When is what's working worth changing?

How internal audit can build trust through transformation.

EY

Building a better working world

Converging forces shifting the way internal audit responds to risk

Internal audit (IA) functions have been "transforming" for the past 20 years. However, many internal auditors still audit substantially the same way they have in the past. Converging forces will challenge the efficacy and relevance of internal audit. By designing the disruption and preparing for change, internal audit can join the business in the future state journey.

Disruptive technologies

Innovation and rapid development of technology have enabled companies to move from traditional execution to digital processes and business models to create new markets and products.

IA has the unique and challenging opportunity to not only embed technology into the process, but leverage what the organization is doing to provide leadership with insightful assur

Pace of change to the business

As the pace of change is growing, processes and systems have become more complex and sometimes disintegrated. More data is being generated which presents internal audit with the challenge, but also the opportunity, to focus on the best way to consume and provide new and valuable observations.

Changing regulatory environment

Recently, sweeping changes in regulation and increasing uncertainty in the geopolitical environment have highlighted the need for an organization to have a focused and responsive control environment.

IA must also understand the new risks and impacts that evolving regulations present.

Market disruptions

Regardless of industry or sector, the market is changing. Megatrends such as digital are quickly demonstrating that organizations cannot survive with their traditional "business as usual" approach.

IA should understand these outside risks and provide management with the risk lens they need to make decisions impacting the organization.

Workforce of the future

New skills and roles are required to operate emerging technologies and understand digitalized processes and business models.

Changing workforce dynamics will require IA to develop a more flexible, adaptive and collaborative work environment.

Globalization

Organizations are looking beyond borders to expand into new markets and tap into new networks of talent and sourcing.

IA must also think globally and understand the risk profiles of different regions to help the business plan. Technologies will enable functions to gather data, understand transactions, and assess risks with a global lens.

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Internal audit future state vision

What does the internal audit transformation journey look like?

By blurring the lines between people and technology, IA functions can optimize the operating model and create a dynamic audit approach that allows a quicker response to risk and deeper insights into the risks that might matter the most to leadership. Organizations must rely on trust to be successful, and IA can help build that brand of trust by helping management respond to risks faster and with better information. Transformation is key to improving how IA provides assurance on the downside risks that are preventable, insight into the upside risks that management should be exploring, and foresight into the outside risks that are on the horizon. Throughout the phases of the transformation journey, both processes and technology should be challenged concurrently to design a disruption that makes sense for the environment. Transformation is made up of individual adjustments to behavior coupled with advances in technology and can be small and targeted, large and strategic, or both!

