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## **Global Chief Audit Executive Research Survey**

India perspective

Forging Internal Audit's path to greater impact and influence

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Risk Advisory ●



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# Foreword



**Anthony Crasto**  
Partner  
Deloitte India

As organisations hurtle towards an increasingly technology-driven, disruptive future, the question that arises is: **What are Internal Audit (IA) functions doing to drive success in the organisations?**

Often, despite of its ongoing efforts to meet the ever-evolving needs of stakeholders, the function often gets caught up in playing catch up, rather than being innovative.

According to Global Chief Audit Executive (CAE) Research Survey 2016, organisations are recognising the scope for development of their IA function. The survey results highlight ways in which the function could enhance the value it delivers to organisations and also, influence their strategic decisions.

Our recent 2018 edition of the Global CAE Survey provides insights into the evolution of the role of Internal Audit functions, by collecting perspectives

from more than 1,100 IA leaders across organisations in 40 different countries. It also elaborates on the role that innovation could play in improvising the function.

After the overwhelming response to our global survey, we were keen to further explore the Internal Audit scenario in India and evaluate the current role it plays in contributing to the growth and sustainability of its organisation.

We would like to take this opportunity to express our sincere gratitude to all the Indian CAEs who participated in the survey, shared their valuable insights, and recognised the key challenges and strategic priorities for ideas on improving the IA function in India.

The India point-of-view shares selected areas of the Global CAE Survey report<sup>1</sup>.

<sup>1</sup>. Deloitte's 2018 Global Chief Audit Executive research survey: <https://www2.deloitte.com/content/dam/Deloitte/at/Documents/risk/at-deloitte-global-chief-audit-executive-survey-2018.pdf>

# Executive summary

The findings of the Deloitte CAE Survey 2018-India perspective highlight the fact that CAEs in organisations are beginning to recognise the need to transform the face of IA as a response to the changing business scenario. However, organisations may encounter bottlenecks in the process of understanding and implementing the necessary transformation. The report vividly portrays key aspects of this struggle and suggests ways in which IA can enhance its contribution to the organisation.

According to the survey findings, the IA function must integrate with the functions at the second line of defence in an organisation more effectively and provide more value to the business and its stakeholders.

Implementing analytics as a part of the audit scope and during fieldwork is a key strategic priority both in India and globally. Expertise in analytics has been cited as one of the key competencies required in organisations. However, survey findings suggest that in most organisations, the IA function is yet to deploy the available analytics tools to their full potential in high risk areas, such as audit planning, continuous auditing, and continuous risk assessment.

The lack of analytics talent might explain the underutilisation of analytics. However, resourcing models, such as use of guest auditors, crowdsourcing or using specialist third party professionals could enable organisations to gain access to the right talent. According to the survey findings, more than half the respondents believe that the proportion of advisory services will grow exponentially in the next three to five years.

IA must focus on cyber risks as another potential area of impact within the organisation. Alarmingly, about half the organisations that participated in the survey do not include cyber risk assessment as part of the tasks conducted by their IA function. Majority of the organisations mention that less than five percent of the IA plan takes cyber risks into consideration.

The success of the IA function will be defined by the pace at which it manages the uncertainties disruptions in the business environment, and the effectiveness of its communication, timely delivery of its findings and forward-looking insights with its stakeholders across functions. The commitment of an organisation to continually sharpen its talent pool, skill sets and knowledge will play an important role in improving the IA function and introducing an innovative approach.



Following are the key **themes** emerging from the survey:

Need to innovate the Internal Audit process

Upskill and re-skill resources to keep up with the evolving Internal Audit function

Need for Cyber security assessments

Position Internal Audit as an effective business influencer

# Need to innovate the Internal Audit Process

## The change imperative

Organisations are evolving to boost performance, address disruptors, and stay competitive. Correspondingly, the Internal Audit functions need to understand the changes that impact their organisations and identify ways to respond to these changes by supporting the relevant stakeholders.

