Advisory Outlook

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The Agile Internal Audit Function:
Stakeholders expect more from Internal Auditors

Femi Osinubi

In the wake of today's ongoing digital disruption, Chief Internal Auditors (CIAs) are living through a world of change and more is expected of them. Stakeholders want internal auditors to be trusted advisors to the business.

Disruptions are no longer episodic; in fact they are constant, ranging from regulatory changes to disruptive innovation that creates a new market to economic volatility. If internal audit is failing to address disruption- related risks, the function will likely fall behind as the business moves ahead.

According to PwC's 2017 State of the Internal Audit Profession study, of the nearly 1,900 study participants working with internal audit, 18% of them report that their internal audit functions play a valuable role in helping their companies anticipate and respond to business disruption. We call these "Agile Internal Audit Functions". An agile internal audit function is a function that has the ability to adapt to business changes. An agile internal audit function is the one that leads change, flexible, rapidly respond to unexpected obstacles, in touch with stakeholders amongst other things. The agile internal audit function must be able to balance all these qualities without losing its independence and vision.

Nearly, nine out of ten stakeholders with agile internal audit functions report that internal audit is adding significant value that is more than double the percentage of stakeholders with less agile internal audit functions. Our study revealed that there are two key traits that enable agile internal audit functions to effectively lead in disruptive environments - they are prepared and adaptive.

Prepared

According to the survey, an agile internal audit function that is "prepared" has the following distinctive behaviours:-

1. Build the likelihood of disruption into planning and risk assessment

2. Meaningfully collaborate with other lines of defense. Collaboration is not about coordinating, scheduling or sharing findings but driving a more comprehensive view of risk - do you speak with a common risk language

3. Invest in continuous learning. There is a sentiment that the time spent training in internal audit fundamentals versus developing business acumen is not at the balance it should be. Business acumen is a key contributor to the agility of the internal audit executives. Our 2016 state of the internal audit profession study revealed that stakeholders were in agreement that the most important component in the internal audit leader's background is the ability to understand a complex business. Our survey data supports that belief in that 78% of very effective leaders have exceptional business acumen and clearly articulate insights on strategic risks, compared with 47% of effective leaders and 21% of less effective leaders.

49% of Agile IA Functions have increased or shifted internal audit budget to enable greater participation in area of business disruption (vs. 27% of peers)

76% of Agile IA Functions cohesively partner with other risk management and compliance functions to address disruption (vs. 40% peers)

Source: 2017 State of the Internal Audit Profession Study

Adaptive

According to the 2017 state of the internal audit profession study, the following are the distinctive behaviours of an agile internal audit function in "adaptive".

1. Create more flexible processes and reporting mechanisms. In times of disruption, we need to respond quickly and not everything needs a consistent cadence of two weeks of planning, three weeks of field work, one week of reporting for instance and not everything may need a report. Ask yourself, if the business need you to deploy resources on an urgent matter quickly and provide a preliminary point of view in 72 hours, could you do it without it being disruptive to yourself and the team?

2. Drive the use of data analytics and technology. This means that internal auditors should leverage technology effectively in the execution of the entire lifecycle of the audit process. Data analytics are designed and deployed enabling focus on the right risk areas and business issues as well as generating efficiencies throughout the audit process. Analytics and visualization tools are used to enhance the understanding and evaluation of risks and to identify business process and control breakdowns. Continuous auditing techniques are leveraged to increase coverage or provide early warning of risk indicators to the business. To deliver on this behavior, the internal audit team must understand the complexities of their company's systems architecture and innovate by using technology to drive audit efficiency.

3. Implement flexible talent models. Internal Audit should possess the appropriate mix of core internal audit talent, subject matter expertise, business acumen and position parity to align its mandate and meet expectations of stakeholders, including regulators.

It is hard to be adaptive with flexible talent models. You need to balance the need for specific industry and risk expertise against the likely utilization of that expertise. You need the right talent at the right time – which is a combination of anticipating needs early and having a way to 'procure' specific skills when needed.

