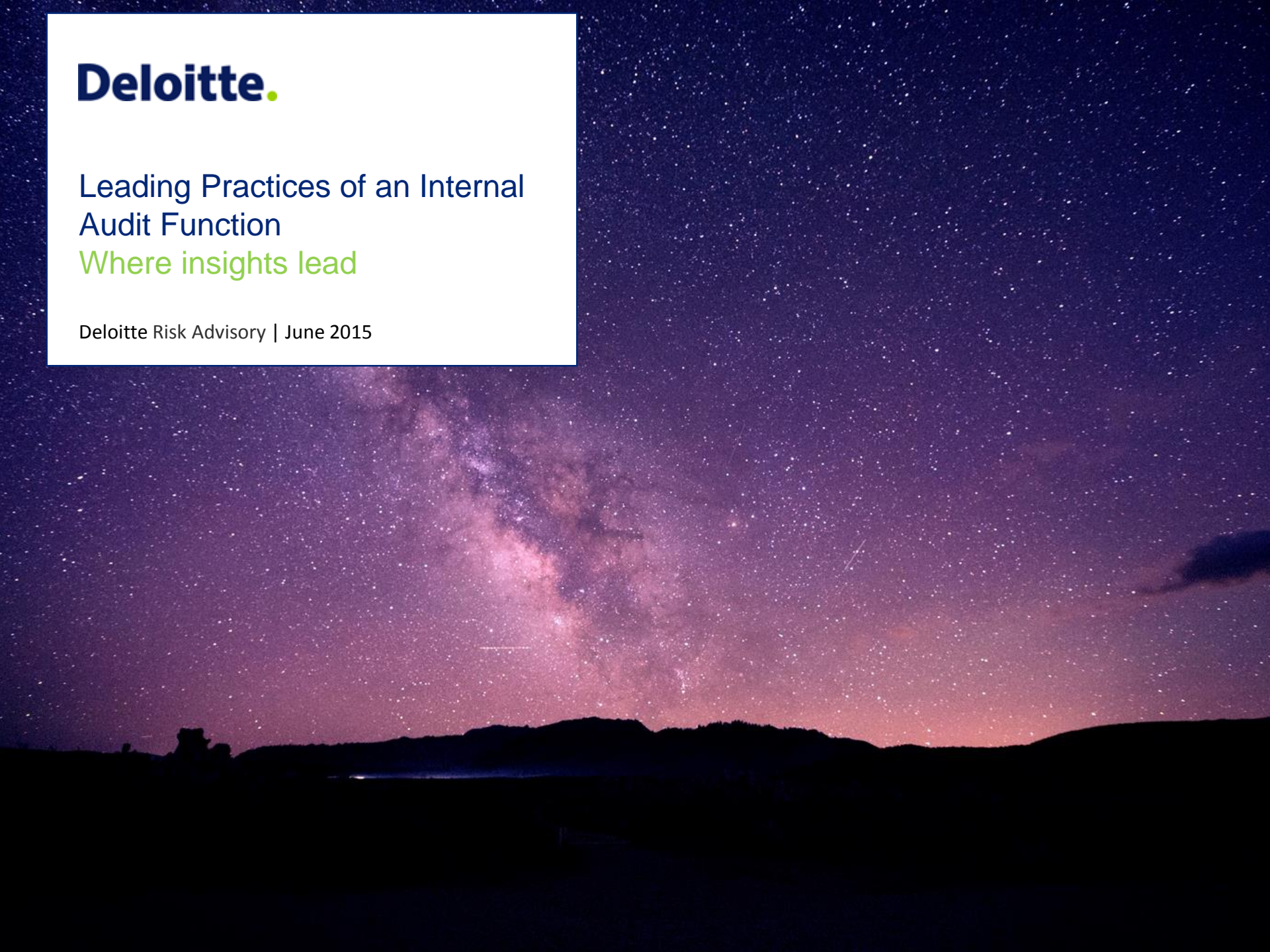# Deloitte.

