



KPMG survey: in average, internal audit functions in Estonia rate as good

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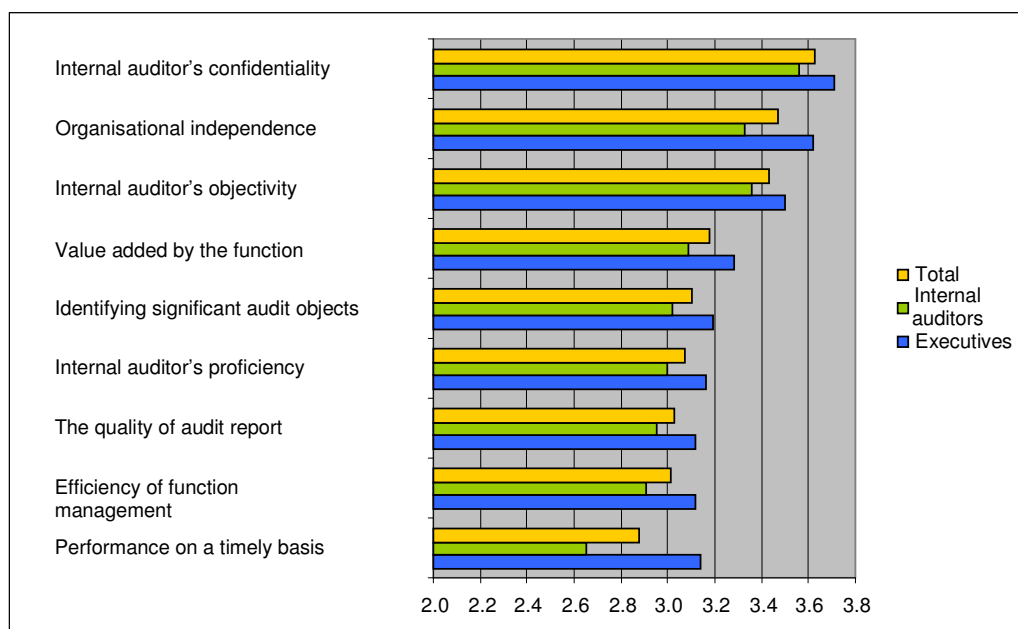
During the first three months of 2009, KPMG carried out a survey to analyse how organisations' internal audit functions operate in Estonia. The aim of the survey was to identify the added value internal auditors can deliver to enterprises and institutions. Questions answered by internal auditors and executives participating in the survey dealt with such issues as the structure, future and quality of internal audit functions.

The main aim of the survey was to assess how the internal audit functions operate in organisations in Estonia.

Organisations where the internal audit function was established were asked nine questions assessing the quality of internal audit. The questions were answered by 66 internal auditors and 58 executives who expressed their opinion on a four-tiered scale with four being the highest grade and one the lowest. The values of grades were "excellent", "good", "satisfactory" and "poor".

The results of the survey reveal that according to their own opinion, the quality of the internal audit functions of the organisations participating in the survey is good, the average grade given by the internal auditors and executives being 3.20.

Figure: Rating of internal audit functions' performance



Executives appreciated the efficiency of internal audit functions more highly than internal auditors did, the average grade being 3.31 as against 3.10 given by internal auditors.

The respondents were most satisfied with the way internal auditors maintain confidentiality of information, organisational independence and objectivity. When assessing the objectivity of internal auditors, executives' and internal auditors' opinions coincided the most with average grades of 3.50 and 3.36 respectively.

The lowest grades were given to audits being performed on a timely basis, the issue which also caused the biggest difference of opinions: internal auditors' 2.65 against executives' 3.14.

In general, the opinions of executives and internal auditors were quite similar which shows that executives are quite well aware of how the internal audit functions operate. However, their opinion is more optimistic than that of internal auditors'. On the other hand, internal auditors may have been more critical in their assessment of themselves than they should be.

Forty-two per cent of internal auditors and 36 per cent of executives are convinced that the importance of the internal audit functions will increase over the coming years.

It is possible that during the global recession, organisations reassess the value and role of internal audit. The question about the role of the internal audit function was answered by all auditors and by the executives of those organisations who outsource the internal audit services in full. The opinions of a majority of the participants fall into two almost equal groups: half of the respondents think the role of the internal audit functions will remain the same in the future and the other half are convinced the functions' role will enhance. Only a minority of the internal auditor participants foresee the role of internal audit declining.

