



The Innovation Imperative

Forging Internal Audit's path to greater impact and influence

Nordic Perspective - Deloitte's Global Chief Audit Executive Research Survey 2018

Foreword

While the Internal Audit profession has not been forced to innovate for decades, organizations are increasingly being disrupted by new technologies, business models, and associated risks. Deloitte has been focusing on the change and development needs of Internal Audit functions since the 2015 publication “*Adapt or Disappear*”*. This theme later continued in our first Global Chief Audit Executive (CAE) Survey conducted in 2016. The results indicated ways in which Internal Audit can evolve to increase the value it delivers to the organization and enhance its impact and influence.

Our recent follow-up to the 2016 Global CAE Survey collected perspectives from more than 1100 Internal Audit leaders in 40 countries and provides interesting insights on Internal Audit’s recent evolution and highlights the importance of innovation in order for the practise to develop further.

This time we also wanted to help Nordic countries see how our Nordic Internal Audit functions perceive their current situation and provide an opportunity for finding new ways

to innovate and enhance impact within the organisation.

We give many thanks to all the Nordic Chief Audit Executives who participated in this survey, shared their views and insights, and recognized their key challenges and strategic priorities to provide ideas for other Internal Auditors. We would also like to thank IIA Finland, IIA Sweden and IIA Norway for their valuable collaboration in conducting this CAE Survey.

This Nordic point-of-view report shares selected areas of our Global CAE Survey report. You can explore the full global results report at our websites:

<https://www2.deloitte.com/fi/fi/pages/risk/articles/global-chief-audit-executive-survey-report.html>

*<https://www2.deloitte.com/global/en/pages/risk/articles/adapt-or-disappear-internal-audit.html>

Contents

- 3 [Executive summary](#)
- 4 [Key strategic priorities for the Nordic Internal Audit functions](#)
- 5 [Taking the next steps in the key priority areas](#)
- 6 [Internal Audit impact – still room for improvement](#)
- 7 [Internal Audit impact – key challenges](#)
- 8 [Identified talent gaps highlight the specific need for analytics skills](#)
- 9 [Only some Internal Audit teams have dedicated analytics resources](#)
- 11 [Nordic Internal Audit teams are close to global level in analytics deployment](#)
- 12 [Services provided – advisory services likely to grow in future](#)
- 13 [Cyber risks are not assessed systematically](#)
- 14 [The key innovative development impacting Internal Audit over the coming 3-5 years](#)

Executive Summary

Our Nordic report finds that Internal Audit is aiming to provide more and more value to business and other stakeholders in the organisation as key strategic priorities include better integrating with the organization's second line of defence functions and enhancing partnerships with business to name a few. Also over half of Nordic respondents believe that the proportion of advisory services will grow over the next 3-5 years.

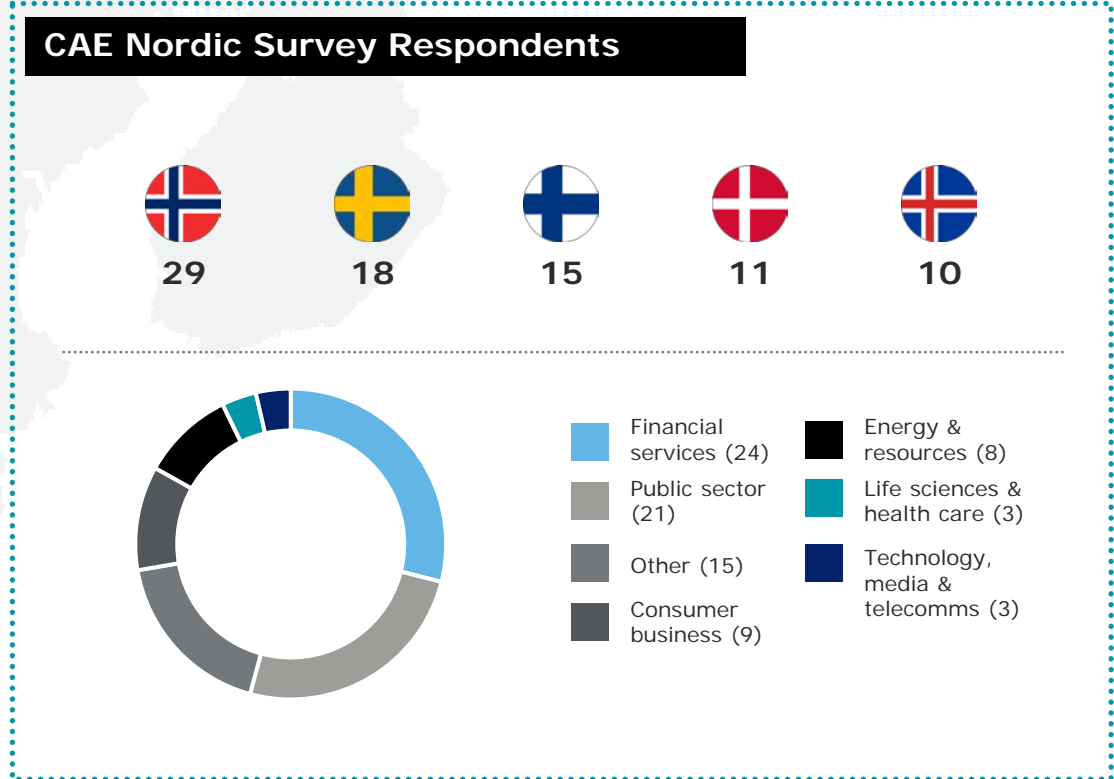
Both globally and on the Nordic level approximately 40% of respondents believe their functions have strong impact and influence within their organization