IA transformation can be broken down into three phases. Throughout each phase, management should be focusing on incremental changes to the operating model, people and technology as well as broader transformation efforts to start on the path to the future.
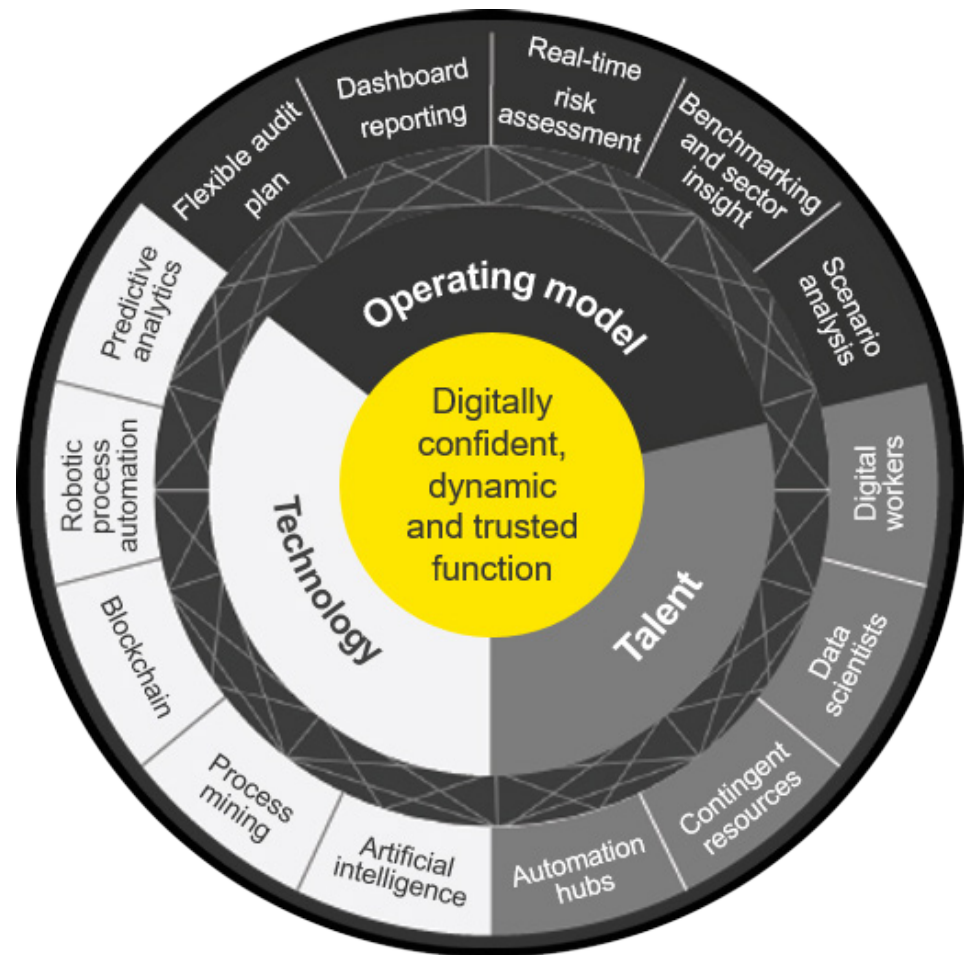
1. Understand the current state

Identify
Gain a common ground

To kick-start the transformation:
‣ Understand the current state through maturity or functional performance assessment
‣ Analyze megatrends and disruptive, rapid changes to the risk environment
‣ Evaluate the IA mandate and align on value drivers
‣ Understand the desired stakeholder journey

2. Define the future state

Develop
Brainstorm solutions and explore their potential

Apply
Choose the way forward

Transformation teams can leverage several approaches to brainstorming. Also engage with industry experts and digital subject-matter resources to explore the "art of the possible" and identify leading practices. Each team should consider:
‣ Mandate and purpose development
‣ Operating model with a clear vision for people and technology
‣ Technology landscape
‣ Talent development

At this point, decisions must be made to determine the future state road map. That road map should have a clear definition of technology, solutions to talent needs, and an operating model that is dynamic and data-driven. Change management and culture is a key to successful transformation. A teaming approach to transformation and a well-designed disruption can help facilitate a transformation and build the brand of IA in the organization. Internal and external stakeholders hold equal weight in measuring the impact and success of any major transformation.

3. Activate the transformation journey

Deploy
Deploy a new IA organization model

Deployment of the new methodology and implementation of the future state road map requires strong governance backed by the chief audit executive or head of IA. Successes that have been realized can be communicated during steering committee meetings, audit committee and other informal terminals to gain business support and recognize teams for their progress.

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Disrupting IA by design
Operating model

The operating model defines how we work and execute the audit plan as well as the resourcing model that will be employed; it is driven by the internal audit mandate. The mandate will be determined by your individual business needs, but challenging your mandate to obtain the right mix of assurances is imperative to the department's effectiveness. The operating model of the future looks outside the walls of IA and takes into consideration the other risk functions, identifies what would best address business needs and the current risk profile of the organization, and defines key performance indicators that focus on delivering value.

Key questions to consider

▸ How do the three lines of defense currently operate?
▸ What is the appetite of the business to coordinate?
▸ What is the current state and, based on the mandate, where does the function want to be?
▸ How will we report on our accomplishments and communicate successes or risks?

