Building enterprise resilience through Internal Audit 4.0
As the world and business community continue to evolve at lightning speed, with stakeholder expectations becoming broader and more complex, chief audit executives (CAEs) are faced with a myriad of questions to forge an internal audit (IA) function and approach with the right agility to address emerging risks at an accelerated pace of change. How do you establish a compelling vision for internal audit that enables the broader enterprise to build the resilience needed to navigate this environment—all while enhancing trust, increasing value, and building preparedness for the unexpected?

We explored these topics with 65 CAEs at Deloitte’s recent CAEdge Summit held at Deloitte University. We debated emerging trends for the volatile, uncertain, complex, and ambiguous (VUCA) world, discussed how leadership needs to evolve in response, and considered how CAEs need to adapt their vision for the IA function to effectively address these trends. What we learned from this highly immersive experience is that there are seven key principles that CAEs should consider to make a bigger impact by building enterprise resilience through the adoption of IA 4.0.

Inspire through purpose
How can CAEs further innovate and inspire?

Why does our company exist? What is the purpose of it? Do our people live up to the commitments we are making to the market, our stakeholders, our people, and society? What do the company’s stakeholders expect of us? Why do we do the things we spend our time doing as an internal audit team?

These questions are top of mind with client executives in the current environment. Some of them represent opportunities to capture and others represent risks to manage. While this focus on purpose can feel overwhelming at times, it is important to also look for the tremendous opportunity in purpose. Understanding the company’s organization, strategy, and purpose is the first place that CAEs should look in evaluating the purpose of the IA function and defining the vision for future success.

As an organization, we facilitate numerous transition labs with incoming CAEs. Some of the incoming CAEs are career auditors, and others are broader finance, operations, or executive leaders in their companies. One of the more common observations we have with CAEs in transition is that they are dealing with the perception that the vision and innovation of internal audit have become stale. Stakeholders feel as though the focus has become too narrow or too compliance-oriented; the function is not as influential with senior leaders on the most strategic initiatives or topics as leadership and the audit committee would like; and it has become difficult for IA to attract, develop, and retain top talent with the right mix of industry, domain, and technology skills. Instead of focusing solely on what could go wrong, there is not enough time spent focusing on what could go right for the company to succeed.

For those IA teams in need of a new vision or even just a refresh, starting with the purpose and strategy of the company can be a great launch point to develop a clear articulation of the vision for IA including:

• The role that the IA function plays in the company
• How it builds trust and resilience
• The value it delivers
• How it enables the organization to navigate change successfully
• The career and leadership development value that a career in IA can unlock for its professionals and the broader leadership team

A clear purpose and vision can be the “why” for the IA team, and it’s critical to establish the right tone and mindset on the IA team. This can prove to be an excellent tool for the CAE to inspire engagement of the current team, create a way to deepen the connection with key stakeholders and attract and retain top talent.

CAE aha moment
Purpose will enable us to become more strategic in our approach and better serve our direct stakeholders with what they truly value.
Enhance focus with advanced risk sensing
How can CAEs drive greater value through risk assessment?

If you are looking for an 80/20 rule on increasing the value that the IA team drives in the company, there is no better place to start than taking a hard look at the design and ongoing operation of the risk-sensing processes the IA team employs and the linkage to how the risk assessment continuously drives real change in focus and resource allocation on the IA team.

Another area to look at the evaluation impact that an IA team is having is the processes it has in place to sense and assess risk. Over time, many IA departments become stuck in tired processes for risk identification and assessment or over-index on certain dimensions of risk to the detriment of others. The timely and ongoing assessment of risk sets the direction for how the IA team allocates its precious time and resources.

In conversation with CAEs on the topic of risk sensing, we are finding companies are using more data-driven risk assessment methods, engaging their executive relationships to surface more frequent qualitative input on emerging strategic or operational risks, and evaluating market drivers and signals of emerging risks from both inside and outside the company that can create pressure on management. They are also laser-focused on balancing the assessment of risk between both business-as-usual risks and areas of change and transformation.

Additional insights: Today's threat landscape requires organizations to transform their internal audit risk assessment capabilities into cognitive risk monitoring and continuous assurance. See what 5,000 professionals had to say about their organization's risk assessment capabilities, integration of risk assessments across the enterprise, and their approach to decision-making: Advancing internal audit risk assessment capabilities.

CAE aha moment
Ongoing disruption is here to stay: We have all moved beyond "change is the only constant" to an environment of ongoing disruption.

Increase influence through stakeholder engagement
How can CAEs enhance strategic relationships?

The most successful CAEs and their teams are highly influential leaders within their organizations and catalysts for positive change. Exactly how they do that can sometimes be a little more of a mystery. The Harvard Business Review article, "Connect, then lead," offers an insightful take on the topic of connection and trust as key dependencies in contributing to influence. Few, if any, departments within a company have such a difficult tightrope to walk on influence as the IA team, particularly when balancing their responsibilities to perform objective audits with the growing need to be a trusted adviser to senior leadership on areas of change, emerging risk, or crisis. The influence that a CAE and their team enjoys in an organization has many components, and three key ones include the alignment of purpose, vision, and focus for the IA department with the company's purpose and strategy; the current relationship profile of the CAE and key IA leaders with peer leaders on the management team; and the leadership style of both the CAE and the IA team, which drives the level of connection and trust with management.