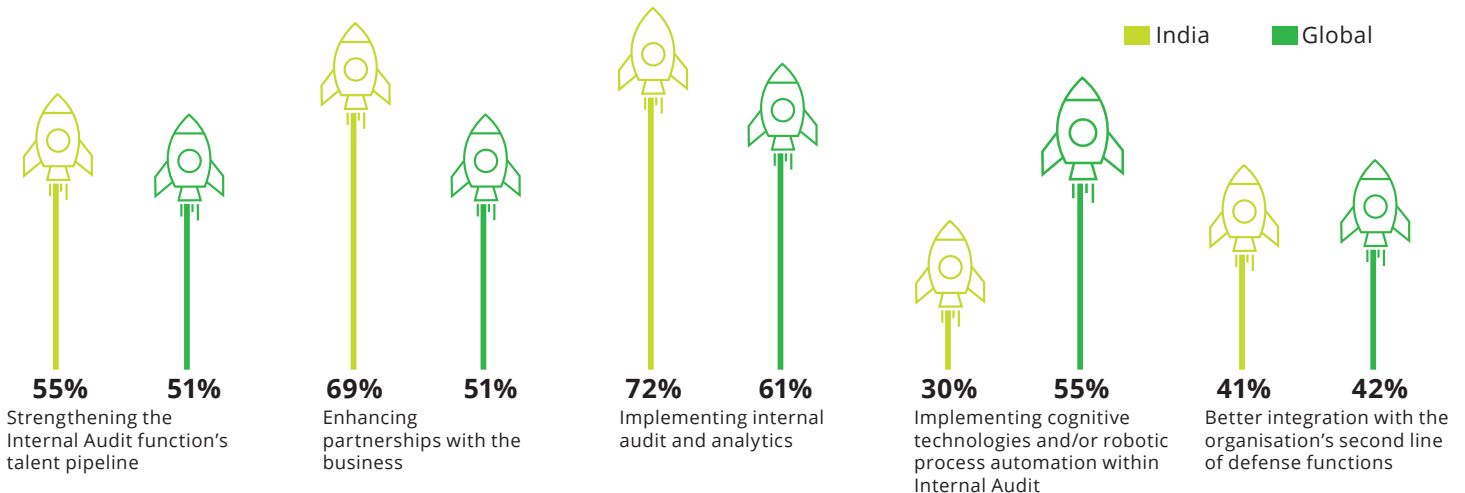
### Global comparison

There is a significant coherence between the strategic imperatives for the IA functions in India and in the global context. For instance, implementing analytics is the topmost priority both

in India and globally with 72 percent and 61 percent responses respectively.

However, there were notable contrasts in the observation. 55 percent of Indian CAEs considered the implementation of cognitive technologies and robotic processes as one of the top four priorities, indicating a forward-looking approach, as against a 30 percent response from their global counterparts. Interestingly, enhancing the quality of IA did not appear among the top five priorities in Indian organisations as compared to the organisations globally.

### Key strategic priorities for next three to five years







## Taking the next steps in the priority areas

Given the increasing expectations of stakeholders, IA must respond proactively to key risks in the business environment. Misjudgement or failure to take action can have serious implications in terms of increased costs and decreased effectiveness of the function. It is important to understand the type and the extent of change that IA needs to work towards for meeting the needs of avoid overuse of the stakeholders.

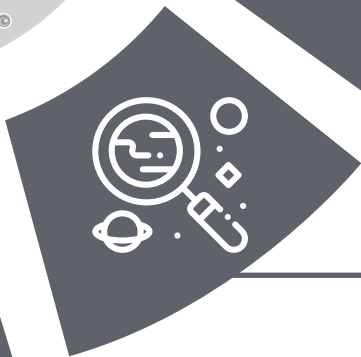
The survey findings identify the top five strategic priorities for the next three to five years in India, along with the next relevant focus points for organisations.

**Implementing IA analytics** would require access to the right talent pool—by hiring or training existing staff, or by considering alternative models such as co-sourcing to provide both temporary or sustained support and expertise. In addition, internal auditors must accept that waiting for the ‘perfect data’ is not a viable plan. IA functions with access to analytic skills and talent have been able to successfully utilise the available analytics tools. They work with the available data to make it more accessible and usable as key business inputs.

**Enhancing partnerships with the business** calls for the appropriate identification of major risks to the assets and processes of the organisation, and their impact on the key strategies, decisions, and responses to any business developments. While retaining its objectivity and independence, the function must act as a trusted and valued advisory that assists in identifying enhancements to accelerate business performance, and providing valuable inputs to deal with key issues.





