to these. Real-time monitoring, more frequent assessments of the risk universe and increased use of technology tools can help. However, keep your eye on the future as well as dealing with today's challenges – don't lose sight of the fundamentals.

### 3 Flexibility and responsiveness

Consider how you can make changes within your internal audit function that will help you to remain agile and responsive to the needs of the organisation. Adopt a fluid resourcing model with an ability to move quickly to areas of high risk. Re-focus activity towards key/core business issues, not onerous and complex internal audit processes.

For example, increasing focus on areas such as treasury, business, credit and market risks, as well as regulatory risks should encourage you to re-assess the deep market skills of your team. Think carefully about whether now is the time to re-evaluate and improve your team's structure and skill sets.

### 4 Work with the most talented people you can

Surrounding yourself with great people will only put you in good stead. A great leader must have a team of talented people to support them otherwise you will not be able to meet the growing demands of your function. Consider how you can access talent. This may be from tapping the resource pool of new talent that is available in the market following recent mergers. Alternatively consider investing in training in the key skill areas. Support in the form of co-sourcing can give you improved access to quality resources and key skills. Fill resourcing gaps in the most effective way possible – even if this means asking for internal or external help – it is unlikely that boards or regulators will have the same tolerance for slowed progress in the audit plan or reduced coverage of the audit universe.

### 5 Promote the value that internal audit can bring

Demonstrate how your role provides the board with reassurance that, in these testing times, the right controls are in place across the organisation and that the efficiencies the board are seeking are not adding undue risk to the organisation. Consider developing ways to monitor and capture information on how the internal audit function is adding value to the organisation. How many near-misses have you helped the organisation to avoid? Where have you saved the organisation money? More broadly, how well is the function performing against sector peers and good practice?

### 6 Insight, foresight and communication

Boards and audit committees value insight and foresight, yet many HIAs do not appear to spend much of their time on this. Make sure that you are investing in your internal relationships and engaging with senior management on their business risks. Develop those beneath you to do the same. Focus these activities to bring to the attention of your board/audit committee issues that they may not have considered and to advise how to manage emerging risks. Whatever activities you undertake, this should be helping your boards to make informal decisions and maintain a robust corporate governance architecture.

Ensure you balance the priorities of insight, team management and planning with delivering the audits.

## Internal audit scorecard-key cost metrics

Internal audit functions should be monitoring their performance and helping boards and audit committees understand their benchmark performance. There are certain metrics that can be used by an internal audit function to compare themselves against their peers. These can help communicate performance against sector peers and comparable sized functions; and provide meaningful analysis to inform future improvements.

PwC can provide an individual benchmarking report against your peer group, sector or geography. Please discuss with your PwC contact for further information, or one of the partner contacts on page 24.



# Survey sample

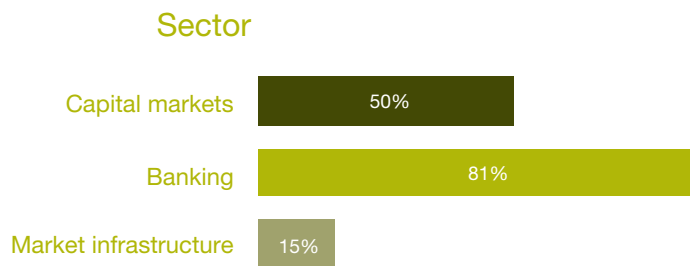


Figure 16: Sector survey sample (multiple answers allowed)

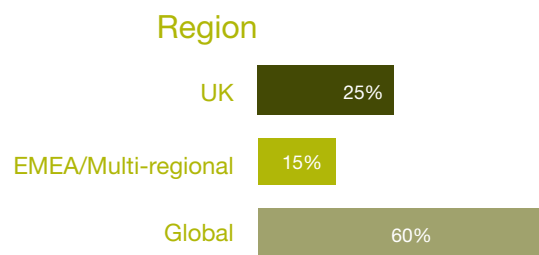


Figure 17: Region survey sample

The survey was conducted between 12 August and 30 September 2008.

49 participants completed the survey but not all participants completed all the questions. Where a participant did not answer a question or provided an answer that was outside an acceptable tolerance, the answer was excluded from the average for that question.

The term co-sourcing is used in this survey to include co-sourcing and outsourcing.



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