

Data Driven Internal Audit

What to do Monday morning 9AM

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Introduction

On March 11, 2020, the World Health Organization (WHO) officially declared COVID-19 a pandemic. As the world continues to grapple with the uncertainty surrounding the spreading of COVID-19 and its growing impact on stock markets, supply chains, and other pillars of the global economy, it's important to remember that this event is first and foremost about people—their families, their well-being, and the organizations and institutions that they rely on and trust in times of need. From hospitals to banks to stores and transportation, it's critical for these organizations and businesses to be strong and resilient so they can serve the people who depend on them for products, services, and livelihoods.

Besides the current pandemic, Artificial Intelligence (AI) will change the way we work, the way we communicate, the way we make decisions and the way we interpret the world. Machine learning algorithms, AI-powered platforms and data analytics are already becoming mainstream. Combine that with immense computing power to process oceans of data drawn from billions of connected devices, and we are growing the ability to solve complex problems at speeds that human brains alone can never achieve.

However, this is for businesses as a whole. Within most Internal Audit departments the journey to becoming 'really' data driven (data analytics, AI, RPA, etc.) has just started. What AI can actually do for Internal Audit departments can still be decided. The truth is that applying AI within Internal audit is 'Champions league' while most organizations are playing in the lower league, and some steps are necessary to grow in maturity.

We have seen that most Internal Audit (IA) departments have started their data driven journey and are leveraging data analytics. Some of them have failed, while most of them are struggling or find it challenging. There is no one-size-fits-all approach, but we do know, and want to share, the main components and steps to come to the right approach for every organization.

We see a trend in the way IA functions are operating and moving to a more Agile way of auditing. As it is not possible to perform the audits in the old fashioned ways due to the COVID-19 crisis, it's now even more valuable to build on this data driven journey, leverage data analytics as much as possible and operate as a responsible business to sustain and grow.

Why leverage Data Analytics right now?



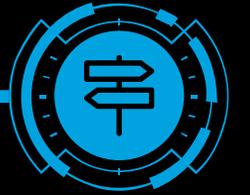
Not easy to Travel

Due to COVID-19 it is not as easy to travel and perform the old way of interviews at this moment .



IT Preparedness

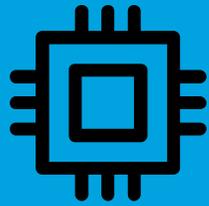
COVID-19 boosted the digital preparedness of society. Organizations are now ready for data driven auditing.



Way of auditing

The preference for the agile way of auditing is changing the way of internal auditing.

Start Monday morning 9AM with data analytics



Social distancing and remote working are the new norms.

The IA organization can deliver better value with the use of data analytics.

We believe that today data analytics within IA should be adapted as a norm.. using it more than what we ever perceived was possible.. and to keep the spirit of internal audits alive and kicking...

A successful approach for a data driven IA starts by getting clarity on these three key aspects



Data maturity of the organization

- Assess the current and future state of the organization.
- Determine the maturity of the **people** inside the organization and in the IA team.
- Identify what the **Data** and **technology** landscape look like.