In providing impact and influence, Internal Audit functions in Nordics are on the same level as their global counterparts, as both globally and on the Nordic level approximately 40% of respondents believe their functions have strong impact and influence within their organization. Both globally and on the Nordic level almost 90%

cite that their Internal Audit function is viewed either very positively or somewhat positively. This provides Internal Auditors with a great foundation to enhance impact and role as trusted advisors even further.

Implementing analytics was seen as key strategic priority both globally and on the Nordic level, and analytics expertise were cited as one of the key competencies that are most sought out in the Nordics. This area is also cited as a key innovative development impacting Internal Audit in the coming 3-5 years. However, it seems that Internal Audit functions are not yet using the full potential of analytics, as it is not deployed enough in many high potential areas such as audit planning, continuous auditing and continuous risk assessment. The lack of analytics talent might explain part of the underutilization of analytics but other resourcing models, such as using guest auditors might provide access to the right talent.

The second potential area in which Internal Audit could have significantly higher impact within organization are cyber risks. Worryingly, about half of Internal Audit functions are not conducting cyber risk assessments both at Nordic and global level. Half of the Nordic organizations have less than 5% or none of their Internal Audit plan related to cyber risks.



Key strategic priorities for the Nordic Internal Audit functions

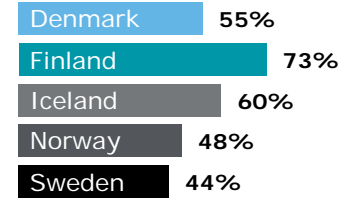
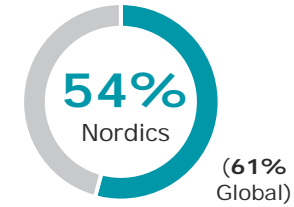
» Top 5 Key strategic priorities for the next 3-5 years in Nordics

There are notable differences between the Nordic countries when it comes to the strategic priorities in Internal Audit.

- Implementing analytics is the top priority both globally and in the Nordics, but especially in Finland.
- The Danish respondents strongly highlight the partnership with business as a key priority but see the strengthening of the talent pipeline as lower priority than other Nordic countries.
- Interestingly, respondents in the Nordics identified the same top5 priorities that were identified globally, however, priorities are in a slightly different order.

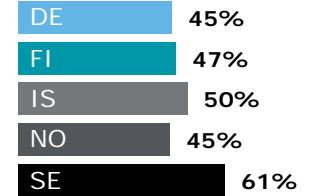
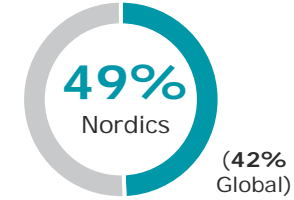
1.

Implementing Internal Audit analytics



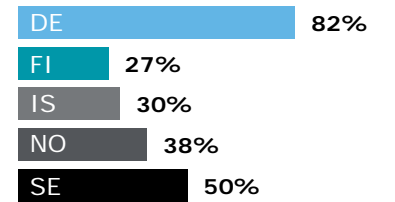
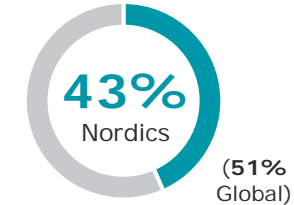
2.

Better integrating with the organization's second line of defense functions



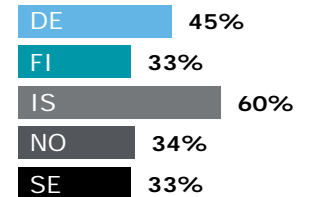
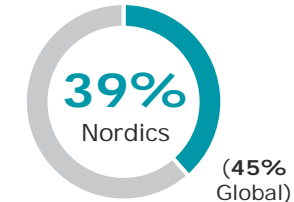
3.

Enhancing partnerships with the business



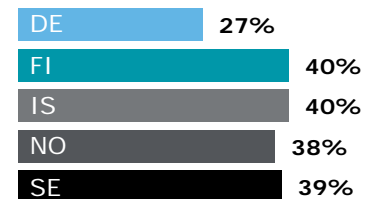
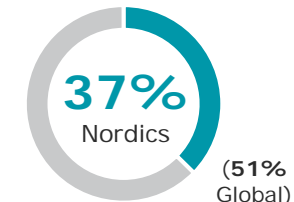
4.

