Evolution or irrelevance?
Internal Audit at a crossroads

Canadian perspectives from Deloitte’s
Global Chief Audit Executive Survey

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The Internal Audit function has a pivotal role to play in today’s increasingly complex business climate – but realizing this potential will require deliberate and concentrated effort from all organizational stakeholders.

The change imperative
Organizations are evolving to boost performance, address disruptors, and stay competitive. Internal Audit functions need to understand the changes their organizations are undergoing and how to respond in ways that support stakeholders.

79 percent of Canadian CAEs believe their audit committees will require Internal Audit to evolve over the next three to five years.

93 percent of Canadian CAEs expect their organizations will require moderate to significant change to enable their success over the next three to five years.

86 percent of Canadian CAEs believe that management will require Internal Audit to evolve over the next three to five years.

Furthermore, Canadian CAEs believe that their audit committees and management will expect Internal Audit to match that evolution if the function is to remain relevant.

Given the widespread expectations of change, Internal Audit must respond proactively. Misjudgments – or failure to take action – can exact painful costs in decreased effectiveness, relevance, and influence.
Build influence and impact
Only a minority of Canadian CAEs believe they have the ability to exert strong influence over the board of directors, executive team, and other key personnel to make a significant impact within their organizations. Some even believe they have little to no influence or impact. Yet Canadian CAEs also believe, correctly, that it will be important to have both in the years ahead.

63 percent of Canadian CAEs feel they only have partial or even no impact and influence within their organizations.

97 percent of Canadian CAEs believe they will need to build influence within their organizations.

Only Internal Audit possesses the objectivity, independence, rigour, and enterprise-wide view needed to help stakeholders understand and address today’s most pressing challenges. Yet, if nearly 63 percent of Canadian CAEs feel they lack strong impact and influence within their organizations, the change imperative is crystal clear.

Strengthen the skillset
When nearly 60 percent of Canadian CAEs are only somewhat satisfied, less than satisfied, or not satisfied with their functions’ capabilities, not only is there ample room for improvement but there’s also an urgent need. A deficit in skills and expertise undoubtedly affects Internal Audit’s ability to meet current organizational needs and future needs alike. The situation may call for more than moderate change.

More than 60 percent of Canadian CAEs expect to increase the proportion of advisory services their groups deliver. Emphasizing advisory services can increase the Internal Audit functions’ impact and influence.

Internal Audit needs to strengthen its skillset if it is to increase its impact and influence within the organization. Canadian CAEs are clearly aware of this: Relatively few are fully satisfied that their groups have the skills and expertise to deliver on stakeholders’ expectations.

Changes are already underway as organizations call for a strong role on the part of Internal Audit.
Address critical skills gaps
A look at identified skills gaps helps to explain why Canadian CAEs are not satisfied with their groups’ capabilities – and perhaps why those groups lack impact and influence.

Proficiency in IT, analytics, model risk, and operations will enable Internal Audit to respond to key risks in their organizations. These skills go beyond financial control audits, so it’s natural that gaps will exist. However, given the intended course of change, proficiency will need to be boosted.

The five largest skills gaps that will need to be addressed over the next three to five years

<table>
<thead>
<tr>
<th>Skill Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data analytics</td>
<td>48%</td>
</tr>
<tr>
<td>Specialized IT</td>
<td>40%</td>
</tr>
<tr>
<td>Innovation</td>
<td>35%</td>
</tr>
<tr>
<td>Model risk</td>
<td>26%</td>
</tr>
<tr>
<td>Change management</td>
<td>21%</td>
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</tbody>
</table>

Time to embrace analytics
Analytics enables Internal Audit to identify high-priority areas of focus, conduct audit activities more efficiently, develop deeper insights, and communicate results through visualization tools.

Although 93 percent of surveyed Canadian Internal Audit functions presently have analytics capabilities, only 35 percent of these functions are considered to be at an intermediate or advanced level.