Organizational governance

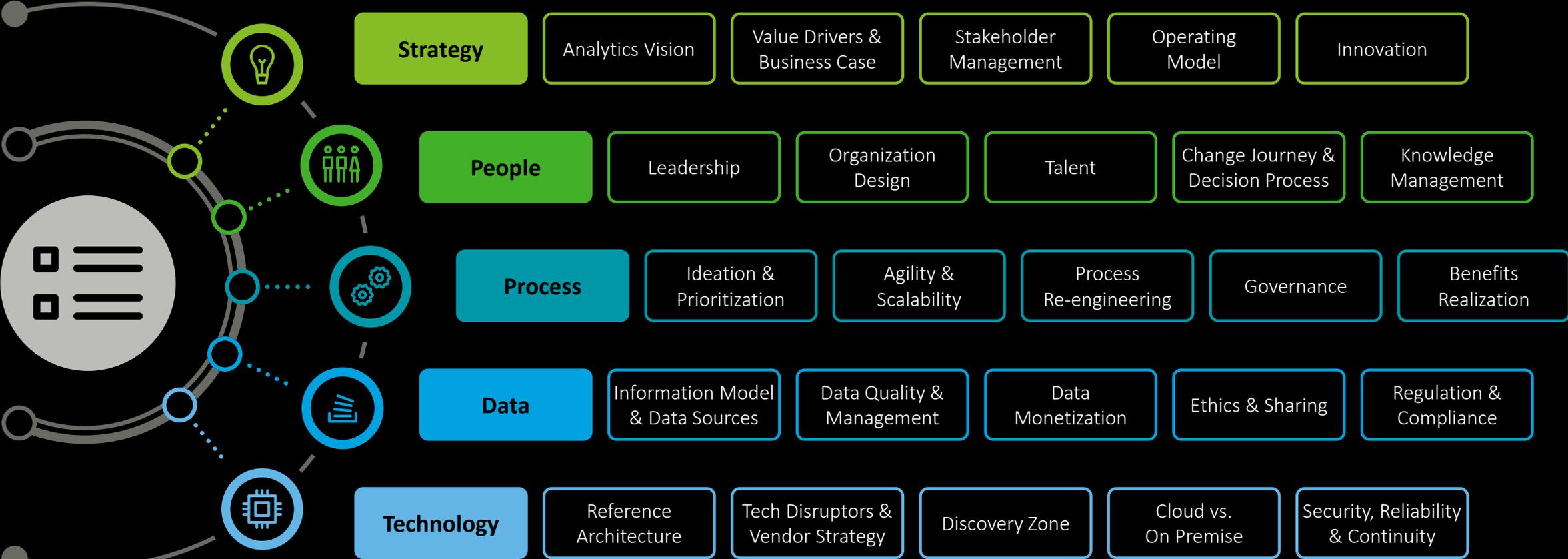
- Type of business/typology of the organization.
- Current organizational setup; Group Centre, vs. Business units, what locations.
- What regulations and compliance rules are applicable for the organization.

Risk governance

- Include the role and setup of the organization, dependent on the role of 1st and 2nd line of defense, and what decisions they can make.
- Define the (current) **process** and methodology, the scope, what is the audit plan (e.g. #audits).
- What (available) tools and techniques to use.
- Define the ambition level of the IA organization including the **strategy** and the vision.
- Define the role of analytics within the function and across the business.

The key components for data driven IA transformation

These five key components are essential in a data driven IA transformation. Dependent on the type or organization the subs are more or less relevant. Tackle all these items your are on your way to a successful implementation of data analytics within IA. A maturity self-assessment is added in Appendix I.



The transformation is actually a journey that leads to a data driven IA function

Assessment:

Understand organization:
Perform interviews/workshops to understand the organization and the current state and align on the future/desired state.

Set the goals, objectives and principles that drive the design of the strategy and analyze the current performance and capabilities.

Recommendations & Roadmap

Create the Roadmap, determine pilots and build future state operating model.

Selecting potential data analytics pilots and determine tools and processes that are needed to support the implementation of the strategy.

Launch of the data driven IA:

Establish governance model, targets, and tools.

Start using the created processes, operating model and align with other business initiatives.

