

Re-imagining Internal Audit

Making sense of disruption for Internal Audit

Introducing the IA Megatrends



The PwC Megatrends: Five global shifts changing the way we live and do business

Rapid urbanisation



Today, more than half the world's population live in urban areas and almost all of the new growth will take place in lesser known medium-sized cities of developing countries.

Climate change and resource scarcity



As the world becomes more populous, urbanised and prosperous, demand for energy, food and water will rise. But the Earth has a finite amount of natural resources to satisfy this demand.

Shift in global economic power



Some emerging economies that were growing rapidly are now in recession. Commodity prices have played a considerable role in sending these economies into reverse.

Demographic and social change



By 2030 the world's population is projected to rise by more than 1 billion. Equally significantly, people are living longer and having fewer children.

Technological breakthroughs



The digital revolution has no boundaries or borders. It is changing behaviour and expectations as much as the tools used to deliver new services and experiences.



Making sense of disruption for Internal Audit

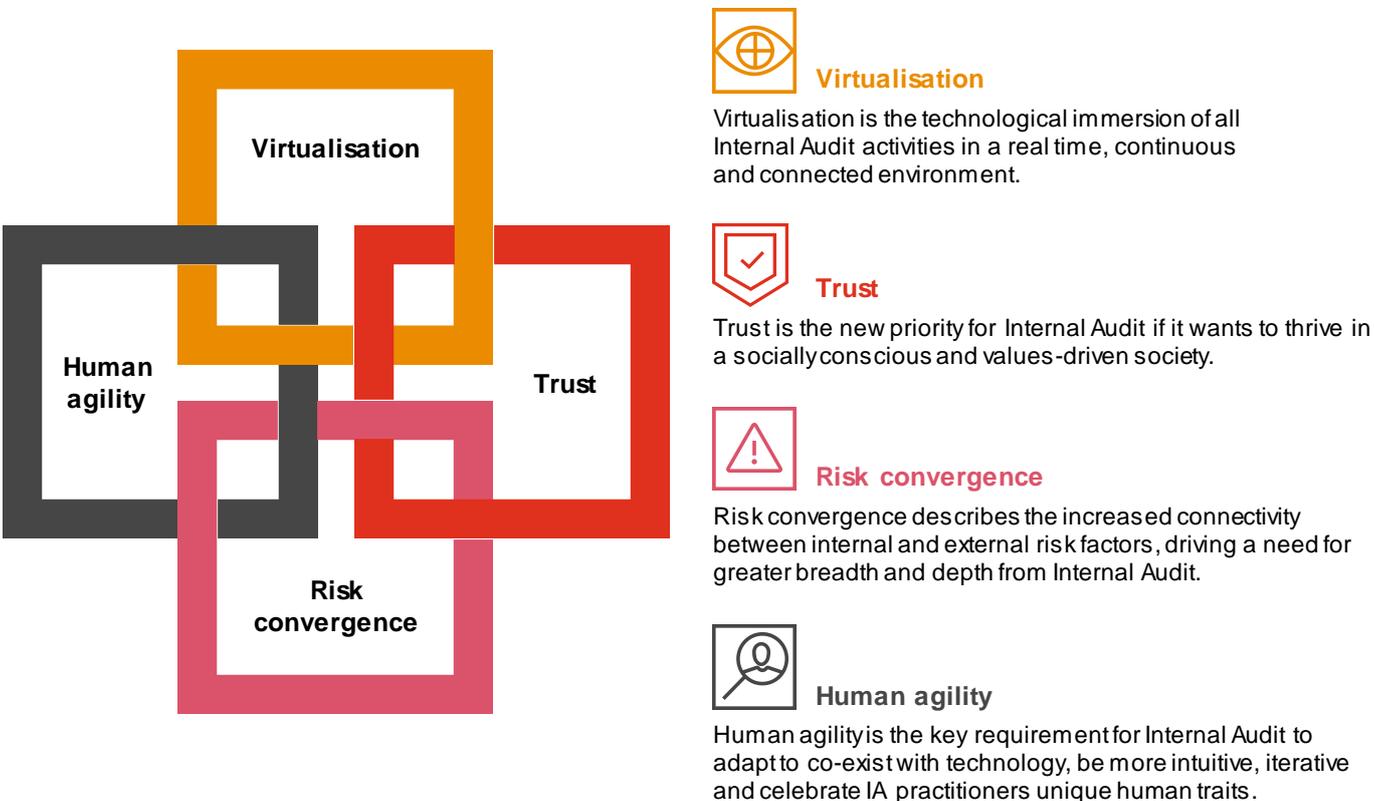
The global megatrends are transforming our world. All around we can see this in the form of demographic change, disruptive technology and global power shifts that are reshaping societies, economies and organisations. Business leaders face the daily challenge of how best to adapt to the changing world around them, act decisively to stay ahead and innovate to make the most of the new technologies now at their fingertips.

