

## Benchmarking Survey: Is your internal audit organization not far behind?

Did you know that:

- Only 21% of the CAEs in the country are CIAs?
- 56% of internal audit department members are CPAs and only 16% are CIAs?
- Only 26% of internal audit organizations use control self assessment?
- 42% of internal audit organizations do not have a QA department?

This is based on the Benchmarking survey conducted among internal audit organizations in the Philippines last year- the first among the series of official surveys by the Technical Standards and Research Committee of the IIA-P.

### SURVEY OBJECTIVES

Are you worried as to where your internal audit organization is compared to other IA functions in the country? Is your IA organization lagging far behind or leading? This benchmarking survey is useful in providing relevant information for calibrating relevant aspects of your internal audit function in terms of audit costs, staffing, sourcing, training and capability and audit methodologies.

This survey is also useful in identifying strengths of the internal audit organizations in the country as well as opportunity areas.

### SURVEY BACKGROUND

Survey questions were distributed through mail/fax to 200 CAEs of companies from various industries (service, banking, manufacturing, holding, utilities, financing, etc.) nationwide from June to October 2006. Out of these 200 surveyees, 38 responded to the survey. The respondents were representative of small and large companies, ranging from those with P800,000 up to P339B total assets and P1.5M up to 227B in revenues.

### SURVEY RESULTS SUMMARY

Below are the highlights of the survey results:

#### Internal Audit Costs(Figure 1):

- 84% of the costs of the internal audit go to personnel/ salary costs, next is travel costs.
- Only 2% is allotted on training.

#### Staffing:

- *CIA Certification:* 56% of total members of the Internal audit organization are CPAs while only 10% or 16% are CIAs. Majority of the CIAs are at the examiner/auditor staff level and the supervisor level (Figure 2). Only 21%

of CAEs are certified. This serves as reasonable ground for encouraging CAEs to pursue a CIA certification.

- *Work Experience:* Majority or 70% of the IA members are of accounting background. Also, CAEs and Audit Manager/Directors have on the average, 11 years of experience in IA, 8 years in EA and 6 years in IT audit.

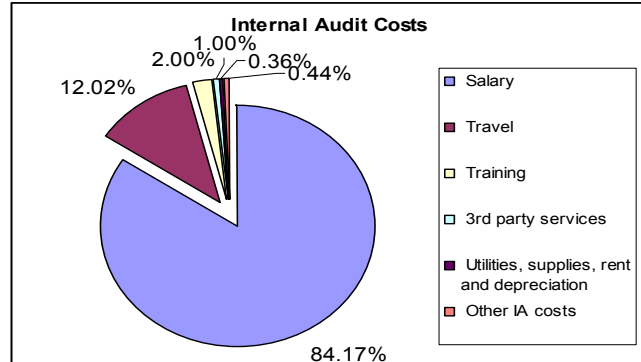


Figure 1: internal Audit Costs

- *Outsourcing:* Only 16% outsource their audits to 3rd parties. The reason for such is because of cost considerations or adequate mix and availability of resources within the IA activity. The Top 3 types of audits outsourced are: IS audits (28%), followed by EHS audits(12%) and accounting (12%). Out of the 16% who outsource their audits, 62% pass on the audits to other public accounting firms.

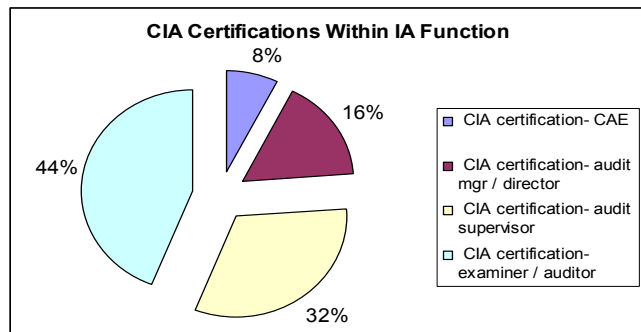
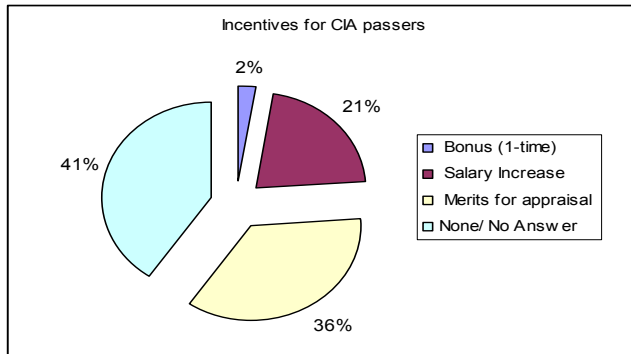


