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Internal Audit 4.0

Purpose driven, digitally powered

July 2022

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A lot has happened since Deloitte **released Internal Audit 3.0, our market leading framework for elevating the role and expanding the remit of Internal Audit[1].**

This framework supported the concept that Internal Audit is responsible for balancing three core activities: providing assurance, advising management, and anticipating risks and opportunities. Striking that balance challenged internal audit functions to increase their impact on their organizations by delivering value through a combination of Assure-Advise-Anticipate. Internal Audit 3.0 (IA 3.0) has been a useful and durable framework for many internal audit functions as they've evolved their role and remit, and inspired innovation in their ways of working.

Few could have predicted the events of the past years since the release of IA 3.0 or the speed with which new challenges and demands have emerged. We've also experienced leading internal audit functions embracing innovation throughout the IA lifecycle becoming more resilient, more valued, and more impactful.

Looking ahead, the breadth of demands on Internal Audit, and pace and scale of innovation in the profession point to the need for an update, but not an overhaul, of our vision of the Internal Audit function of the future—hence, Internal Audit 4.0 (IA 4.0).

This publication, directed to Internal Audit leaders, professionals, and stakeholders:

01 **Recaps the elements of Internal Audit 3.0**

02 **Summarizes lessons learned as functions have adopted the framework; and**

03 **Presents a refreshed vision of the future of the Internal Audit function, IA 4.0, which incorporates those lessons and demonstrates why Internal Audit functions should be *purpose driven* and *digitally powered*.**

IA 3.0 revisited

IA 3.0 summarizes elements within **Assure-Advise-Anticipate** as well as related skills and capabilities, enablers, and digital assets.

Organizations invariably benefit by elevating the role and expanding the remit of Internal Audit. That's especially so if they have currently relegated the function to routine compliance and assurance activities and have resourced it accordingly. Those approaches limit the value and contribution of Internal Audit to the organization.

That is why we championed a broader remit for the function with IA 3.0, which preserved the central role of assurance while stretching functions to become more advisory and anticipatory. We've seen great examples of functions who have embraced this challenge and successfully supported management in navigating risks that could have undermined, and opportunities that could have enhanced, the organization's performance.

IA 3.0: Assure-Advise-Anticipate

Our IA 3.0 framework encouraged Internal Audit functions to:

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Although many internal audit functions have moved into advisory and risk anticipation activities, the pace at which they have done so has often been **outpaced by the evolving needs of their organizations**, and the speed at which risk events have emerged.

Executive teams and audit committees now need Internal Audit support on a new and dynamic range of matters, including:

- Guidance on decisions, processes, and responses related to the global pandemic and the resulting supply chain, remote work, security, and regulatory issues;
- Environmental, Social, and Governance (ESG);
- Building and protecting trust between organizations and their stakeholders;
- Diversity, Equity, and Inclusion (DEI) issues, and reputational risks; and
- Decisions and controls around Robotic Process Automation (RPA) and Artificial Intelligence (AI) applications.

Lessons learned

Ongoing disruption is here to stay: We have all moved beyond "change is the only constant" to an environment of ongoing disruption. Over recent years we've observed the following key lessons from functions who have successfully embedded a culture of continuous improvement and innovation.

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Speed and agility are essential

Big bang approaches tend not to work

Haphazard efforts undermine progress

What's new?

Our updated IA 4.0 framework brings three new features to the forefront.

By aligning Internal Audit's outcomes with the organization's **purpose**, helping **accelerate** organizational change and learning, and further embracing **digital**, we believe Internal Audit can upgrade and maximize its impact and the value it delivers.

Purpose driven, digitally powered

Purpose | Purpose | Vision | Strategy

REMIT

Assure
- Core processes
- Greatest risks
- Decision governance
- Change risk
- Behaviours
- Second line functions
- Digital technologies

Advise
- Risk & assurance strategy
- External & leading practice

Anticipate
- Emerging & dynamic risk

Accelerate
- Organizational learning
- Management action

CORE OPERATING SYSTEM

- Position & organization
- Process & technology
- People & knowledge
- Performance & communication

Agile | **Mindset** | **Digital**

To discover **what's new** in our refreshed model...

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Purpose

Whether forced to re-engage with their purpose in the wake of the pandemic or by the groundswell of ESG and DEI issues, purpose has become increasingly important for organizations and their stakeholders to strengthen brand and reputation, generate market value, and contribute to sustainability initiatives.

Every organization has a purpose, although some are more clearly defined than others. These may be to save money for customers, improve health and wellbeing, maximize convenience, or create a sustainable future. Purpose drives an organization and inspires and harmonizes its functions, teams, and individual roles.

