GLOBAL COUNCIL 2017
SUMMARY REPORT

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GLOBAL COUNCIL SUMMARY REPORT

The IIA's annual Global Council brings together IIA leaders from around the world to contribute insights that shape the future of our global organization and profession, learn about key global initiatives, and share knowledge with each other. Global Council 2017, hosted by The IIA and IIA–Italy at the Rome Cavalieri Hotel in Rome from 19–22 February, was a tremendous success with representation from 80 Affiliates, The IIA's Global Executive Committee, and IIA Global Headquarters and Affiliate staff for a total of nearly 160 participants and 50 guests.

Program Summary

The IIA's 2016–17 IIA Global Chairman of the Board Angela Witzany opened Global Council with the traditional roll call to demonstrate the breadth of The IIA's global footprint from one Affiliate in 1941 to more than 100 Affiliates in 2017. During the opening session, IIA–Italy's president, Maurizio Bonzi, and their CEO Roberto Fargion welcomed everyone to Rome. Then Auditor General of the Vatican City State Libero Milone gave an inspiring address on the economic reforms planned by Pope Francis.

An overview of progress made against the topics of the 2016 Global Council was also covered by Witzany who highlighted the efforts that have led to the implementation of revised *Standards,* the release of more than 50 Implementation Guides, the launch of the enhanced Six Pillars of Good Governance to support Affiliates' advocacy efforts, and the development of a global database of speakers.

Senior Vice Chairman of the Board Mike Peppers set the stage for the first Global Council topic on **Global Strategic Planning** by presenting background on The IIA's current strategic planning process and plans to offer more opportunities for Affiliates to contribute to the development of the 2019–23 Global Strategic Plan. He presented the results of the input collected from Affiliates prior to Global Council on The IIA's current mission, vision, core values, and strategic plan. This session was followed by robust discussions where delegates grouped at 16 tables of 10 in 4 rooms and debated the discussion questions that had been provided prior to Global Council as part of the Background Papers. Please refer to pages 3 to 7 for the complete report of this session including results of the discussion sessions and advance polling.

One Global Council general session was devoted to a number of key global strategic initiatives where several past IIA global chairmen shared updates and discussed the following topics: Global Governance, Licensing the Profession, and Global Advocacy. The second day started with a presentation by The IIA's CEO and President Richard Chambers on *The State of the Global Profession in 2017* and the critical role that Affiliates play.

Before delegates discussed the next Global Council topic **Responding to the Voice of Stakeholders**, past chairman of the board Larry Harrington introduced background information during a general session where he shared the results of the Affiliates' advance polling related to stakeholder expectations such as strategic risks, quality of audit work, coordination with other assurance providers, balancing assurance and advisory work, and structure and relationships. Please refer to pages 8 to 13 for the complete report of this session including results of the discussion sessions and advance polling.

This year's Global Council also featured **Knowledge Exchange Sessions** where participants jointly identified solutions and exchanged ideas to better manage their operations and serve their members. Thank you to the following Affiliates for sharing topics for discussion during some of these sessions:

IIA–Albania ● IIA–Finland ● IIA–Greece ● IIA–Malawi ● IIA–Tanzania ● IIA–Turkey ● IIA–Zimbabwe

Institute Management Workshop

Based on feedback received during previous Global Councils, the event featured an optional Institute Management Workshop held prior to Global Council for leaders interested in enhancing their knowledge of various operational topics critical for success. Nearly 30 leaders participated in the half-day workshop led by IIA Global Headquarters staff that covered topics such as building strategic plans, understanding and learning how to use content, and supporting candidates on the path to certification.

Gala Dinner

IIA–Italy hosted the Global Council Reception and Gala Dinner at the beautiful Castello di TorCrescenza on Monday, 20 February where delegates enjoyed an evening of music, fun, and cuisine while exploring the ancient castle.