Current Internal Audit analytics capabilities

<table>
<thead>
<tr>
<th>Capability Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced – standard methods and training, using advanced tools and analytics techniques</td>
<td>5%</td>
</tr>
<tr>
<td>Intermediate – some standardization of methods, some repeatable analytics</td>
<td>30%</td>
</tr>
<tr>
<td>Basic – ad hoc analytics with limited repeatable solutions, basic tools (e.g., spreadsheet, etc.)</td>
<td>58%</td>
</tr>
<tr>
<td>No analytics capabilities</td>
<td>6%</td>
</tr>
</tbody>
</table>

The real analytics opportunity
By having access to all data within the organization, Internal Audit is uniquely positioned to analyze multiple data sets to identify trends, relationships, and anomalies that no other function in the organization can identify.

Combining data from inside and outside the organization can add richness to stakeholders’ understanding of risk. While using analytics to deliver audits more efficiently is important, Internal Audit should also capitalize on its unique position and abilities to deliver more insightful views of business issues and risks.

Current analytics deployment

<table>
<thead>
<tr>
<th>Activity Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>As part of the annual audit planning process</td>
<td>32%</td>
</tr>
<tr>
<td>As part of audit scoping</td>
<td>55%</td>
</tr>
<tr>
<td>During fieldwork</td>
<td>84%</td>
</tr>
<tr>
<td>To develop reporting</td>
<td>18%</td>
</tr>
<tr>
<td>For continuous risk assessment</td>
<td>12%</td>
</tr>
<tr>
<td>For continuous auditing</td>
<td>24%</td>
</tr>
<tr>
<td>Other Internal Audit does not currently use analytics</td>
<td>5%</td>
</tr>
<tr>
<td>Internal Audit does not currently use analytics</td>
<td>6%</td>
</tr>
</tbody>
</table>

Current use of analytics by the Internal Audit function

<table>
<thead>
<tr>
<th>Use Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>In all of our internal audits</td>
<td>11%</td>
</tr>
<tr>
<td>In at least 75%, but not all, of our internal audits</td>
<td>9%</td>
</tr>
<tr>
<td>In 50-74% of our internal audits</td>
<td>11%</td>
</tr>
<tr>
<td>In 25-49% of our internal audits</td>
<td>28%</td>
</tr>
<tr>
<td>In 1-24% of our internal audits</td>
<td>31%</td>
</tr>
<tr>
<td>We do not use analytics in internal audit</td>
<td>6%</td>
</tr>
<tr>
<td>Not sure</td>
<td>3%</td>
</tr>
</tbody>
</table>

Expected use of analytics by the Internal Audit function over the next three to five years

<table>
<thead>
<tr>
<th>Use Description</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>In all of our internal audits</td>
<td>16%</td>
</tr>
<tr>
<td>In at least 75%, but not all, of our internal audits</td>
<td>24%</td>
</tr>
<tr>
<td>In 50-74% of our internal audits</td>
<td>29%</td>
</tr>
<tr>
<td>In 25-49% of our internal audits</td>
<td>11%</td>
</tr>
<tr>
<td>In 1-24% of our internal audits</td>
<td>8%</td>
</tr>
<tr>
<td>We do not use analytics in internal audit</td>
<td>1%</td>
</tr>
<tr>
<td>Not sure</td>
<td>10%</td>
</tr>
</tbody>
</table>
Use innovative resourcing models

The top five barriers preventing Canadian Internal Audit functions from implementing analytics within audits

- Availability of skilled talent: 63%
- Availability of internal data: 44%
- Manual nature of extracting, processing, and analyzing data: 43%
- Quality of data: 43%
- Not enough time / headcount: 43%

How Internal Audit analytics capabilities are being developed

- Training existing in-house staff: 69%
- Leveraging co-source partners: 41%
- Hiring skilled professionals: 29%
- Acquiring licenses or other means to increase availability of analytics tools: 27%
- Outsourcing: 9%
- Not sure: 9%
- Other: 6%
- We do not plan to establish or grow our analytics capabilities: 4%

Models used to address resourcing needs over the next three to five years

- We expect to use external service providers in a co-source arrangement: 40%
- We do not expect to have a formal co-source arrangement, but do expect to use external resources from time to time as needed: 33%
- We expect to have a "guest auditor" program in place to use resources from the organization as needed to conduct specific audits: 31%
- We expect to have a formal rotation program in place within the organization to rotate internal auditors in and out of the function: 23%
- We expect to use external service providers in an outsource arrangement: 17%

Deloitte has found that Internal Audit groups that work with the available data can overcome these data challenges and start deriving true benefits.