Often, the CAE and IA team are so consumed with the required reporting with the CFO, audit committee, and management stakeholders in executing the annual audit plan that there is not enough time devoted to focusing on building relationships and buy-in for their IA vision with the broader set of key executive leaders. Demonstrating that the purpose, vision, and focus of the IA team align with the company's purpose and strategy is a key step that CAEs can take to build broader buy-in and enhance strategic relationships.

A great vision on paper is not enough to move the needle through. Maya Angelou said it best when she said, “I've learned that people will forget what you said, but people will never forget how you made them feel.” There's a leadership style element to stakeholder engagement and relationship development that can be tricky for CAEs and their teams. Many IA teams are so focused on getting the next audit report out that they don't take the time to engage in the softer side of developing successful executive engagement.

Understanding the current relationship map of the IA team and creating a strong communications and engagement plan throughout the year can help to create a different experience with the IA team. Telling a compelling story about the IA team's impact that is directly tied to the refreshed IA purpose, vision, and focus on each executive interaction throughout the year can be a key tactic that CAEs and their teams employ to articulate the value the IA team delivers above and beyond some deficiencies in a periodic audit report. Making sure the IA team is aligned with the CAE in how they conduct themselves in accordance with that vision is the proof in the pudding. Taken together, these things can have a real impact on the influence the CAE and IA can achieve across the enterprise.

CAE aha moment
Internal audit's work is only as good as our ability to convince stakeholders to prioritize the resulting insights and change behaviors.
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Tackle innovation with a balanced approach to emerging tech

How can CAEs address risks related to emerging tech?

It seems that everybody everywhere is talking about technology and automation all the time. It is an important time for CAEs to think strategically about the plans they are putting in place to address technology innovation. Often, the focus in IA on technology innovation is directly focused on how to deploy automation to increase efficiency and reduce cost in the performance of routine audit testing. That is an important goal the IA team should consider. However, if that is the only or primary focus on technology, IA teams run the risk of missing the forest for the trees.

As part of the risk assessment process, the IA team needs to surface the right technology risks and opportunities to address. This usually starts with whatever new enterprise IT plans are on the docket for the year, such as cloud migration or enterprise resource planning transformation. That’s plenty to deal with on its own. To get a truly holistic view of how different emerging technologies are impacting a company, it is important to include corporate IT while also expanding focus beyond corporate IT. What is likely to be found is a litany of technology is embedded in products, customer service, or customer experience, and change models for how the company generates revenue from these offerings. Adopting a broad lens on technology risk that balances resource allocation for both IA and the enterprise and addresses risks related to the ongoing effectiveness of materials, mature systems, and new corporate-led technology transformations. By embracing a holistic view that incorporates frontline product and customer technology innovations, IA departments can leverage robotic process automation (RPA) and establish a governance architecture that modernizes the IA function effectively. In collaboration with the Internal Audit Foundation, this three-part series dives into a structured RPA methodology for auditing automation, explores critical areas for IA to consider during the auditing process, and highlights how IA can leverage RPA within its robust governance architecture.

**CAE aha moment**

Continue pushing the innovation envelope!

Additional insights: The need for internal audit to increase its impact and influence generates the innovation imperative. That imperative calls upon chief audit executives to lead their functions to adopt new technologies, methods of working, talent models, and relationships with stakeholders—not as one-off initiatives, but within a larger audit innovation strategy. Read more: *Innovation imperative of internal audit*.

Flex transformation muscle with assurance by design

How can CAEs address the risk around transformation?

A top area of conversation with CAEs is addressing the risk around transformation and how to engage their teams to make a positive, productive impact on the success of these programs. When companies spend big dollars investing in transformation, they often expect a significant change in how business models, processes, and technologies work. Expecting that the current process and system controls will be sufficient and unchanging in their design, ownership, or operation, even though everything around them is being actively redesigned, is one of the most dangerous biases in managing risk around transformation. The “lift and shift” mindset is the enemy of successful risk management in transformations. Just as you are purposeful in how you design business model transformation, business process modernization, and technology transformation investments, you need to be purposeful in designing how risk management approaches and controls need to operate in the future state.

With change, comes risk. But there is also the opportunity to determine how controls can be streamlined and automated to drive more timely insight by leveraging new technologies and process designs. Internal audit has an important role to play as an adviser to management in this process. IA is also best positioned to advise management on how to be purposeful in making the right decisions on the ownership of responsibilities for key controls as part of the transformation program design. This is a common pitfall where transformation programs can experience issues. When responsibilities are unclear, shared, duplicated, or not defined at all—especially when third parties are increasingly owning portions of operational responsibilities in the future state design—controls may not operate effectively or at all.

