

Internal Audit: Golden oldies or latest tunes?

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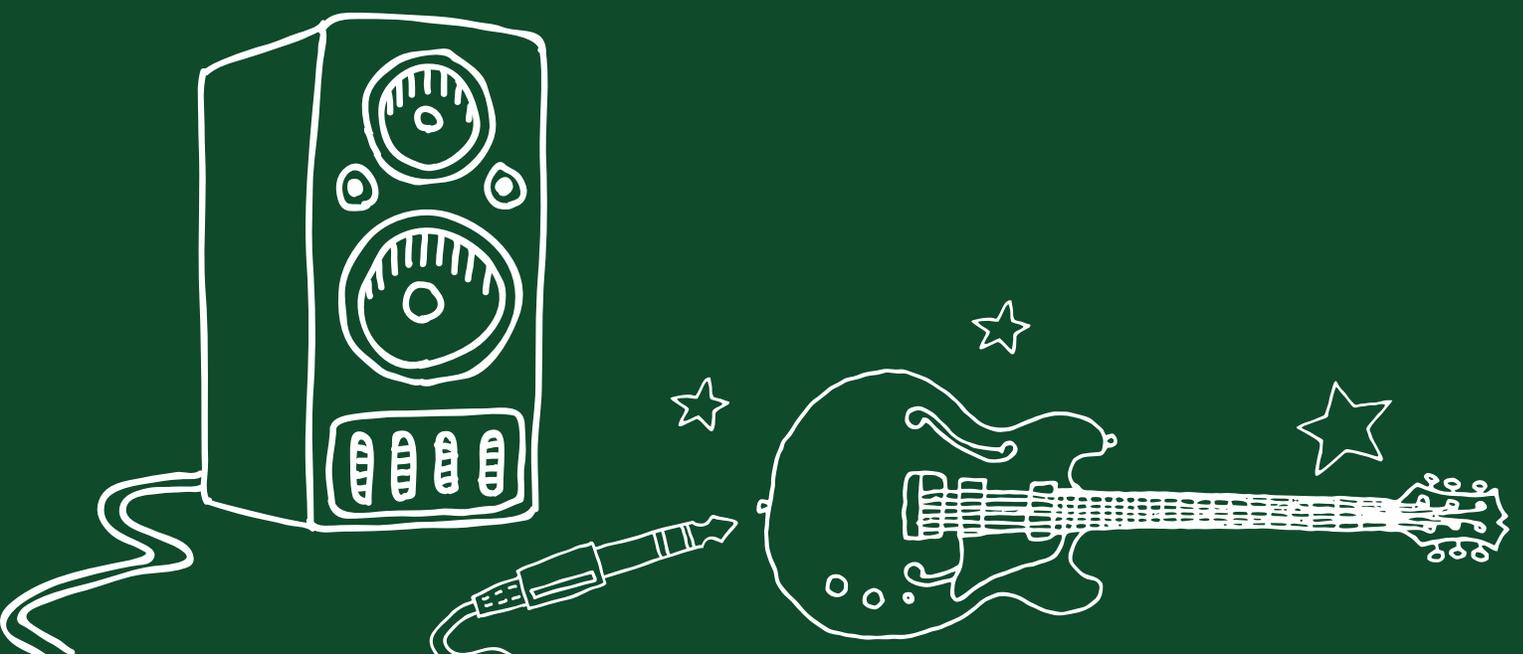
Risk Advisory



In May 2017, Deloitte's Global Internal Audit practice hosted its third annual Global Chief Audit Executive Forum. Held in the Deloitte Greenhouse innovation lab at Deloitte University in Texas, this invitation-only event brought together more than 20 CAEs from a cross-industry array of Fortune 100 companies.

Over two days, attendees shared, brainstormed, collaborated, strategized, and networked. They took a hard look at the issues facing their functions, organizations, industries, and the business environment at large. They envisioned how internal audit can be both a stabilizing influence and a catalyst for change. And they game-planned new approaches for helping their organizations simultaneously manage and take risks.

This report extracts some of the exciting themes and valuable insights from the conference. What are the most innovative and progressive internal audit groups doing to raise the stature of their function and the fortunes of the companies they serve? Read on to find out. For more information, contact one of the Deloitte Global Internal Audit leaders shown on the final page.