Next Steps

The input and feedback from Global Council participants collected during the discussions and advance polling sessions is included in this summary report. The details are also being reviewed by the global committees, task forces, and IIA Global Headquarters staff who are working on the related initiatives. Ongoing progress reports on these will be communicated to all Affiliates throughout 2017 via emails, the monthly *Global LeadersLink* eNewsletter, and at future regional and global forums.

You are encouraged to:
- Brief your board members about the Global Council discussions and outcome by referencing the background papers, PowerPoint presentations, and this summary report.
- Share your photos taken during the events on the Global Council Photo Album.
- Plan and budget to ensure your Affiliate is represented at the 2018 Global Council.

Global Council 2017 Attendees

Global Council 2018

Plan now to attend Global Council 2018 from 4–7 February 2018 in scenic Panama City, Panama. Information will be provided as soon as details are finalized. However, in the meantime get to know our hosting Affiliate IIA–Panama by visiting their website at http://www.iaipanama.org/.

DISCUSSIONS RESULTS

The IIA's bylaws state that Global Council "shall provide input to the strategic direction of The IIA." Hence, Global Council plays a significant role in establishing The IIA's Global Strategic Plan by providing advice on strategic initiatives, and helping the Global Board assess progress.

The IIA's Global Strategic Plan is thoroughly reviewed and revised approximately once every three years. Given that the current Global Strategic Plan (for 2015–20) was approved by the Global Board of Directors in December 2014, updates would be considered during 2017.

However, beyond updates to the plan, The IIA's Executive Committee and Global Board of Directors recently proposed enhancements to The IIA's strategic planning process itself. In particular, they recommended expanding opportunities for collecting input from constituents around the world as part of the creation of the next Global Strategic Plan, and using 2017 to accomplish that.

Since the next Global Strategic Plan (2019–23) will be submitted for approval to the Global Board in May 2018, the 2017 Global Council marked the official kick-off to this enhanced input gathering process.

Global Council participants were requested to complete a pre-polling survey comprising questions about the 2015–20 Global Strategic Plan. The questions sought opinions on:

- The level of agreement with The IIA's official Core Purpose (or Mission) and Vision.
- The relevance of each of the five current strategic plan goals over the next five to seven years.
- How well The IIA operates in accordance with each of the listed nine Core Values.
- How well the current Global Strategic Plan addresses the needs of the profession, the needs of members, and the needs and expectations of internal audit stakeholders.

The response rate to the survey was robust, with a 96% response rate of the Affiliates registered to attend.

The IIA's Global Board Senior Vice Chairman Mike Peppers reviewed the results of the pre-polling survey with Global Council delegates in Rome. The results indicated that in general, while there are opportunities for improvements in demonstrating adherence to the Core Values, the results of the survey were positive.

Specifically, as it relates to The IIA's Vision and Mission:
- 100% agree with **The IIA's Core Purpose** (or Mission), why The IIA exists, as being "***To lead the global profession and advance its value***" (92% strongly agree; 8% somewhat agree)
- 100% also agree with **The IIA's Vision**, what The IIA aspires to achieve, as being that "***Internal audit professionals will be universally recognized as indispensable to effective governance, risk management, and control***" (90% strongly agree; 10% somewhat agree)

With regard to the perceived continuing relevance of The IIA's five Strategic Goals, all were perceived as highly relevant:

The Professionalism Goal as still being extremely or very relevant for 98%:
- o   *The IIA will lead the profession through the development of timely and relevant knowledge, global guidance, and career path guidelines.*

The Advocacy Goal as still being extremely or very relevant for 98%:
- o   *The IIA will raise the profile of and demand for the profession to ensure it is recognized as an indispensable resource by key stakeholders.*

The Capacity Goal as still being extremely or very relevant for 95%:
- o   *The IIA will collaborate globally to expand the capacity of the profession.*

The IIA as Leader Goal as still being extremely or very relevant for 93%:
- o   *The IIA will be recognized as the leading voice for internal auditing.*

The Sustainable Value Goal as still being extremely or very relevant for 89%:
- o   *The IIA will deploy both financial and business models that generate value for members.*

As it relates to the nine Core Values, the level of agreement with The IIA's demonstration of each Core Value was as follows (in order of level of strong agreement):

