Global Risk Study and Next Generation Internal Audit

May 15, 2020
Global Risk Study
Evolving Priorities

Which IA topic is top of mind for your management team?
Choose one answer.

- COVID-19 impact on business: 40.87%
- Emerging risks impacting the company: 18.3%
- How the audit plan is changing: 14.4%
- Maintaining focus on risk priorities and regulatory requirements: 11.99%
- Minimizing disruption by the IA team: 9.61%
- Proposed new projects or activities: 4.82%

Which IA topic is top of mind for your audit committee?
Choose one answer.

- COVID-19 impact on business: 48.56%
- Emerging risks impacting the company: 21.38%
- How the audit plan is changing: 13.4%
- Maintaining focus on risk priorities and regulatory requirements: 9.61%
- Minimizing disruption by the IA team: 3.64%
- Proposed new projects or activities: 3.4%

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Risk function collaboration is increasingly imperative

• As businesses become more connected, risks become more connected and complex.
• Studying business risks only in silos can lead to a singular view of risks and a lack of visibility to risk inter-relationships.
• It is more critical than ever for risk functions across the organization to closely collaborate.
• Failure to do so creates blind spots to risk, while close collaboration produces significant gains.
The collaboration journey

Where are your risk functions on their collaboration journey?
#1: Set a collaborative tone

27% of risk functions set an integrated tone for risk management through well-defined governance.

Source: 2019 Risk in Review Study
#2: Lay a common foundation

33% of organizations say they have the right technology and tools to anticipate, monitor and manage risk.

Source: 2020 Global Risk Study
#3: Optimize the parts

18% of CEOs have made significant progress establishing an upskilling program that includes soft, technical and digital skills.

Source: PwC 2020 Global CEO Survey
Transforming the value proposition of internal audit
There is a clear gap in how Internal Audit (IA) meets the needs of its stakeholders...

77%
Of board members believe Internal Audit's current level of involvement in risk is not sufficient

>50%
Of management believe Internal Audit does NOT contribute significant value to the organization

46%
Of stakeholders view Internal Audit as a Significant value provider.

... and now more than ever there are opportunities for IA to react and evolve

- Digital transformation, Speed of change & Data availability
- Impacts of COVID-19 “New Normal”
- Dynamic and complex business models
Has internal audit been keeping up?

While IA has made incremental strides...
- Periodic risk assessment
- Rolling audit plan
- Workflow tools
- Basic analytics
- Leverage subject matter resources
- Guest auditors
- Agile execution approach
- Better dashboards

...challenges remain!
- Qualitative risk assessment discussions seem too high level
- Technology adoption rate is increasing
- Duplicative control testing activities across the 3 lines
- Sample approach for audit work seems antiquated
- Stakeholder expectations continue to increase, while budget pressures remain
- How do we upskill, attract and retain NextGen talent?
- How do we audit differently?

"While IA has made incremental strides over the past few decades, it is now time for Internal Audit to evolve. Let’s transform IA..."
What does a transformed IA function look like?

**Proactive Risk Focus**
Embed a continuous **Risk Sensing** process that uses external and internal sources of data for identification of risk areas.

**Flexible Operating Model**
More *dynamic teams with leverage models* across the 3 lines of defense.

**Audit Spectrum, not audit plan**
Diversify the scope and nature of audit activities. Issues based reviews, audit insight workshops and more...

**Behavioral Science**
Leverage data to identify behavioral trends and root cause—uncover the blind spots!

**Higher Precision Audit Activities**
Analyze 100% of populations using *neural networks and AI* to scope highly focused audits. Execute in no time!
Adapting to today’s new world
As we pivot from COVID-19 response to adopting a ‘new normal’; it’s critical to ask...

What have we learned?... Have expectations changed?

The ‘new normal’ demands adjustments to business processes with technology and data at the center of it; the data is waiting to be untapped. Internal Audit is uniquely positioned to provide insights across corporate functions because of their access to data.

Transforming the IA value proposition:

Providing greater risk coverage and enhancing its value to stakeholders through a higher ROI.

- Develop and deliver assets to the business which drives process efficiencies
- Automate lower value work as much as possible.
- Focus on Risk, Compliance, and Controls
- Identify soft and hard dollar savings which the business finds valuable
Discovering what’s possible

Now IA functions can...

- Identify blind spots, previously humanly impossible
- Provide greater coverage across organization without increasing audit resources
- Uncover human behavioral patterns through machine learning and regression
- Scope and execute audits virtually, with a data driven and risk based targeted precision
- Influence the strengthening of first and second line defenses through digital collaboration and continuous monitoring

...some have already started

- Leveraged machine learning on 500,000 images to identify potential fraud in under 10 minutes
  - Impact: Created a data enabled approach to monitoring the $1.6 Billion Marketing Fund.