Enhancing the quality of Internal Audit



5.

Strengthening the Internal Audit function's talent pipeline



Taking the next steps in the key priority areas



Implementing Internal Audit analytics

primarily calls for making sure one has access to the right talent – whether by hiring or training staff, or considering alternative models, such as co-sourcing, to provide either temporary or sustained, flexible support and expertise. In addition, internal auditors must accept that waiting until they have ‘perfect data’ is not a viable plan. Functions that have successfully adopted analytics have gained access to analytics skills and talent and are working with the data they have (while helping the organization to improve data quality and accessibility at the same time).



Better integrating with the organization’s second line of defense functions

calls for new operating models across the three lines of defense. A comprehensive and common understanding of each line’s roles, accountability, communication, and coordinating and managing activities in a more collaborative manner are key success factors in finding new innovative ways of working. Investments in common tools and technologies might be a worthwhile idea, but most importantly functions have to invest in finding a common language and taxonomy to build deeper collaboration and understanding.



Enhancing partnerships with the business

calls for identifying risks to the organization’s assets and processes, and to its strategies, key decisions, and responses to developments. While retaining its objectivity and independence, the function can—via advisory assist in identifying enhancements to business performance, and weigh in on major decisions, key issues, and strategic risks, and thus act as a trusted and valued advisor.



Enhancing the quality of Internal Audit

calls for providing continuous assurance over core processes and controls to free up resources for advisory services. Automated core assurance applies technologies to enable continuous monitoring and auditing of processes, accounts, transactions, and controls to enhance both management’s and Internal Audit’s efficiency and effectiveness.



Strengthening the talent pipeline

calls for making Internal Audit a magnet for talent. A strong brand within the organization will certainly help as will the view that Internal Audit represents an excellent opportunity for career acceleration where rotation programs are implemented. In addition, as the function becomes more engaged, dynamic, nimble, forward-looking, and innovative, it will attract like-minded individuals.

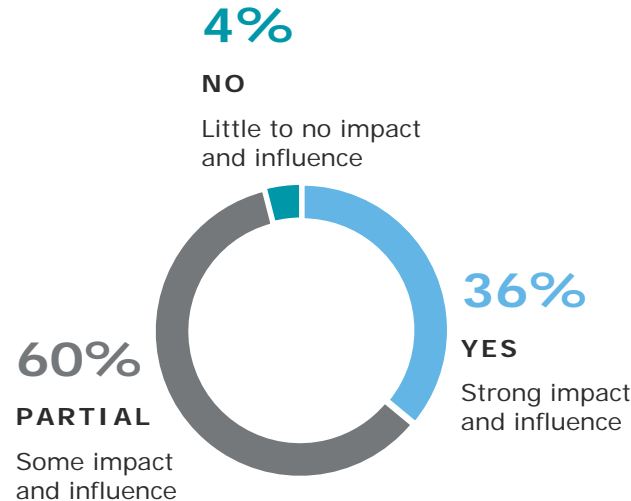
Internal Audit impact – still room for improvement

Globally the Internal Audit's impact and influence has improved since 2016 survey but the function could be viewed more positively.

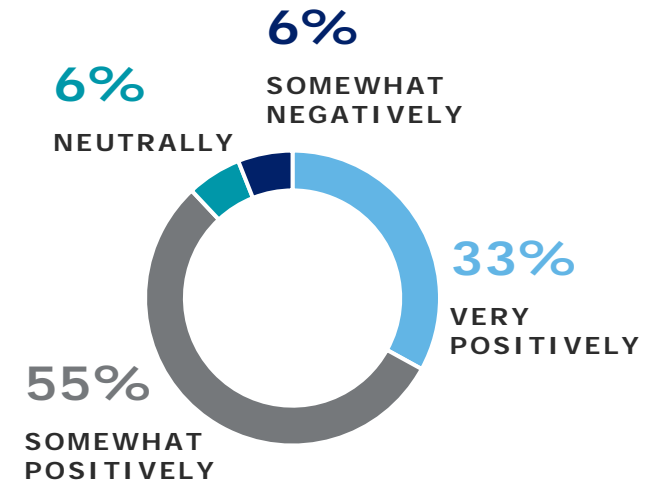
Similar to global results, the Nordic survey finds that 36% (40% globally in 2018, 28% globally in 2016) feel that the Internal Audit function has a strong impact and influence within their organization – while improved, this still leaves some room for improvement. 33% in Nordics (33% globally) feel their function is viewed very positively and over half of the respondents say Internal Audit is viewed somewhat positively.

These findings indicate that Internal Audit has reached the position of valued advisor in the organizations, however, it also has to continue delivering more value around issues and risks that impact the organization's ability to achieve its goals—and to improve reporting, communication, and internal branding. The Internal Audit function needs to enhance its value and the way it presents that value to management, the audit committee, and other stakeholders.

Impact and perception of Internal Audit function in Nordics



Q1. Does Internal Audit have strong impact and influence in the organisation?



Q2. How Internal Audit function is perceived in the organisation?