Core Value	Strongly Agree	Somewhat Agree		Somewhat Disagree	Strongly Disagree
Integrity	84%	14%		1%	1%
Professionalism	82%	18%		0%	0%
Respect	78%	21%		0%	1%
Global Mindset	57%	35%		8%	0%
Collaboration	52%	45%		3%	0%
Service Excellence	50%	42%		8%	0%
Unity in Diversity	47%	45%		7%	2%
Courage	47%	49%		5%	0%
Innovation	40%	48%		12%	1%
Note: Percentages may not add to 100% due to rounding.					

Finally, as it pertains to the pre-polling survey results, participants were also asked how well they believed the current Strategic Plan addresses certain key constituents. Again, feedback was generally supportive, but there were opportunities for improvement here as well. Specifically,

- While 98% believed the Plan did **address the needs of the profession**, about one-third of these respondents felt it only accomplished this "to some extent" (rather than "to a large extent").
- As well, while 95% saw the Plan as **addressing the needs of members**, just over one-third believed it was only "to some extent", and
- Further, where potentially the greatest opportunity lies, while 93% of survey respondents indicated the Plan **addresses the needs/expectations of stakeholders**, slightly more than one-half saw it as accomplishing this only to "some extent."

As this particular question, regarding how well the plan addresses the needs of these various constituents, was also a breakout discussion topic, specific suggestions for improvements are covered in the next section.

GLOBAL STRATEGIC PLANNING

Participants were asked at their table breakout discussions to consider a series of questions primarily aimed at helping to identify views on what the top strategic priorities for The IIA should be and, consistent with some of the pre-polling questions, what needs and expectations of key constituents (the profession, members, and/or stakeholders) were not being adequately addressed by the current plan. When considering the results from the 16 breakout table discussion, in aggregate, key conclusions could be gleaned. This feedback, combined with the previously summarized survey results, will be critical inputs to The IIA's upcoming strategic planning activities.

For some, there is lack of clarity as to who the Global Strategic Plan is for, or what it represents. Is it a plan for the internal audit profession? A plan for IIA Global Headquarters? A plan for The IIA as a global body? Or is it some combination of all of these? The feedback on the lack of clarity as to the purpose of the Global Strategic Plan is instructive and will be considered when the next plan is developed.

Participants were asked to identify key needs and expectations (of the profession, members, and stakeholders) that the current plan does not adequately address. While a wide range of items were mentioned for consideration, common themes emerged:

- **Advocacy** – There was a strong and clear call for more advocacy investments, particularly enhancing Affiliates' abilities to advocate for the role of internal auditing across all relevant constituents. Participants expressed their desire for more tools and resources to communicate the value proposition of internal audit, to better delineate the differences between external and internal audit, to talk with regulators, and educate constituents across the board. While advocacy has been a strategic goal of The IIA, it is clear that there are expectations that we should invest more time, materials, and resources on advocacy efforts in support of Affiliates and the profession as a whole through:
    o Developing clear and simple advocacy messages.
    o Highlighting the added value of internal audit.
    o Establishing a stronger connection between internal audit and its various stakeholders.

- **Innovation** – Another area where there was a broad-based call for investment was in the area of innovation and enhancing The IIA's ability to be agile and more responsive to a changing marketplace. As the sophistication of organizations evolve, The IIA, as a membership association serving a profession, may not be keeping pace to support the needs of our members. The internal audit profession is facing relentless pressure and challenges in sustaining its ability to keep up with the evolution of organizations, fueled by, among other things, rapid advances in technology and disruptive innovations. The implications of this will be how we keep pace with our own ability to innovate and be more agile will be a reflection of our ability to sustain, or even maintain, our relevance.

- **Capacity** – Especially with the challenges faced by smaller IIA Affiliates, and even more so those that are relying solely on volunteers, there was a call for enhancing The IIA's investments in and attention to global capacity development. This call included not only better supporting Affiliates to develop their capacity in their respective countries, but also in the general capacity development of the profession.