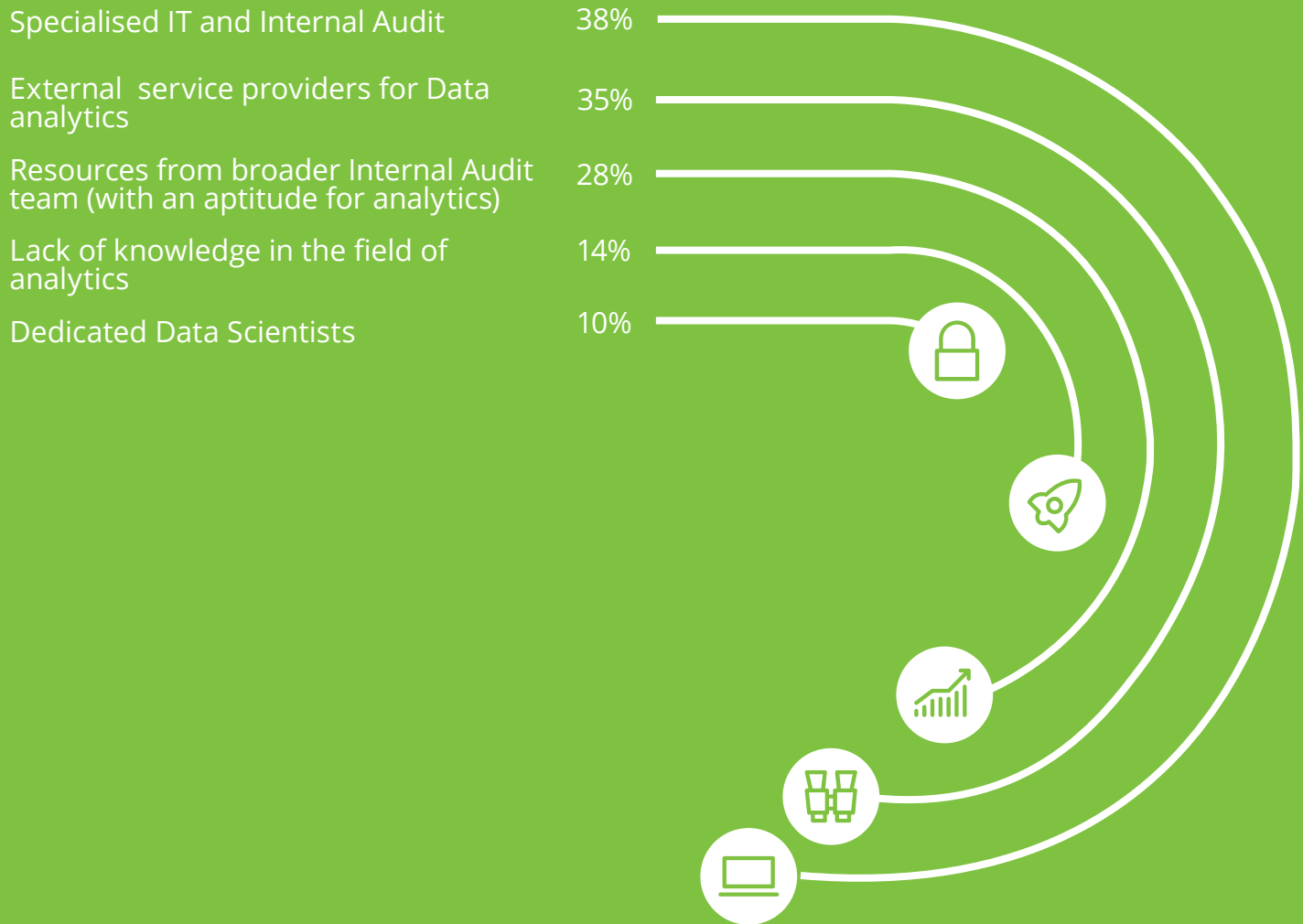


**Implementing cognitive technologies or robotics** requires organisations to deploy automation in the IA function to identify and test the relevant risks. An automated core assurance applies technologies to enable continuous monitoring and auditing of processes, accounts, transactions, and controls. This further helps to enhance the efficiency and effectiveness of both the management and the IA function.

**Better integration with the organisation's second line of defence functions** requires a new operating model that cuts across the three lines of defence. A comprehensive and common understanding of the roles and responsibilities in each line is the key success factor in finding innovative ways of working. Investments in common tools and technologies might be a worthwhile idea, but it is also necessary for functions to invest in a common language and taxonomy for an effective collaboration and understanding between the business team and the IA function.

**Strengthening the talent pipeline** ensures that IA attracts the right talent to meet the set objectives. A strong brand for the function within the organisation will certainly help with the view that IA represents an excellent opportunity for career acceleration where rotation programs are implemented. In addition, as the function becomes more forward-looking and dynamic, it will attract highly diverse and skilled individuals.

## Capabilities of Internal Audit function's analytics team



## It is time to embrace Analytics

Organisations that have implemented Analytics in IA consider it to be an effective tool in improving the productivity of the function.

There is an increasing need for IA functions to embed analytics into their approaches, methods, and communications to enable a more effective management of relevant tasks.

In India, less than 38 percent of the functions have team members with adequate experience in both analytics and IA. Though the statistics indicate that Indian organisations rank higher than other surveyed countries in terms of effective adoption of analytical skills in their processes and systems, there is still a scope for enhancement.

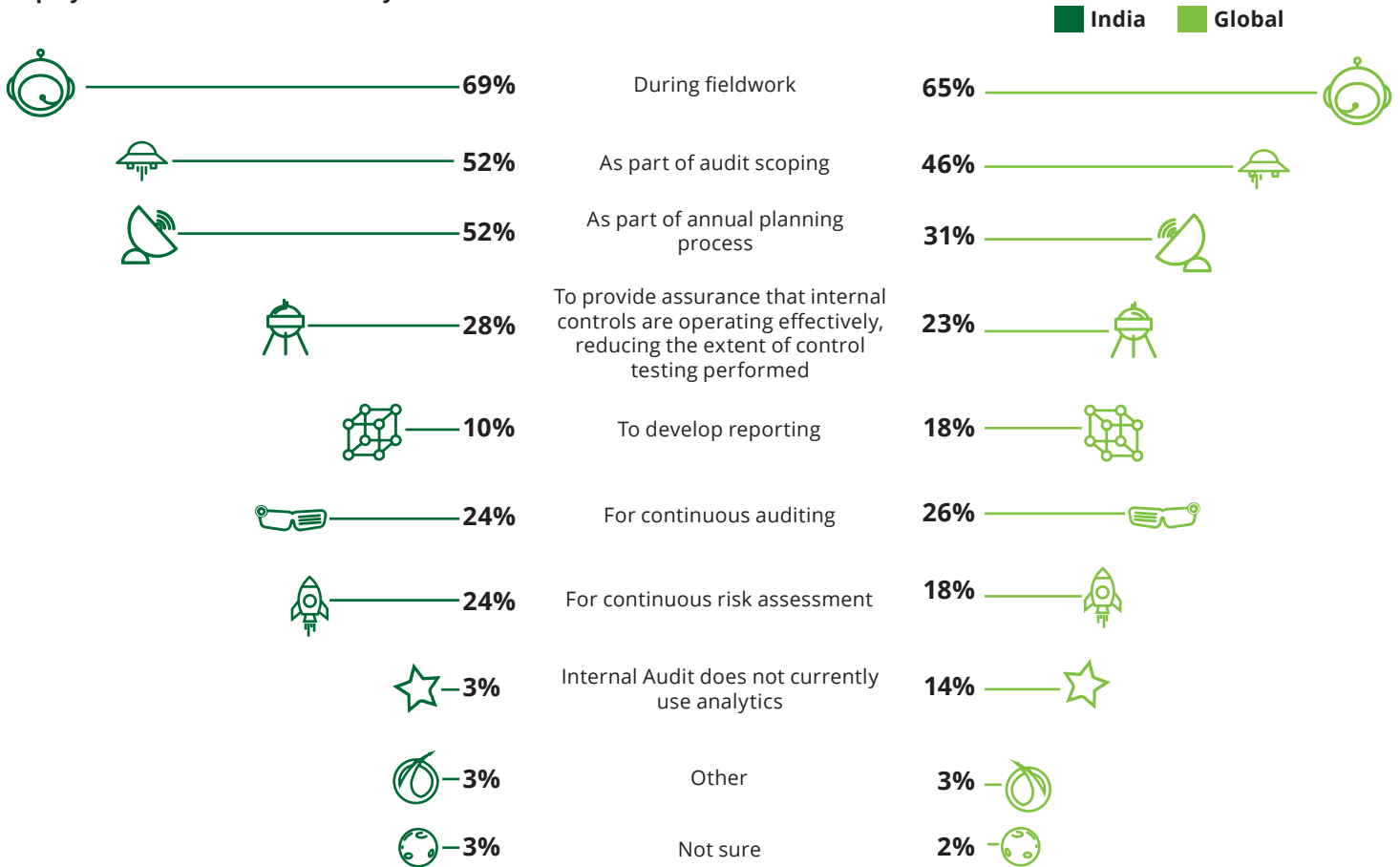
According to the survey, 48 percent of the Indian organisations have agreed on the fact that Internal Audit methodology needs to channelise the use of analytics, but are unaware of the integration points and/or analytics procedures, whereas 35 percent say that Internal Audit methodology specifically makes note of integration points and analytics procedures in their firms.