Internal Audit impact – key challenges

Key challenges in making more impact in the organization

Respondents both at the Nordic level and globally cited missing key skills and insufficient budget as key challenges. However, 12% of Nordic respondents are not sure why they can't make more of an impact and this is also somewhat more common in the Nordics than globally.

KPIs can be better aligned to Internal Audit's objectives

75% of Nordic Internal Audit functions use KPIs, as all functions should, given the importance of tracking performance and progress. However, this is slightly less than global results show with 86% correspondingly. It is important that the Internal Audit functions have developed and agreed KPIs that are meaningful to stakeholders. Hence, the functions should be able to enhance their impact and influence by tracking against those KPIs.

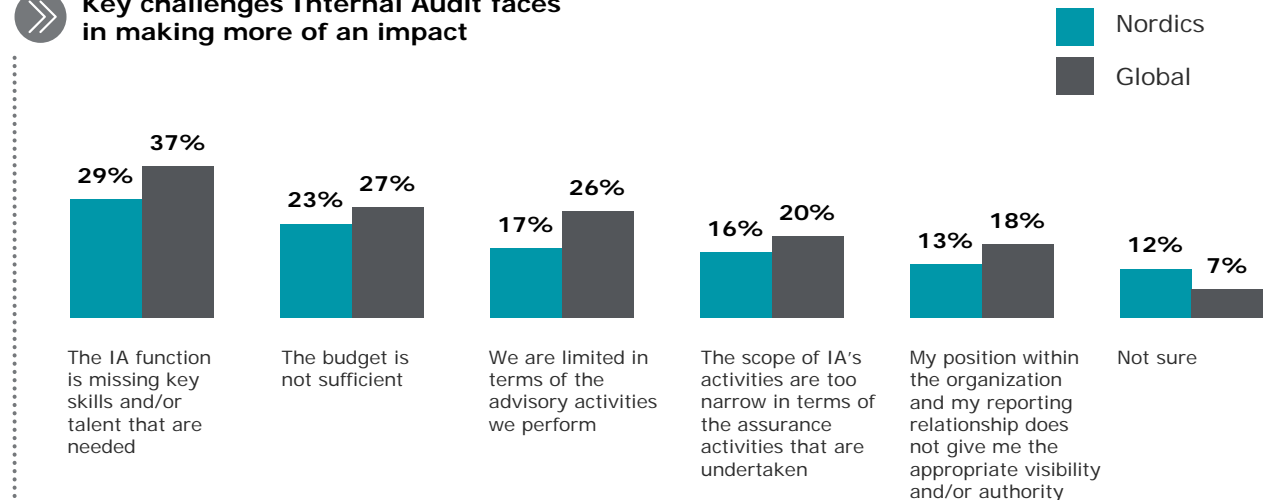
In addition to traditional metrics, Internal Audit needs to develop and track KPIs that reflect broader priorities, such as impact on business results. The focus should not be "getting audits done" but rather on delivering insights and having an impact.

The most commonly used KPIs in Nordics are as follows:

- Auditee/stakeholder satisfaction (55%)
- Number of engagements completed (48%)
- Number of management actions plans completed in response to Internal Audit observations (39%)
- Internal Audit report issuance timelines (34%)

These are the same KPIs that were the most commonly used globally as well, although they may not be aligned to stakeholder demands and still merit being revisited by all chief audit executives.

Key challenges Internal Audit faces in making more of an impact



Q3. What are the key challenges your organization's Internal Audit function faces in making more of an impact within your organization? (Select all that apply)

Identified talent gaps highlight the specific need for analytics skills

Challenges include a shortage of skills, while analytics is the highest priority

Internal Auditors have to possess a variety of skills and competencies to succeed in providing valuable insights to an organization. However, in the Nordic countries 29% named missing key skills and talents as a key challenge in making more impact in the organization.

Alternative resourcing models not only fill talent and skill gaps, but also enable knowledge transfer in areas where in-house expertise is lacking. 85% of Nordic respondents say that the primary reason their Internal Audit function utilizes alternative resourcing models is to access specialist skills in a particular area of focus (e.g. blockchain, cyber, supply chain, etc.).

The need for enhancing talent and skills in Internal Audit can be also seen from answers related to key strategic priorities. Implementing analytics was a key strategic priority for the next 3-5 years (54% of Nordic respondents).

In addition, Nordic respondents named better integrating with the organization's second line of defense functions (49%), enhancing partnerships with the business (43%) and enhancing the quality of Internal Audit (39%) as key strategic priorities. These priorities are related as analytics can free up resources for partnering with the business, improve the efficiency of the cooperation with second line and enhancing quality.



