

# ***Forward-looking Internal Audit functions are evolving with business transformation***

**Businesses are confronted by rapid change in today's landscape. Changes in customer behaviours, technology and competition are just some of the many disruptors that drive businesses to rethink their value propositions. In face of this, some organisations are undertaking transformative business strategies to confront dynamic market shifts. While such actions present opportunities, it also leaves organisations vulnerable to new and more complex risks.**

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Are functions within the organisation evolving to keep up with rapid transformation and the risks that follow? According to PwC's Global 2015 State of Internal Audit Profession study, internal audit functions that are aligned with the strategic direction of their businesses are operating at the forefront of the most relevant risks. They are also highly valued by their stakeholders.

The global survey found that only 11% of Chief Audit Executives (CAEs) characterize their current internal audit functions as providing value-added services and proactive advice to the business. 60% of CAEs and just over 45% of stakeholders expect internal audit to extend its traditional assurance provider role into a more proactive trusted advisor role within the next five years.

While most internal audit functions have identified the need to add more value, few are exploring how to do this with a purposeful plan. CAEs interviewed in the survey highlighted four areas that enable internal audit to contribute to their organisation's strategic and

## **Focusing on the right risks at the right time**

Internal audit functions considered by stakeholders to be contributing significant value are involved in transformational initiatives up to twice as frequently as their peer functions and are providing a proactive perspective on risk.

Forward-looking internal audit functions provide input on what to consider as the business evaluates a certain path such as a possible acquisition or entry into a new market.

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In ensuring that risks are focused on in a timely manner, CAEs need to be well positioned to provide their perspective. Those with strong support from management and the Audit Committee are typically able to engage in leadership and steering committee meetings and therefore are able to use these opportunities to provide their views on risks early.

### **Develop talent with relevant skills and business acumen**

According to the survey, a talent gap and lack of business acumen are fueling a poor perception of internal audit's relevance and value. 65 percent of stakeholders who do not find value in their internal audit functions cite talent as a top barrier and 70 percent cite business acumen as a top barrier.

As businesses look to the future, internal audit functions need to acquire diverse skill sets to address the most critical risks facing their companies. Increasingly, companies are turning to third parties to close the talent gap, finding it an attractive way to stay up to date with evolving skill needs while remaining lean.

### **Strengthen alignment with enterprise risk management (ERM) and other lines of defense**

Globally, a number of risk frameworks and standards have emerged to help companies address complexities in the risk landscape. These risk management processes, frameworks and language need to be aligned across the three lines of defense for optimal efficiency.

***First line:*** Business functions

***Second line:*** Enterprise Risk Management (ERM) and other risk and compliance oversight functions

***Third line:*** Internal audit

The survey reported that 87% of functions considered by stakeholders to be adding significant value are aligned with their organization's risk management programs versus only 21% of lesser valued functions.

Effective risk management strategies require internal audit, ERM and other lines of defence to develop a common risk framework that is well understood by stakeholders and leverages the work performed across the lines.

### **Harness the power of data**

Advancements in technology are allowing internal audit functions to leverage data that can help respond better to risks, increase efficiency, and enhance monitoring activities. However, according to PwC's study, advances can be made to use data more effectively -

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only 48% use analytics for scoping decisions and 43% use it to drive their risk assessment.

In addition, it highlighted the need for internal audit to expand its use of data analytics across the audit life cycle and leverage more advanced analytics and visualization tools to provide valuable business insights.

In an environment where organisations are undertaking transformative business strategies to stay ahead of the game, high-performing internal audit functions need to evolve to position themselves to take on their company's most relevant risks too. The journey begins with a mind-set shift and as indicated above:

1. A focus on the right risks at the right time,
2. Proactive talent development,
3. Alignment with other lines of defence and
4. Leveraging data throughout the internal audit life cycle

These four key areas enable internal audit to stay focused on being valuable and a relevant contributor to its organisation's strategic and transformational initiatives.

### ***Further reading***

#### **11th Annual State of the Internal Audit Profession Study**

The 2015 issue of the State of the Internal Audit Profession Study talks through how internal audit functions that are aligned with a business' new direction and are operating at the forefront of the companies' most relevant risks, are highly valuable contributors to the organization. The study highlights four key areas that enable internal audit to contribute to their organizations' strategic and transformational initiatives.

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