What is Internal Audit’s role in organizational transformation?
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Complex organizational changes are here to stay

In order to gain a competitive advantage and keep pace with regulatory requirements, our clients are undertaking an unprecedented amount of transformational change. The benefits to the organization can be great, but they do not come without risk.

There are numerous trends emerging in the market that are adding to the risks generated by these transformational change initiatives. These include:

- Organizations accelerate investments in significant projects to enable business transformation initiatives,
- Organizations must balance a large portfolio of projects and select efforts that align with strategic goals and maximize returns, and
- Transformation projects are increasingly complex.

Despite high stakes, projects continue to struggle—most independent research suggests typical IT project failure rates between 30% and 50%. This is something that is gaining increasing attention from Boards, C-Suite executives and Internal Audit.

PwC’s recent 2012 State of the Internal Audit Profession Study has highlighted how the management of this risk is being viewed as poor yet important. Only 27% of surveyed Chief Audit Executives (CAEs) view this large program risk as being well managed within their organization, yet 92% of the same respondents listed the risk as very important or important. Internal Audit is therefore faced with a challenge: how and when do we get involved, what does our involvement look like and how can we add value over the full lifecycle of the transformation?

Internal Audit can and should play a key role in these initiatives, by looking at the end-to-end lifecycle of the program and embedding a risk-driven assurance approach in program delivery. This includes enabling and collaborating with the other sources and providers of assurance and ensuring the assurance outcomes are efficiently delivered by the lines of defense.

If your organization is undertaking a transformation, or any large-scale program, we offer six suggestions based on our experience:

1. Get involved early
2. Build a ‘three lines of defense’ model
3. Develop an integrated assurance plan
4. Operate the integrated assurance plan, adapting to changing risks
5. Use subject matter specialists
6. Agree on how and when you will report.
1. Get involved early

The earlier Internal Audit gets involved the better. Working with the program in the early stages increases your understanding of the program’s lifecycle and its key benefits, drivers and objectives. This enables Internal Audit to contribute to the program as it defines its risk management approach and strategy.

Most large-scale programs will have a quality plan and a risk management strategy, typically generated in the early stages. The risk management strategy would typically set out the program’s approach to the management of risk, including identification and assessment of strategic, operational and emerging risks, and the assessment of the adequacy of existing management control practices. It would also define the program’s approach to obtaining assurance, and the roles of the respective assurance providers.

Internal Audit’s involvement at this early stage ensures greater alignment of the risk management principles to those of the organization itself. It also allows Internal Audit to establish and confirm its future involvement and method of engagement based on the level of inherent risk in the transformation. The augmentation of the Internal Audit team with program specialists at this early stage can add value to the program team through leveraging their experience and applying it to the current program.

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**Figure 1.2** Overview of how to develop an assurance framework

**What is Internal Audit’s role in organisational transformation?**
2. Build a ‘three lines of defense’ model

Large transformations typically have various sources of assurance. Often these operate in isolation and are driven by their respective functional area or needs rather than the overall risks of the program. Examples are:

- quality assurance (QA) activities within the program
- event-triggered or stage gate reviews performed by PMO functions
- QA outputs from the vendor (e.g., reports to the program that their team is operating in accordance with methodologies)
- operational risk team reviews
- internal regulatory and compliance reviews
- external audit activities.

Understanding the respective roles and levels of assurance allows Internal Audit to form a holistic picture of the integrated assurance being provided to the program. This in turn means we can identify gaps in the assurance coverage or opportunities to deliver efficiencies or synergies: for example, transparency of scope and closer interaction with the external auditor, or increasing the timing and scope of level two assurance activities.

![Three lines of defense model](image-url)
3. Develop a rolling integrated assurance plan

Understanding the roles and sources of assurance available helps you develop a risk-driven integrated assurance plan that is aligned to the three lines of defense. Distinct from the organizational Internal Audit plan, this plan operates at a program level. Some of its assurance reviews might be included in the broader Internal Audit plan, but the key benefit is that similar assurance planning and risk alignment principles are applied to the transformation program itself.

This is best achieved through a simple framework that maps the key risks across the program lifecycle to the planned assurance activity and source of assurance. Ideally this occurs from the beginning of the program, and makes use of the program’s initial risk assessment activities. However, it can be implemented at any point in the lifecycle.

Developing the integrated assurance plan early in the program’s lifecycle also allows the team to build the activities into the program plan. This integrated approach allows the teams to plan for the assurance activities, minimizing any disruptions.
4. **Operate the integrated assurance plan, adapting to changing risks**

The risk profile of large programs is always changing. Maintaining a rolling view of the risk profile is key to ensuring that assurance activities are continuously aligned to the areas of greatest risk.

