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Evolution or irrelevance?

Internal Audit at a crossroads

Canadian perspectives from Deloitte's
Global Chief Audit Executive Survey

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CAEs have serious concerns

As revealed in [Deloitte's Global Chief Audit Executive \(CAE\) Survey](#), today's CAEs recognize that new methods, markets, technologies, regulations, and risks are changing the face of the Internal Audit function. But a lack of sufficient organizational support and resources prevents many from taking the steps they need to effectively adapt.

Perspectives from the 99 Canadian Chief Audit Executives who participated in the Deloitte Global CAE Survey were analyzed to better understand the Canadian environment. In this Canadian-centric quick info sheet, we outline Canadian CAEs' concerns and challenges, and offer a number of suggestions for overcoming them.



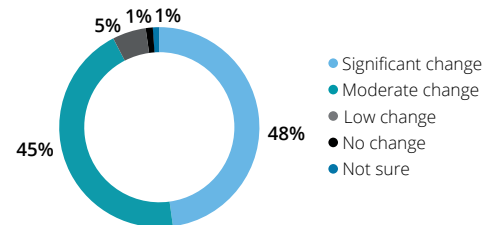
Read Deloitte's Global Chief Audit Executive Survey report at www.deloitte.com/globalCAEsurvey

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.

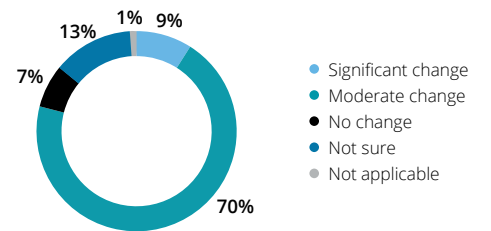
93 percent of Canadian CAEs expect their organizations will require moderate to significant change to enable their success over the next three to five years.



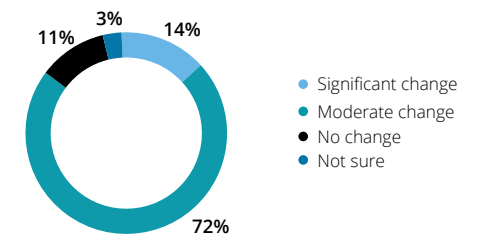
Furthermore, Canadian CAEs believe that their audit committees and management will expect Internal Audit to match that evolution if the function is to remain relevant.

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.

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



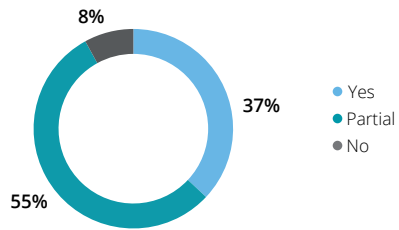
86 percent of Canadian CAEs believe that management will require Internal Audit to evolve over the next three to five years.



Build influence and impact

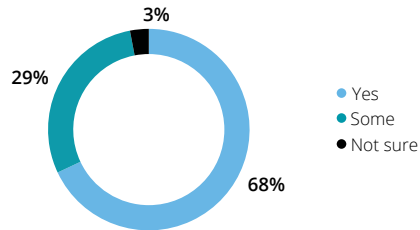
Only a minority of Canadian CAEs believe they have the ability to exert strong influence over the board of directors, executive team, and other key personnel to make a significant impact within their organizations. Some even believe they have little to no influence or impact. Yet Canadian CAEs also believe, 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.



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.

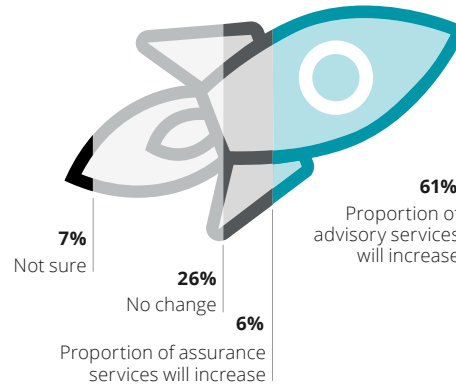
97 percent of Canadian CAEs believe they will need to build influence within their organizations.



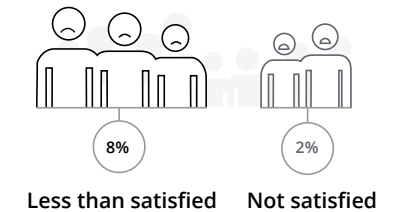
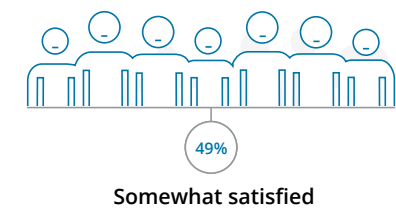
Strengthen the skillset

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.