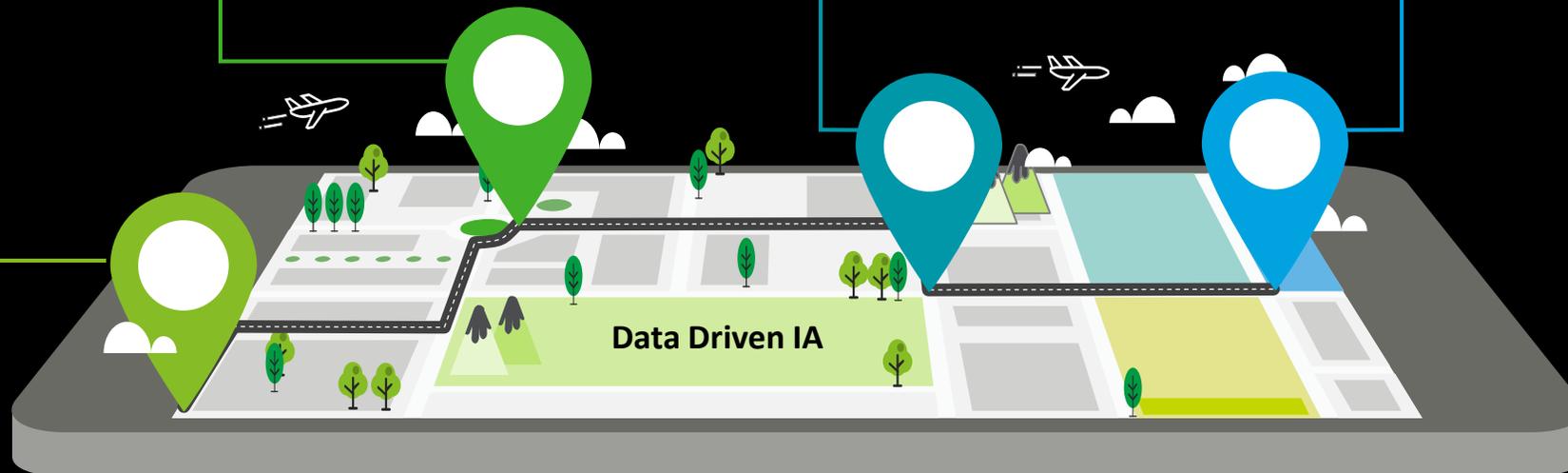
Start applying the analytics and start the journey with successful pilots.

Start training employees.

Continuous improvement:

Continuously broaden the scope and improve where possible.

Execute more data analytics and training more people.