The internal auditor's conundrum: Golden oldies or latest tunes?

The lifestyles, fashion styles, and hairstyles of rock stars and internal auditors may differ, but these divergent occupations have more in common than appears at first blush.

Consider the case of a musician with a new album. Out on tour, the performer wants to fill the set list with the latest cuts. The fans, however, turn out for the old hits. How can the artist send the crowd home happy, while simultaneously remaining true to the muse?

Internal auditors face a similar dilemma: their old "hits"—retrospective and assurance-based audits with a focus on compliance—provide reassuring familiarity to their audience of CFOs and audit committee members. But the siren song of the new "music"—delivering valued advice and predictive, analytical, technology-enabled insights—gets the auditors' blood pumping.

Attaining an equilibrium between tried-and-true and cutting-edge, between a focus on the past and on the future, is critical to keeping both music fans and business executives happy and artists and auditors fulfilled.

The Coasters

But is it wise to let the auditors indulge their creative impulses? Isn't the organization better served by a conventional, middle-of-the-road approach?

Indeed, one might argue that today's typical internal audit shop adequately satisfies its mandate: providing assurance with a focus on the past. Why not just coast along, doing what you've always done, providing a modest but undeniably useful service to the organization?

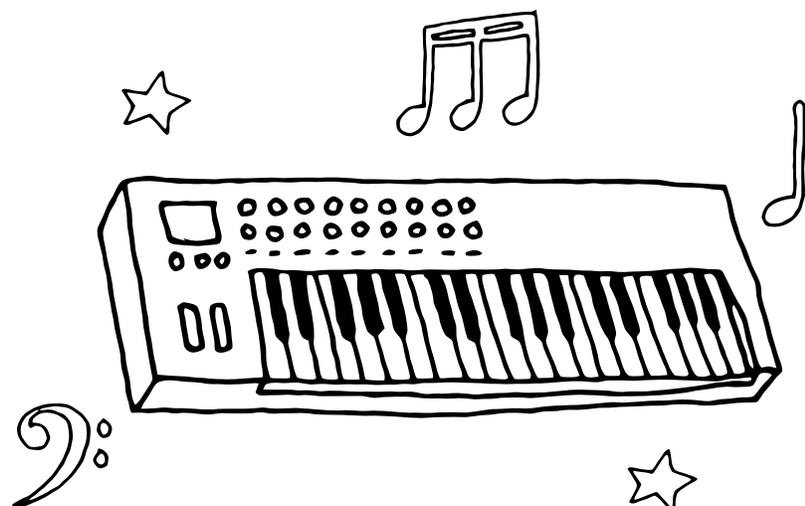
The answer, of course, is simple: the future beckons. Relentless change, competitive disruption, technological advances, morphing threats, and evolving demographics represent a profound break from the past, when a company could dominate its sector simply by playing it safe and conservative.

Today, organizations that fail to embrace the acronymic imperatives of R&D and M&A, or neglect to engage in aggressive innovation and strategic risk-taking, will quickly be usurped by upstart rivals who understand the new reality.

Or, to put it another way, as we did in our report from the first Global CAE Forum, organizations and the internal audit groups that serve them must "Adapt or Disappear."

A change of both mindset and business model will characterize this adaptation, along with the inherent risks that accompany transformations. Internal audit, with its singular view into all aspects of the business, with its unfettered access to the data that courses through the veins of the organization, and with its sophisticated analytical capabilities, is uniquely positioned to help guide the organization into a future fraught with risk and rife with opportunity.

Of course, before it can help change the organization, internal audit must change itself.



The Police

In 1965, when Bob Dylan famously went electric at the Newport Folk Festival, many folk music fans were aghast. According to published reports, “a chorus of shouts and boos rained down on him from a dismayed audience.”

The lesson: a makeover shouldn't be so extreme that it renders you unrecognizable. As internal audit executives look to remodel their shops, they would be wise to retain some of the familiar trappings that formed their identity in the first place. Assurance is, well, reassuring, and the stakeholders that depend on internal audit for a good night's sleep will not forsake their rest willingly.