Current satisfaction with Internal Audit's capabilities



Changes are already underway as organizations call for a strong role on the part of Internal Audit.

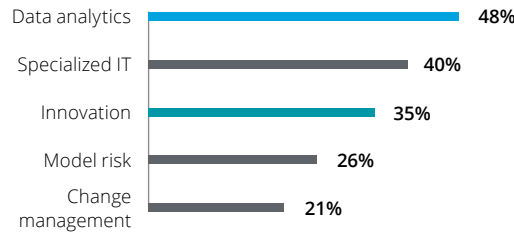
Internal Audit needs to strengthen its skillset if it is to increase its impact and influence within the organization. Canadian CAEs are clearly aware of this: Relatively few are fully satisfied that their groups have the skills and expertise to deliver on stakeholders' expectations.

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

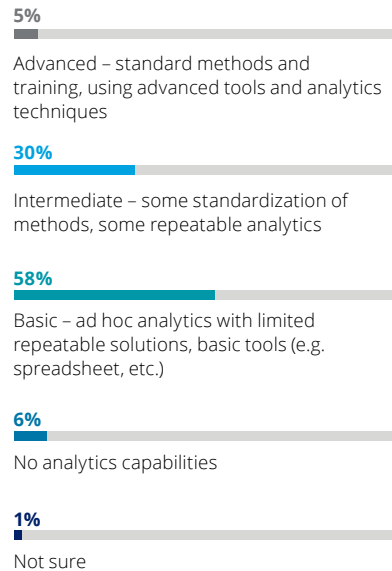


Time to embrace analytics

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



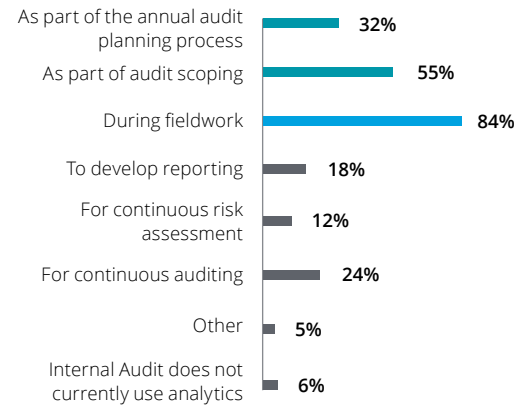
The real analytics opportunity

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.



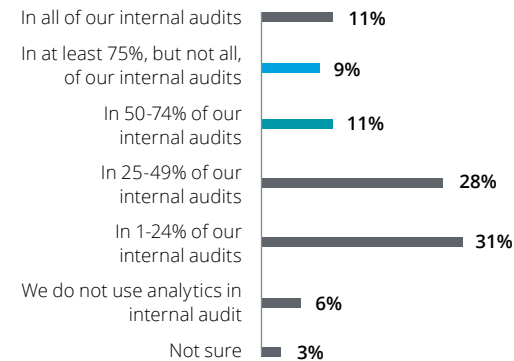
Combining data from inside and outside the organization can add richness to stakeholders' understanding of risk. While using analytics to deliver audits more efficiently is important, Internal Audit should also capitalize on its unique position and abilities to deliver more insightful views of business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

Current analytics deployment

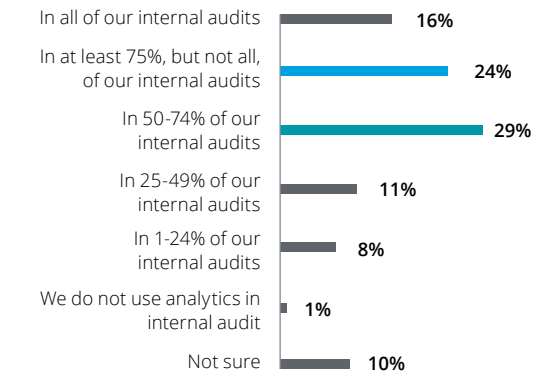


The majority of respondents use analytics in fieldwork, but fewer do so in annual planning and scoping. The latter are areas where analytics could help to identify risk areas, improve resource allocations, make audits more impactful, and free up time for advisory work. These are also areas in which Deloitte sees analytics having the most impact.