Leading Practices of an Internal Audit Function
Where insights lead

Deloitte Risk Advisory | June 2015

Transforming internal audit

Deloitte Risk Advisory understands that you seek to refresh the vision for the Internal Audit (IA) function and exploring what other leading internal audit departments are doing and how they drive value. We are pleased to share our perspective on the role and value of internal audit. Some considerations include:

- What are other leading IA departments focused on?

- What are they responsible for? How are they positioned? Structured? Resourced?

- How are they resourced? Where and how they attract, retain, and develop talent?

- How do they execute their responsibilities? Tools? Capabilities?

- How are they evaluated?

Performance and communication
- Quality assurance
- Key Performance Indicators and monitoring
- Relationship management
- Change management
- Reporting

People and knowledge
- Resource management
- Performance management
- Training and competence
- Communication and knowledge management

Process and Tools
- Risk assessment and planning
- Audit execution
- Issue follow-up
- Technology and tools

Purpose and remit
- Governance Framework
- Assurance framework
- Audit charter - objectives, scope and responsibilities

Position and organisation
- Authority and reporting lines
- Organisational structure
- Internal profile and impact on business

Internal Audit…

Respected leadership
Direct board access and a "seat at the table" with executives

Not just compliance
Greater scrutiny of emerging risk areas, add value to the business and bring insight to management

Add value up front
Increased involvement in strategic projects and advise on risk management up front

Greater focus on risk areas
Scope includes non-traditional risk areas in operations, finance, security, privacy and technology risk management

Talent expertise and development
Expertise in subject matter areas and fosters leadership development

Optimize process and technology
Seamless use of data analytics, visualization and other leading practices in security and technology

Striking the right balance for internal audit

Leading IA functions strike the right balance between broad value for the organization together with their fiduciary responsibility under their audit charter. IA plays a fundamentally key and correlated role in corporate risk and assurance governance. We like to view this function through the Institute of Internal Auditors' (IIA) **Three Lines of Defense Model**, making it clearer how this function interacts with each other and with key stakeholders.

Governing bodies and senior management are the primary stakeholders served by the "lines" and are best positioned to help ensure that the Three Lines of Defense model is reflected in the organization's risk management and control processes. IA is able to provide comprehensive assurance based on the highest level of independence and objectivity within the organization, including areas of governance, risk management, and internal controls. Deloitte Advisory then seeks to bring innovation and leading practices throughout how IA executes on these responsibilities.
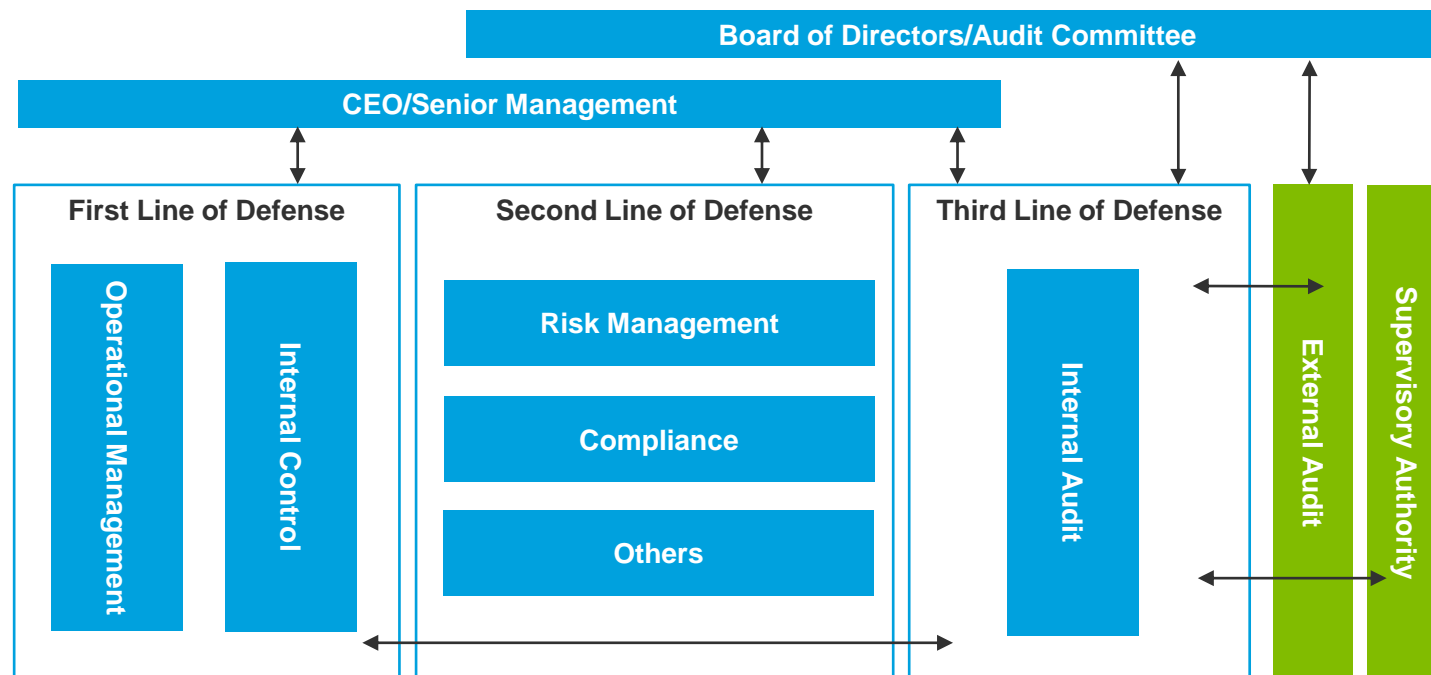
Source: Institute of Internal Auditors: The Three Lines of Defense in Effective Risk Management and Control