By aligning Internal Audit's role and remit with the organization's purpose, a new orientation for many functions, Internal Audit can:

- **Create value** by designing their role, remit, and ways of working in a more intentional way to support a specific outcome and contribution for the organization
- **Attract top talent** who, research has shown, would prefer to work for purpose driven organizations and teams
- **Create stronger engagement** with stakeholders by creating a better understanding of Internal Audit's value through increased collaboration on the development of action plans and coaching through implementation to address Internal Audit observations
- **Make smarter choices** on where they place their investments, ensuring innovation efforts are purpose driven

As a profession, Internal Audit clearly plays a role in helping build confidence and trust between organizations and stakeholders (be they investors, employees, or society). Under Internal Audit 4.0, this doesn't change but those functions who deliberately use purpose to shape their role and remit will maximize the impact they bring to their organizations.

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Accelerate

Organizations who have thrived in uncertain times were the ones who could learn to adapt and act quickly. And it's here where we think Internal Audit can stretch its remit further—by helping to accelerate organizational learning and management action.

Many internal audit functions already work to accelerate organizational learning and management action through root cause analysis, thematic observations, insight reports, issue validation, challenging assumptions, and follow up on remediation. Yet most can do more, while preserving their independence and objectivity. Example strategies for Internal Audit include:

- **Act with speed** - Simply delivering audit and project results faster will often quicken management's responses—a key outcome for functions embracing agility as they work in sprints and issue findings iteratively.
- **Go beyond the audit** - Too often Internal Audit leaves management with a list of issues, only to follow-up a few months later to report on whether gaps have been closed. Without owning remediation, functions could help by sharing insights on leading and external practices, encouraging systemic solutions rather than single-point fixes and advise on building a more robust and future proofed control environment.
- **Change the culture** - Some leading functions are looking at the concept of psychological safety and considering how Internal Audit can influence their organizations to help create the conditions for learning and action. Psychological safety stems from mutual trust and respect which enables people to be candid and open without being hindered by fear. An organization improves only by knowing what is and isn't working. Knowledge that comes about only when people feel it is safe to report problems and experiment with new approaches. Internal Audit should consider how its ways of working contribute to helping create this environment.

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Digital

Many functions have embraced data analytics but have limited their adoption to using analytics for data queries or sampling. Few view "Digital" broadly enough or leverage capabilities to support the entire audit lifecycle or in continuous auditing or predictive analytics.

Of course, "adopting Digital" is not the end goal. The goal is improved quality, productivity, insights, innovation, collaboration, and practitioner engagement. This comes about by applying Digital to audit work *and* by helping the organization to use Digital effectively.

IA 4.0 aims to transform ways of working by embedding digital capabilities into Internal Audit work, for example in workflow management, automated assurance, audit management systems, communication interfaces, such as dashboards, and mobile applications such as drones for site inspection or inventory purposes. Potentially useful digital technologies include AI, RPA, SaaS, social media, and the Internet of Things (IoT).

As the title of this publication implies, IA 4.0 is digitally powered as well as purpose driven. Applying digital entails looking to the art of the possible, while taking a highly systematic approach to using technology. Through our experience of delivering External Quality Assessments (EQAs) and looking in on leading functions who have made better progress in digitizing broader aspects of their functions, there are two differentiators we see in more digital functions.

- **Mindset** - It doesn't matter if you're a small or large function, the mindset and willingness to explore and experiment with digital tools is half the battle. It's the reason why we've elevated digital up to the mindset level of our model, and something we think the future function needs to cultivate. So, help your teams get tech savvy - enable them to see the possible applications through education and awareness; promote innovation – make it safe for experimentation; keep everything on the table – digital doesn't just mean analytics, and celebrate desired behaviors to encourage ideas.
- **The second differentiator is approach.** More digital functions have taken a systematic and methodical approach to digital innovation, taking the time to assess their ways of working to identify and prioritize opportunities to leverage digital. These functions intentionally pilot proof of concepts and measure Return On Investment (ROI) to guide purpose driven investments.

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Mindset

Anticipating risks and opportunities and responding rapidly requires agile and digital capabilities—and the right mindset. Without that mindset, those capabilities will be unused or underused. For example, some functions adopt terms or practices from agile but not the mindset; many limit their use of digital capabilities to (often rudimentary) analytics.

The right mindset is one of continuous learning—experimenting and iterating at a faster pace, with ongoing communication and embedded agile methods. This mindset enables the function to pursue incremental improvements that generate lasting and relevant change.

Internal Audit can promote that mindset by using digital tools and agile methods in its work and by fostering sound use of those tools and methods within the organization. At its best, this creates an organizational culture of continuous learning and continuous improvement.

