Avoiding change is not an option
Why the time to transform internal audit is now
There are 5.9 million businesses\(^1\) in corporate America employing 127 million people\(^2\). Estimates predict 40% of jobs\(^3\) could be affected by automation in the next 10 years. The balance of jobs will significantly change in nature, requiring new skill sets.

As technology takes a front seat, here’s what’s happening in the business ecosystem:

- Customers and shareholders are just as focused on trust, integrity and privacy as they have been on quality, relationships and price.
- Employees are embracing new technology tools across the entire spectrum of employee experience from onboarding and teaming, to mentorship and customer relationships.
- Regulators and standard setters are moving into previously unknown territory, such as privacy and operational resiliency, to uncover new and risky behaviors that may affect customers.
- Communities and advocacy groups are both stakeholders and watchdogs, identifying potential issues before they become known to the business.
- Channel partners are an integrally connected extension of the business, leveraging publicly available data to make vendor and channel partner decisions.

All these changes have an impact on risks, and they present new opportunities to innovate and fundamentally change the way internal audit operates at an organization.

Imagine a world which internal audit and other risk management functions stop using traditional approaches to audit or monitor a business area. Taking a sample-sized approach is a thing of the past. Instead they now take advantage of data and digital capabilities to smartly audit process areas uncovering trends and patterns previously humanly impossible to achieve. Imagine that internal audit can effectively answer business’s question, “Can you tell me something I don’t know?”

---

2\(^3\) Consumer spending prospects and the impact of automation on jobs, PwC 2017 https://www.pwc.co.uk/services/economics-policy/insights/uk-economic-outlook/march-2017.html
When nothing in the internal or external environment is status quo, isn’t it time to think differently about internal audit?

Real ways internal audit teams are transforming now:

- By using unsupervised learning in the form of artificial intelligence, one team can detect anomalies and correlations that wouldn’t otherwise be detected.
- Another team identifies high risk transactions with channel partners, real time, to fundamentally change the scope and approach of the audit.
- A third team is so in sync with business strategy that it used data-enabled auditing to free up approximately 40% of its annual budget to respond to risks associated with a new service launch.
- Another internal audit team has created risk indicators and data analysis tools now used by other lines of defense for continuous monitoring of controls.
- And, another hosts digital upskilling sessions to ensure teams can adjust to the changing technology and risk landscape.

With powerful data and technology in hand, internal audit can understand a greater array of business risks and provide assurance that those risks are managed and mastered. A transformed internal audit function has the ability to:

- Identify blind spots, previously humanly impossible.
- Uncover human behavioral patterns through machine learning and regression.
- Conduct audits with surgical precision.
- Provide greater coverage without increasing audit resources.
- Collaborate with other lines of defense to create a consolidated view of risks and use a common risk language.
- Influence the strengthening of first- and second-line defenses through digital collaboration and continuous monitoring.
What does a transformed internal audit function look like?

Every stage of the internal audit lifecycle is impacted. Internal audit is evolving both operationally and strategically by:

- Moving away from point-in-time assessments and toward **continuous risk sensing** using external and internal data for risk identification and monitoring
- Building a more **flexible operating model** with intentional and continuous collaboration across risk functions and leverage across the three lines of defense
- Shifting from a one-size-fits-all audit plan approach to expanding the **audit spectrum**—diversifying the nature of audit activities, including issues-based reviews, audit insight workshops and more
- Changing execution from a traditional sample and controls focus, to **higher precision audits** that leverage technology such as neural networks and AI to test 100% of the populations
- And, through data and **behavioral science**, identifying underlying behavioral patterns and root causes and uncovering the blind spots.
How does a transformed internal audit function work with other lines of defense?

Internal audit’s stakeholder group has expanded and expectations are heightened. Change is fast and risks are complex and interconnected. As it transforms, internal audit can collaborate with first- and second-line functions in data-driven ways not previously possible, and in doing so, reduce the likelihood of blind spots or significant issues materializing.

The three lines of defense can identify common sources of data and can synergize data retrieval and analysis, so that each group is working efficiently and developing insights from a common foundation. And, internal audit can share analytics and other tools that can become real-time monitoring capabilities for the first and second line of defense. There are many opportunities. And with an eye on the organization’s broader risk capabilities, internal audit can become a catalyst for achieving deeper levels of insight and providing more-effective assurance for the management team.

## How to get started?

Internal audit has an opportunity to re-envision the impact it can make for the organization and reframe the approach it takes to add value and keep pace with business change. Some areas to consider before starting your journey:

| **Assemble** a strong team that’s ready and excited to get started on your journey |
| **Discover new** capabilities and ideas for internal audit to drive value like never before |
| **Choose ideas** that would drive immediate impact with limited/no additional budget |
| **Explore alternative models** for sourcing talent and technology—run some pilots |
| **Socialize and celebrate** your successes. Every small win builds momentum! |
| **Develop a roadmap** for people-led, data-driven transformation |
What does the NextGen internal auditor look like?

Digital upskilling is at the heart of internal audit’s transformation. It’s a new world that requires internal audit acumen, digital and data acumen as well as business acumen. Internal audit needs people who know how to use technology effectively and who have the knowledge to audit business operations that use new technologies. Not all auditors need to be data scientists, but they do need to understand data sources to be able to assess data quality and to know what insights can be drawn from data. Teams also need a high degree of business acumen to facilitate better conversations with business leaders and help identify where risks lie.

Digital upskilling is a journey on which no one has to be left behind. But, it might require a different approach than traditional training. Start the shift to tech adoption, mass automation and a culture of innovation through a new way of learning:

- Launch online learning assets that go deeper on skill needs
- Reward learners with badges or certifications to get everyone excited
- Build digital black belts on the critical skills you need

- Create an environment and process for the best ideas to prevail
- Push curiosity by presenting a next round of topics
- And, continue to advance and accelerate

Today’s workforce wants to stay relevant. Answer that need.

NextGen IA professional profile

<table>
<thead>
<tr>
<th>Internal audit acumen</th>
<th>Business acumen</th>
<th>Digital and data acumen</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Deep auditing skills</td>
<td>• Industry knowledge</td>
<td>• Understanding of data sources, data quality, insights, and analytics capabilities</td>
</tr>
<tr>
<td>• Professional skepticism focused on business value</td>
<td>• Deep regulatory and compliance knowledge</td>
<td>• Knowledge of ERP, Cybersecurity, Cloud, and as automations</td>
</tr>
</tbody>
</table>
It’s time to think differently

Every internal audit function can move forward in the transformation journey. Some may go all in with a full transformation, while others may adopt a more iterative approach depending on industry regulations, the complexity and needs of their business, and how quickly the larger enterprise is changing.

In all cases, transformation takes time and should be guided by a formal transformation plan and road map that provides direction, purpose, and key tangible building blocks.

The bottom line: For the internal audit function, avoiding change is not an option. Transforming itself is not only what the business needs, it’s crucial to the function’s contribution to the enterprise, not to mention its continuing relevance to the business.
Contact us

To have a deeper conversation about how to transform your internal audit function, please contact:

**Mike Maali**
Internal Audit, Compliance & Risk Management Solutions Leader
mike.maali@pwc.com

**Dhiraj Malhotra**
Internal Audit, Compliance & Risk Management Solutions Principal
dhiraj.malhotra@pwc.com

**Lauren Massey**
Internal Audit, Compliance & Risk Management Solutions Principal
lauren.massey@pwc.com

**Jason Meneses**
Internal Audit, Compliance & Risk Management Solutions Manager
jason.a.meneses@pwc.com