Internal audit maturity model

Understanding the maturity of an IA function helps identify areas of improvement and can help the department enhance its value to the organization. It also helps better align expectations with key stakeholders.

	Basic		**High value**
Perspective	Focus on the past; retrospective look on what happened	⬌ Focus on present—survey battlefield, shoot wounded ⬌	Future—help the wounded, map the minefield
Style	Corporate police	⬌ Fact finder/Father knows best ⬌	Trusted advisor (auditing and consulting)
Planning/risk focus	Rotational/Based on history (Financial and compliance risks)	⬌ Risk-based audit plan (Operational, compliance and financial risks) ⬌	Enterprise risk-focused audit plan (Full spectrum of risks)
Existence of Chief Audit Executive (CAE)	Not likely	⬌ IA Director ⬌	CAE/Member of "C"suite
Reporting lines	CFO/COO	⬌ CEO ⬌	Audit Committee Chair
Objective and mandate	Compliance to policies and procedures	⬌ Assurance on internal control systems and compliance ⬌	Business risk assurance
Independence and objectivity	Hopefully	⬌ Generally ⬌	Absolutely
SoX ownership	Owns	⬌ Participates ⬌	Validates
IT Auditing	Ill-defined	⬌ GCCs, security, applications ⬌	Consulting to improve IT infrastructure
Fraud prevention and detection	Generally not addressed	⬌ Reactive ⬌	Proactive
Risk Management	Limited assessment	⬌ Thorough assessment ⬌	ERM Champion
Governance	No involvement	⬌ Limited involvement ⬌	IA as advisor/facilitator
Technology	Limited	⬌ Automated workpapers and use of CAATs for data analysis ⬌	Advanced use of CAATs and continuous assurance approach
Results	Small findings	⬌ Assurance on key audit units ⬌	Proactive risk management contribution/Dynamic reporting

Focusing over the horizon

Leading IA functions proactively engage in key topical areas and high impact areas of focus.

Governance

- Changing the relationship between audit committees and CAEs
- Improving audit committee performance
- Internal audit reporting structure with executive-level accountability and presence
- Internal audit metrics, accountability, and performance improvement
- Auditing the management compliance process

Fraud & Ethics

- Reporting status of fraud investigations and monitoring hotlines
- Auditing for broad areas of ethical concern and ethics program
- Working relationships between in-house legal counsel, security, compliance, HR, and internal audit departments
- Taking an enterprise compliance approach
- Managing the cost of compliance