Where such models are applied well, the plan is typically reviewed on a periodic (quarterly or six-month) basis to ensure the risk profile remains up-to-date and the aligned assurance activities are valid and relevant. A review point would include the following:

- Review and align high level scope and risk coverage *(Key questions include: Are the forward/planned reviews still relevant and based on the current risk profile? Can more work be done by the level one and level two assurance providers?)*
- Confirm follow-up of previous outcomes *(Key questions include: Have prior assurance outcomes been addressed and followed up?)*
- Assess the timing of reviews to align them with program deliverables and management of review outputs *(Key questions include: Will the program have time to respond to and address any of the findings, or has the schedule changed?)*
- Assess the impact on resourcing *(Key questions include: Are the reviews targeted to a point in time where resources won’t be available because it is a critical phase?)*
- Assess emerging risks and their relevance to the program *(Key questions include: Are there any emerging risks that warrant consideration for assurance activities, and which line of defense is logical to perform these?)*
- Look for any synergies and efficiencies (e.g., joint IA/external audit workshops on key processes in scope for respective reviews).

The key point here is the need for agility. Program objectives may shift, timelines may shift, priorities may be adjusted and risk profiles are ever changing. There is therefore a need to continuously check and recalibrate the alignment of the assurance activities to the program’s risk profile. The challenge for Internal Audit is to ensure comfort over the key risks is obtained and that the touch points with the program are relevant, maintained and add value.
5. **Use subject matter specialists**

It is critical to have relevant expertise on the team. Transformation programs are typically large and may have multiple streams, deep technology components and complex organizational change agendas. Aligning the right expertise to the planning and review activities is therefore essential on a number of fronts, enabling the review team to:

- ensure a sound understanding of the problems and risks
- establish credibility and confidence with the program team
- build empathy with the program team
- bring insights and perspectives from similar programs or industries
- be practical and pragmatic about the materiality of any issues raised in the context of the program versus reviewing against a methodology.

Subject matter specialists should have experience in both delivering and reviewing similar programs.
6. Agree on how and when you will report

It is important to agree up front on how and when you will report so as to deliver maximum value to the project team. Are the reviews formal internal audits, or are they health checks or other performance improvement activities performed by the Internal Audit function? Will the reporting be through the standard channels or directly to the project’s governance structure? The answer to these questions will help guide the reporting for the review.

It’s advisable to work with the program and the business to agree on the most efficient and practical reporting format. Many programs are running at high speed and in a high-pressure environment. Quite often value can be most realized by ‘near real-time feedback’—i.e., what can we change now?

Timely and practical reporting is important. It’s critical that the program be able to address any issues identified, and timely reporting is a key element in this.

Additional benefits are derived from ensuring consistency in the format and output of all assurance activities, regardless of the provider. This helps the program team when they are reviewing assurance outputs and adopting and tracking progress against recommendations. Considerations include:

- Who will the report be provided to and who will be responsible for tracking any agreed-upon actions?
- Are all reports rated in accordance with the same risk/rating scale?
- Are the timelines for agreed-upon resolution of activities consistent based on the rating scale used?
- How does the rating scale align to the program’s risk rating scale and the organization’s risk rating scale?
- Do the reports specifically state new risks that should be included in the program risk registers?
- Are the outputs of the assurance activities shared with other assurance providers to inform detailed scoping?
- Will all assurance outputs and agreed-upon action registers be centrally managed?
Global 200 Auto Manufacturer  
Case Study 1

A Global 200 auto manufacturer had decided to replace its patchwork of in-house developed legacy systems supporting their North America finance, purchasing, non-production inventory and project processes with a single SAP solution. Key objectives of the initiative included improved business efficiency, improved data integrity and reporting and reduction of inventory levels and operating costs.

Challenges facing the company

• Multiple payment processes, platforms and invoice approval systems to be replaced
• Changes to long-standing processes at 50+ distribution locations which impacted more than 6,000 users, posing significant organizational change management challenges
• Large number of interfaces added complexity to integration testing and legacy system test requirements
• Changes to data model required significant data cleansing and complex conversion routines
• Roll-out approach necessitated multi-phase cutover and a number of temporary bridges

What role did Internal Audit play?

• Engaged at beginning of the project to provide independent feedback over project and control risks
• Coordinated with other compliance functions throughout the organization to provide a single point of contact for the project team on compliance related matters
• Reviewed project output at key phases aligned to critical program milestones (project preparation, blueprint, integration testing and delivery).
• Provided example work products and recommendations for the project team’s consideration to supplement solutions being proposed by their systems integrator

Assessment of Internal Audit’s involvement

• Helped the project team convey and escalate significant risks to the Steering Committee and provided perspective on reasonableness and root-cause of an additional funding request
• Performed detailed reviews of designed roles and responsibilities and SAP configurable controls, recommending enhancements to the project team’s initial approach to controls and associated documentation
• Minimized cost of compliance to the project team by coordinating compliance efforts
• Supported efficient delivery by collaborating with the project team on pragmatic risk management solutions
A leading live entertainment and ticketing company initiated a 4-year, $100M transformational initiative to re-architect their ticketing platform. The purpose of the program was to enhance existing ticketing procedures and develop new products and services.