Transformation considerations

▸ Consider the population of dynamic outputs that report on more of a real-time basis to meet the needs of different stakeholders
▸ Define what technologies can be leveraged to drive efficiencies and help the function focus on risk identification
▸ Co-develop a structure that aligns to the organization and business unit strategies
▸ Establish future targets and metrics to track progress
▸ Define a program that purposefully aligns resources
▸ Identify ways to run IA like a business

What is your mandate?

Assurance-focused

Driving assurance is often a non-negotiable component of IA's mandate. However, an assurance-focused IA department does not mean transformation is out of reach. Companies with strong foundational processes and controls can and should invest heavily on optimizing and compressing the level of effort required for these non-negotiable activities, allowing IA to take on more strategic projects.

For example, technologies such as optical readers and robotics can be implemented to aid in and perform assurance testing. Account reconciliation bots increase the accuracy and speed of testing execution, while optical readers transform sample documentation into a format that is easily analyzed with minimal manual effort. For mandates focused on driving assurance, functions may need to engage new resources with experiences and working knowledge of changing regulatory requirements.

Blend of assurance/advisory

In addition to covering the "basics," the function is designed to provide high-quality, relevant risks & controls insights as an integral part of its activities. This insight is not a by-product, but an explicit outcome from the function's activities.

A blended internal audit plan has a larger percentage of operational reviews and strategic projects throughout the year, yet still has a large hand in providing compliance assurances. This approach also allows functions to respond to business risks in a dynamic manner – for example, executing data analytic reviews on remote locations or leveraging a sector subject-matter resource to drive a high-impact audit around a strategic initiative.

Advisory-focused

The IA function serves as a trusted risk and controls advisor to business management around transformational company-wide initiatives, challenges and changes in the organization. The function has world-class talent that understands the business, subject-matter depth, and experiences to effectively provide this level of service.