Risk

- Converging risk management, compliance, and IA
- Assessing risk associated with complex financial instruments, complex accounting and regulatory, and compliance matters relevant to industry
- Reporting and communicating risk assessment results
- Assessing reputational and brand risk
- Assessing cyber risk and threats
- Monitoring extended enterprise risks

Technology

- Applying data analytics throughout all aspects of the internal audit process
- Evaluating the basics and evolving IT areas including identity management, social media risks, emerging technology, cyber risk (cyber intelligence and warfare), ShadowIT, mobile security, etc.
- Protecting customer data
- Planning for business continuity and crisis management

Talent

- Considering varied and emerging talent models
- Attracting and retaining the right talent in IA (e.g., management development, rotations, guest auditors, operational experience liaisons)
- Committing to a highly competent team and supporting professional and leadership development
- Managing flexibility
- Mentoring and performance

Finance & Compliance

- Assessing risks associated with business combinations
- Performing post-acquisition audits
- Auditing the due diligence process
- Value-add audits beyond Sarbanes-Oxley; balance of financial, process, IT, and operational auditing
- Collaborating between internal and external auditors
- Navigating the regulatory landscape

Leading practice considerations

While there is no "one size fits all" model for IA, leading IA functions consider leading practices in positioning the department for success within the company culture. Key stakeholder engagement and input on the vision and model for IA can contribute to success. Examples include:

Purpose

- Clearly defined charter with aligned accountability and responsibility
- IA plans are linked to strategic Company priorities
- Facilitates knowledge sharing and transfer of successful practices across the business
- IA audit universe considers a value-added, risk-based scope
- Scope aligned with attest audit and other related stakeholders for optimum reliance and coverage
- Plan considers a blend of varied audit types
- Plan considers a broad and balanced scope of risk and control matters (e.g. finance, operations, compliance, regulatory, IT, fraud, management requests)

Position

- Supports the "third line of defense" model with objective reporting to the Board
- Earns a "seat at the table" with executive leadership and has strong internal brand
- CAE, VP, or IA Director position considered as a successor for other executive roles
- Serves a trusted business advisor for management and the Audit Committee
- Management actively consults with IA on risk and control matters
- IA exudes a standard of professionalism and trust
- Partners well with other Company risk and control areas and leverages learning

People

- Recruitment model that considers varied talent sources, models, and career paths
- Balance of competencies and responsive/flexible resource model (technical, business, IT, subject matter resources, etc.)
- Supports a leadership development talent model (e.g., rotational, guest auditor program, business liaison model)
- Knowledge of the professional standards for the profession, IIA, certifications
- Compensation strategy and recognition program to attract and retain top talent
- Team that effectively applies judgment and soft skills
- Talent programs that supports leadership development, mentoring and training

Process

- Deploys a consistent and efficient execution
- Embeds use of technology throughout the audit process (e.g., data analytics, audit finding workflow, dynamic reporting)
- Uses judgment and considers materiality and business impacts when planning and evaluating and prioritizing exceptions
- Delivers reports that are viewed as fair, consistent, timely, and with valued business insight
- Collaborates with the business in developing practical, sustainable solutions to audit findings
- Employs diligent follow-up and tracking of audit results and finding remediation
- Reports next-generation executive and Board reporting

Performance

- Measures IA contribution based on KPIs linked to value
- Links IA results and findings to impact on Company priorities
- Engages stakeholders in IA feedback
- Self-employs quality processes with a focus on continuous improvement
- Supports ongoing continuous improvement of IA activity through self-assessment and periodic external reviews
- Faciliates ongoing collaboration and communication with management, C-suite, and the board

