Trust by Design

Internal Audit in a disruptive world

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Managing risk with agility

“Can digital uncertainty be transformed into trust?”

To fuel better performance in a digital world, leading companies are not only identifying and mitigating risk, but they are turning digital risks into competitive advantage to activate digital trust.


Artificial intelligence and robotics are reinventing the workforce.

50b
internet connected “things” by 2020, including sensors and radio-frequency identification (RFID) chips.

Estimated 1% is actually connected out of what could be connected.

35 days
for new technology to reach a critical mass of 50m users.
Digital disruption is a strategic imperative.

Business today moves at a breathtaking pace: according to a recent study*, in 1964 the average life of a company in the S&P 500 was 33 years. That is predicted to drop to 12 years by 2027.

This rapid pace of disruption brings on new risks.

63% of consumers agree that “A good reputation may get me to try a product – but unless I come to trust the company behind the product I will soon stop buying it, regardless of its reputation” **

*according to a recent study
... demands a different way of thinking.

Risk must be embedded at the forefront.

The days of testing and reacting to threats after they occur are gone.
The case for change
IA may not be able to keep up with the pace of change in the business leaving a risk coverage gap
Looking at Risk in the Transformative Age

**UPSIDE RISKS**
- Risks that offer benefits. Risks significant to the organization's ability to execute its business strategy and achieve its objectives.
- Potential for innovations to grow consumer bases
- Increasing market share
- Acquiring, managing, and deriving value from new assets and talent

**OUTSIDE RISKS**
- Risks that offer negative or positive benefits beyond the organization's control.
- Actions of existing and emerging competitors
- Geopolitical and economic megatrends
- Demographic and environmental megatrends

**DOWNSIDE RISKS**
- Risks that offer negative impacts. Risks an organization is focused on eliminating, avoiding, mitigating or transferring in a cost-effective manner.
- Information security and cybercrime
- Employee fraud, and regulatory compliance
- Risks must be well understood and mitigated
Risk management has to balance with business needs focused on better decision making.

The partnership between risk and the business needs to be embedded both ways.

Risk management should be instilled in the mindset to focus on more than mitigation.
... and new technologies are primed to provide powerful insights.

- **Data**: Use data to enable decision-making.
- **Platforms**: Share data across innovative platforms.
- **Intelligence**: Embed intelligence and risk management capabilities
In the future, IA will be viewed as an air traffic control tower. Technology will enable **real-time risk monitoring and timely reporting** of high-risk findings to instill **trust**, support confident decision making and ultimately contribute to increased business value.

This operating model will also enable a higher degree of **flexible sourcing**.
Today’s governance programs are not prepared …

How can we improve today’s risk management programs?

Reactive programs designed for downside risk management.

Management today creates a point-in-time assessment. Static criteria are utilized for identification of issues.

Any risk assessment results only inform ongoing mitigation strategies and are rarely revisited.

This standardized process relies heavily on the tools of yesterday and can be painful to execute.

Management of tomorrow will utilize digital technologies and programs to deliver new insights. These new tools will allow for dynamic assessment capabilities.
Digitally-led management programs strengthen trust and increase business performance.

Align Risk to the Product & Customer Journey

Create less risk through automated processes, reducing the cost of controls, and through efficient and digitized management and monitoring.
What will the IA mandate be?
The IA mandate does not need to change but it will evolve

- IA will be highly connected, proactive and forward looking in setting its priorities in response to market disruptions
- IA will extend beyond its traditional assurance provider-role and become a strategic and valued advisor
- Assurance will broaden to: challenging the entire risk framework and accounting for upside and outside in addition to downside risks
What will the IA mandate be?
The mandate does not need to change but there will be a better balancing of focus

- **Anticipative monitor**
  - Focus on future topics (e.g., missing controls, policies and procedures)
  - Future impact of recommendations
  - Anticipating how the business model is changing

- **Analytics and robotics:**
  - Predictive and real time

- **Strategic view**

- **Policing**

- **Anticipation factory**
  - Focus on non-negotiable assurance and base level of trust and current/past topics
  - Current impact of recommendations
  - Raising awareness on current/past topics