The goal of an advisory-focused IA department should be that they are a trusted business advisor that doesn't just execute tests without providing insights. IA must be working in harmony with the other risk functions within the organization to have adequate risk coverage and an approach to risk that complements and enhances the perspectives provided to management.
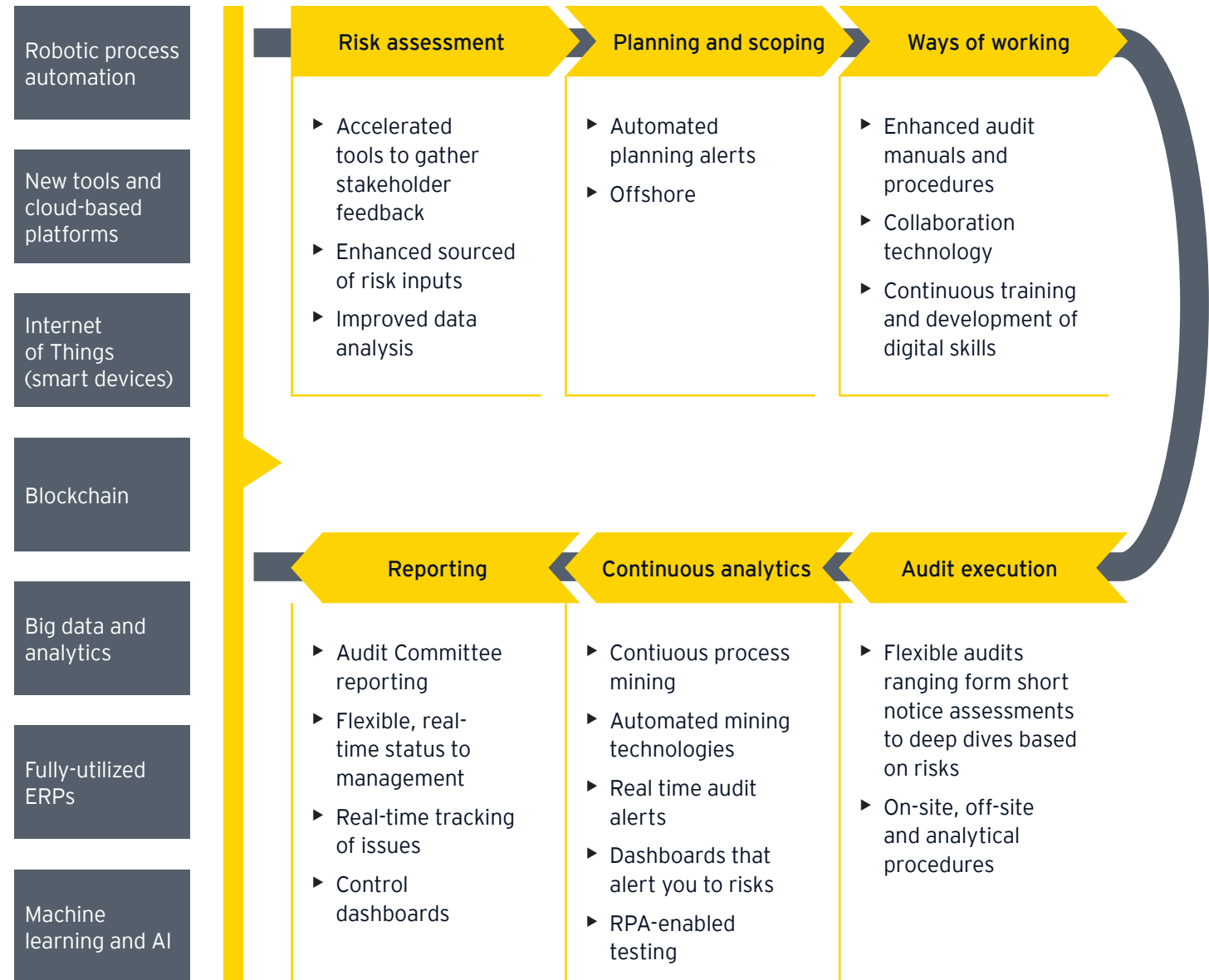
Disrupting IA by design
Technology

Digitalization has a place throughout each phase of the IA life cycle, and advancements in technology are making it possible for functions to gather more and more data that can be transformed into insights to the business. Technology can also improve the overall audit experience for both the auditor and auditee by facilitating real-time documentation, providing better and faster reporting of results and producing a sleeker deliverable. Collaborative environments are essential to successful transformations and technology helps to connect practitioners to information and facilitate innovation by delivering broader analytics leveraging multiple data points. IA can also leverage advances in the speed of information to better collaborate with business partners and provide management with more real-time insights to their business.

Key questions to consider

▸ How can technology better enable the function (e.g., replace repetitive tasks, increase coverage, drive insights)?
▸ What is the organization's digital strategy?
▸ Where should the innovation be focused?
▸ What data is available in the current IT landscape?

Transformation considerations

▸ Define objectives and user requirements for risk assessment and the entire IA life cycle
▸ Understand the technology platforms that are being used by the business today
▸ Identify the technology that will be implemented over the next year
▸ Define technology development thresholds, data requirements and how data will be accessed
▸ Capture and consume industry benchmarks and appetite
▸ Analyze the overall feasibility and any budget restrictions that could impact the transformation
▸ Develop a plan that considers quick wins, mid-term, and long-term implementation plans that include future investments

Robotic process automation

New tools and cloud-based platforms

Internet of Things (smart devices)

Blockchain

Big data and analytics

Fully-utilized ERPs

Machine learning and AI

Risk assessment

▸ Accelerated tools to gather stakeholder feedback
▸ Enhanced sourced of risk inputs
▸ Improved data analysis

Planning and scoping

▸ Automated planning alerts
▸ Offshore

Ways of working

▸ Enhanced audit manuals and procedures
▸ Collaboration technology
▸ Continuous training and development of digital skills