Incorporating assurance-by-design principles can help IA teams engage with design teams to integrate new control techniques into existing processes and embed the training for new control owners into planned change management programs. A side benefit of the internal audit team engaging in this way is the development of IA team members’ transformation muscle.

**CAE aha moment**

Focusing on assurance by design is a challenge to the way we think today and, more importantly, how we need to prepare for tomorrow.

Additional insights: A controls mindset and assurance by design process can help organizations effectively manage operational and strategic risks with new business transformations or implementations. Approaching the process through these assurance by design principles and insights for finance professionals can elevate an implementation and governance framework to a controls-conscious transformation. Explore more: *Assurance by design: Insights for a controls approach to transformation*.
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Optimize speed to impact with automation and Agile techniques
How can CAEs make IA better and faster?

We are keenly aware that there are only 24 hours in a day; hopefully less in a working day. Given the pace of change in business and associated risk, CAEs can feel pulled in many different directions as they evaluate the myriad choices and trade-offs in how to focus IA team resources and time to address risk. Successful IA teams are willing to challenge the status quo to find efficiencies, maintain effectiveness, and create the time to increase impact by addressing emerging risks, transformation programs, and ad hoc asks for management support or investigation.

In ongoing dialogue with CAEs, there are a variety of tactics that CAEs are employing to address speed to impact. Some examples that were frequent topics of conversation at the CAEdge Summit were initiatives to modernize compliance programs, testing automation using analytics and AI, re-prioritizing the audit plan throughout the year, streamlining reporting and issue follow-up processes, and adopting Agile IA audit techniques. CAEs and their teams are becoming increasingly creative in their adoption of these tactics to drive value and increase insights while they expand into newer areas of emerging risk. Accomplishments in these areas are great stories to include as part of how the CAE and their team are bringing the future purpose, vision, and focus of the IA function to life.

CAE aha moment
Agile IA ... better, faster, happier!

Develop leaders equipped to make an enterprise-level impact
How can CAEs lead the next generation of professionals?

Whether in the CAEdge Summit or CAE labs, talent is always a hot topic of conversation. Do we have the right mix of business and technology skills to do the work? Do our people have the business acumen to deliver insights through our internal audits? How are managers and leaders on the IA team developing? Is going to be a finance training ground, a senior leadership development organization, or a group of career auditors? How do CAEs lead the next generation of professionals coming into the company, especially in a hybrid working environment?

At the CAEdge Summit, key themes that CAE leaders explored included how to manage an increasingly complex talent pool to get the skills needed to do the work, how to adapt culture to fit the new vision and expectations of talent in a hybrid environment and increasing agility of their team and the motivation to make an impact and bring the future vision to life. Today's environment has changed all aspects of work—the who, the what and how, the where, and the why. Fundamental shifts in leadership are required in response to this transformation of work. As presented during the CAEdge Summit, Heather E. McGowan discussed the empathy advantage and what it takes to lead an empowered workforce.

CAE aha moment
Adapting to the complexities of talent management and leading the next generation of professionals in a transformed work environment requires strategic vision and an embrace of the empathy advantage.

Additional insights: That 94% of CEOs in a Deloitte survey reported diversity, equity, and inclusion to be their strategic priority is a significant proof of right intention. But will desire alone move the needle on DEI? To help internal auditors add value by bringing their insights and expertise to the evaluation of corporate culture, Deloitte, the Internal Audit Foundation, and the Institute of Internal Auditors developed a three-part series on internal audit’s opportunity and obligation to help foster a diverse, equitable, and inclusive culture by starting within its own function. Read more: Internal audit’s invaluable role in DEI.

Becoming Agile: Elevating internal audit performance and value

Additional insights: Since their origin in software development, Agile processes have been successfully employed in countless initiatives and within a wide variety of business settings. Building on the original Agile approach, Deloitte’s Agile IA methodology challenges both the mindset of internal auditors and their established business processes. It allows the internal audit function to focus on stakeholder needs, accelerate audit cycles, drive timely insights, reduce wasted effort, and generate less documentation. Learn more: Becoming Agile: Elevating internal audit performance and value.
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In closing

CAEs are keenly aware of the need to evolve to address a changing business landscape. We created IA 4.0 to help companies consider how to elevate internal audit and, in doing so, build more purposeful, resilient companies. More purposeful, resilient companies have a higher likelihood of achieving their strategic vision, delivering better returns, and creating an even greater impact on society. As you can see in the graphic below, the key principles discussed align to the infrastructure and heart of our IA 4.0 framework. Every organization will have its own unique manifestation of priorities and trade-offs in relation to these principles. Incorporating these considerations in the right way to build a renewed, strategic vision for the internal audit function at your organization can build a brand for your IA team, increase stakeholder engagement through a focus on the right risks at the right times, and supercharge your team’s leadership development.

Internal Audit 4.0

Purposed driven, digitally powered

Endnotes


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