73% of Agile IA Functions change course and evaluate risk at the speed required by the business (vs. 37% of peers)

44% of Agile IA Functions have increased investment in data analytics for risk assessment and continuous auditing (vs. 28% of peer)

74% of Agile IA Functions redirect or recorgnise resources as needed to help the organisation manage or respond to disruption (vs. 40% of peers)

Source: 2017 State of the Internal Audit Profession Study

In summary, the enabling activities for an Agile IA function can be summarized as follows:

Prepared: Agile IA Function enabling activities
- Maintains an Internal Audit Strategic Plan
- Clearly links risk to business objectives
- Assesses risk more frequently
- Leverages consistent risk terms and definitions as other risk and compliance functions
- Meets regularly with other risk and compliance functions

and promotes unified messaging, understanding of risk drivers
- Leverages industry and professional thought leadership sources and other external partners
- Performs formal skills assessments with a longer-term view of needs and actionable development plans
- Defines and tracks learning roadmaps and continuing education requirements

Adaptive: Agile IA Function enabling activities
- Builds flexibility into project methodology; different types of projects have different procedural expectations
- Incorporates a phased approach to developing test programs where the results of the first round inform focus areas for subsequent rounds
- Performs projects in areas where controls are not yet developed or operating through health checks, maturity or progress assessments
- Uses data to enable activities beyond testing execution including risk insights, root cause identification, and predictive analytics
- Embeds data trending within the planning process to develop a "snapshot" of the area under review and inform specific inquiry and execution
- Creates a talent strategy that includes rotating fresh talent through the program after a specified period.

Suggested actions to take as Stakeholders:
We cannot keep doing things the same way we always have. It is time for us to practice what we preach on our audits. The excuse of "that's the way it's always been done" is no longer valid.

The actions being advocated should be considered by these three main stakeholders; CIAs, Board members and Management.

Chief Internal Auditors (CIA):
- CIAs should be deliberate about building preparedness and adaptability into the departmental DNA.
- Take the time to think more strategically about where you are operating today and what your ideal state is.
- Is your function doing anything different today than it did three years ago?
- Are those differences marginal or more transformative?
- Are you realizing value in those changes?
- Should you rethink how you are measuring your value?
- Is transformation and disruption within your internal audit function required to remain relevant to the business?
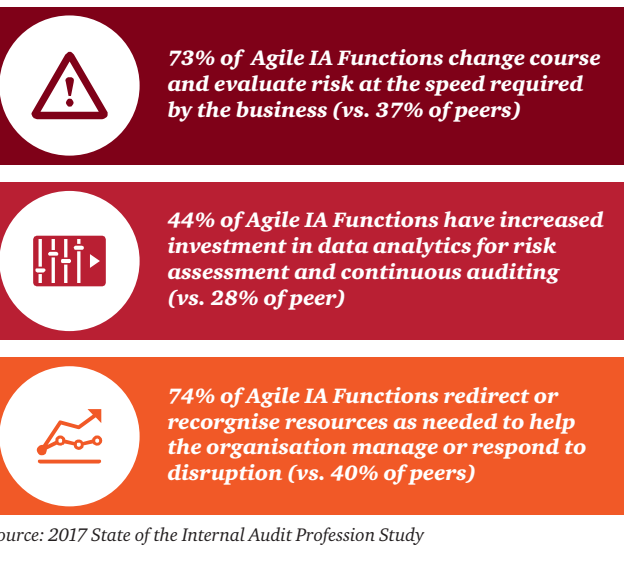
Board Members:
- Focus on your dialogue with management and CIAs to ensure you receive a more complete picture of the organization's response to disruption.
- Understand the categories of internal audit activities being performed—and at what balance—relative to where you believe Internal Audit investment should be focused.

Management:
- Take an active role in increasing Internal Audit's involvement in how the business deals with disruption, including breaking down barriers such as corporate culture.

Work with Internal Audit to understand where they are spending their time and if any of those activities should be moved to the first or second line of defense. Doing so may help accomplish the right balance, freeing up internal audit resources for activities better suited for the third line, while remaining closely aligned with the value drivers of the business.
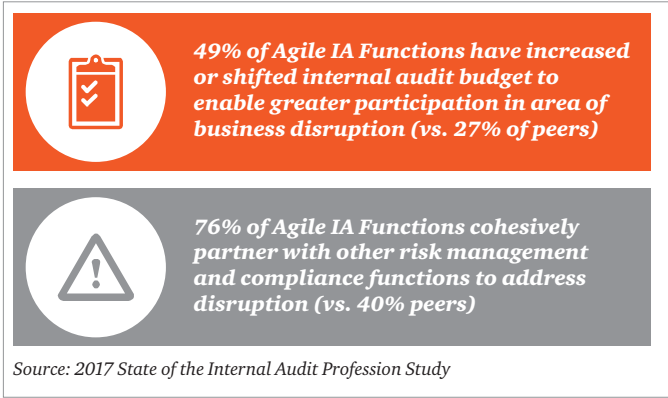

About the author
Femi Osinubi is a partner and the Internal Audit, Data and Analytics Leader at PwC West Africa. His industry and consulting experience spans over 19 years in finance, internal audit, revenue assurance & data and analytics roles with PwC UK and Nigeria, MTN and Vodafone. He can be reached at *enquiry@ng.pwc.com*