Taking a closer look at the talent gap, competencies and designations that are most sought out in the Nordics are:

- 49%** Analytics expertise or experience
- 42%** Certified Internal Auditor (CIA)
- 33%** Certified information technology auditor (e.g. CISA or equivalent)
- 17%** Expertise or experience with specific regulations
- 17%** Qualified accountant (CPA or equivalent)

Q4. Currently, which competencies and/or designations are most sought out by your organization's Internal Audit function? (Select all that apply)

Only some Internal Audit teams have dedicated analytics resources

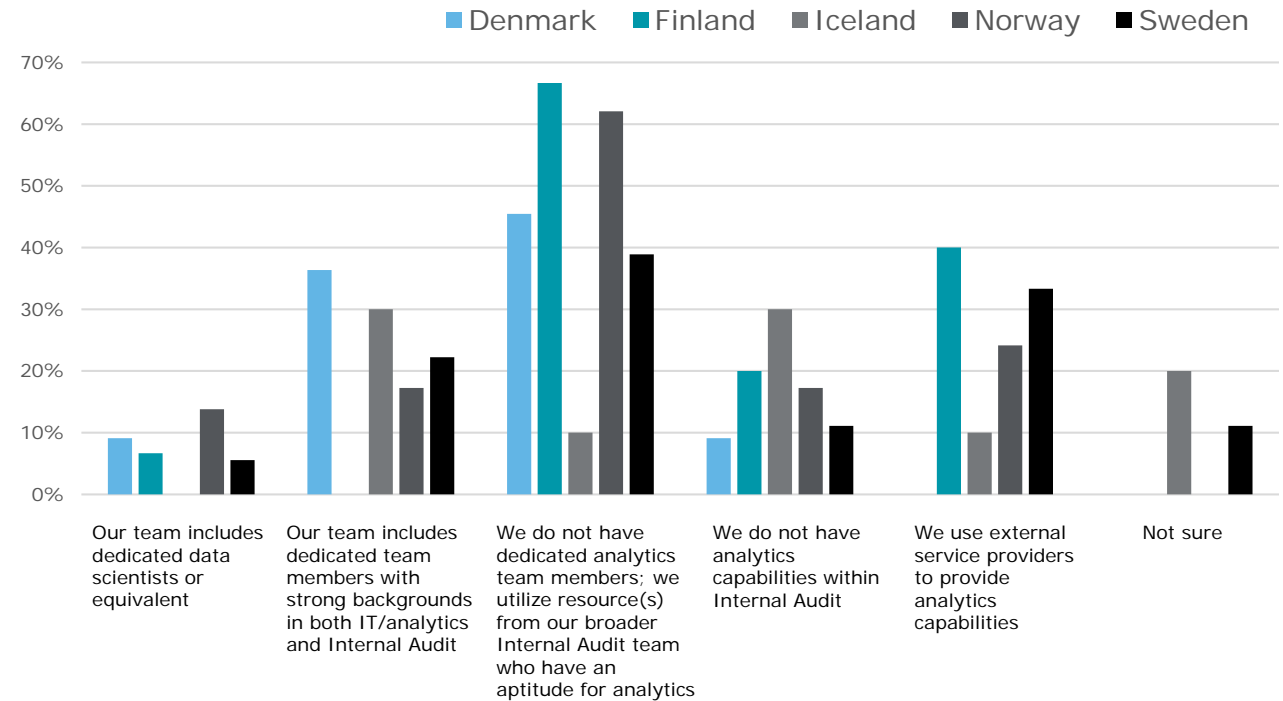
Addressing the analytics talent shortage

In Nordics less than 20% of functions (globally 29%) have team members who have strong background in both analytics and Internal Audit. Both analytics skills and their deployment need to be enhanced.

It is, however, encouraging that most functions are accessing these skills in various ways, notably by turning to those within Internal Audit who have an aptitude for analytics (Nordics 49%, globally 38%).

However, there seem to be differences between the Nordic countries. Finnish respondents do not have team members with strong background in both IT/analytics and Internal Audit at all, which is compensated by relying on the broader Internal Audit team or external service providers. In Denmark and Iceland every third respondent has people with both analytics and Internal Audit skills in their Internal Audit function.

» Capabilities of Internal Audit function's analytics team



Q5. Which of the following describe(s) the capabilities of your Internal Audit function's analytics team? (Select all that apply)

Deployment of Internal Audit analytics

Nordics



Global

Nordic Internal Audit teams are close to global level in analytics deployment

Analytics is underutilized in audit planning, and continuous auditing must increase