- **Analytics and robotics:**
  - Descriptive and internal data driven

- **Current view**

- **Proactive**

- **Business counselor**
  - Focus on strategic topics and actively engaged in strategic discussions and problem solving
  - Anticipating the future/industry trends and the impact on the business
  - Fostering change and best practice development and sharing

- **Analytics and robotics:**
  - Prescriptive and trends

- **Strategic and Innovative view**

- **Partner**

- **Change agent**
  - Focus on trends on why things fail systematically and audit against “unknown” rules
  - Deep dive in root-cause and internal best practices for recommendations
  - Initiating change

- **Analytics and robotics:**
  - Descriptive and internal/external data driven

- **Current and change view**

- **Reactive**

- **Policing**
Developing Risk management programs to gain trust

SCAN

Develop purpose, drive consensus, **collect associated data.**

DELIVER

Aggressively distribute collected risk data into **new channels.**

ACT

Demand informed **decisions** driven through an integrated and tuned Risk function.

**Risk Scanning in the Transformative Age**

- **NEW DATA**
  - Boards and C-Suite look for risk functions to simplify data

- **NEW TECHNOLOGIES**
  - Robotic process automation
  - Drones
  - Chatbots

**Shifting Mindsets & Structures**

- **NEW STRUCTURE**
  - Operations & Business units
  - Management assurance
  - Independent assurance

- **NEW ECOSYSTEM**
  - Consortiums
  - Third-Parties
  - Risk Intel

- **NEW SKILLSET**
  - Enable coordination, communication and reporting

**The Confident Digital Enterprise**
How will IA work in the future?
Have an agile and dynamic operating model enabled by technology and a flexible workforce

- Be agile and dynamic
- Apply more judgment
- Provide dynamic outputs
- Digitally augment its capabilities
- Predict control failures and risk triggers
- Report results digitally
- Deploy resources with the right skill sets
- Implement a balanced workforce
- Build and participate in risk communities
Are you ready for the challenges of tomorrow?

Disruption is a fact of today’s business environment; we are all experiencing the impact of profound, accelerating change driven by exponential leaps in technology.

But when entire industries can change overnight, pushed by new platforms and players, this isn’t just disruption. It’s transformation.
The journey has started
What some IA functions are doing as they kick-start their transformation

Audit Needs Assessment

1. Identify and assess risks beyond today’s scope by leveraging predictive, historical and external data

2. Be flexible and agile around internal audit planning and responses based on changing assurance and reporting needs

Execute IA Plan

3. Digitize IA evidence and fieldwork in an integrated, digital platform to drive more insight around themes and trends

4. Use automation to deliver large volumes of transactional and compliance internal audit areas, enhancing risk coverage and improving efficiency

Develop IA Plan

5. Deliver through advanced data analytics and visualization enabling efficient resourcing of audit/risk resources

Communicate Results

6. Re-think ‘traditional’ reporting content and format to communicate messages in new ways

7. Automate internal audit reporting leveraging digitized IA evidence and fieldwork
A call to action

Arrival at the future state requires a journey that must start now. No one is out front, so do not look for early adopters.

Assess the current IA operating model, resource model and technology footprint to identify opportunities to automate and innovate and better position the function for the transformative age.

Start by making real investments in areas of impact and aggressively attack “low-hanging fruit.”

Build a business case and start a process of transformation — technology development and deployment, skills sourcing, branding initiatives — to move toward the future state.

Change will require significant education of and communication with all stakeholders.
Succeeding in the transformation age

Tangible next steps to consider:

- Defining and understanding risk drivers that can impact the business
- Defining accountability structures
- Designing and activating strong monitoring processes
- Answering critical questions requires integrating data across a variety of internal and external sources
- Employing advanced data analytics, trending and dashboarding solutions to gain a holistic view of risk across your organization
- Adopting cutting-edge technology that fits within your overall technology strategy
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