When is what’s working worth changing?

How internal audit can build trust through transformation.
Converging forces shifting the way internal audit responds to risk

Internal audit (IA) functions have been "transforming" for the past 20 years. However, many internal auditors still audit substantially the same way they have in the past. Converging forces will challenge the efficacy and relevance of internal audit. By designing the disruption and preparing for change, internal audit can join the business in the future state journey.
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Disruptive technologies
Innovation and rapid development of technology have enabled companies to move from traditional execution to digital processes and business models to create new markets and products. IA has the unique and challenging opportunity to not only embed technology into the process, but leverage what the organization is doing to provide leadership with insightful assurance.

Pace of change to the business
As the pace of change is growing, processes and systems have become more complex and sometimes disintegrated. More data is being generated which presents internal audit with the challenge, but also the opportunity, to focus on the best way to consume and provide new and valuable observations.

Changing regulatory environment
Recently, sweeping changes in regulation and increasing uncertainty in the geopolitical environment have highlighted the need for an organization to have a focused and responsive control environment. IA must also understand the new risks and impacts that evolving regulations present.

Market disruptions
Regardless of industry or sector, the market is changing. Megatrends such as digital are quickly demonstrating that organizations cannot survive with their traditional “business as usual” approach. IA should understand these outside risks and provide management with the risk lens they need to make decisions impacting the organization.

Workforce of the future
New skills and roles are required to operate emerging technologies and understand digitalized processes and business models. Changing workforce dynamics will require IA to develop a more flexible, adaptive and collaborative work environment.

Globalization
Organizations are looking beyond borders to expand into new markets and tap into new networks of talent and sourcing. IA must also think globally and understand the risk profiles of different regions to help the business plan. Technologies will enable functions to gather data, understand transactions, and assess risks with a global lens.
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By blurring the lines between people and technology, IA functions can optimize the operating model and create a dynamic audit approach that allows a quicker response to risk and deeper insights into the risks that might matter the most to leadership. Organizations must rely on trust to be successful, and IA can help build that brand of trust by helping management respond to risks faster and with better information. Transformation is key to improving how IA provides assurance on the downside risks that are preventable, insight into the upside risks that management should be exploring, and foresight into the outside risks that are on the horizon. Throughout the phases of the transformation journey, both processes and technology should be challenged concurrently to design a disruption that makes sense for the environment.

Transformation is made up of individual adjustments to behavior coupled with advances in technology and can be small and targeted, large and strategic, or both.

**Internal audit future state vision**

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Starting the transformation journey

What is the internal audit transformation journey look like?

Starting the transformation journey

While the definition of the future will only continue to evolve as new technologies emerge, many are beginning their journey to get ahead of the disruption and remain relevant to their organization. No two transformations will be the same, and now, more than ever, organizational alignment should be at the heart of each decision.

Creating the plan

Define your purpose and communicate that with the organization

Build a well-defined transformation road map

Evaluate technology in each phase of the IA life cycle

Concentrate on future ways of working and changing talent needs as a result of the transformation

Encourage team members to innovate and be part of the change – be disruptive!

IA transformation can be broken down into three phases. Throughout each phase, management should be focusing on the following:

1. Understand the current state

   Identify

   Understand the current state through maturity or functional performance assessment

   Analyze megatrends and disruptive, rapid changes to the risk environment

   Evaluate the IA mandate and align on value drivers

2. Define the future state

   Develop

   Brainstorm solutions and explore their potential

   Apply

   Choose the way forward

   Transformation teams can leverage several approaches to brainstorming. Also engage with industry experts and digital subject-matter resources to explore the “art of the possible” and identify leading practices. Each team should consider:

   Mandate and purpose development

   Operating model with a clear vision for people and technology

   Technology landscape

   Talent development

   At this point, decisions must be made to determine the future state road map. That road map should have a clear definition of technology, solutions to talent needs, and an operating model that is dynamic and data-driven.