At the same, many chief audit executives would be happy to expunge some negative perceptions that tarnish their profession. According to several Global CAE Forum attendees, persistent stereotypes linger among some c-suite and audit committee members, who believe that internal audit:

- adopts a “police” mentality
- uses a punitive report structure and approach
- lacks relevant business experience
- excessively focuses on compliance
- works reactively
- offers little appeal to top talent
- suffers from high turnover

Perhaps worse than negative perceptions is no perception at all. One c-suite keynote speaker at the Global CAE Forum observed that internal audit often operates below the radar: The function “is not always top-of-mind for CEOs,” he said.

With one notable exception: When the organization encounters a problem, internal audit is suddenly thrust from the shadows into the spotlight, along with the inevitable interrogation, “Why didn't you stop it?” and “How come you didn't identify it sooner?”

Unfair questions, to be sure, and many a CAE has been forced to bite her tongue rather than retort, “If we had a seat at the table and the ear of the executive, we'd never be in this situation in the first place.”

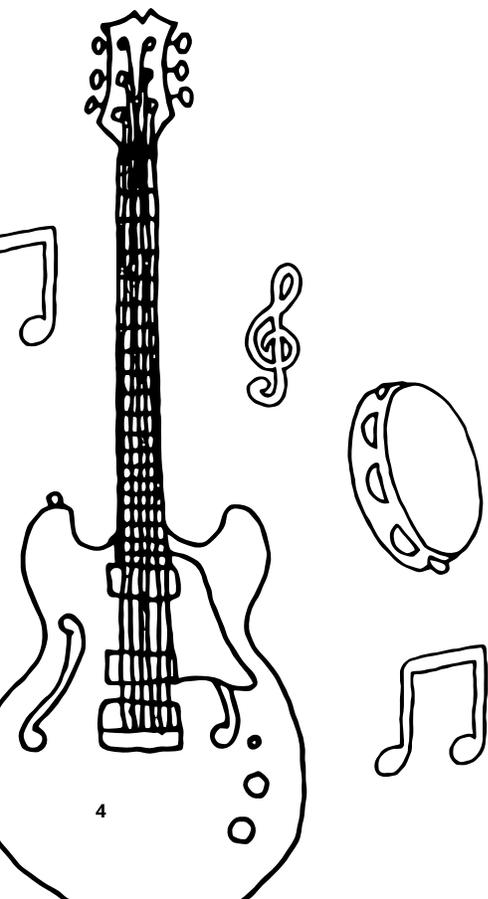
Which presents a classic chicken-and-egg paradox: Internal audit can't deliver maximum value without the proverbial seat, but can't get the seat without delivering value.

The Mavericks

How to solve this fowl conundrum? Break a few eggs!

Seats are not given, they are taken. Make some noise, throw some elbows, raise some eyebrows. Push internal audit in new directions. Deliver unexpected insights. Ask uncomfortable questions. While IA shops can't put the past completely in the rearview mirror, the function can turn its gaze toward the future, where the risks and opportunities reside.