Internal Audit leaders are no exception. Their functions are equally vulnerable to these disruptive forces. They can find it difficult to assess the impact of global megatrends on their function and in turn how they need to adapt in order to provide effective support to their organisation.

In fact, Internal Audit has its own set of significant, sustained and irrefutable forces which we have observed as a result of our extensive work with Internal Audit functions, spanning every size and type of organisation across every sector and every geography.

The Internal Audit megatrends, or 'IA Megas' as we have affectionately termed them, are forces which Internal Audit leaders and practitioners need to understand and respond to. Defining them will, we believe, help to cut through the multitude of current and emerging influences impacting Internal Audit in order to create a clear path for action.

Introducing the IA Megas:





Virtualisation

Virtualisation is the technological immersion of all Internal Audit activities in a real time, continuous and connected environment.

What is the trend and why has it come about?

Technologies are now more commercially accessible with more functionality than ever before. This is driving endless possibilities for diverse teams, in multiple locations and different time zones who can connect in real-time, multi-media formats in an unprecedented way. Combining this with socially responsible travel means the virtual IA function is not just achievable but desirable. Internal Audit functions are now immersed in a virtual world with technology impacting all aspects of the IA lifecycle from Risk Assessment to Action tracking. This means that fieldwork can be done remotely, actions can be workflowed, risk themes can be enriched with external data and IA functions can embrace agile.

How will it impact IA?

The future IA involves virtual and globalised teams, interacting in real-time, utilising continuous and dynamic risk assessments, drawing on real time and broader sources of information (in both structured and unstructured formats), predicting risk exposures and responding with agile actionable plans, collaborating directly with stakeholders and auditees, resulting in iterative and dynamic feedback cycles with high speed agreed, management actions.

No longer will auditees be kept at arms-length. Technology will allow them access to and transparency around activities and facilitate self-service as well drive greater trust and confidence in IA. While all this is positive, there is a cautionary tale around ensuring security underpins all technological advances.

How to future-proof IA: Practical steps



Work out what technology you have available already – Not just in IA.



Assess the digital fitness of the IA team.



Develop a realistic technology and data investment strategy.



Refresh your operating model to take advantage of this trend e.g. virtual fieldwork and data analytics in advance of fieldwork to provide areas of focus.



Adopt a 'digital first' mindset when planning the audit execution.



Trust

Trust is the new priority for Internal Audit if it wants to thrive in a socially conscious and values-driven society.

What is the trend and why has it come about?

The link between trust and performance is more important than ever. Stakeholders are holding organisations to account on the basis of trust and transparency and the consequences of ignoring this are to be found in all the major tabloids. This has come about largely through the generational shift which demands more socially conscious activities, greater desire for mobility, and by default drives a less loyal employee/customer culture. This means that organisations have to take seriously, plan for, monitor and report their trust rating as part of their everyday activities.

How will it impact IA?

In an increasingly complex world, there needs to be more trust and transparency. Organisations need to rely on people acting and making decisions in the right way – i.e. having the right behaviours. In order to remain relevant, Internal Audit needs to align its trust objectives and values to that of the organisation. With increased surveillance, IA have unprecedented access to valuable insights around risk and behaviours and on the other hand, they have the ethical challenge of deciding what is an acceptable use case for this new source of data and a drive for discretion in its use. IA needs to have an articulated set of values which embrace being yourself at work, doing the right thing, putting yourself in others' shoes, joint working, embracing diversity and respecting privacy.