To acquire analytics capabilities, a relatively high percentage of Canadian CAEs plan to train existing staff (69 percent) and/or hire new skilled professionals (29 percent), which may reflect a desire to develop talent specific to the industry and organization.

However, alternative staffing models, such as outsourcing or co-sourcing (which are often done for information technology audits), can support more generalist activities like data extraction, data management, and visualization.

Better use of alternative staffing models, when properly planned and implemented, can do much to help Internal Audit address skills gaps, acquire expertise, and gain influence and impact within the organization.

Innovate

If you’re not moving forward, you’re moving backward. Canadian CAEs identified risk anticipation as the innovative development they expect to most impact their functions in the next few years. That’s not surprising.

When a risk event, financial loss, or case of fraud arises, it’s natural for stakeholders to ask: “Where was Internal Audit?”

In citing risk anticipation, data and predictive analytics, visualization, and cognitive technologies as the innovations most likely to affect Internal Audit, Canadian CAEs signal their understanding that stakeholders expect them to provide foresight. Those stakeholders want Internal Audit to use predictive and sensing tools as well as other emerging technologies to gauge the likelihood of the success or failure of an initiative, and to identify ways to increase the chances of success.

To make changes in its approaches and activities, Internal Audit will need to embrace an innovative mindset.

No innovation expected

Transformation digital
Increasing size of the talent pool
Shared IA service
Strengthening the bench and succession planning
Ability to audit news domains (eg. Quality of Services)
Cognitive technologies
Collaborative assurance provision in partnership with management
Data analytics
Culture more specialization
Strategic auditing and business impact
Predictive analytics
Review of Agile Programs

New talent models
Improving the position of Internal Audit so that it is recognized as a developer of risk management talents for the entire organization
Predictive analytics
Synergy and integration
Expanding assurance activities to HSEC space
Strategic co-sourcing
Deep subject matter specialists
Visualization
Key takeaways

Deloitte’s research points to a path forward. The following steps are most critical:

1. Seek ways to increase impact and influence
   This can be achieved by enhancing the value Internal Audit delivers to stakeholders. That calls for learning about the changes, issues, disruptors, and risks that keep stakeholders awake at night – then develop ways to help address these issues more effectively.

2. Embed analytics into Internal Audit activities
   Analytics holds great potential to transform Internal Audit. The cost and complexity of analytical tools have fallen while their value to Internal Audit has risen. From audit scoping and planning to risk assessment and insight generation, analytics enables Internal Audit to do more, and then to communicate the results visually and interactively.

3. Streamline and visualize communications and reports
   Stakeholders want information and insights in forms and formats that fulfill their needs. With simple visualization tools, Internal Audit can highlight the anomalies, risks, and issues that stakeholders care about most.

4. Assess and address talent and skills gaps
   Targeted resources may be available through guest auditor and rotation programs, co-sourcing, outsourcing, and other arrangements. Given the complexity of stakeholder needs and risks in areas such as cyber threat management and data governance – and potentially limited budget – it only makes sense to explore such alternatives.

5. Review strategic planning and risk management
   Both areas are forward-looking and can benefit from good doses of objectivity and foresight. Internal Audit should ascertain that processes are sufficiently robust, especially in the context of expected disruption and change.

6. Promote a culture of innovation within the function
   Keep abreast of changes affecting organizations and new techniques being used by leading Internal Audit functions. Expected innovative developments, such as risk anticipation and predictive analytics, should be explored and implemented, if not already in place.

7. Marshal senior-level support
   Work with key stakeholders – the audit committee chair, chief financial officer, and chief executive officer – to support a program of specific changes that will yield benefits.

CAEs have real opportunities to shape the evolution of their functions, organizations, and profession.

Capitalizing on those opportunities calls for taking action.

Now.
For more information about how to evolve your Internal Audit to stay relevant, please contact us:

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[Read Deloitte’s Global Chief Audit Executive Survey report at](www.deloitte.com/globalCAEsurvey)