To acquire analytics capabilities, a relatively high percentage of CAEs plan to train (52 percent) and/or hire (38 percent) the right talent. This reflects a desire to develop talent specific to the needs of the industry and the organisation. However, alternate staffing models such as outsourcing (often done for information technology audits) can support more generalist activities including data extraction and data management.

### Why embrace Analytics?

The use of analytics enables IA to identify high priority areas, conduct audit activities more efficiently, develop deeper insights, and communicate results through visualisation tools.

### Deployment of Internal Audit analytics

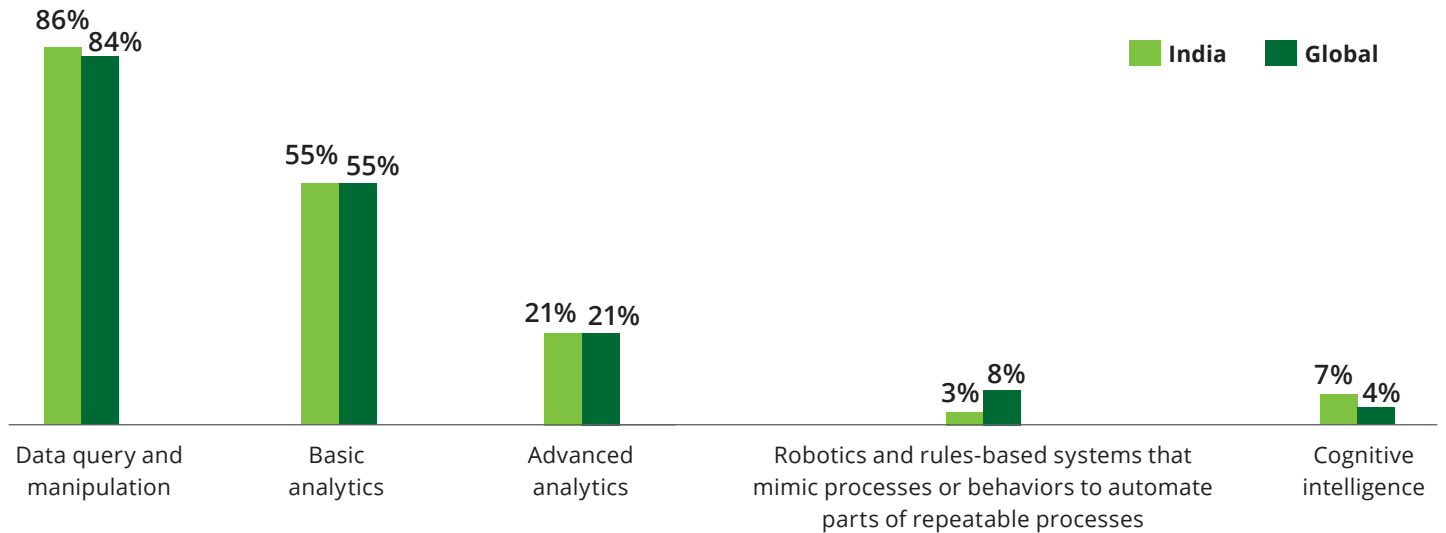


Analytics is underutilised in audit planning, and continuous auditing must increase. Similar to global results, analytics is more often deployed during fieldwork than in the high-impact activities such as audit scoping and planning. For most IA functions in India, the greatest analytics opportunities lie in continuous auditing and risk assessment, and report development. However, analytics in these spheres is currently underutilised.

Use of advanced analytics has increased, but there is still a long way to go. With analytical skills and a few simple tools, Internal Audit can readily apply analytics throughout the Internal Audit life cycle. Analytics could be deployed in activities such as audit scoping, audit planning, process of analysing, comparing, profiling, and visualising data, and the formulation and testing of the key hypotheses of the audit planning through report development.