How to future-proof IA: Practical steps



Develop an IA values and behaviours statement complementary and aligned to your organisation.



Ensure that all IA recruitment, promotion and development activities look for, have or develop attributes which are aligned to the values.



Create or enhance the IA annual report to ensure that trust and transparency measures are clearly monitored and reported on.



Champion trust and transparency throughout the business.



Risk convergence

Risk convergence describes the increased connectivity between internal and external risk factors, driving a need for greater breadth and depth from Internal Audit.

What is the trend and why has it come about?

Global megatrends have a much greater dominance on the risk horizon of organisations than ever before, forcing Internal Audit functions to look outside their traditional organisational boundaries. Macro risks have moved from being benign irritants to malignant forces because of the hyper-connectivity of organisations, communities and people. Setting the parameters of tolerable risk and agreeing your risk attitude has become a much more complex endeavour because of the need to consider megatrends, global and local, as well as reflect the implications of operating in a values-driven society.

How will it impact IA?

Internal Audit needs to be broad and deep and respectful of the connectivity points between internal and external risk factors. This provides an opportunity to step away from sampling and narrow deep dives and move towards full populations, continuous auditing, trend-based auditing and external benchmarking with a focus on the outcomes of IA activities rather than the outputs. Internal Audit must be able to rapidly understand and assess the complex correlations between external and internal factors and the impact of these on risk tolerances. Internal Audit is uniquely positioned to stand back and consider whether the first and second line of defence are acting in the optimal way to respond to these risks to ensure the organisation's sustainable success.

How to future-proof IA: Practical steps



Identify both external and internal sources of risk insight.



Refresh your risk assessment framework to consider a broader range of insights.



Utilitise guest auditors or co-source insights into risk from providers, secondees and subject matter experts.



Maximise technology to help gather and aggregate risk, for example, using Dynamic Risk Assessment principles which predict areas of risk based on historical trends.



Build and use audit approaches that focus on outcomes not outputs; for example, applying our Total Impact of Internal Audit mindset.



Human agility

Human agility is the key requirement for IA to adapt to the co-existence with technology, be more intuitive, iterative and celebrate their unique human traits.

What is the trend and why has it come about?

With technology reshaping the world, the ability to combine leading technology with human insight will be a key differentiator. The balance of what humans do will change. People will need to do more thinking, creating, challenging, opining, influencing, acting or deciding not to act, and connecting.

How will it impact IA?

By default, this will drive new stakeholders, new operating models and a different relationship with technology. In addition, auditors will need to audit new areas which have not previously been reviewed and this, in turn, will require new skills and capabilities. Greenfield auditing and one-off audits will be common practice further requiring both resilience and agility. With the greenfield nature of future audits, there is an opportunity to rethink the audit approach and move to intuitive auditing where there are no work programmes or prescriptive practices but rather agile scrums, iterative findings development and collaborative reporting underpinned by a rigorous but flexible framework. Relationships with the business built on trust and empathy will be essential for internal auditors to effectively influence and affect change.

How to future-proof IA: Practical steps



Develop a clear vision of human-led IA activities as distinct from technology-led auditing e.g. Intelligent Controls methodology.



Invest in developing training and a culture of celebrating and strengthening human traits e.g. creativity, influencing etc.



Identify, log and baseline the mundane activities which have been automated to keep the focus on how technology can help.



Put away existing audit programmes and build your audit plans and scopes iteratively as you progress through the audit.

Conclusion

With so many unknowns and such a degree of volatility and complexity in every dimension, defining a strategic response to incoming disruptors can feel like an uphill struggle. Nonetheless Internal Audit must respond and in doing so be ready to stretch its horizons, adapt, innovate and transform. Virtualisation, Trust, Risk Convergence and Human Agility are all potential game-changers for business and Internal Audit needs to be relevant to survive.

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Share your views on the IA Megas:

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