3. Activate the transformation journey

   Deploy

   Deploy a new IA organization model

   Deployment of the new methodology and implementation of the future state road map requires strong governance backed by the chief audit executive or head of IA. Successes that have been realized can be communicated during steering committee meetings, audit committee and other informal terminals to gain business support and recognize teams for their progress.

What is the internal audit transformation journey look like?
The operating model defines how we work and execute the audit plan as well as the resourcing model that will be employed; it is driven by the internal audit mandate. The mandate will be determined by your individual business needs, but challenging your mandate to obtain the right mix of assurances is imperative to the department’s effectiveness. The operating model of the future looks outside the walls of IA and takes into consideration the other risk functions, identifies what would best address business needs and the current risk profile of the organization, and defines key performance indicators that focus on delivering value.

Key questions to consider
- How do the three lines of defense currently operate?
- What is the appetite of the business to coordinate?
- What is the current state and, based on the mandate, where does the function want to be?
- How will we report on our accomplishments and communicate successes or risks?

Transformation considerations
- Consider the population of dynamic outputs that report on more of a real-time basis to meet the needs of different stakeholders
- Define what technologies can be leveraged to drive efficiencies and help the function focus on risk identification
- Co-develop a structure that aligns to the organization and business unit strategies
- Establish future targets and metrics to track progress
- Define a program that purposefully aligns resources
- Identify ways to run IA like a business

Disrupting IA by design

Operating model

There are three core components of talent development that IA should define during their transformation:

Learning
The development of tailored, structured formal learning curriculums to develop soft and technical skills within internal audit employees.

Coaching
Meaningful conversations that help develop new skills and insights and transform learning and experiences into practice.

Structured experiences
Planned activities that help develop the skills and knowledge that are critical to auditor development. Most individual development comes from everyday experiences.

Transforming the people and talent development model

Identify the IA function levels for which talent development plans will be developed
- For each level, develop learning maps, coaching opportunities, and structured experiences
- Develop key performance indicators to measure the effectiveness of the talent development plan
- Continuously assess and update your talent development plan for effectiveness and keeping pace with organizational change
Disrupting IA by design
People

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Disrupting IA by design

Key questions to consider

- Why is cultural change essential for IA?
- What is culture? What is the IA culture in your organization?
- How can audit leaders create a more innovative culture?
- How do you redefine the role of IA in your organization?
- How is your workforce changing, and how is it impacting the needs of the business?

Transformation considerations

- Make the most of existing resources and hires
- Consider implementation of shared services and tools to support standardization
- Analyze existing people models for gaps and opportunities
- Ensure alignment of people strategies with transformational objectives

What is your mandate?

- Assurance-focused IA
  - An assurance-focused team is devoted to providing assurance through effective testing and risk-based assurance services. This approach prioritizes the identification, evaluation, and communication of risks and controls that impact the organization's objectives.

- Blend of assurance/advisory
  - A blend of assurance and advisory services combines traditional assurance activities with advisory services, which include risk assessment, risk management, and process improvement initiatives. This approach focuses on providing insights and recommendations to management to help them make informed decisions.

- Advisory-focused IA
  - An advisory-focused team takes a proactive approach to risk management, providing strategic advice and counsel to management on areas such as governance, risk, and compliance. The focus is on advising and assisting management in identifying and mitigating risks to achieve the organization's goals.
Disrupting IA by design

Key questions to consider

- How can technology better enable the function (e.g., replace repetitive tasks, increase coverage, drive insights)?
- What is the organization's digital strategy?
- Where should the innovation be focused?
- What data is available in the current IT landscape?

Transformation considerations

- Define objectives and user requirements for risk assessment and the entire IA life cycle
- Understand the technology platforms that are being used by the business today
- Identify the technology that will be implemented over the next year
- Define technology development thresholds, data requirements and how data will be accessed
- Capture and consume industry benchmarks and appetite
- Analyze the overall feasibility and any budget restrictions that could impact the transformation
- Develop a plan that considers quick wins, mid-term, and long-term implementation plans that include future investments

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