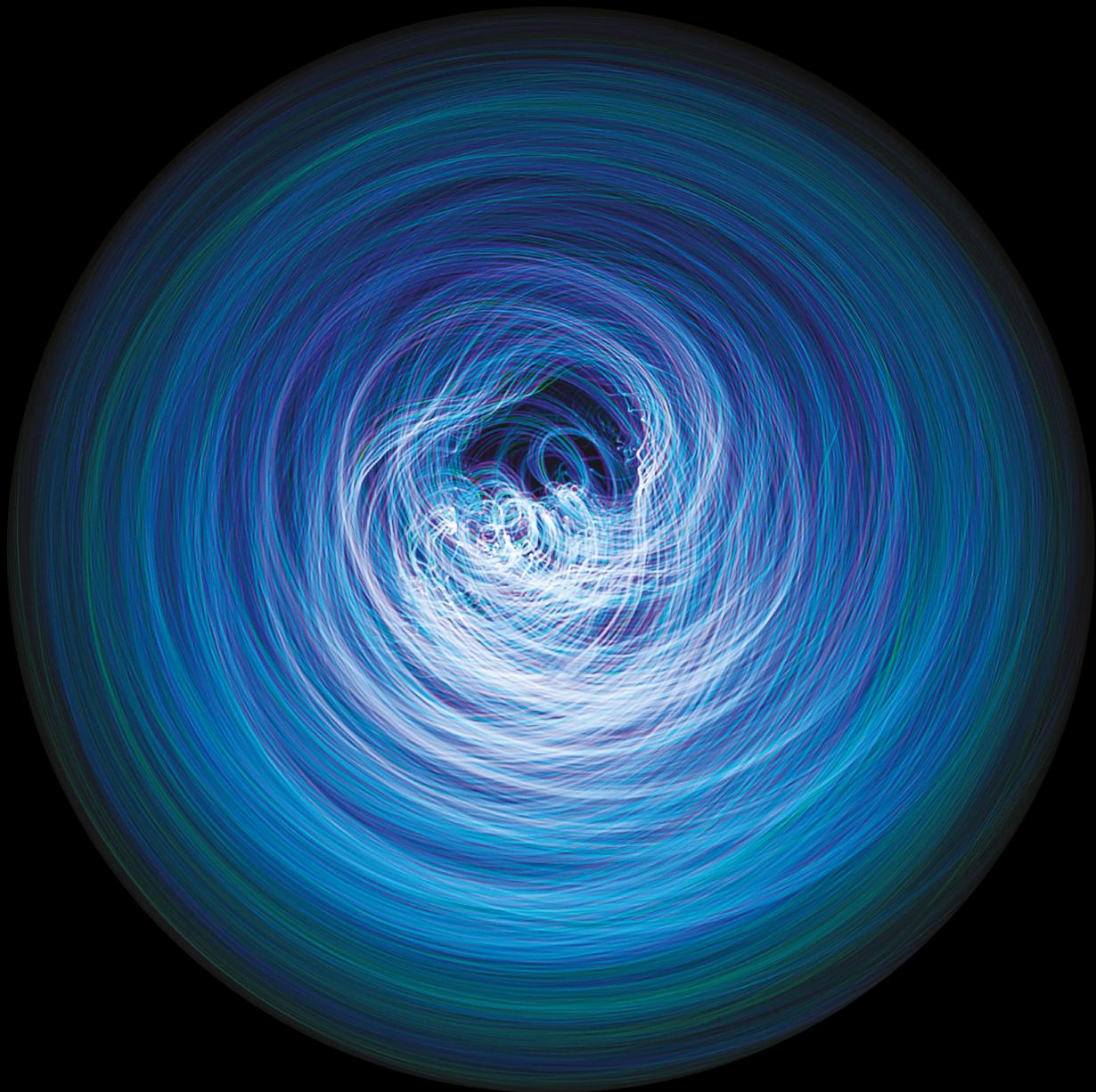


Deloitte.



Internal Audit innovation

Structured methods to
unlock new value

Organizations are demanding more from Internal Audit. Senior executives, audit committees, and boards are clamoring for the function to take more forward-looking approaches to providing assurance, advisory, and risk anticipation services. At the same time, chief audit executives (CAEs) want to increase their functions' impact and influence in the organization.¹

The need for Internal Audit to do more has intensified in a disruptive and continually evolving business environment. In business, evolution takes the form of innovation, with organizations constantly developing new methods, technologies, and structures to increase performance and deliver timely strategic insights and enhanced value.