- **Conformance/Regulation/Legislation/Licensing** – While there was a recognizable call for efforts aimed at enhancing nonmandatory conformance with The IIA's *Standards* (to which efforts are currently underway to address), there were also expanded calls for The IIA to look at ways to mandate a number of things. There was not a consistent aspect of the desire to see certain elements mandated; however, aspirations were generally focused on: mandating conformance with the *Standards*, mandating the CIA designation, and/or mandating membership for all practicing internal auditors. The feedback acknowledged that this was a strategic issue that should be considered, discussed, and deliberated to better distinguish internal audit as a profession on par with other professions. (Later in the session, delegates learned of an initiative commencing later this year to explore certain aspects of this issue through the chartering of a task force to evaluate the pros and cons on the generalized topic of "licensing".)

Delegates were also asked to discuss and identify what they thought the top strategic priorities for The IIA should be over the next 5 to 7 years. While, logically, there was overlap on the views associated with this question and the prior question about meeting stakeholder needs, additional observations were made. A number of the key and recurring observations centered on the need to focus on the following strategic priorities:

- **Further Elevate Internal Audit as a True Profession** – It is expected that we need to continue to make strides toward improving the perception of internal audit as a true profession by finding better ways for differentiating internal audit from external audit, clearly delineating the skill sets that make internal audit unique as a profession, and somehow considering ways to require or mandate both the standards and professional certification.

- **Clearly Anticipate and Prepare for the Future Direction of the Profession** – Investing in the effort to collectively define how the profession will evolve and continue to influence its trajectory will be essential to The IIA's long-term success as the sole global professional body supporting internal audit practitioners and functions. Through anticipating the direction of the profession, especially given the rapid adoption of technology, we will need to innovate to the point of reinventing ourselves and better leverage technology ourselves in pursuit of sustaining our relevance. As the work force evolves through generational change, we must adequately anticipate this and prepare ourselves accordingly. Part of this will need to include:
  o Focusing on the competencies needed by professionals to be effective internal auditors.
  o Closing the gap on current missing skills.
  o Preparing internal auditors for the skills they will need in the future.

- **Ensure the Sustainability of The IIA's Operating and Business Models** – The IIA should continue to explore adapting its operating and business model to reflect the following changes: the world becoming more global and borderless, internal auditors being less likely to remain in the profession for lengthy periods of time, and the role of CAE becoming increasingly more rotational in nature. Moreover, increased competition from other organizations for member services and member attention, our over-reliance on volunteers, and our lack of adequate diversification of revenue streams, may all place continued pressure on The IIA to sustain itself over the long-term under its current operating and business models.

The table discussions were so robust and engaging, such that many of the groups ran out of time after these first key questions were addressed; however, a few groups were able to explore, at least to a limited degree, some other subjects.

When asked what The IIA should do to address the many differences in maturity of the internal audit profession across geographies (countries/regions), a couple of suggestions were offered for consideration: (1) to look at potentially developing advocacy plans in partnership with a few institutes that were tailored to the varying levels

of maturity of the profession globally, and (2) to explore opportunities where IIA Global's (senior volunteer leaders and/or senior staff) presence and visibility in the country was more pronounced.

When asked what The IIA should do to address the differences in maturity of IIA affiliates around the world, suggestions were that: (1) we look to evolve to a model where there are regional hubs that exist to support the Affiliates within that region, (2) we work toward holding or hosting regional "best practices" workshops, and (3) we consider some type of an enhanced Affiliate mentoring program.

Finally, feedback on the current nine core values enumerated within the 2015–20 strategic plan were varied. Some delegates called for a reduction in the number of the values, some called for the collapsing of certain interrelated or similar values, and others suggested adding some values. The following important and recurring suggestions were made about the core values that will be considered for the upcoming strategic plan update:

- Put greater focus on Innovation.
- Link the values and the strategic goals.
- Provide a description for each of the core values.