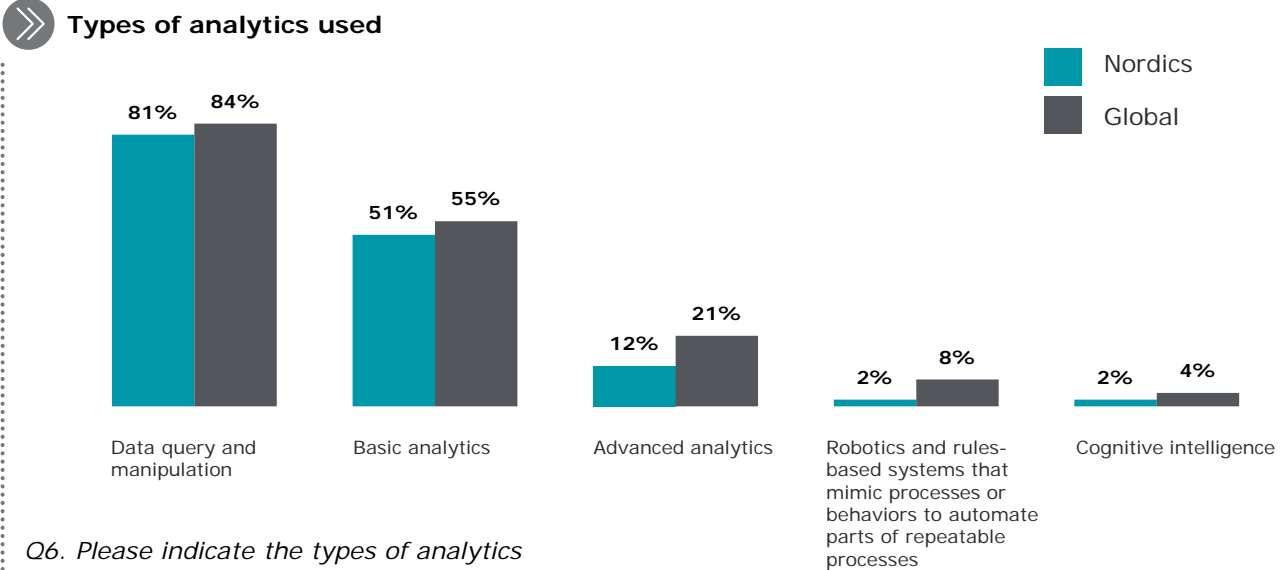
Similar to global results, analytics is most often deployed during fieldwork and, less often, in higher-impact activities such as audit scoping and planning.

For most Internal Audit functions in the Nordics, the greatest analytics opportunities are in continuous auditing and continuous risk assessment, and in developing reporting—all currently underutilized.

In Nordics, especially deployment in continuous auditing (11%) and continuous risk assessment (11%) are somewhat behind the global level (26% and 18% correspondently).

Use of advanced analytics is up, but there's still far to go

Globally, since our 2016 survey, use of advanced analytics has tripled from 7% of Internal Audit functions to 21%. The Nordics are a bit behind as currently 12% use advanced analytics. Internal Audit functions typically use analytics mostly for data query and manipulation and basic analytics. There are no significant differences between the Nordic countries in types of analytics used.



Q6. Please indicate the types of analytics techniques 'typically' in use within your Internal Audit function. (Select all that apply)

Services provided – advisory services likely to grow in future

Internal Audit is moving towards an advisory-role

71% of Nordic respondents say they provide mostly assurance with some advisory and 17% say there is relatively even balance between assurance and advisory services.

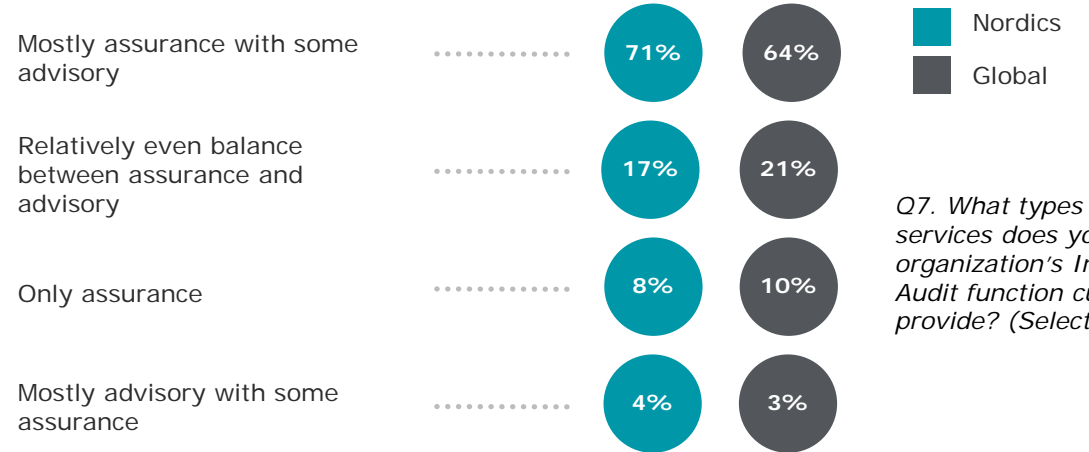
Currently 17% of Nordic Respondents name as one of the key challenges in making more of an impact within the organization the challenge that they are limited in terms of the advisory activities they perform. However, over half of Nordic respondents expect the advisory services to grow over the coming 3-5 years, which can potentially increase the Internal Audit function's impact if Internal Audit is able to provide insights regarding the future and to weigh in earlier on business initiatives.

Example of potential new advisory services - culture assessments should see wider application

Breakdowns in organizational culture, as reflected in conduct that fosters risk events, have become all too common. That is why regulators in financial services, and leaders across industries, have focused more intensely on organizational culture in recent years.

