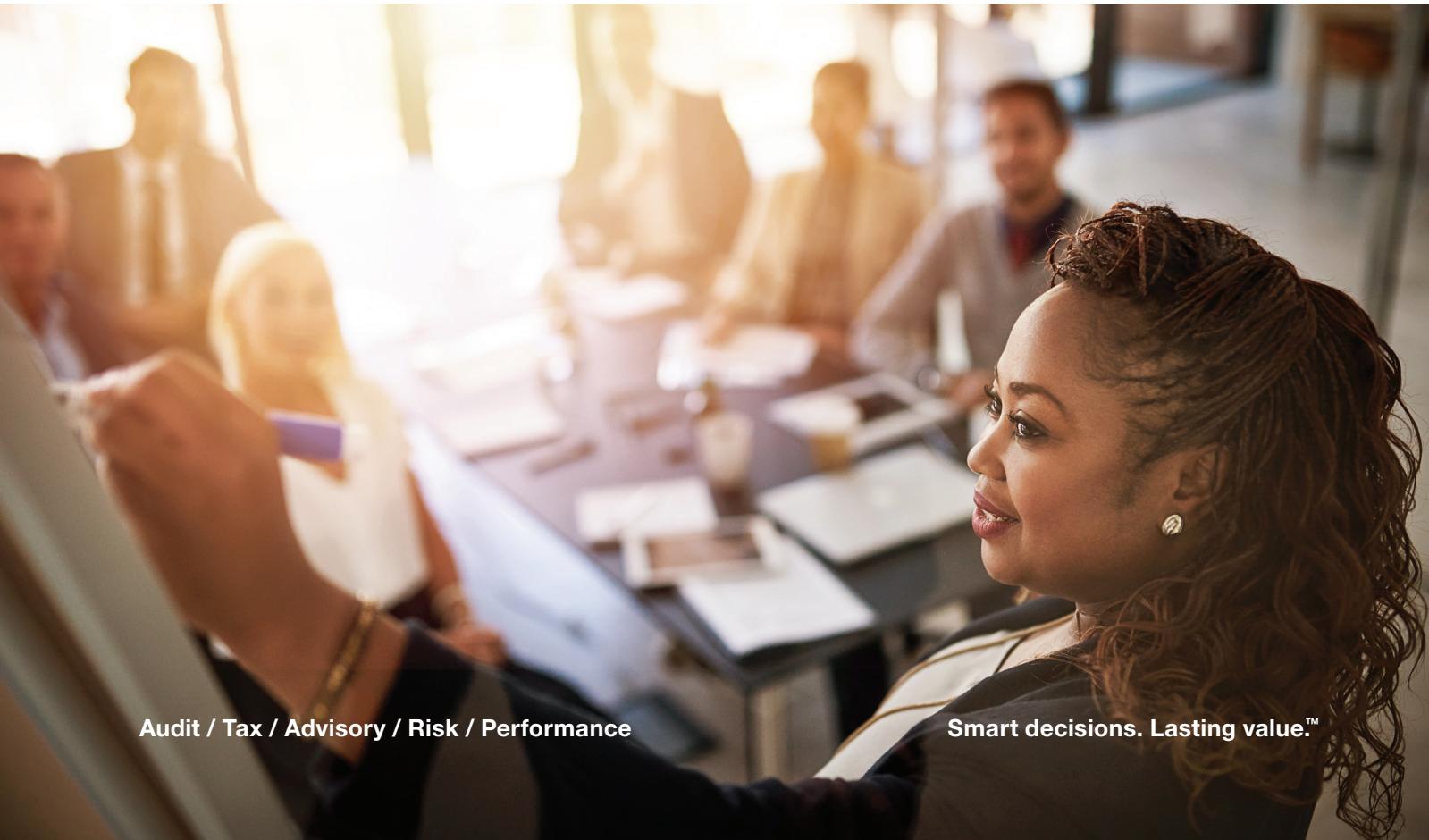Crowe

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Embracing Opportunity Demands an Internal Audit Transformation

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In the midst of unprecedented business innovation and regulatory changes, internal audit teams can capitalize on opportunities to redefine their roles. In so doing, internal audit teams can drive more meaningful insight and efficient assurance to the business while still fulfilling their fundamental risk management responsibilities.

The need for change

Many of the challenges that internal audit departments face today are directly related to the accelerating pace of change – particularly technology-driven change – that affects all aspects of business operations.

Consider this: Does your company have a transformative vision for what it will be in five years? Will your operational footprints expand or contract? Will your company's services evolve? Will operations change? Will interfaces improve? Will risks change? Will your risk appetite change? Will risk management mature? Will innovations occur?

Chances are, the answer to some or all of these questions is, "yes." So the next logical question is: Does internal audit have a similarly transformative plan?

Today's most effective internal audit operations recognize the need to embrace change proactively. In their view, the time has come for internal audit to take the lead in innovation and in applying technology such as data analytics, machine learning, robotic process automation, and artificial intelligence.

The goal of such efforts is to improve the risk management capabilities of all three lines of defense. In addition to enabling internal audit to meet its evolving challenges, such tools can help the second line of defense provide assurance more efficiently and empower the first line of defense to identify and manage risks in real time.

Strategy considerations

The effort to position internal audit as a leader in innovation is, in many ways, a classic change management challenge. Management groups organize such efforts into three conventional domains: process, people, and technology.