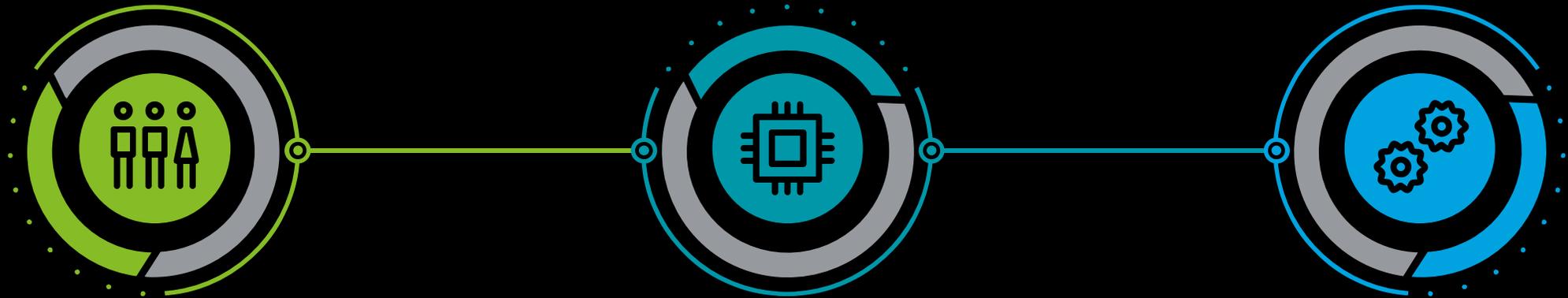


Grow with your data driven IA from the exploring level to Champions league

	Exploring	Building	Innovating	Disrupting/Champions league
Maturity				
 Strategy	A small number or pilot projects have been performed, possibly with some success.	Future state definition of data driven IA is clear and supported with a roadmap and ambition level	Role of data is fully defined. Data is fully utilized for Business and IT audits driving strong outcomes supported with a strong culture & transformed IA	Risk assessment and audit execution are largely driven by technology and data techniques supporting auditor judgment.
 People	A small number or pilot projects have been performed	IA Leadership drive digital, automation and data analytics as key initiative	6-10% of FTEs with mix of technical and non-technical backgrounds; quantitative/ data science skills on the team. Heavy commitment to training	Risk assessment and audit execution are largely driven by technology and data techniques supporting auditor judgment. Training is tied to performance goals
 Process	Little to no cooperation across the enterprise. IA methodology does not leverage automation or mention data analytics	The IA methodology specifically notes integration points and procedures related to data analytics integration.	IT supports improved infra-structure and access to data. Strong workflow and PMO procedures to support the data analytics team.	The IA data analytics team employs leading practices from various disciplines for automation; AI, RPA. Fully integrated data analytics activity workflows.
 Data	Limited or no use of data within audits.	Basic data visualization capabilities available.	Data from different sources is combined to perform advanced analytics	All organizational data is being used to provide insights and assurance.
 Technology	IA tools for collaboration, audit execution and reporting are not in use. Data joins and filters support rules-based testing in Excel spreadsheet format.	The majority of work performed is script based; basic routines may exist to obtain and manipulate data as a part of the scripts.	Advanced visualization, advanced analytics techniques, including predictive models, network analysis, and unsupervised techniques.	Cognitive capabilities (AI) and RPA are fully applied. Auditors rely heavily on results to drive planning and scoping activities. Robust procedures expedite access to data.

What do we see as typical challenges in implementing an effective Analytics program within Internal Audit?

There are common challenges in implementing an effective data analytics program. It's important not to underestimate the potential for resistance and the levels of education and change which need to take place across the department and organization.



People & Change

People are not fans of change. Employees must go through change to be successful. Support and direction from C-level is often lacking.

Buy in is often stuck in ROI discussions, change inertia, skepticism, fear of being challenged.

There is a large supply gap of data analyst and data scientist talent, organizations are shifting towards hiring talent who can generate insights, and are not just number crunchers.

Technology & Communication

Image is 'Techy', complex, and related to math statistics, and hence difficult to comprehend or thought to be IT-only.

Communications: Marred by jargons, the value and insights of data analytics and AI are often 'lost in translation'.

Organizations are distracted by the hype and are confused by what Big Data, AI, Robotics really means to them and how to best apply them.

Siloed implementation

Analysis is **developed in silos** and effort is duplicated. It lacks implementation vision and strategy for enterprise wide integration.

Confidence in data is low due to inconsistent definitions. Reluctance to share data and inability to get timely access to it.

No or too little investment in understanding the data landscape thoroughly.

What to do Monday morning 9:00 AM

The journey to become a data driven IA starts with the Assessment of the current and future state. Create the roadmap based on the three key aspects of a successful implementation. Once you are using Data Analytics for a period of time and use it efficiently then it's time to grow to the next maturity level and grow to the 'Champions league'.

Start Monday 9AM with your assessment and determine the roadmap based on the three key aspects.