Additional feedback included:

- Consider shortening and/or merging the list of values such as
  o Combining Integrity and Respect.
  o Combining Professionalism and Service Excellence.
  o Combining Global Mindset and Unity in Diversity.
- Consider deleting the following:
  o Courage (asking whether this really applies to The IIA, or if it applies more as an attribute of the professionals we serve).
  o Service Excellence (asking if this is really a core value, or if it is more just a way of doing business).
- And, finally, consider adding the following:
  o Communication (as part of Collaboration, we also need to "communicate" well with each other).
  o Transparency.

Overall, the session was considered a success and a great start to the global input gathering activities that will help strongly influence The IIA's upcoming Global Strategic Plan update.

DISCUSSION RESULTS

The IIA's vision states: *Internal audit professionals will be universally recognized as indispensable to effective governance, risk management, and control.* Consistent with this vision, The IIA's 2015–20 Global Strategic Plan includes Goal B on Advocacy that states: *The IIA will raise the profile of and demand for the profession to ensure it is recognized as an indispensable resource by key stakeholders.*

The recognition desired by internal audit is largely from its stakeholders. Understanding the expectations of stakeholders, and taking action to address any gaps between their expectations and performance by internal audit, is key to gaining the recognition stated in The IIA's vision.

The IIA has engaged in numerous efforts to obtain the perspectives of stakeholders on internal audit performance, the most recent of which was the IAF 2015 CBOK Stakeholder Study. The objective of this discussion at Global Council was to better explore how stakeholder views differ by region and how The IIA, through the Institutes with support by IIA Global Headquarters, can better position practitioners to meet stakeholder expectations.

Global Council discussions addressed six topics concerning stakeholder expectations and internal audit's response.

1. Focus on Strategic Risks

Strategic risks can be broadly defined as those events or situations which create variability in an organization's ability to accomplish its objectives. For most organizations the primary attention is given to those risks that would prevent accomplishment of its strategic objectives (as opposed to exceeding objectives). Through the CBOK Stakeholder Study, stakeholders expressed a strong desire to have internal audit become more involved in an organization's strategic risks.

Discussions started with the need for internal auditors to focus on future risks, those that align with the strategic objectives of their organization. This requires a different mindset toward assurance work, requiring focus on not what has traditionally been audited, but what activities of the organization are critical to strategy.

The area of strategic risks is often a new one for internal auditors. Some internal auditors more easily make this transition than others who struggle with it. Many participants emphasized that internal auditors must ensure they have the skills to understand strategic risks and have discussions on these topics with stakeholders. While this hopefully comes with experience, specific actions may be needed to accelerate internal audit's performance including hiring different skill sets, devoting more time to talking with stakeholders, and potentially looking for external assistance.

Discussions moved to what IIA Global Headquarters and Institutes can do to assist IIA members in meeting stakeholder expectations regarding strategic risks. A number of ideas emerged including:

- Encourage communication with Board members explaining (advocating) what could (or should) be the scope of internal audit and the skills internal auditors have to address strategic areas.
    - Meetings, workshops, forums, and roundtables with board members.
    - Documents outlining what stakeholders could expect from internal audit and how they might better work with internal auditors.

- As internal auditors don't always know where to start and how to deliver more strategically focused audits, provide them (with special focus on CAEs) with assistance to improve their performance regarding strategic risks. In particular, Global Council delegates suggested that this assistance should consider:
  - o Varied approaches including training, case studies, guidance, and other delivery of content.
  - o Needs specific to select industries.
  - o Providing sufficient examples and case studies.
  - o Opportunities for auditors to interact and learn from each other.

2. Balancing Assurance and Advisory Work

Internal auditors are often engaged in both assurance and advisory work. In the CBOK study, stakeholders expressed that they assume assurance work is always done, but advisory work is also desired. Internal audit must balance the distribution of work based on the expectations of stakeholders, the needs of the organization, and the ability of the internal audit function to deliver. Different organizations require different services out of internal audit, and different internal audit functions have differing abilities to deliver these services.