This three-part framework is useful for visualizing the shift in thinking needed to achieve the desired change. However, before management can implement such a framework, it first must address some strategic questions.

To be successful, internal audit's transformation strategy needs to reflect the broader strategy, culture, and stakeholder needs of the overall organization. For example, if the organization as a whole is not invested in developing and maintaining solid data governance and ready data access, the internal audit function will find it difficult to be a change maker in the use of advanced data analytics and other data-dependent technology.

Of course, while internal audit's vision and mission must be aligned with the organization's overall strategy, certain internal audit principles and professional standards should not be compromised to reflect individual company characteristics or preferences. Nevertheless, the practical application of the audit plan, including audit frequency and general methods of operation, can be adapted to fit.

For instance, the audit cycle and the balance between event-driven and scheduled audits will vary from one organization to another, as will the emphasis that is given to offshoring and outsourcing the validation of certain data and other audit tasks. The audit strategy also should reflect the relative maturity of, and future vision for, the three lines of defense in order to identify the most cost-effective model.

By gaining a thorough understanding of how the audit transformation strategy relates to the overall corporate strategy, internal audit can actually help create a competitive advantage by serving as an incubator for new and promising practices. Such an understanding also helps lay the foundation for addressing the three conventional change management domains.

Process advancements

Given technological breakthroughs that offer the promise of new techniques and capabilities, the understandable tendency is to focus first on technology. In fact, though, technology should be the last area addressed, and the people and the process domains should garner attention first. Applying new technology to a deficient or inadequate process is wasteful and counterproductive.

One good place to start is to challenge certain established audit methodologies to determine if they are still valid and adequate. For example, are current sampling and testing practices still appropriate, or has the first line of defense matured to the point where resources could be deployed more effectively on other audit tasks?

Internal audit teams can add value by adopting an agile mindset and a willingness to reassess and refresh their approach on a continual basis. One change might be to reevaluate how much audit focus should remain on controls when increasing assurance might be gained by using data tools. Another innovative approach involves deconstructing work into smaller, discrete actions and then delegating each of those tasks to qualified, but potentially lower-cost, resources. If those resources are offshore or outsourced, more senior internal resources may be freed up to take on other tasks more appropriate to their skill levels.

Tools such as work queuing and automated work centers can help align capacity and demand further. Again, however, it is important to determine first whether existing work processes and volumes justify the introduction of such technology.

Resource implications

Internal audit should develop a talent inventory – that is, a comprehensive documentation of the various types of knowledge and skills that are required and available, both internally and externally. The inventory reflects not only the needed audit qualifications and technical skills, but the required balance of institutional knowledge and diversity of experience. The inventory also highlights career paths and growth for team members. Internal audit must have credible specialists who can provide effective challenge to the business lines as the organization pursues adoption of innovative technologies and processes.

Beyond attracting and retaining talent on an individual basis, internal audit also should act more broadly to develop a culture that incentivizes innovation and reduces fear of failure. Such a culture might seem antithetical to the audit function and professional standards and, to be sure, audit work must still be performed to professional standards. Nevertheless, the ability to innovate and think creatively is critical when developing new audit approaches involving emerging technology.

Transformative technology

After analyzing and beginning to refine audit processes, and after addressing the critical talent and resource questions that arise from this analysis, audit executives can then begin considering how to apply new technology solutions that have the potential to transform the internal audit function. These tools can be applied to help streamline audit workflows, automate data analysis, and accelerate critical reporting processes.

The promising technology applications that leading audit teams are implementing include tools that employ recent advances in natural language processing and the analysis of unstructured data. Other tools with potential audit applications include artificial intelligence and machine learning technology, adaptive case management platforms, and robotic process automation, as well as potentially disruptive advances such as blockchain and distributed ledger technology.

Before rushing to adopt such tools, however, internal audit must first ask the basic question: How would processes, controls, and outcomes be audited differently using these tools? The answer to this question opens the door for an in-depth cost-benefit analysis to help determine if the nature of the organization's transactions and the volumes of data involved would make such technology cost-effective.

In addition to considering questions of size and scale, management also should be aware of the potential for deeper data-driven insights. In many instances, data extracted from specialized audit tools can have additional useful applications for other business purposes. Such situations can enable internal audit to make meaningful data connections across the enterprise.

Beginning the transformation journey

Internal audit transformation is a journey that will take time. The journey can be separated into four phases: reimagination, validation, mobilization, and execution, as shown in Exhibit 1.

Just as change is inevitable today, change will be inevitable next week and next year. So keep assessing, keep refining. The transformation journey will evolve, but internal audit will be empowered to stand out as an active contributor that adds genuine value to the enterprise, achieving operational cost savings and improved business outcomes while still performing its essential functions without compromise.

The transformation road map

1 Reimagine

After working through considerations of strategy, process, people, and technology, a unique vision will emerge. The path to realizing that vision is reflected in a transformation road map.

2 Validate

Just as any other strategic initiative receives intense review, so should the transformation road map. Solicit critical, diverse feedback and refine as needed.

3 Mobilize

Assess gaps that exist today, and build a transformation plan to achieve the road map within a targeted timeline.

4 Execute

Communicate with stakeholders. Begin the journey. As current priorities emerge and compete with the plan, don't lose sight of the need to proceed.

Learn more

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