Reporting

▸ Audit Committee reporting
▸ Flexible, real-time status to management
▸ Real-time tracking of issues
▸ Control dashboards

Continuous analytics

▸ Contiuous process mining
▸ Automated mining technologies
▸ Real time audit alerts
▸ Dashboards that alert you to risks
▸ RPA-enabled testing

Audit execution

▸ Flexible audits ranging form short notice assessments to deep dives based on risks
▸ On-site, off-site and analytical procedures

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Disrupting IA by design
People

People have always been a pivotal piece of IA operations. A new workforce has emerged, and organizations are learning how to adapt and utilize new skill sets and ways of working to operate in the Transformative Age. Chief audit executives cannot rely on the standard learning and career development plans of the past. If they did, they would be facing unsatisfied and disengaged employees with dwindling skill levels that are not relevant to the business. A people plan that encompasses innovative and ongoing feedback is a key pillar to IA's successful transformation and sustaining of results.

Key questions to consider

‣ How is your staff rotation program currently structured?
‣ What are the current skill sets of the department?
‣ What skill sets will be required in the future (e.g., critical thinking, problem solving)
‣ How are you enhancing your employees' experience through technology?
‣ How do you use technology to better communicate with your colleagues and business partners?
‣ How are you using technology to create a more productive and cost-efficient function?
‣ How will you maintain employee engagement and retention at a high level?
‣ How does your workspace enable an innovative and energized environment?
‣ How is IA impacting the organization?

Transformation considerations

‣ Analyze people considerations such as headcount, sourcing options, talent management and change communications
‣ Establish a rotation program enabling team members to work across regions/functions
‣ Transition to a flexible people resource model (nearshore/offshore hub, flexible workforce, freelance network)
‣ Define expectations at each rank and provide feedback on a periodic basis

There are three core components of talent development that IA should define during their transformation:

Learning
The development of tailored, structured formal learning curriculums to develop soft and technical skills within internal audit employees.

Coaching
Meaningful conversations that help develop new skills and insights and transform learning and experiences into practice.

Structured experiences
Planned activities that help develop the skills and knowledge that are critical to auditor development. Most individual development comes from everyday experiences.

IA future talent considerations

- Mind clarity
- Teaming ability
- Digital leadership
- Technology experience
- Performance and rewards
- Collective purpose
- Physical environment

Transforming the people and talent development model

Identify the IA function levels for which talent development plans will be developed	For each level, develop learning maps, coaching opportunities and structured experiences	Develop key performance indicators to measure the effectiveness of the talent development plan	Continuously assess and update your talent development plan for effectiveness and keeping pace with organizational change

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Starting the transformation journey

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While the definition of the future will only continue to evolve as new technologies emerge, many are beginning their journey to get ahead of the disruption and remain relevant to their organization. No two transformations will be the same, and now, more than ever, organizational alignment should be at the heart of each decision.

Creating the plan

- Define your purpose and communicate that with the organization
- Build a well-defined transformation road map
- Evaluate technology in each phase of the IA life cycle
- Concentrate on future ways of working and changing talent needs as a result of the transformation
- Encourage team members to innovate and be part of the change – be disruptive!

Amy Brachio
Global Advisory Risk and Performance Improvement Leader
+1 612 371 8537
amy.brachio@ey.com

Esi Akinosho
EY Global Advisory IA Leader
+1 713 750 8670
esi.akinosho@ey.com

Lisa Hartkopf
EY Americas Advisory IA Leader
+1 312 879 2226
lisa.hartkopf@ey.com

Martin Wiedemann
EY EMEIA Advisory IA Leader
+49 711 9881 27466
martin.wiedemann@de.ey.com

Julia Langdon
EY Asia-Pacific Advisory IA Leader
+61 3 8650 7289
julia.langdon@au.ey.com

Hiroyuki Shimamori
EY Japan Advisory IA Leader
+81 3 3503 1110
hiroyuki.shimamori@ey.com

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