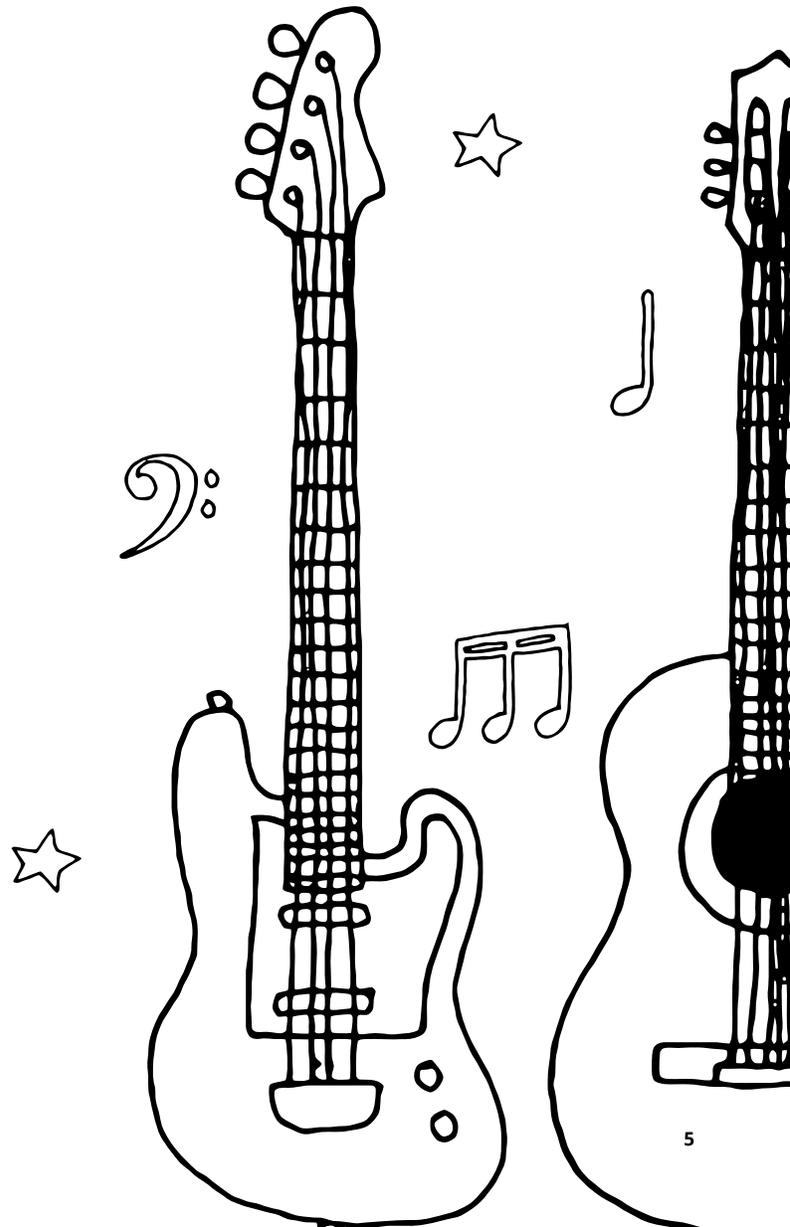
You don't have to change everything at once. A pilot project here, a trial venture there, may be all it takes to chart a new path.



TV on the Radio

But where to start? During the two-day Global CAE Forum, many promising ideas emerged that can push internal audit into a higher plane, most notably in the realm of cutting-edge technology. Here are a few tools that progressive internal audit groups are adopting:

- Analytics without visualization is like a TV without a screen. But until recently, **data visualization** tools required a programmer's knowledge to configure and use. No longer. Today, user interfaces have been refined and simplified, putting power of advanced visualization technology into the hands of average users. Internal audit can leverage these tools to make data speak and tell its secrets, helping to intercept issues before they become problems and yield insights that become opportunities.
- Ask a human to perform a mindless and repetitive task, and you'll get a predictable outcome: falling accuracy and rising inefficiency over time. Instruct a software robot—"bot"—to perform the same task, and quality and productivity will remain consistently high. **Robotic Process Automation** (RPA), deployed for processes that are clearly defined, repeatable, and rules-based, can result in significant time savings; tasks that take a person hours can be completed by bots in a matter of minutes. The implications of RPA for internal audit apply both to the function—automating selected audit procedures, thereby freeing up IA staff for higher-value activities—and to the larger organization—auditing RPA usage within the business.
- The underlying technology may be esoteric, but the benefits are readily apparent: **blockchain** holds the promise of making information more secure and transactions less costly. A decentralized, widely distributed, encrypted network of ledgers or databases, blockchain can cut out intermediaries (such as banks, businesses, and governments) while enabling financial transactions, supply chain auditing, intellectual property protection, smart contracts, identity management, stock trading, and more. [The Economist](#) and [Harvard Business Review](#) predict that blockchain will profoundly impact how business is conducted. Internal audit must be ready to advise and assess.
- The "[Agile Manifesto](#)," published in 2001, proposed a radical new approach to the software development process, but the philosophy has since been adopted in fields as diverse as child development, manufacturing, and product development. Many of the original manifesto principles can be applied to internal audit. **Agile IA** is characterized by a greater focus on individuals and interactions; increased collaboration with customers; an emphasis on outcomes rather than processes; a nimble and responsive approach to change; a preference for simplicity over complexity; and a willingness to continually reevaluate assumptions, priorities, and findings.