Appendix

Information technology audits

Leading IA functions delivery on a wide-spectrum of IT IA domains to be more relevant, forward thinking, and emerging risk focused.
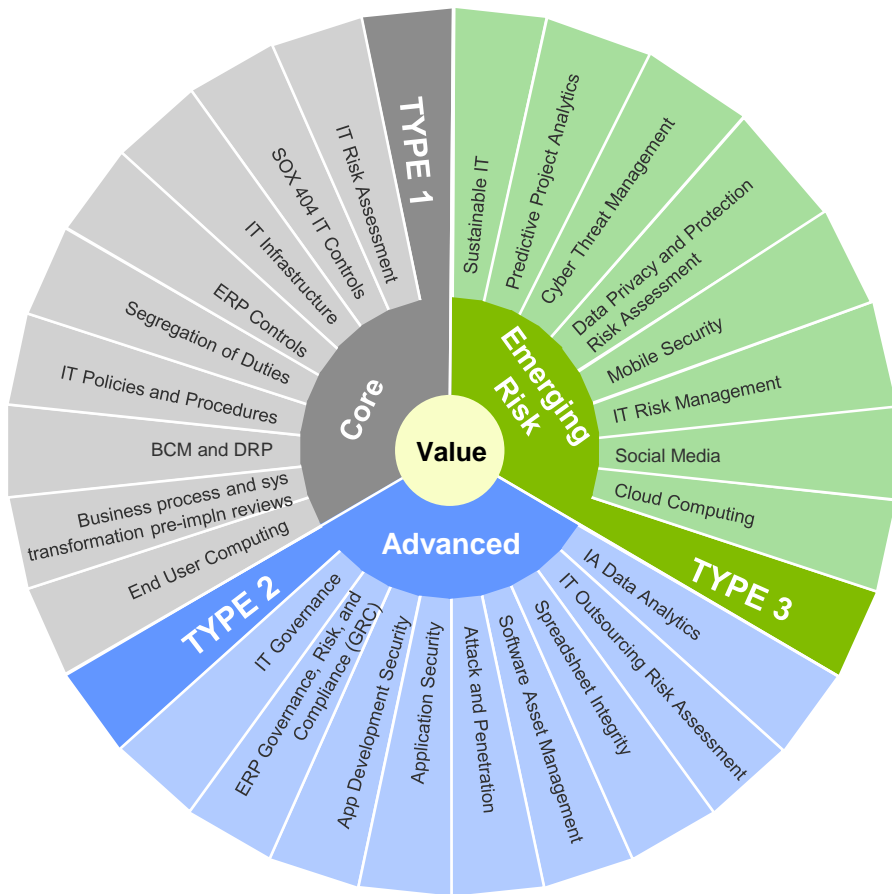
Characteristics of services

	Core	Advanced	Emerging
Audit client value	Low	Medium	High
Complexity of technology	Low	Medium	High
Subject matter expert requirement	Low	Medium	High
Resource cost	Low	Medium	High
Staffing opportunity	High	High	High
Compliance risk oriented	High	Medium	Medium
Strategic risk oriented	Low	High	High
Current portion of IT IA plan	High	Medium	Low

● = High   ◐ = Medium   ○ = Low

Embedding analytics capability

Leading IA functions embed analytics throughout the audit lifecycle.

Develop Risk Model & Audit Plan	Design Audit Program	Execute Audit Project Work Plan	Deliver Results and Insights
Predictive Risk Modelling	**Data Visualization & Profiling**	**Continuous & Remote Auditing**	**Dashboards & Data Visualization**

Key Benefits

• Evolve from a traditional, static annual audit plan to a more dynamic plan driven by the continuous audit results	• Risk-based auditing	• 100% coverage	• Fact-based audit findings and quantification of exposures reduces debate with the business
• Knowing when and where to focus	• Insight and foresight driven	• Increased efficiency and effectiveness, while reducing the time needed for fieldwork	• Data anomalies and trends provide meaningful and actionable insights into emerging risks
• A better risk radar	• Utilize inductive unsupervised techniques		• Using analytics to support audit coverage enhances creditability of report
• Enhanced resource allocation	• Shift from cyclical or episodic reviews with limited focus to continuous, broader audit coverage		
• Leverage an "early warning system"			• Execute more timely quantitative and qualitative risk-related decisions
• Ability to leverage analytics already used by the business			

Data Analytics Output and Results

Identify new and emerging risk   **Improve stakeholder confidence**   **Increase audit quality**   **Deliver insights and value**
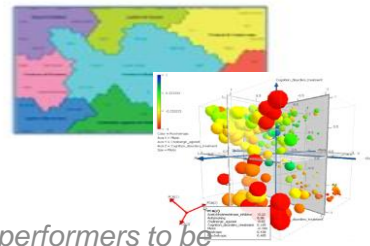
*"Top-performing companies are **three times** more likely than lower performers to be sophisticated users of **analytics** and are **two times** more likely to say that their **analytics** use is a **competitive differentiator"** Source: Sloan Management School / MIT*