Discussions first addressed whether internal auditors balance assurance and advisory work properly, considering the needs of the organization and the impact on their resources. The overall consensus was that most internal auditors provide both assurance and advisory services. However, the expectations from stakeholders regarding advisory work vary between board members and management, are impacted on the relationship level they have with internal audit, and can be constrained due to industry or regulation (e.g., financial services, public sector). Lack of resources was frequently mentioned as a constraint on providing more advisory work.

Another topic raised was the impact of advisory work on internal audit's independence. While internal auditors can provide advisory work without losing their independence, it was recognized this can be delicate and not well understood by stakeholders or even some internal auditors.

Some participants noted that not all internal auditors are as adept in providing advisory work as others. The practice of providing assurance is more established and likely more comfortable for some internal auditors, particularly where the internal audit function is sufficiently mature. In areas where the profession is still developing, several participants stated there was a lack of understanding of the difference between assurance and advisory work, or knowledge of how to provide advisory services.

To help stakeholders understand internal audit's ability to bring value in advisory work, and to help internal auditors deliver on that work, the following ideas were provided:

- Communication from partner bodies (e.g., groups of board directors) directly to stakeholders would help explain the value internal audit can bring with properly structured advisory work.
- Toolkit for internal auditors featuring:
  - o Best practices and success stories.
  - o Common areas of easy first steps.
  - o Advocacy/marketing materials for internal auditors to use with stakeholders (e.g., presentations, documents).
- Publications explaining the nature of advisory work and why internal audit is well positioned to deliver value by providing these services – potentially a position paper.
- Workshops, training, forums, etc. for internal auditors to explore and discuss increasing their involvement in advisory activities.

3. Quality of Audit Work

One of the main factors stakeholders consider when evaluating the performance of internal audit is the quality of the audit work. While only 53% of stakeholders are aware of The IIA's International Professional Practices Framework (IPPF) — which includes the *Standards* and other mandatory and recommended elements — 94% of these stakeholders believe there is value for internal auditors to conform to the *Standards*.

Studies continue to indicate that only half of internal auditors conform to <u>all</u> *Standards*. Increasing awareness about the *Standards* by stakeholders might therefore increase the level of conformance by internal auditors. The discussion centered on the types of communications best suited to convince stakeholders that their internal auditors should conform to the *Standards* and how The IIA and Institutes can assist members in delivering these communications.

Multiple forms of communications were discussed. For most participants, the types of communications most favored were direct with stakeholders, special channels focused on stakeholders, or routine channels already in place. Examples included:

o   Face-to-face discussion with regulators, government bodies, and boards.
o   IIA publications that emphasize the *Standards* and their relevance to the stakeholders.
o   Messaging through presentations at conferences and events where stakeholders are in attendance.
o   Communication of success stories from Institutes that are shared by The IIA.
o   Inclusion in internal audit charters.

Participants debated whether The IIA should encourage regulators, funding/aid agencies and governments to require conformance with *Standards*. The IIA might accomplish this properly by branding internal audit functions that do conform to *Standards*.

To better assist IIA members in communicating the importance of the *Standards*, participants discussed specific ways IIA Global Headquarters and Institutes can help. Ideas offered centered on:

o   Increased advocacy efforts that focus on the importance of the *Standards*.
o   Provide tools for practitioners to be able to communicate with (or train) stakeholders on the importance of the *Standards*. Examples mentioned include documents, webpage dedicated to stakeholders, sample charters.
o   Increased focus on external Quality Assessments — their importance, their value to organizations, training to execute properly.
o

4. Nonassurance Focus on Risk

Beyond assurance, CBOK Stakeholder Study responses indicated the primary area in which they want internal audit to be engaged is risk — identification, facilitation, and monitoring — without disregarding their assurance efforts.

Participant were asked to discuss the main ramifications of internal audit taking a more prominent role in risk identification and management. The primary theme of the discussion was the potential negative consequences of blurring the role of internal audit. A wide variety of participants expressed concerns that internal audit could be perceived as being the risk "owner," become the default group for all risk topics, or lose its independence from risk management activities.