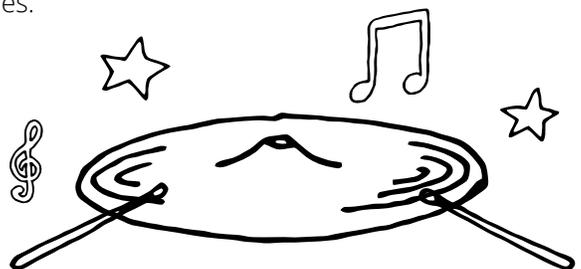


Nirvana

What other developmental areas hold promise for internal audit? Participants at the Global CAE Forum described a variety of strategies that have yielded success.

- If internal audit intends to broaden its mandate, it must also **broaden the talent mix**. A CPA-heavy lineup served well for many decades, but today IA needs to draw on different backgrounds, skillsets, and capabilities. Put recruiting emphasis on intelligence, creativity, and critical thinking to help shed IA's "check-the-box" reputation. Consider candidates with backgrounds in math, science, and technology. As one Global CAE Forum attendee noted: "I can take a mathematician and teach her to be an auditor, but not the reverse." Of course, the need to diversify has long been acknowledged, but execution remains spotty.
- In the age of social media, brands painstakingly built over decades can be trashed in a matter of hours. If reputation risk is not currently considered a top-tier concern at your organization, it's up to IA to make it so. Internal audit can help **defend the organization's brand and reputation** by asking questions before a crisis hits. Are you monitoring social media feeds to stay abreast of emerging issues? Do you have a detailed crisis plan in place? What is the chain of command? Who is the spokesperson? What are the triggers? Do you understand the "hot spots"? Find out when the waters are calm, not roiling.
- CAEs frequently state they'd like to **transition IA into more advisory activities**. CEOs concur. According to one keynoter at the Global CAE Forum, most CEOs would like to flip IA's typical ratio of 80% regulatory and compliance work together with 20% advisory work to the opposite. Start by adding a strategic risk assessment to your audit plan; you'll become fast friends with the CEO, for example, if you provide intelligence that can be used to make smart business decisions. Be proactive about providing insights into areas of emerging risk; most executives are focused on the day-to-day; it's up to IA to cast a view farther afield to identify emerging concerns and opportunities.

- There's no point breaking new ground with IA's activities if reporting remains stuck in the mud. As one Global CAE Forum attendee said, "If I'm bored reading our own audit reports, that's a problem." To **jazz up your reports**, try these ideas:
 - o Keep reports short, just a page or two.
 - o Design reports to be mobile-device friendly.
 - o Or ditch the report entirely; talk face-to-face about the issues instead.
 - o Use infographics and visualization tools to make the data come to life.
 - o Keep your audience's preference and style in mind; communicate in a way that will resonate.
 - o Ask each stakeholder for his or her elevator speech; you'd be surprised how often your reports don't align.
- When hackers can lurk in your IT system for months without being discovered; when black market credentials can easily be purchased online; when 1 out of 5 employees divulge sensitive information in a phishing attack; maybe it's time to **pay increased attention to cybersecurity**. Be a bridge between the IT department and the executive and board; many members may not understand the issues or the terminology. Take your IT audit results to the board and indicate areas where IT needs additional focus and attention. And leverage the IT tools, capabilities, and training resources of the organization to benefit your own IA shop—you don't have to fund everything yourself!
- Stodgy and plodding is out; nimble and agile is in. To address 21st century issues, teams need to **become more flexible**. Devote more resources and attention to the most-important risks. And display more confidence in your judgement: Do you need to carry every inquiry to its exhaustive conclusion, painstakingly gathering all the data and facts before reporting out? Instead, be secure enough in your team's abilities to offer a point of view through "justifiable inference." You'll build IA's reputation for delivering insights while freeing up resources for other activities.