Figure 2: CIA Certifications within the IA function

#### Training and Development:

- *Budgeted training days:* 26-29% of the respondents have a budget of 1-10 days for auditor training across all levels. Surprisingly, there are still companies which do not have budgeted days for training at above new auditor level.
- *Budgeted training costs:* As the level goes up, the higher the investment in trainings. For new auditor, majority or 34% have only budget below P10K, for in-charge and supervisor, 24% have budget of P10K- 20K. While for CAE, 24% have more than P40K allotted for trainings.
- *Training bond:* 55% of companies do not enforce a bond or agreement on their employees for each training provided.
- *Formal Training Programs:* Majority of the IA activities have a formal training program for new auditors. Majority the IA activity rely on external trainings.

- **Certification requirements:** Survey showed that most of the companies do not require their auditors to attempt to take the CIA/CISA certifications. However, most of them indicated that they encourage instead of requiring the members. A good deal of companies offers incentives to the passers in the form of merits for appraisal and salary increases (Figure 3).



**Figure 3: Incentives given to CIA Passers**

**Audit Methodology:**

- **Risk based audit:** Most of the IA activities still use the traditional approach to audit. 46% still group their auditable units into different departments/entity levels. However, a 30% are already approaching their audits on a per process analysis.
- **Control Self Assessment (CSA):** Majority or 71% of the companies are still not taking advantage of the benefits of the CSA program.
- **Use of Sampling Tools and Methodology:** However, in terms of sampling tools and methodology, majority of IA activities are using one.
- **Quality assessments:** Almost 50% (42%) of the respondents have not yet established an internal or external QA function. As this survey has been made in the 3rd quarter last year, the figures may be different now, since starting 2007(that is 5 years starting 2002), the IA activity is already required to undergo an external assessment at least once every 5 years. Most IA organizations have only either non-routine or routine quality assessments by the CAE. (Figure 4)
- **Use of electronic workpapers:** Majority or 71% of the IA functions use a combination of electronic and paper format workpapers.
- **Use of Audit Software:** 74% still use manual methods of documenting and archiving their workpapers and reports. Software mentioned used for documenting audit work include Catwire, KM Share Portal, Adobe software archived in Lotus notes based database, ACL, MS Office, Word, Excel, Oracle, Foxbase. In the same way as audit and archiving software, most of the respondents do not also use an electronic database for documenting audit recommendations and updating during periodic audits.
- **Use of CAATS:** Half of the respondents utilize computer assisted audit techniques in performing their audits. Most of these are banks and holding companies.
- **Use of Audit Ratings:** Audit scores or audit ratings are used by more than half of the IA activities surveyed.

Accordingly, more than half of the respondents revealed that the audit scores affect the scorecards of the departments or personnel being audited. This shows the increasing importance management bestows on the role of the IA activity in monitoring effectiveness of the controls and governance process within the organization.

- **Fraud examination involvement:** 95% of the respondents indicated that the IA activity is involved in fraud examinations. Although this is the case, surprisingly, majority indicated that they do not have lawyers, CFEs or other fraud experts within the IA activity. This means that either most of the fraud examination work are done by the IA members themselves, or by a separate entity in the company (Legal Department, etc.)

Nature of Quality Assessments (QA) (multiple answers)	TOTAL	PERCENT
Internal non-routine QA under CAE	7	18%
Internal non-routine QA under others	3	8%
Internal routine QA under CAE	7	18%
Internal routine QA under others	4	11%
External - non-routine QA by 3rd party	3	8%
None- we have no QA	16	42%
No answer	2	5%

**Figure 4: Nature of Quality Assessments**

**CONCLUSION**

The IA activity within the country is commendable in terms of:

- Establishing formal training programs for new auditors
- Use of sampling tools and techniques
- Use of CAATS
- Use of audit scores/ratings
- Involvement in fraud examinations

However, the IA activities in the country have opportunities to either improve, explore or adapt in the following areas:

- Training and Development
- Encouragement of certifications in the upper levels
- Support by management in acquiring certifications
- Specialized training for IA members
- Use of audit software in documentation and archiving

**DETAILED RESULTS**

Details of the survey results are available at the IIA-P website: [http://www.iaa-p.org/www/technical\\_survey.php#](http://www.iaa-p.org/www/technical_survey.php#)