The extent of these potential negative ramifications, however, depends on a number of factors. The potential for blurring the role of internal audit is less likely when an organization's risk thinking is more mature, when there is a separate risk management group in the second line of defense, and if regulation of the risk practices of the organization exists.

Participants also noted internal audit shouldn't ignore the expectations of stakeholders and can successfully get more engaged in risk activities of their organizations. Internal auditors are often well-positioned to help bringing a clear understanding of risk, an objective viewpoint, necessary facilitation skills, and access to all aspects of the organization. In addition, internal auditors can learn a lot about the strategy of their organization, improve the overall organization's risk awareness, and reinforce their role as a trusted advisor when they properly engage in broader risk activities. Internal audit getting more involved in risk activities does not necessitate losing their independence or ability to provide assurance over risk management activities of the organization.

Discussions shifted to how IIA Global Headquarters and Institutes can better support members and stakeholders in determining the role internal audit should fill regarding risk management activities. Most of the ideas centered on providing guidance and training to members, updating the existing position paper, and improving communication with stakeholders.

Guidance and training of members is considered in need of improvement in most areas concerning risk and risk management. This includes a basic understand of risk (i.e., how to identify, measure, and mitigate), understanding the elements of a proper risk management framework (e.g., structure, activities, reporting, assurance), and how to provide assurance that an organization's risk management activities are appropriate. In addition, there were suggestions to improve the guidance and training on the nature of independence and objectivity — what it is, why it is important, how to maintain, how it can be lost, and the implications if it is lost. For all these efforts, a consensus emerged that there must be a greater use of success stories, case studies, examples, forums, networking events, and tools.

Closely related to guidance and training of members was the suggestion to update the current IIA position paper on this topic. The "fan diagram" has proved very successful over the years for understanding by practitioners and in discussion with stakeholders, but it needs to be updated as the practices regarding risk management have evolved since it was first published.

Improvement of communication with stakeholders was also suggested, with a focus on explaining the proper role of internal auditors with risk activities — what they can and cannot do. This could both encourage internal audit to move into responsibilities they may have previously avoided, while protecting internal audit from being asked to take ownership of activities that would threaten their independence. As with all stakeholder communications, this should be short, and delivered through a variety of advocacy channels.

5. Coordination With Other Assurance Providers

In many organizations, functions other than internal audit provide some form of assurance to executive management and the board regarding the adequacy of the organization's management of risks (e.g., mitigating risk through implementation of internal controls). The strengths and weaknesses of these functions can vary tremendously, but according to the CBOK Stakeholder Study, stakeholders consistently expect internal audit to coordinate with them, leverage them, and combine efforts to avoid "audit fatigue" and conflicting reports. While there are significant advantages for internal audit to work closely with these other functions, there are also some concerns.

Participants considered the positive and negative ramifications of internal audit increasingly leveraging the work of other functions as part of internal audit assurance work. The positive ramifications covered the items mentioned in the CBOK Stakeholder Study, and some more:

- Improved efficiency in using organization's resources, avoiding duplication of effort (less audit fatigue).
- Joint reporting leads to improved transparency and ease of understanding by stakeholders (e.g., common terminology, measurement).
- Improved relationships within the organization.
- Increased timeliness of internal audit's engagement with risks.
- Improved audit planning and knowledge transfer.
- Ability for internal audit to shift resources to some higher risk activities.
- Negative ramifications similarly covered the items mentioned in the CBOK Stakeholder Study, but added a few additional items:
- Lack of independence of other functions can impact internal audit's ability to rely on their findings.
- Other functions' work may not be of sufficient quality for reliance by internal audit.
- Reliance could create the perception of lack of internal audit's independence, or misconception that internal audit does not need to be independent.
- Internal audit could be perceived as weak and needing the support of other functions to be successful.
- Could create adversarial relationships if internal audit disagrees with another functions.

Balancing the negative and positive ramification takes skill. To capture the obvious positive aspects, internal audit must be careful to avoid loss of independence (in reality or perception), be assured of the quality of the work done by others, and be able to handle those situations when internal audit disagrees with other functions but there is pressure to conform.