Overview of the Deloitte Advisory Internal Audit practice

Our Deloitte Advisory practice includes more than 13,000 professionals in the U.S., with access to another 18,000 globally in over 150 countries through the Deloitte Touche Tohmatsu Limited network of member firms

US IA practice:

- Dedicated IA practice for over 30 years

- Approximately 360 US internal audit clients

- Over 700 dedicated US IA professionals

- Support an industry proficiency program with approximately 70% of our internal audit professionals certified in industry

- More than 1,300 global professionals hold IIA memberships and IIA leadership positions at the local, national, and global level

- All of our Deloitte internal audit professionals manager and above are certified in a relevant professional certification (CIA, CPA, CISA, CISSP, etc.) with over 600 professionals globally certified as CIAs
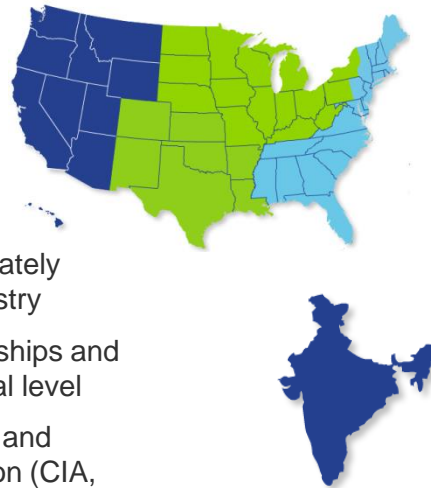
Global, 24x7 delivery adding to internal audit productivity and cycle time:

- Off-shore integrated delivery model to enable our Deloitte US India team to efficiently collaborate with our teams

- Deloitte India houses more than 19,000 professionals, including 107 dedicated internal audit resources

- These professionals receive the same training as and must adhere to the same ethics, integrity, compliance and security requirements as our U.S. professionals

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- Deloitte Advisory is one of a select few organizations that participate as a Principal Partner, the highest level in the IIA's Partnership Program. This program provides an excellent opportunity for our professionals to continue their active support and development of the profession by offering the IIA and its chapters the tools, techniques, concepts, and philosophies that build and enhance internal auditing.

- We are proud to be the leading sponsor of the IIA's Internal Auditing Education Partnership (IAEP) program, which was developed to respond to the growing interest in internal audit education at institutions of higher learning. This key initiative assists universities and colleges with establishing effective internal audit programs.

- Deloitte Advisory is the exclusive provider of the IIA's IT Audit, Fraud, IFRS and XBRL training and seminar curriculum. As a result, we provide learning opportunities to IIA members across the profession.

- Two of our professionals have held the highest position within the IIA, International Chairman of the Board - we are the only Big Four organization to have had even one Board Chairman, much less two.

- Deloitte Advisory is a sponsor of the IIA Research Foundation. One of our professionals sits on the board.

- Deloitte Advisory complies with the applicable International Standards for the Professional Practice of Internal Auditing as issued by the IIA.

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Internal Audit and risk-based thought leadership

A sample of Deloitte Advisory's Internal Audit and Risk thoughtware:

- Cloud Computing - the Role of Internal Audit in the Digital Enterprise

- Can Internal Audit be a command center for risk?

- Internal Audit outsourcing: Meeting the evolving demands of the organization

- Internal Audit: Be a Key Player in the Risk Management Process

- Internal Audit Analytics: Casting a wider net for improved Internal Audit effectiveness

- Key questions for audit committees to ask about Internal Audit

- Adding Insight to Audit: Transforming Internal Audit through data analytics

- Predictive Project Analytics: Will your project be successful?

- Reining in project risk: Predictive project analytics

- The digital grapevine: Social media and the role of Internal Audit

- Internal Audit insights: High impact areas of focus

For more information, visit: http://www2.deloitte.com/us/en/pages/risk/topics/internal-audit.html