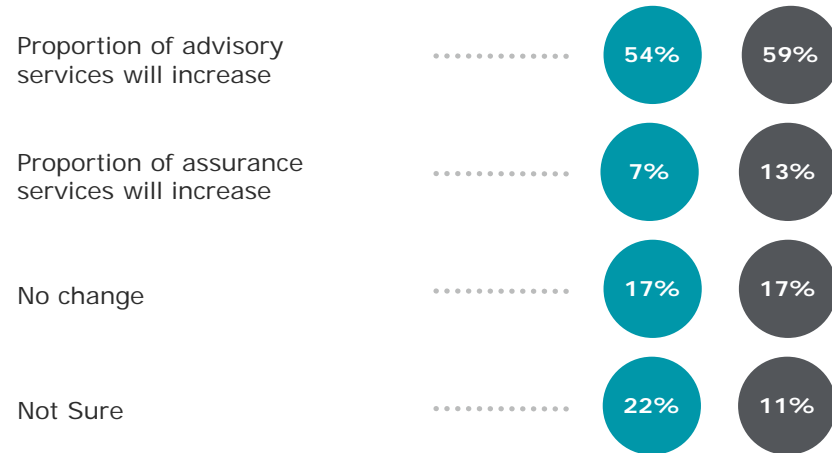
However, only 20% of respondents say their Internal Audit function has formally evaluated the broader organization's culture within the past 3 years, which is somewhat less than in Internal Audit functions globally (28%). However, among Nordic CAEs that have evaluated their organization's culture over the past three years, 47% consider themselves to have high impact and influence.

Current services



Q7. What types of services does your organization's Internal Audit function currently provide? (Select one)

Changes expected in Internal Audit function's services over the coming 3-5 years



Q8. To what extent do you believe the nature of your Internal Audit function's services will change over the coming 3-5 years? (Select one)

Cyber risks are not assessed systematically

Cyber risk assessments are conducted by about half of Internal Audit groups

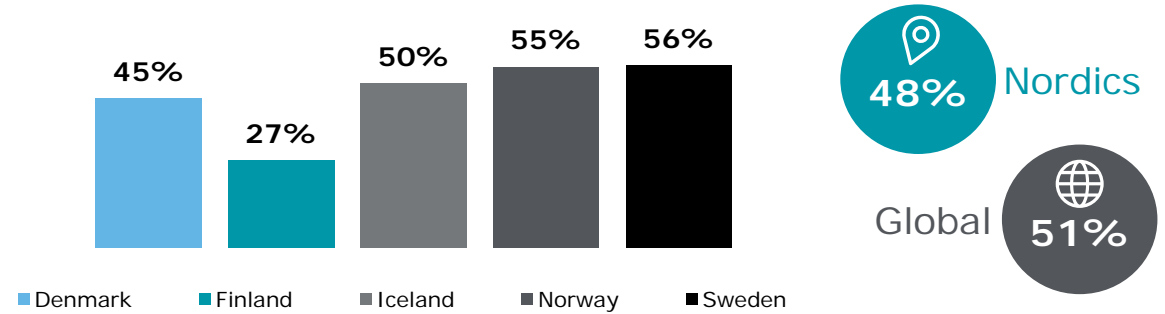
As applications, Internet of Things (IoT) devices, digitized processes, and use of cloud services expand within the enterprise, cyber risks increase dramatically. So this is an area where Internal Audit can provide real value. But worryingly about half of Internal Audit functions are not conducting cyber risk assessments both at Nordic and global level. However, among Internal Audit functions that have high impact and influence in their organizations in the Nordics, 70% have conducted a cyber risk assessment.

Slightly more than two out of three have developed a cyber Internal Audit plan based on the cyber risk assessment (in the Nordics 68% and globally 74%). In the Nordics 81% of those high impact functions who have made an assessment have used it to develop a cyber Internal Audit plan, indicating that in high impact Internal Audit functions cyber risks are given higher emphasis.

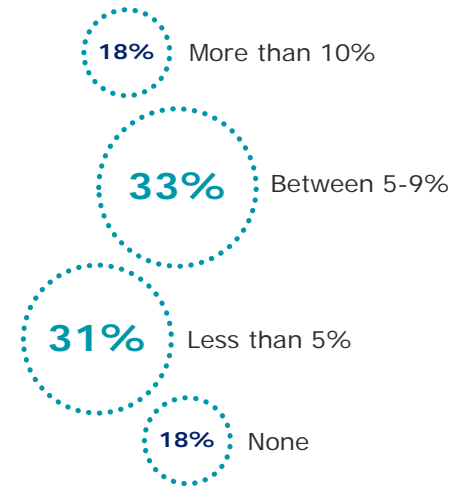
Only minor portion of Internal Audit plan is related to the cyber risk

Half of the Nordic organizations have less than 5% or none of their Internal Audit plan related to cyber risks. Expanding coverage of cyber risks in Internal Audit plans—a high-profile issue for senior executives and boards—can greatly enhance impact and influence.