If Internal Audit is to continue to evolve, it too must innovate—not only to address the challenges of its own disruptive environment but to also meet the needs of the organization. The function must develop new approaches as businesses are created and sloughed off, processes evolve, technologies are adopted, and regulatory demands fluctuate.

For some Internal Audit groups, this presents a potential problem.

¹ "Evolution or irrelevance: Internal Audit at a crossroads, Deloitte's Global Chief Audit Executive Survey," Deloitte Touche Tohmatsu Limited, 2016, www.deloitte.com/globalCAEsurvey.

What's the problem?

Until recently, the need and expectation for innovation in Internal Audit hasn't been particularly high. Now, however, Internal Audit groups and their stakeholders recognize that the function must evolve in order to meet the needs of the changing organization. A good number of audit committees, boards, and management teams now expect Internal Audit to advise management on key issues and decisions, anticipate risks, and be more forward-looking.

Given Internal Audit's historical role, it would be natural for some functions to find innovation challenging. Internal auditors appreciate order and hierarchy, standards, and precedent. For example, they subject

their workpapers to multiple reviews and heavily document their procedures, as well as their findings, even on many routine reviews.

Meanwhile, in popular culture, innovation conjures images of caffeinated coders; overhyped inventions; and disorder, risk, and failure. While such images sell magazines, newspapers, films, and cable programming, they differ sharply from innovation in actual practice. More to the point, they differ sharply from the ways Internal Audit should be thinking about innovation.

In this document, we present a practical approach to innovation in Internal Audit. Based on the research and experience of

Deloitte and Doblin, Deloitte's innovation and design practice, these ideas can help Internal Audit groups in two ways: seeing innovation in a new context, and developing innovative approaches to their work.

The four I's of Internal Audit innovation

Internal Audit can benefit by developing a view of innovation that considers the activity in the context of the function and its role in the organization. This view, through a lens that we call the “four I's of Internal Audit innovation,” links innovation to the work of Internal Audit and aligns Internal Audit innovation with the needs of the organization.

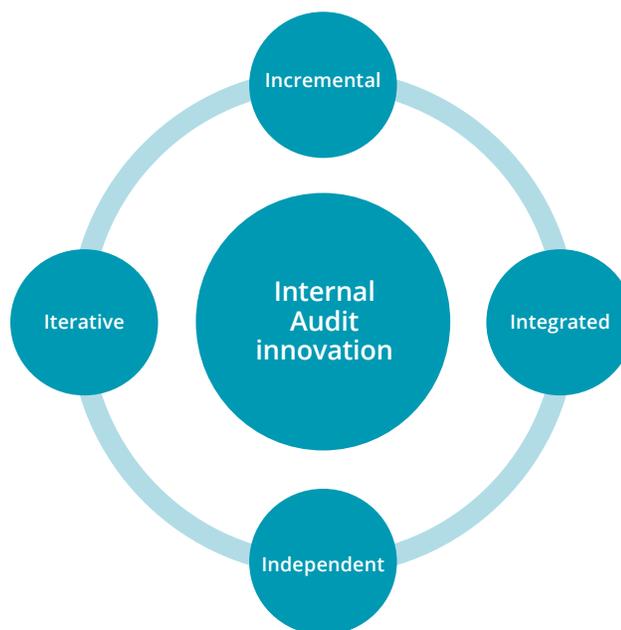
This view suggests that innovation in Internal Audit must be:

- **Integrated:** To ensure that new methods result in relevant and timely—even real-time—advice and insights, innovation in Internal Audit must be integrated with the goals of the business and the strategy for achieving those goals. Integrating initiatives in this way usually entails developing new relationships with management, the businesses, and other key stakeholders. It also calls for adopting the language of business and shifting Internal Audit from a “policing” mind-set to an advisory mind-set. When Internal Audit innovation is integrated with business strategy and goals, the results should be relevant, timely, forward-looking, and insightful, enabling the function to provide advice on issues and anticipate risks of genuine concern to management.
- **Iterative:** Innovation typically winds up being iterative, with any “Eureka!” moments arriving after successive attempts. Organized iterations enable Internal Audit to hone new approaches, learn through experience, build trust among stakeholders, and proceed at a comfortable pace. Accepting the need for iterations enables Internal Audit to set reasonable expectations for its efforts, within the function and within the organization.
- **Incremental:** Given the role and responsibilities of Internal Audit, rapid or radical transformation is rarely desirable. Incremental change goes hand in hand with an iterative approach, in setting reasonable expectations, and in establishing a feedback loop with stakeholders as initiatives proceed. Targeting incremental improvements in audit planning, execution, and reporting also enables the function to alter specific aspects of its work with the goal of understanding cause and effect and isolating ways to continually improve.
- **Independent:** Internal Audit must preserve its independence and objectivity as it pursues innovative approaches. While the notion of “partnering” with stakeholders may sound attractive, the integrity of

the function resides in its independence and objectivity. Therefore, Internal Audit shouldn't undertake innovation with the primary goal of improving business processes only. Rather, its intent should be focused on improving its own processes for understanding and meeting stakeholders' needs—processes that remain firmly under Internal Audit's control.

When understood and embraced, the four I's can help Internal Audit shift its view of innovation, identify useful initiatives, and scale its efforts appropriately. Internal Audit remains on firm ground when it aims to innovate its own processes for providing assurance, advisory services, and risk anticipation, rather than urging stakeholders to innovate.

Exhibit 1: Four I's that improve views of Internal Audit innovation



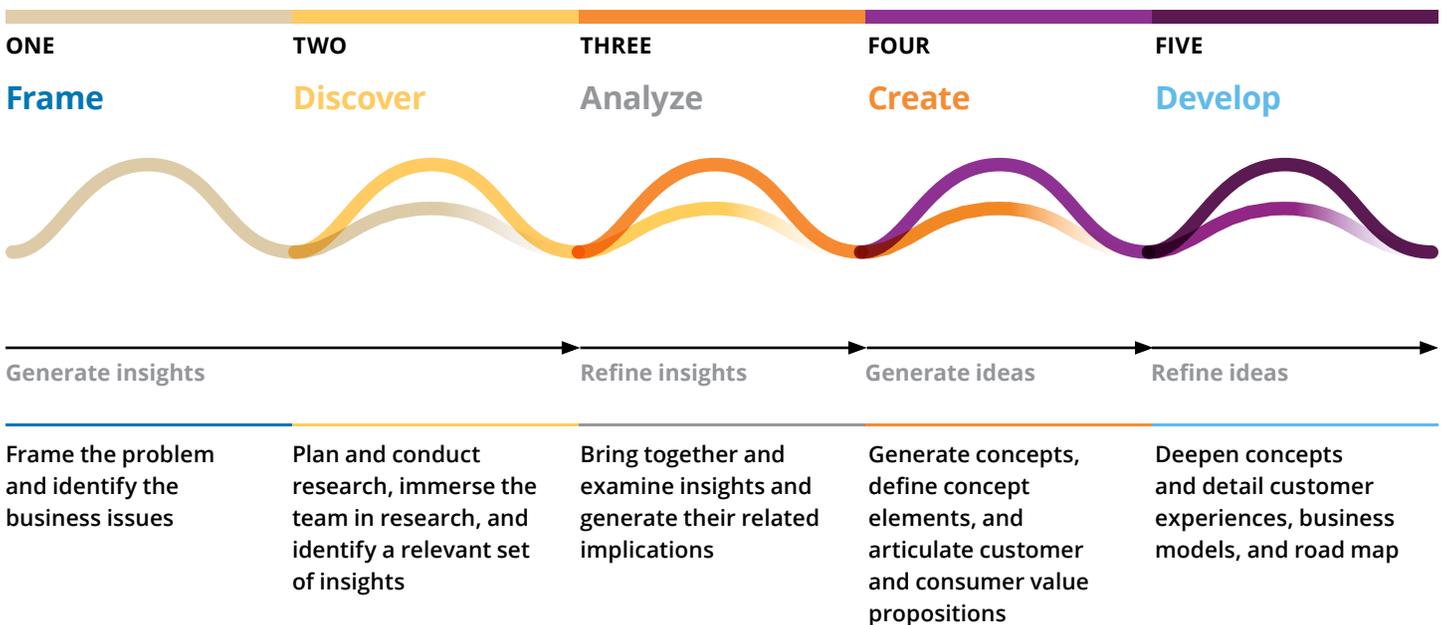
How to innovate in Internal Audit?