Current use of analytics by the Internal Audit function

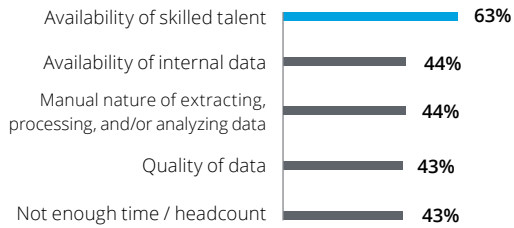


Expected use of analytics by the Internal Audit function over the next three to five years

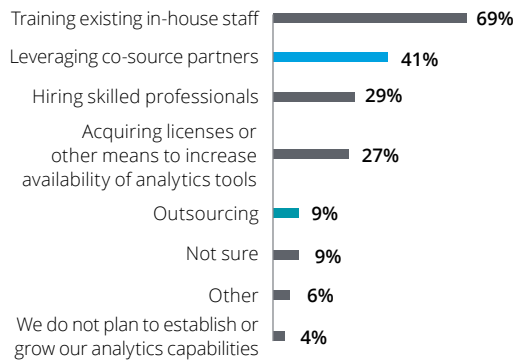


Use innovative resourcing models

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



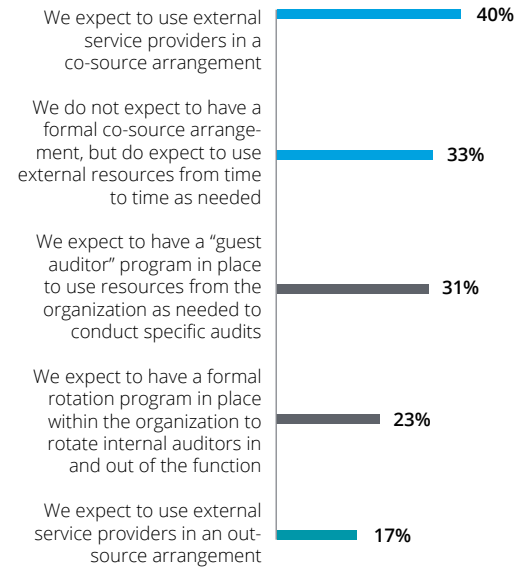
How Internal Audit analytics capabilities are being developed



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.

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



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



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.

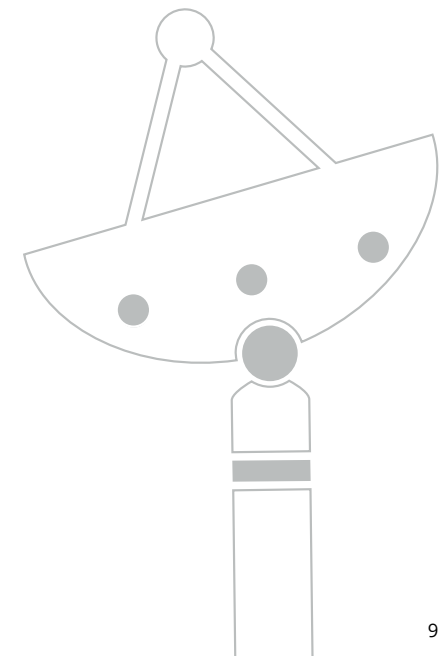
When a risk event, financial loss, or case of fraud arises, it's natural for stakeholders to ask:

"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 specialism Strategic auditing and business impact Predictive analytics
Risk anticipation 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.

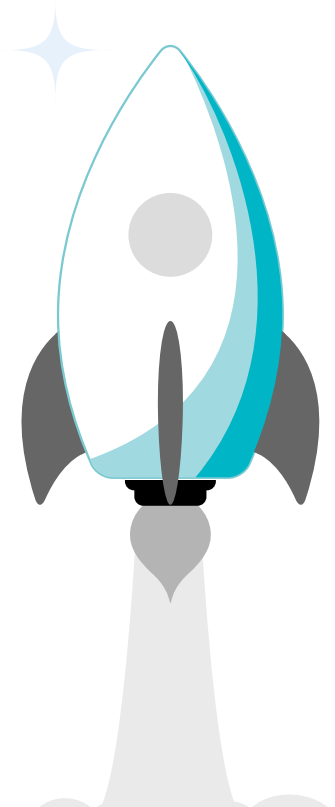
7. Marshal senior-level support

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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