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Operating system

For Internal Audit functions to embrace purpose, expand their remit and fully utilize digital technologies, they must embed these concepts in the key design principles of the function and the building blocks which support their day-to-day practices.

The internal audit operating system considers the position, organization, processes, technology, skills and expertise, and communication strategies that help drive performance. The function should enact the mindset of continuous learning and improvement, updating its operating system by leveraging digital capabilities and challenging ways of working that no longer add value to stakeholders, or are outdated.

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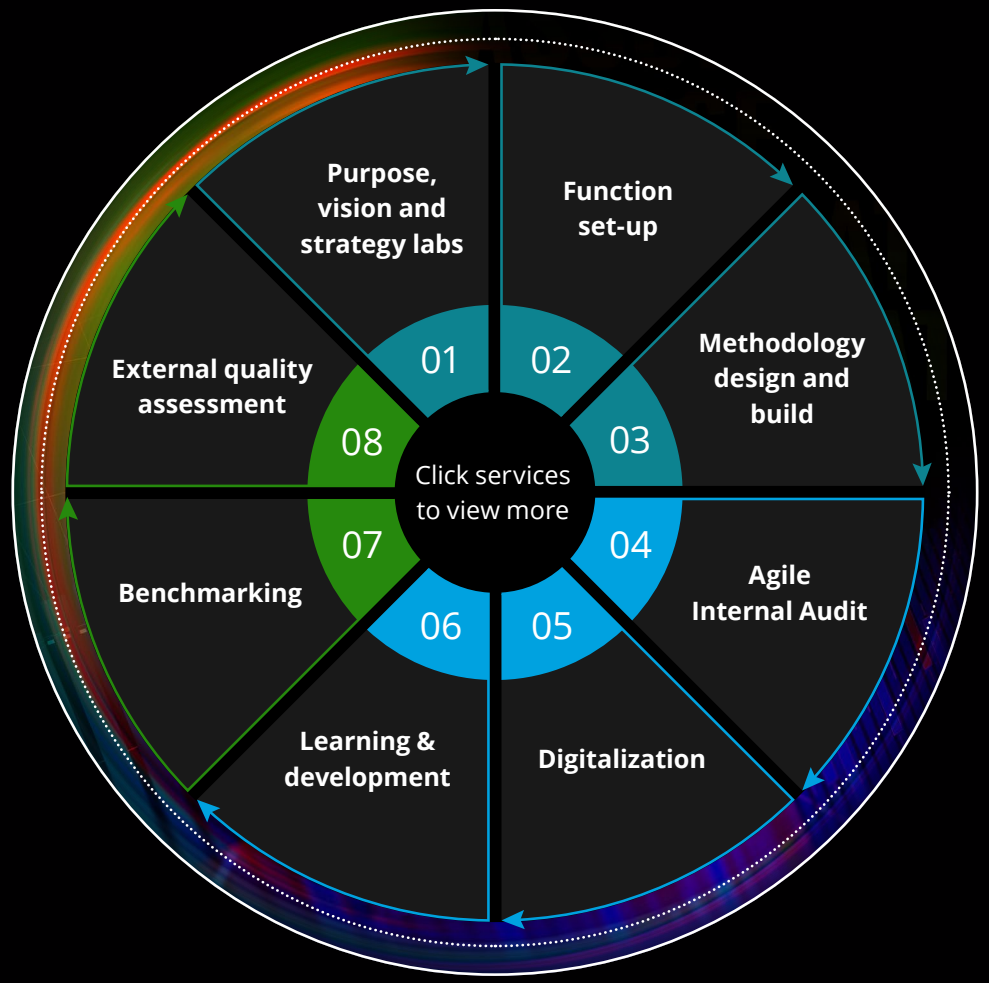
How Deloitte helps

IA 4.0 aims to deliver assurance, advice, and anticipation of risk to accelerate organizational learning and action.

The framework informs our differentiated approach to providing outsource and co-source Internal Audit support. For in-house functions looking to set their future vision, elevate their impact and enhance their performance, Deloitte offers a comprehensive suite of Internal Audit Advisory services for functions to draw upon regardless of where they are on their journey to internal audit excellence.

These services enable adoption of IA 4.0 by supporting internal audit functions from initial **design**, **build** of functional processes, **assessment** of performance and **improvement** through strategies such as digital, agile, and learning and development. Individually or collectively, these services enable functions to take coherent steps to enhancing their performance, relevance, and impact, designing their own version of a purpose driven and digitally powered function.



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Endnotes

1 Internal Audit 3.0: The future of Internal Audit is now, 2018 Deloitte Touche Tohmatsu Limited

2 Becoming agile: A guide to elevating internal audit's performance and value – Part 1: Understanding agile internal audit, Deloitte, 2017

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