## Types of analytics used



Here is the real opportunity for IA function in terms of usage of analytics. With access to all the data within the organisation, Internal Audit is uniquely positioned to analyse multiple data sets and identify trends, relationships, and anomalies that no one else in the organisation can. In addition, combining internal and external data can enhance the stakeholders' understanding of the relevant risks. So, while using analytics to deliver more insightful audits with enhanced efficiency is a worthwhile goal to pursue, IA must capitalise on its position

and abilities to deliver informative views of business issues and risks.

Also, while data quality and access to the data may present challenges, Deloitte has found that IA groups that work with the available data, rather than waiting for better quality data (or using "poor data quality" as an excuse for inaction), can overcome these data challenges and derive the benefits discussed in the report.

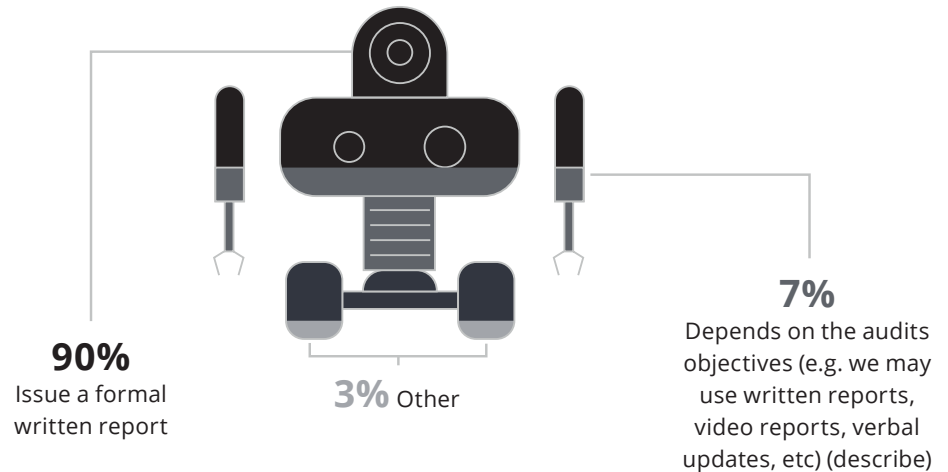
## Evolution of reporting techniques

An overwhelming majority of the Internal Audit functions communicate their findings through static reports (i.e., text documents and presentations) that the profession has conventionally used for several years. Relatively, few CAEs employ dynamic analytics or visualisation tools to communicate their findings with their stakeholders.

This is one of the contributing factors to the low impact and influence of Internal Audit on the business. Organisations need to shift from static communication to dynamic (or interactive) communication such as, analytics or visualisation tools. This would help them meet the organisation's need for real-time and near real-time reporting on processes, controls, and risks. It also helps the function to focus on the future rather than the past, and on insights rather than on data. Stakeholders want practical, actionable information. Relevant insights build credibility, and enhance the function's ability to make an impact and gain the required influence.

To change its messaging, Internal Audit must change the medium and format of messaging.

### Forms of Reporting



## Key innovations that impact the Internal Audit function

### Innovation imperative — Every Internal Audit function can innovate

Organisations across industries are innovating on a daily basis, and IA needs to find a way to be more valuable to the organisation. To enable the evolution of the IA function, there is a need for a change in the mind-set of leaders in the organisations. IA, as a function, must be forward-looking, engaging, and more focused on delivering business value and insights.

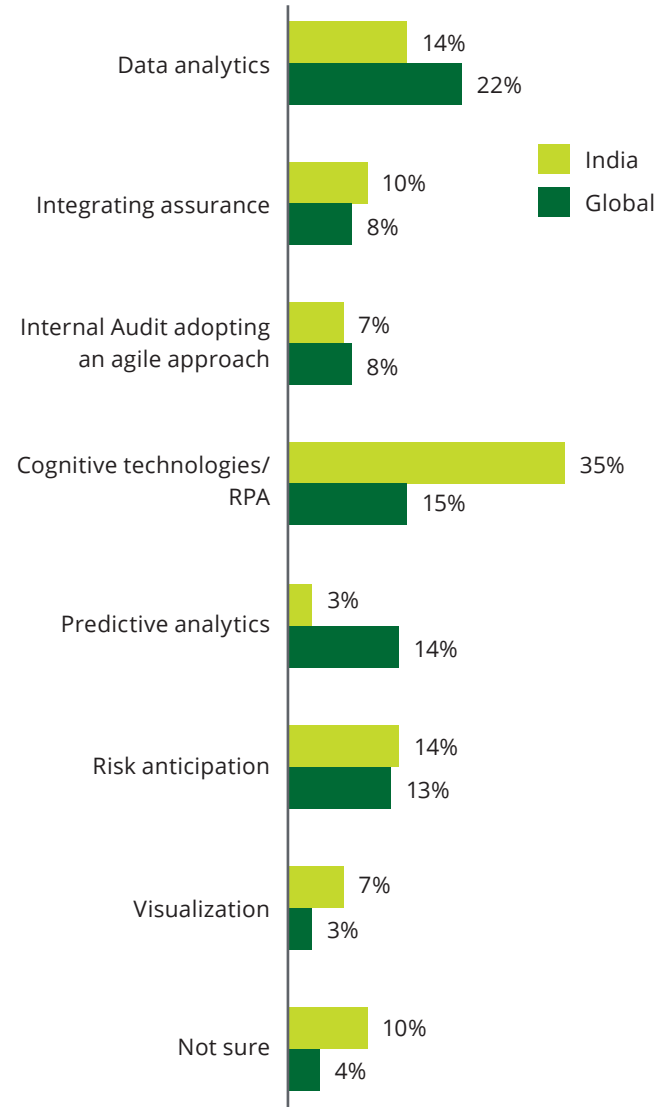
### Innovations to be considered

Indian CAEs expect various developments such as cognitive technologies/ RPA, data analytics, integrated assurance, agile Internal Audit and risk anticipation to impact their functions in the next few years.