Innovation begins with ideas, but not just any ideas. They must be rooted in business issues and be relevant to a business problem. They must also stand up to scrutiny and analysis. For that reason, it's useful to derive ideas from insights that emerge from

experiences with stakeholders on audits and projects, and from encounters with barriers to better performance. The latter may result from process, resource, technological, or other constraints, or from a desire to expand offerings and deliver more value.

Insights lead to ideas, but not by themselves. For that reason, Doblin employs specific phases to help develop concepts to feed innovative efforts (Exhibit 2).

Exhibit 2: From insights to ideas



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These phases are applied to concepts and iterated as the concept is developed and refined. These phases enable a team to iteratively develop concepts that will be relevant to stakeholders. They guide the research process and enable teams to marshal insights and implications to generate offerings that produce value for the customer. With respect to Internal Audit, this includes internal customers—

key stakeholders. In the final Develop phase, the team refines its concept(s) to generate an actual service offering.

This process can and should also be applied to stakeholders' issues and problems. What information does management need to support better decision making in specific areas? Which concerns are topping the agenda at audit committee and board

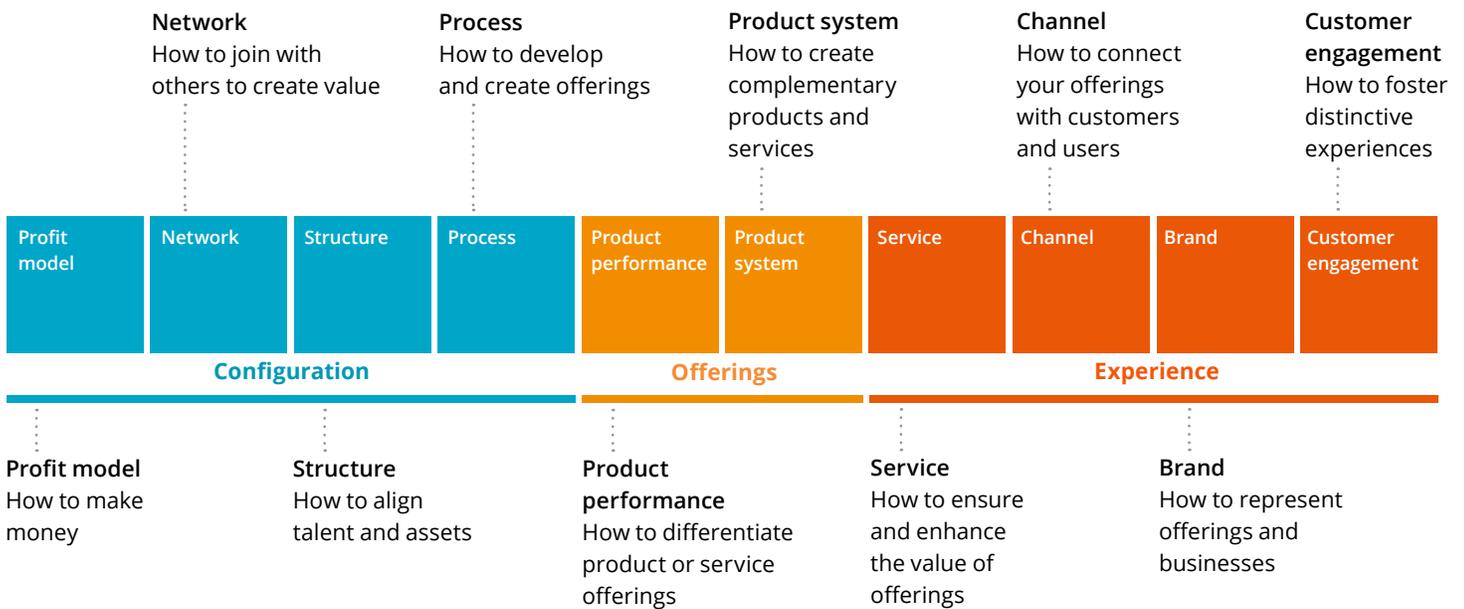
meetings? How can risk oversight and governance be improved? How can strategic planning and risk management processes become more robust?