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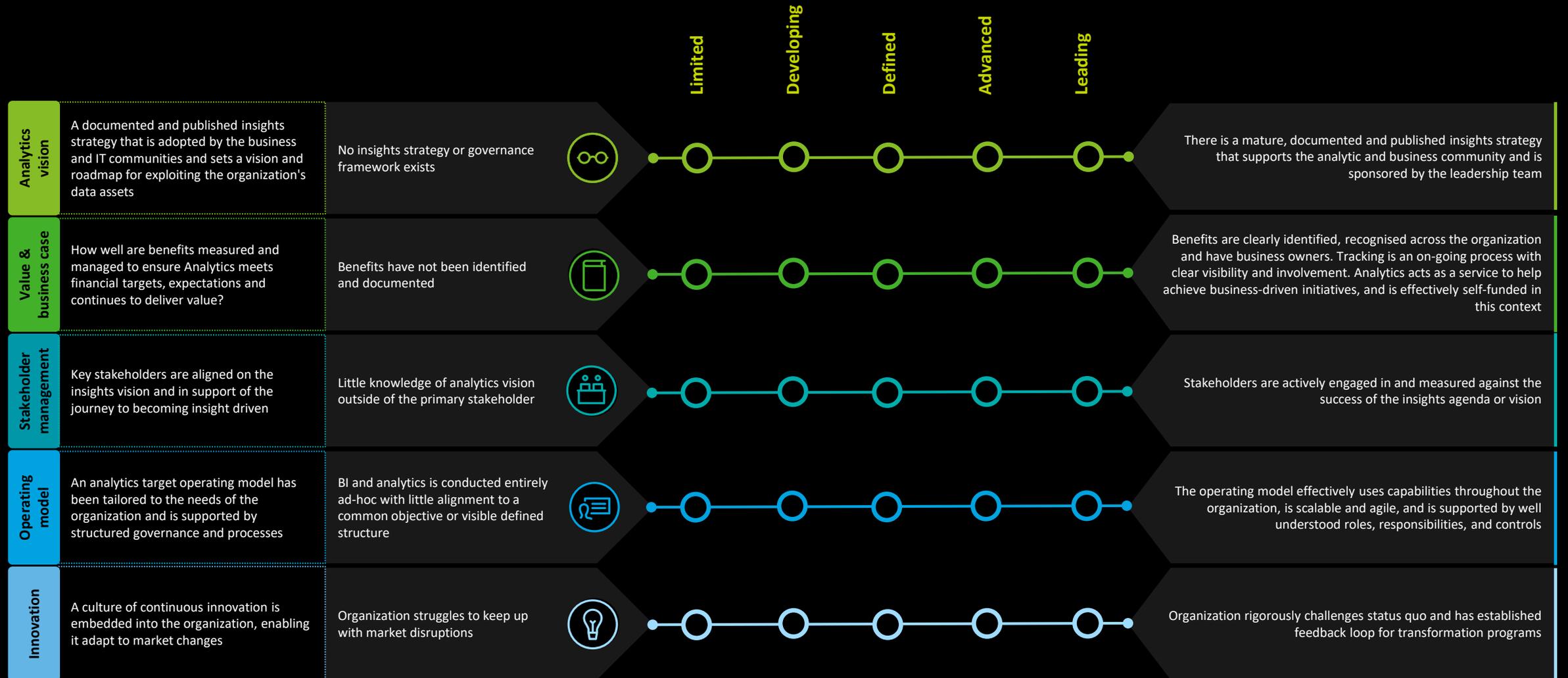