Figure: Internal auditors' opinion of the role of internal audit within organisations

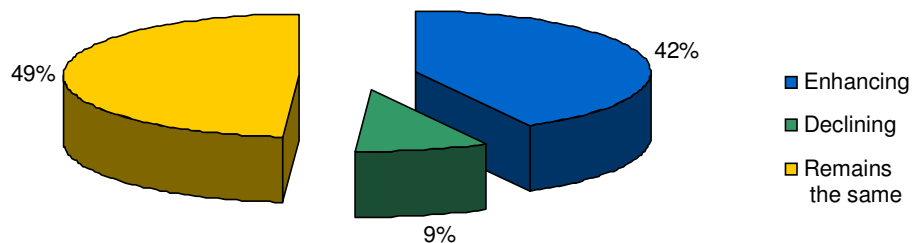
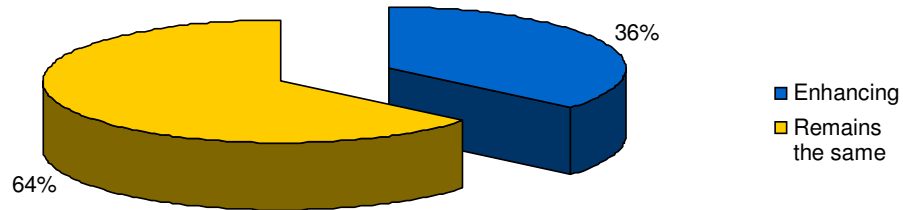


Figure: Executives' opinion of the role of internal audit within organisations



Internal auditors and executives could also comment on challenges their organisations may have to face in the next couple of years. More frequently mentioned issues were the following:

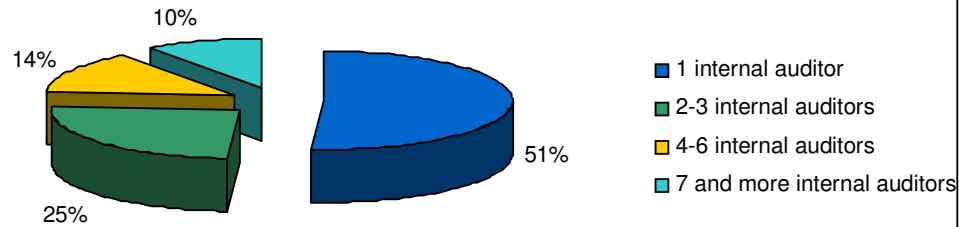
- More attention to be paid to internal audit and internal controls;
- Better integration of risk management processes with internal control;
- Enhancing the efficiency of the operations of the internal audit function;
- Assessment of the internal audit function;
- Certification of internal auditors.

Internal audit function operates within an organisation.

Sixty-six internal auditor respondents were from organisations with an in-house internal audit function.

More than a half of the internal auditors were from organisations where one internal auditor operates; however, organisations with more than seven internal auditors were also represented.

Figure: Number of internal auditors in an organisation

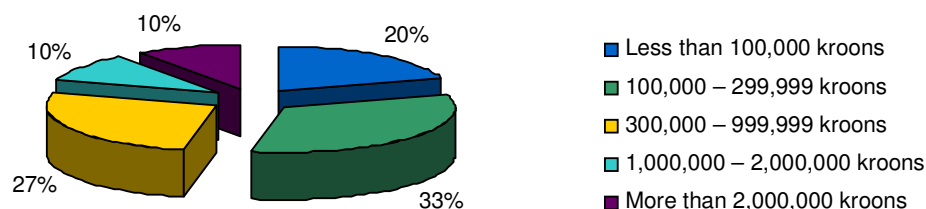


Executives were drawn from a wider range of organisations including cases where the information about the existence of the internal audit function was not available prior to the survey.

- Seventy-four per cent of the executives said that their organisation had established the internal audit function. Two-thirds of those organisations had either an in-house or partially outsourced internal audit function; the rest of the organisations outsourced the service in full.
- Twenty-six per cent of the executives said their organisations did not have the internal audit function. The main reasons for that were said to be the lack of either need or funds. However, more than a half of the executives thought establishing the function in the future might be an option.

In most organisations, an annual cost of internal audit remains between 100,000 and 299,999 kroons.

Figure: Annual costs of internal audit



About 85 per cent of the respondents prefer Estonian information channels for mastering their knowledge of internal audit.

The survey reveals that internal auditors mostly prefer Estonian sources for obtaining information. Main channels for collecting information are training courses, seminars and informational days, Institute of Internal Auditors (IIA) Estonia, colleagues and the Internet.

IIA training courses are the most helpful.

In addition to considering IIA Estonia to be a major information channel, internal auditors have attended IIA training courses the most in recent years and assess those courses as the most helpful. This is significant, especially because a majority of the respondents work in public sector organisations. State-organised trainings are considered as somewhat less popular and useful.

The survey questionnaire was sent to 272 people from 185 organisations. The organisations were selected based on the following two criteria:

- Legal obligation to have the internal audit function;
- Various lists of TOP 100 enterprises in Estonia in which cases the information about the existence of the internal audit function was not always available prior to the survey.

The total number of respondents was 144 comprising 66 internal auditors and 78 executives, i.e. the questionnaire was filled in by 68 per cent of the internal auditors and 48 per cent of

the executives who were asked to participate in the survey. Eighty per cent of all respondents wrote that the internal audit function is compulsory for their organisation.

Of all respondents,

- Sixty-two per cent represent the public sector;
- Twenty-four per cent represent companies and foundations in which the state or local government or a legal person in public law has a majority holding; and
- Fourteen per cent represent the private sector companies.

Further details on the survey (in Estonian): www.kpmg.ee