Challenges facing the company

• Technology infrastructure makes sustainability and scalability very difficult
• Large number of legacy systems adding complexity to the platform
• Slow to respond to changing market demands for new products and services
• Uncertainty about the role that Internal Audit could play in supporting the change initiative

What role did Internal Audit play?

Internal Audit was engaged during program planning to perform an initial risk assessment reporting key program risks to Ticketing and Corporate leadership. Throughout the life of the program, Internal Audit engaged external project assurance specialists to perform a number of focused program risk related assessments (deep dives).

Assessment of Internal Audit’s involvement

The project team valued Internal Audit’s knowledge of the program and how it aligned to the company’s key strategies. Through the engagement of project specialists, Internal Audit was able to provide an independent viewpoint on program risks and share benchmarking information, leading project management practices and thought leadership.
A banking company began a four-year program to standardize their front, middle and back office processes through the use of new technology, increased system integration, and retirement of legacy applications.

Challenges facing the company
The company had limited experience in the execution of large transformational programs and was faced with the challenge of proactively monitoring project related risk. Expertise within Internal Audit of project related risk, PMO processes and organization change was limited in supporting this major change initiative.

What role did Internal Audit play?
- Internal Audit engaged subject matter experts with relevant program and system experience to augment their team.
- Recurring project health check reviews were executed by Internal Audit and subject matter experts throughout the year with parallel reporting to the Board and Audit Committee.
- Existing Internal Audit continuous monitoring processes helped to accelerate the health check reviews and facilitate a quicker identification and reporting of project risks.

Assessment of Internal Audit’s involvement
Internal Audit developed an innovative, multi-faceted approach to proactively monitor project risk. The structuring of the approach also provided a learning opportunity for Internal Audit and minimized future audit activity for both internal and external reporting. The accelerating of the risk identification and reporting process allowed Internal Audit to provide the project team with near real-time feedback regarding project related risk which they were able to act on throughout.
Global Industrial Products, Services, and Solutions
Case Study 4

The company was planning to upgrade their global Oracle application to allow for multiple instances to reach 45 countries and enable the consolidation of various legacy systems and data warehouses.

Challenges facing the company
Although the company had an experienced PMO managing the project activities and had engaged an external system implementer, there was limited focus on governance of project risk. The company faced challenges with understanding, monitoring and reporting project risk.

What role did Internal Audit play?
Internal Audit partnered with external project assurance specialists to leverage their experience to deliver continuous risk diagnostic and stage gate reviews. Reviews were conducted in line with existing Internal Audit review procedures and delivered as a separate update to the Audit Committee and Executive Steering Committee.

Assessment of Internal Audit’s involvement
By partnering with subject matter experts, Internal Audit was able to deliver independent and detailed risk assessments, guidance and governance support. As the reporting structure for the risk diagnostic and reviews were developed alongside Internal Audit, results and messages were communicated consistently in line with company practices.
**Key things to consider**

**An integrated framework**
- Build an integrated assurance framework across the full lifecycle of the program, supported by a risk-driven ‘three lines of defense’ approach
- Develop simple, sustainable processes with periodic review points to maintain the currency of the framework
- Look to develop short reporting cycles—ensuring that issues are communicated in a timely manner and the program can actually respond to and remediate them

**Resourcing**
- Ensure reviews are not timed at critical junctures when the program team simply does not have the capacity to assist
- Ensure teams have sufficient program and/or technical expertise depending on the nature of the risk

**Understanding and efficiency**
- Take the time to understand what the program wants to get out of each review
- Have a pragmatic view of materiality—i.e., auditing against a methodology vs. understanding the issue in the context of the program and the bigger picture
- Seek efficiencies and remove overlaps by understanding and sharing outputs of other QA or assurance activities
- Understand early and align with the needs of the external auditor
- For health checks, align risk/reporting scales to those in use within the program and the organization
- Consider taking an independent role on the program steering committee

**Findings and recommendations**
- Consider innovative ways of agreeing on the findings—for example, a workshop approach with all stakeholders. This saves time and drives collective buy-in
- Maintain an interest in how the program will implement the findings and recommendations (don’t simply disengage following the review)
- Ensure the program manages centrally a consolidated view of all audit and review findings. Above all, be agile. These programs move at high speed and the risk profile is ever changing. Challenge the team to align the assurance to the areas of greatest risk and where the most value can be derived

**Involving the business**
- Ensure reviewers interview not just the program leaders, but those directly involved in the process to understand their views
- Engage the business/end-recipients of the program—what does it mean to them? Are they engaged by the program? Are they clear about what the transformation means? Again, ensure that you get input from those directly involved in the program
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