Melissa Kont

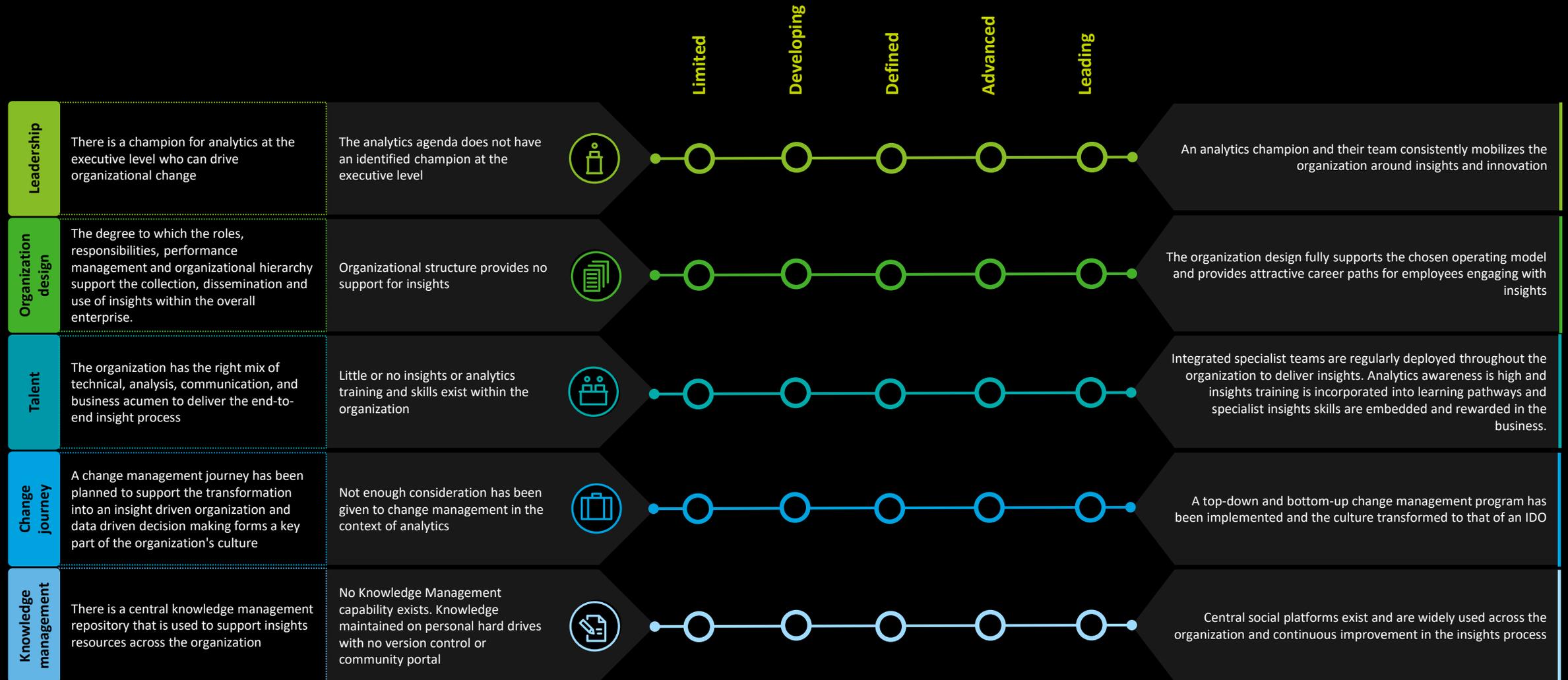
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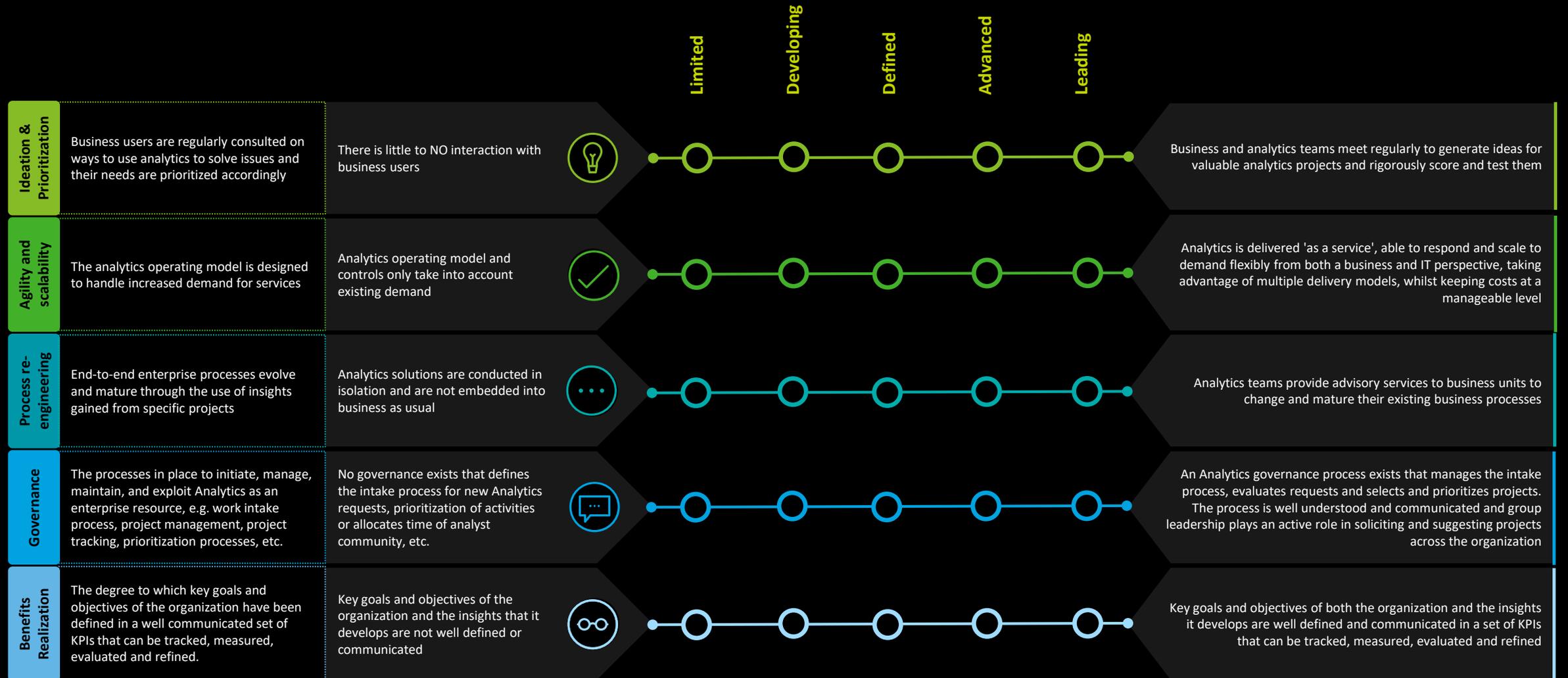
Appendix I - Maturity self-assessment: Strategy