In citing risk anticipation, innovations such as data and predictive analytics, visualisation, and cognitive technologies will considerably affect Internal Audit, CAEs indicate that the need to provide foresight to the key stakeholders in the organisation. These stakeholders expect Internal Audit to use predictive and sensing tools and other emerging technologies to gauge the likelihood of success or failure of an initiative, and identify ways to increase the chances of success. However, in spite of the identified importance of these tools and technologies, they are not considered among key innovative developments in organisations in India and globally. In general, the emergence of risks and issues requires that the reporting become more streamlined and visual for more actionable outcomes.

According to us, many of these key innovations and developments are interlinked. For instance, if the organisations wish to enhance the integrated assurance, visualisation tools and dashboards must be used to provide a holistic and an integrated picture of the risks impacting the organisation.

### The key innovative developments impacting Internal audit over the coming 3-5 years



# Upskill and re-skill resources to keep up with the evolving Internal Audit function

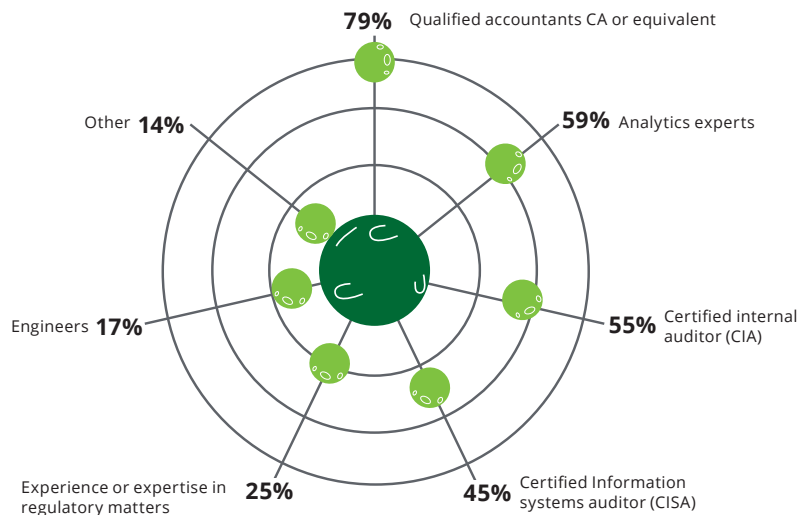
## Need for IA talent to upgrade analytical skills

There is an increasing awareness among the CAEs about the need to strengthen the skillsets of the IA professionals in organisations for an enhanced impact and influence within the organisation. According to the survey, only few of the CAEs are fully satisfied that their teams have the skills and expertise to meet stakeholders' expectations.

Internal Auditors need to possess multi-disciplinary skills and competencies to successfully provide actionable insights to an organisation. In India, four out of five CAEs cited a shortage of highly skilled internal audit professionals.

There is a dire need for skills to effectively address key risks that impact the organisations. There exists a gap between the professionals available and the required skills since the latter go beyond the long-standing skills associated with reviews of controls or operational and financial audits. However, given the intended course of change, these skills need to be acquired to meet the changing face of the function.

### Qualifications sought out by internal audit teams





## Innovative resourcing models can help address skills gaps

The talent market is becoming increasingly competitive in nature, and Internal Audit is not necessarily one of the most lucrative choice for the kind of talent that the CAEs would hope to hire. Internal Audit teams are increasingly adopting alternative resourcing models to supplement their core Internal Audit teams, given the dearth of specialised talent.

76 percent of Indian respondents say that their Internal Audit function utilizes alternative resourcing models to be able to deploy the required skills for specific areas such as blockchain, cyber security, supply chain, etc.

Co-sourcing prevails as a popular alternative sourcing model, enables Internal Audit to secure specialised skills, additional capacity, and just-in-time flexibility without long-term investment. The same is true for the occasional use of external resources.

There will be a noticeable increase in the adoption of guest auditor programs, to attract people from the core business teams

into Internal Audit to assist with specific reviews. These programs bring in individuals with an in-depth understanding of the audit matters, enabling the Internal Audit team to ask more insightful questions, strengthen their analysis, and deliver greater value to the business. This business knowledge is transferred to the Internal Audit team, and in turn, an understanding of risk and control is transferred to the business.

Rotation programs provide the similar benefits of cycling talent from the business through Internal Audit and vice versa. Many Internal Audit functions are yet to realize the significant benefits of these programs. This is due to significant barriers such as lack of support from the senior management. IA is not seen as a career accelerator in the available rotation programs in organisations. In our experience, a systematic planning along with long-term commitment, senior executive support, and wise choice of candidates could help meet the set objectives for the IA function.

# Need for Cyber Security assessments

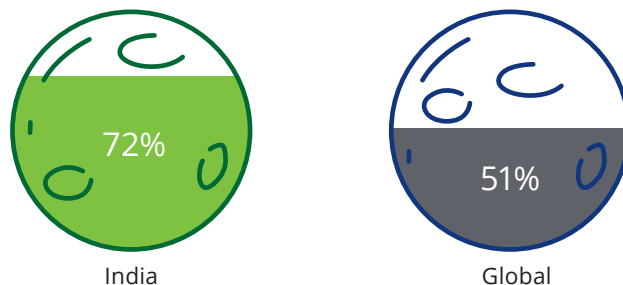
There is an increasing need for Internal Audit function to conduct elaborate Cyber risk assessments. As the usage of mobile applications, Internet of Things (IoT) devices, digitised processes, and cloud services expand within an organisation, the scale of the impact of cyber risks on the organisations also increases dramatically. Internal Audit can prove to be of great value to the firm in mitigating these risks.