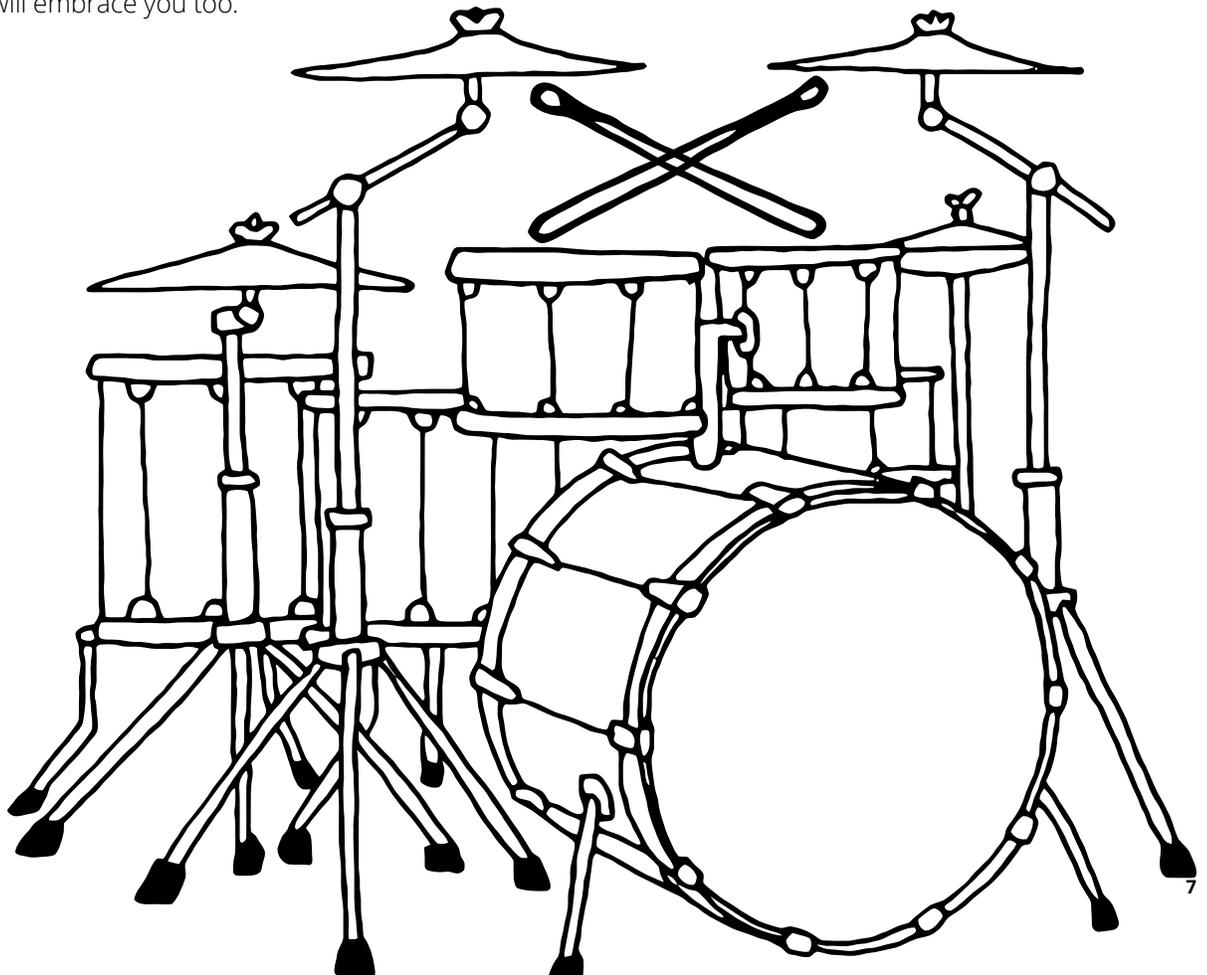


U2

The notion that rock stars and internal auditors share commonalities may not be so far-fetched after all. Consider: until relatively recently, no one envisioned that a staid, behind-the-scenes profession could spawn a true celebrity. Yet veteran auditors will remember early in the 21st century when an internal auditor was named a "Person of the Year" by Time Magazine, raising the profile and stature of the profession to unimagined heights.

But you don't have to land on a magazine cover to be considered a star. That recognition will come from a few adjustments, more or less. That is, more future and less past; more innovation and less tradition; more diversity and less homogeneity; more collaborator and less cop; more pictures and less numbers; more agility and less stasis.

The world of business is undergoing a dramatic shift. Internal audit can help lead the way or can be dragged along. Embrace the new role and it will embrace you too.



For more information

To learn more about harnessing the power of internal audit for your organization, contact any of the Deloitte leaders shown below.

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