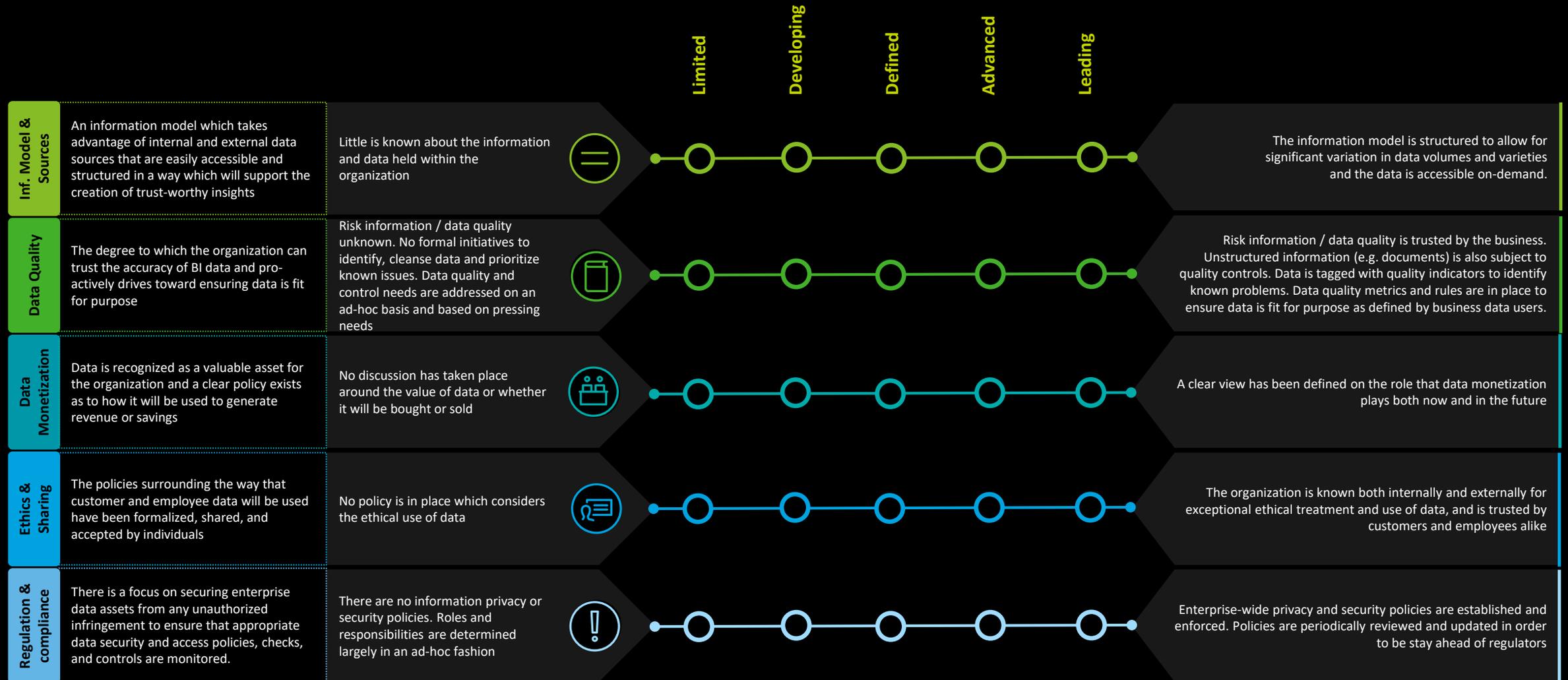
Appendix I - Maturity self-assessment: People