However, the survey findings suggest that Indian organisations dedicate a very minor portion of the Internal Audit plan towards the cyber risk assessment. A majority of the Indian firms (38 percent) have less than 5 percent of their Internal Audit plan focused on cyber risks, and about 7% of the organisations do not have any focus on cyber risks in their Internal Audit plan. Expanding coverage of cyber risks in Internal Audit plan can greatly enhance the function's impact and influence on the decisions made in the organisation. Among the organisations keen on examining the potential of cyber risk assessments, about two out of three have developed a cyber-based Internal Audit plan (71 percent in India and 74 percent globally).

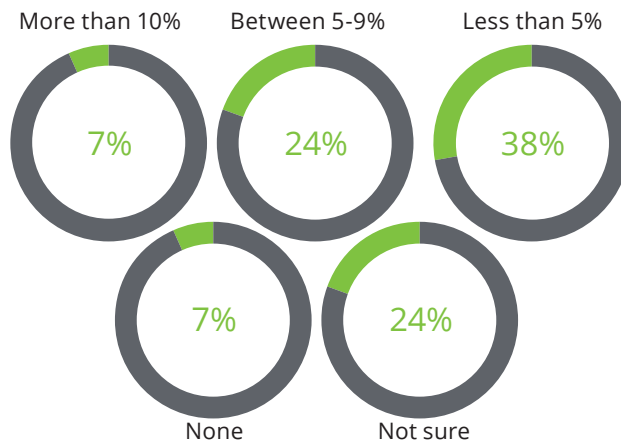
Primarily, three frameworks are being leveraged to build an audit universe for cyber security namely COBIT, ISO and NIST. The following survey findings indicate the importance of these frameworks in Indian companies:

COBIT	:	45 percent
ISO	:	31 percent
NIST	:	14 percent
Others	:	10 percent

**Percentage of IA functions in Indian organisations that conduct a cyber-focused risk assessment to assess potential cyber exposures**



**Percentage of the IA plan in Indian organisations dedicated to Cyber Risk**



# Position Internal Audit as an effective business influencer

## Build influence and impact

Globally, Internal Audit’s impact and influence has improved in the last three years, but function could be viewed more positively.

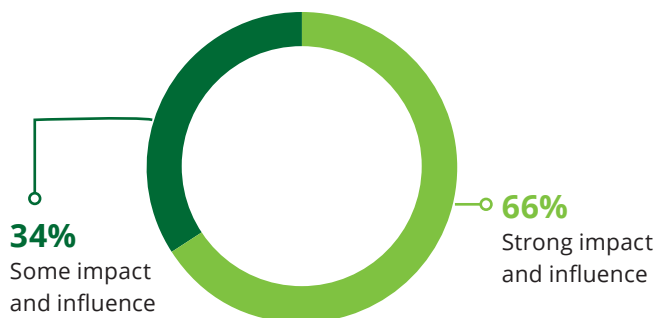
Audit committees and boards need help in untangling the complexities of the evolving businesses, technologies, and competitive and regulatory environments. Internal Audit possesses an enterprise-wide view that would be extremely valuable to the stakeholders in understanding and addressing these complexities.

The survey findings indicate that 66 percent of the surveyed CAEs considers IA as a function with a strong impact and influence. However, over one-third of the CAEs feel that the IA function in their organisations lacks strong impact and influence, highlighting the change imperative.

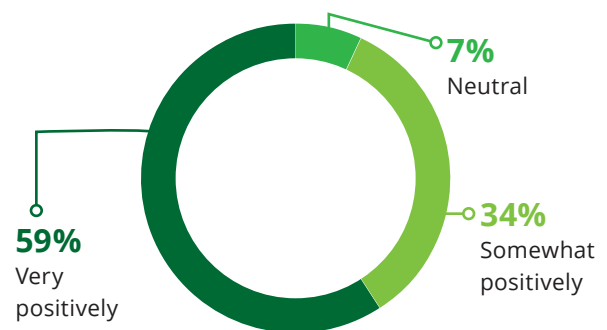
The survey findings indicate that while the Internal Audit function has reached a position of value-adding advisory in

organisations, a significant percentage of the CAEs (41%), do not perceive the IA function in a very positive light. This suggests that Internal Audit must focus on improving the process of reporting, communication and internal branding. The Internal Audit function must enhance its value and the way it presents that value to the management, the audit committee and other stakeholders.

Impact of IA as a function in Indian organisations



Perception of IA as a function in Indian organisations



## Potential for culture assessment

### Changing face of Internal Audit assessments

The nature of advisory services goes beyond profit maximisation as the scope of Internal Audit extends to Regulatory Compliance and Cultural Assessments. The survey findings indicate that 65 percent of the Indian respondents expect advisory services to increase.

### Culture assessments should see wider application

Breakdowns in the organisational culture as reflected in the conduct that fosters risk events, occur frequently. That is why

regulators in financial services and leaders across industries are critically focusing on the organisational culture in recent years.