Percentage of organizations in which Internal Audit has conducted a cyber-focused risk assessment to assess the organization's potential cyber exposures



Percentage of Internal Audit plan that is related to cyber risk in Nordics



Q9. Approximately what percentage of your Internal Audit Plan is related to cyber risk? (Select one)

The key innovative developments impacting Internal Audit

Innovation imperative - every Internal Audit function can innovate

Enterprises in every industry are innovating, and that is driving the need for Internal Audit to innovate. Although innovation often involves technology and budget, the real innovation needed in Internal Audit typically involves a change in mindset. The desired mindset is more forward-looking, more engaged with stakeholders, more focused on delivering business value and insights.

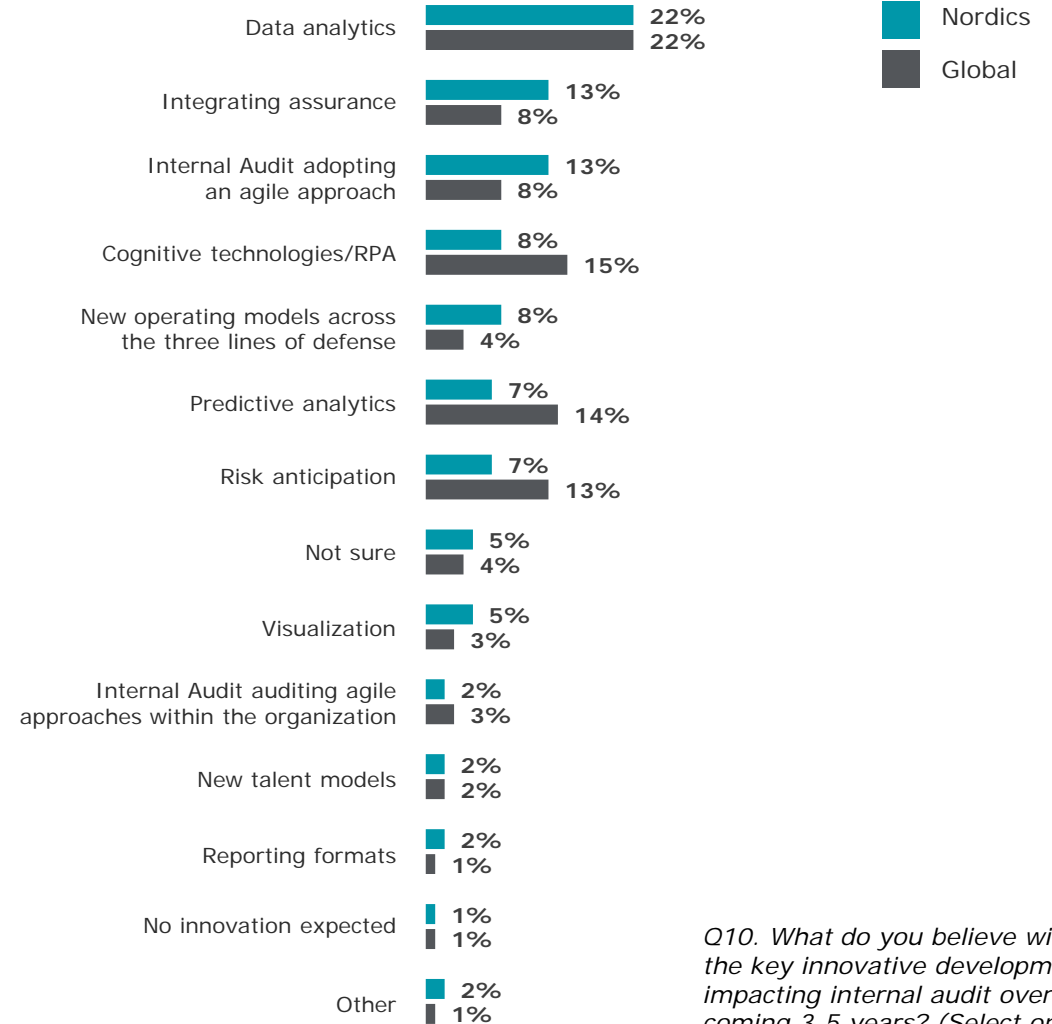
Innovations to be considered

Nordic CAEs expect innovative developments, such as data analytics, integrated assurance, agile Internal Audit and cognitive technologies to impact their functions in the next few years. Most of these activities can be considered

innovative and—as appropriate to the function and the organization—should at least be considered by Internal Audit function to enhance the impact and value it provides.

Yet some areas are left for limited attention. Both at the Nordic and global level, reporting formats or visualization were not considered among top key innovative developments. In general, stakeholders' reading time is limited, and risks and issues emerge rapidly—meaning reporting must become increasingly streamlined and visual. What is notable is that many innovations are highly linked to each other. For instance, if organizations wish to enhance integrated assurance, visualization tools and dashboards can be used to provide a holistic and integrated picture of risks.

» The Key innovative developments impacting Internal audit over the coming 3-5 years



Q10. What do you believe will be the key innovative development impacting internal audit over the coming 3-5 years? (Select one)

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