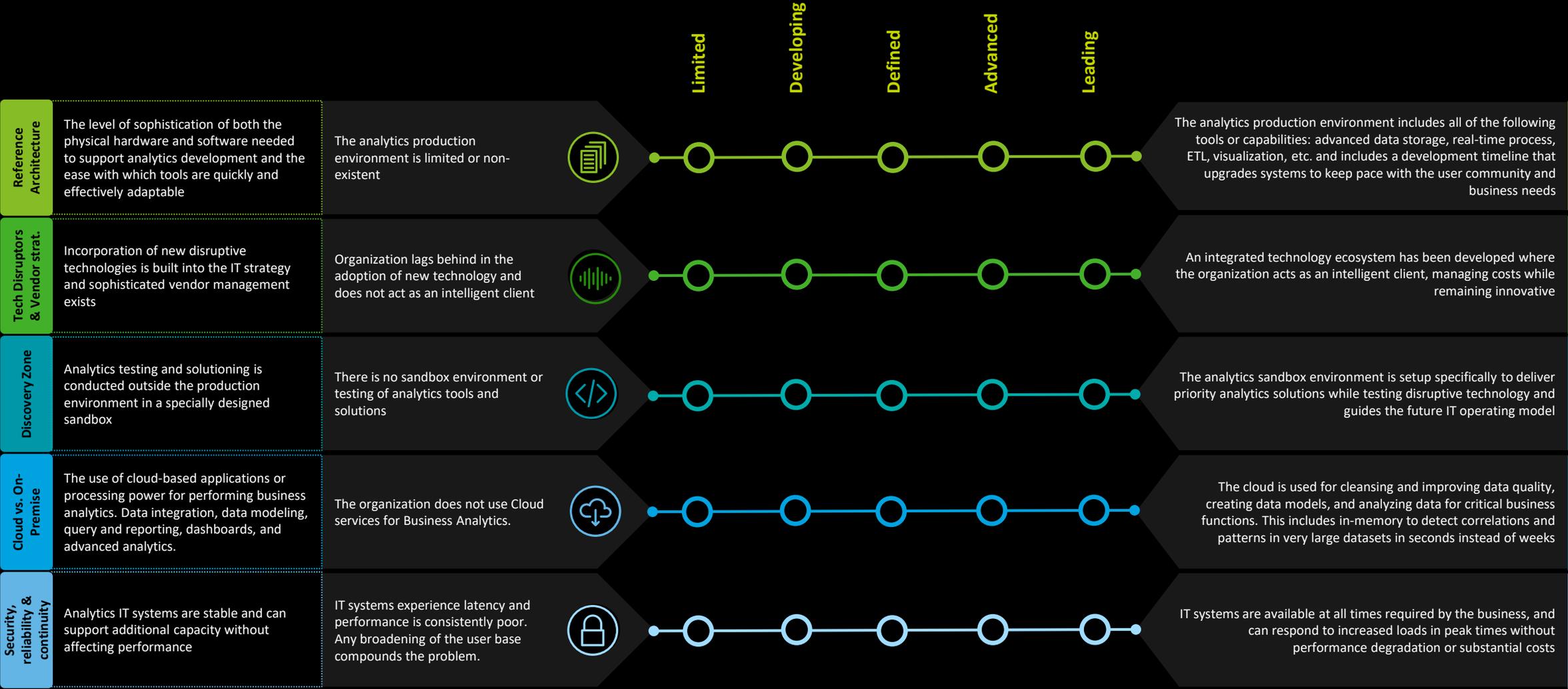
Appendix I - Maturity self-assessment: Process



Appendix I - Maturity self-assessment: Data



Appendix I - Maturity self-assessment: Technology





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