41 percent of the Indian respondents mention that their Internal Audit function has formally evaluated the organisation's broader culture in the last three years that is greater than the statistical indication of Internal Audit functions globally (28 percent). Though these findings highlight the progress in the IA function of the Indian organisations, culture audit has a great scope for improvement, through multiple interactions with business leaders.

### Current status of Cultural assessments in Indian organisations





## Increase in advisory services

### Internal Audit is moving towards an advisory-role

Currently 28 percent of the Indian respondents mentioned that the lack of advisory capabilities limited their impact within their organisations. To address this, over 60 percent of the Indian respondents expect the advisory services to grow over the next three to five years. The evolution of the Internal Audit function into an advisory role can potentially enhance its impact on the key business decisions, and enable them to provide actionable insights to the business. Advisory services would increase the value provided by the function to the organisation. Therefore, compared with assurance, advisory services lead to a seat at the table or position the CAE more firmly in that seat.

### Emphasizing advisory services can increase the function's impact and influence

Advisory services such as predictive risk analysis and advice on risk mitigation provided in the planning stages of an initiative will deliver more value than simply noting what the management could have done differently after the initiative has been launched or completed.

Advisory services demand Internal Audit to have the essential business, communication, and other skillsets. They also call upon Internal Audit to develop a “brand” that the organisation could associate advisory perspective and assurance services with.

### Current services provided by the IA function

★ India   ★ Global

Mostly assurance with some advisory



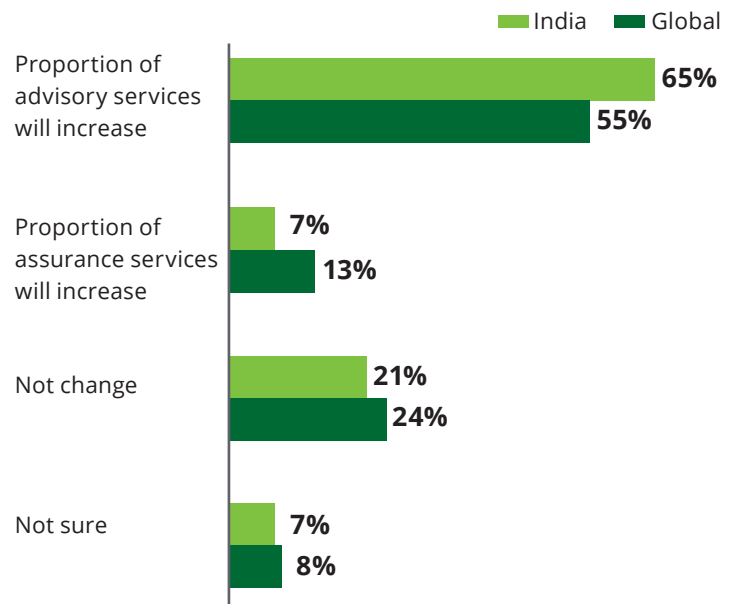
Relatively even balance between assurance and advisory



Only assurance



### Expected changes in the IA service offerings in the next three to five years









# Conclusion

## An evolutionary crossroad

**The current business environment and its volatile nature has compelled organisations to develop certain capabilities**, such as the ability to anticipate risks and implement responses. Internal Audit as a function can assist organisations in developing these capabilities. However, many Internal Audit teams lack the influence, skills, and tools to do so.

The survey findings highlight the way forward for the Internal Audit function. Although the specific course of action varies on a case-to-case basis, following are the steps that organisations must consider in creating the required efficiencies:

- **Seek ways to increase impact and influence.** This overarching goal will be achieved by enhancing the value that Internal Audit delivers to the stakeholders. This requires the IA function to learn about the changes, issues, disruptors and relevant risks. There must be a collaborative effort by the Internal Audit teams, the management and the audit committee to develop ways to address the increasing requirements of the business stakeholders.
- **Embed analytics into Internal Audit activities.** Analytics has the potential to transform Internal Audit.

The implementation of analytics has been simplified with the development and research in the field that have decreased the complexities and costs involved. Thus, analytics proves to be of great value to the audit processes such as audit scoping, planning and risk assessments.

- **Information is a significant component of most organisations.** Data security is a major issue for businesses and organisations today. Embedding cyber security through every IA project is an essential imperative.
- **Streamline and visualize communications and reports.** Stakeholders require information and insights in simplified forms and formats. With simple visualisation tools, Internal Audit can highlight the anomalies, risks, and issues in the business processes more effectively and efficiently.
- **Assess and address talent and skills gaps.** There is an increasing realisation of the existing skill gaps in the IA function. Targeted resources could be made available through guest auditor

and rotation programs, co-sourcing and outsourcing models, and other such arrangements.

- **Promote a culture of innovation within the function.** Organisations must adopt the best practices and the new techniques and developments in the Internal Audit space. Expected innovations such as risk anticipation and predictive analytics must be explored and implemented, if not already in place.
- **Marshal senior-level support.** It is essential that organisations work with key stakeholders— the Audit Committee Chair, Chief Financial Officer, and Chief Executive Officer— for support on a program that directs specific changes to maximise yield benefits. One such change would applying analytics to increase audit efficiency, reduce costs, or plug cash leaks. Another would be to secure support for rotation programs as a way to help address skills gaps and to increase the number of ambassadors for Internal Audit within the broader organisation.

**CAEs currently have real opportunities to shape the evolution of their functions, organisations, and profession. Capitalising on those opportunities calls for taking action. Now.**

# Contacts

**Rohit Mahajan**

rmahajan@deloitte.com

**Anthony Crasto**

acrasto@deloitte.com

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**Santosh Kumar**

**Rati Acharya**

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