Discussions also covered what IIA Global Headquarters and Institutes can do to assist members in addressing the positive and negative ramifications. Many of the ideas were similar to those offered for prior topics discussed. Most of the ideas centered on providing guidance and training to members, and improving communication with stakeholders.

Guidance and training of members are considered in need of improvement to increase awareness of how to best work with other assurance-type functions when providing assurance, while avoiding the negative impacts. This includes an understanding of the three lines of defense model, the impact of a lack of independence by other functions, considerations around quality of work, and evaluation of risk and results. The IIA has drafted Supplemental Guidance addressing this topic, but it was suggested this guidance needs to be more detailed and augmented with greater use of success stories, case studies, examples, forums, networking events, and tools. In addition, a suggestion was offered that the current three lines of defense position paper be updated to explicitly address reliance of internal audit on the first or second lines of defense.

Improvement of communication with stakeholders was also suggested, with a focus on explaining the uniqueness of internal audit as a third line of defense and how this impacts reliance on others. In addition, some suggested The IIA use its relationships with organizations such as COSO and directors groups to establish this message. As with all stakeholder communications, this should be short and delivered through a variety of advocacy channels.

6. Structure and Relationships

The CBOK Stakeholder Study asked respondents for the best strategies for internal audit to resolve competing demands among stakeholders; one clear message was to ensure the reporting structure of internal audit is correct. Internal audit must have a regular presence in board meetings and have the right reporting structure to the board and within the organization. But the right reporting structure was not enough as evidenced by some comments from stakeholders. The reporting structure must not only be present in form, but it must also provide internal audit independence in substance. Establishing strong relationships was an equally important element, complementing a good structure.

STAKEHOLDER EXPECTATIONS

Participants were asked to discuss what the IIA Global Headquarters and Institutes should do to assist members who face obstacles having a proper reporting structure in their organizations. Most of the discussion centered on two topics: getting the right messages to board stakeholders and improving the performance of internal audit to earn the right to have the correct reporting relationships.

While the *Standards* discuss the important nature of reporting relationships, most believed stakeholders are not likely to read them or understand the impact on their organization. Suggestions were made that there is a need for more explanatory material, aimed at stakeholders, that explains simply, clearly, and unambiguously the importance of internal audit reporting lines, how they should be structured, and what makes them successful (not just form, but also substance). This would likely involve a variety of documents, an awareness "campaign" through various vehicles and modes, and efforts by individual CAEs. Included in this messaging should be examples, success stories, and best practices for a variety of organization types and environments (as local customs and regulations can vary significantly).

In addition, some commented that internal audit needs to make sure they have earned the right to have the correct reporting structures — formal and informal. This would require internal audit to keep a strategic focus, be current on emerging issues, and add value to their organization.

When asked how IIA Global Headquarters and Institutes could help members build strong relations with stakeholders in their organizations, suggestions highlighted:

- Provide members, especially CAEs, additional opportunities to improve their soft skills that will support building strong relationships/
- Ensure conferences, networking events, and other similar sessions provide training on economics, branding, strategy, and related topics that would better equip members in earning the right relationships with stakeholders.
- Partner with stakeholder organizations (e.g., director organizations, COSO) to deliver messaging to stakeholders through publications, events, etc.

Summary

This Global Council topic addressed a number of themes that emerged from the 2015 CBOK Stakeholder study's various reports. There was general agreement among Global Council participants that the messages from stakeholders were important to internal auditors and that it is critical for IIA members to listen and react. Various suggestions were made on how IIA members, Institutes, and the IIA Global Headquarters should respond. While few indicated they believe fundamental changes should be made to IIA practices or positions, most believed improvements were necessary. The most consistent themes elicited from these suggestions were:

- Improve communications with stakeholders and stakeholder groups, as a part of advocacy efforts and through other available avenues.
- Additional or revised training, guidance, and positions by IIA Global Headquarters and Institutes to better equip IIA members to meet stakeholder expectations.