- Conducted IP leakage audits for specific product types, location & targeted employee types flagged by deep learning algorithms
  - Impact: Detected evidence of counterfeiting of products in the vicinity of several overseas factories.

- Used modeling to identify HR team wrongfully delayed termination of employees in the system to receive quarterly retention bonuses
  - Impact: Magnified deviations from expected throughput time and determined the root cause of these cases

- Built third party risk monitoring dashboards using data from the web and transitioned to second line for ownership
  - Impact: Improved management and ongoing monitoring of workforce utilization against internal benchmarks
The IA Transformation framework is applied to each of the internal audit functional areas based on the current vision and baseline of the organization, and performance excellence is considered throughout.

Areas of Transformation

- **Strategy**: The strategic components of an IA function, including the vision, mission and objectives.
- **Structure**: The organization of the IA function and its relationships across the organization.
- **People**: The expertise and skill sets possessed by IA, as well as training and development opportunities.
- **Technology**: The incorporation and use of technology across all aspects of the IA function, leveraging data to drive activities & value for the business.
- **Process**: Methodology leveraged across the audit lifecycle, as well as administration of the function.
- **Performance Excellence**: Metrics and other activities to monitor performance across an IA function's activities (and functional areas).
Recalibrating the IA maturity curve
Digital capabilities are essential to driving value beyond an assurance provider

IA is generally reactive to risks, applies a "look back" approach to identify risks and focuses mainly on providing controls assurance with limited digital skills, data is:
- Never or infrequently collected and stored for analysis
- Manually captured in uncoordinated fashion and with errors

Digital capabilities are a fundamental part of IA’s service delivery model. IA uses data to deliver objective assurance on the effectiveness of an organization’s internal controls.

IA builds strong relationships with 1st and 2nd line to build a reliance models that leverage common data platforms. IA has ability to rapidly deploy technology designed to solve specific requirements.

IA optimizes digital collaboration between 3 lines to deliver on a common risk management purpose. Data driven insights are key components of audit processes and seamlessly integrate into business policies and processes.
How can Internal Audit move up the maturity curve?

**Crawl**

- **Strategy**: Migration away from control-centric to risk-thematic view
- **Structure**: Teaming structure based on risk themes, Leverage existing risk management activities
- **People**: Personalized Learning by Role
- **Technology**: Analytics for IA and others lines of business, Automation for repetitive / standardized areas — i.e data gathering activities
- **Process**: Common risk taxonomy, defined metrics, and measures (KPIs, KRIs)

**Walk**

- **Strategy**: Assurance over risks that are of strategic value
- **Structure**: Aligned assurance maps / reliance models, Real-time, role-based engagement with business and 2nd line of defense.
- **People**: Deep learning for Digital Accelerators, Data-driven and issue-focused mindset
- **Technology**: Robotics and automation, Use of unstructured and structured data sources for auditing
- **Process**: Dynamic risk identification and monitoring based on leading and lagging indicators, Broad set of agile audit activities

**Run**

- **Strategy**: Common sense of purpose for all risk management activities
- **Structure**: Real-time, role-based engagement with stakeholders, Proactive engagement with business
- **People**: Digitally upskilled profiles & deployment, Crowdsourcing innovation
- **Technology**: Artificial intelligence (AI) and machine learning — software to automate testing, Continuous monitoring & auditing
- **Process**: Insights on blind spots: pattern analysis and behavioral insights by "connecting the dots"
Benefits - Why does Internal Audit need to transform?

When Internal Audit...

- Assess its brand and buy into shared vision of risk with a focused on business value (Strategy)
- Invest in partnership across risk functions (Structure)
- Upskill and inject new talent (People)
- Embrace the use of data and digital tools (Technology)
- Redefine Internal Audit agility, speed, and scalability (Process)

The organization gains a...

Strategic business partner: Identify strategic insights and enhanced value through actionable cost savings recommendations

Risk Resiliency Leader: Remove possible redundancies in risk management and drive consistent messaging to business

Leadership talent incubator: Creates future leaders with emerging technologies proficiency coupled with functional business acumen.

Risk Tools Catalyst: Create common tools and transferable assets for cross functional risk identification

Trusted Advisor: Obtain wider risk coverage across the organization and a more targeted scope for cost optimization.
Questions?
Other Resources

Thought Leadership
- 2020 Global Risk Study
- Transforming the value proposition of internal audit
- Why the time to transform internal audit is now

Podcasts
- Transforming the Value Proposition of Internal Audit
- Rethinking your Internal Audit Approach
- Next-Gen Internal Auditor
- Continuous risk sensing capabilities
Thank you.