An articulated process—moving from issues to insights to ideas—keeps all innovators, including those in Internal Audit, focused on the business and on the people working to realize its goals.

Applying the Ten Types of Innovation[®]

In helping companies identify and capitalize on new opportunities, Doblin has developed a demonstrated, flexible approach to innovation that's highly applicable to Internal Audit—the Ten Types of Innovation² framework (Exhibit 3). When selectively applied to Internal Audit, the framework is well-suited to the function's need for integrated, iterative, incremental innovation, as opposed to radical change hatched in isolation.

Exhibit 3: Doblin's Ten Types of Innovation framework



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Doblin developed the Ten Types of Innovation to provide a practical model to enhance the rigor and improve the results of innovation efforts. This approach stemmed from the recognition that most innovations fail not due to lack of creativity, but due to lack of discipline.

These aren't steps, nor should they be viewed as such. Rather, they're elements that can be combined and customized in

various ways to generate new approaches, processes, and offerings for specific organizations in specific situations. It's best to work with only a few elements, say three or four of the ten, to develop combinations that align available capabilities with the goal of fulfilling known user, customer, or (in the case of Internal Audit) stakeholder needs.

The Ten Types of Innovation lend order and structure to an endeavor—innovation—that

strikes many internal auditors as mysterious, disorderly, and risky. By configuring elements among the Ten Types to iteratively and incrementally alter its approach to internal audits, its service offerings, or the stakeholder experience, Internal Audit can harness new or existing capabilities to create new outcomes.

Structuring Internal Audit innovation

Many Internal Audit groups find new stakeholder expectations particularly challenging when they're expressed in general terms, untethered to specific issues or problems. Groups are being asked to adopt analytics and visualization tools, provide more relevant and insightful reporting, and use new resourcing models to provide specialized skills to assess cyber, business model, and third-party risks. But how is Internal Audit supposed to do these things?

This framework can help lend structure and rigor to innovative efforts. For example:

- To align with a business unit to provide real-time analysis on specific risks or issues to enhance the Internal Audit brand within the company, a group might begin with a combination of services, process, and network considerations.
- To improve specific internal skills and capabilities or to tap external resources, a group might consider innovation types like structure, process, and services.
- To enhance alignment with product groups or a business unit to advise on issues and anticipate risks related to strategy (such as the impact of regulatory rules on a new product or market initiative), a group might consider the combination of network, product performance/product system, and channels.

Within this structure, rather than trying to, say, apply analytics and visualization tools unilaterally, Internal Audit collaborates with stakeholders to apply them to specific issues to implement specific ideas in a structured way. Applied in this manner, the Ten Types can be used to shape Internal Audit's approach to innovation in ways that contribute to business success.

Setting a course

Whether stakeholders want more relevant and timely reporting, more advice regarding risks, more efficient use of Internal Audit resources, or more specialized skills, innovation constitutes a useful response.

Doblin helps Internal Audit meet challenges in its evolution by assisting the function in:



- **Setting innovation strategy:**

Working with the CAE and other Internal Audit leaders, we gauge the external and organizational environment, identify areas where stakeholders would benefit from innovation, and align initiatives with needs.

Potential questions to resolve:

- How should Internal Audit define innovation?
- How can Internal Audit become more aligned with business goals and strategy?
- Where in the organization could stakeholders most benefit from innovative solutions?
- What are the best ways to discover stakeholders' most pressing needs?



- **Becoming better innovators:**

We help cultivate new methods and behaviors within Internal Audit—from protocols and metrics for managing your innovation portfolio to talent development and knowledge transfer. We also alert you to potential connections with external organizations, such as academic institutions, to assist you in sustaining innovation.

Potential questions to resolve:

- How can Internal Audit best structure and organize innovation?
- How can the function create clear and useful objectives for innovation?
- What will spur stakeholders to support our innovation efforts?



- **Designing, building, and launching innovations:**

After evaluating insights from internal auditors and key stakeholders, we help pinpoint and prioritize opportunities and develop a plan for capitalizing on them. Together, we create actionable steps for enhancing Internal Audit processes and deliverables in ways that improve audit experiences and outcomes.

Potential questions to resolve:

- How can Internal Audit create deeper value, rather than surface changes to processes and deliverables?
- How can the function manage the risk of innovating through pilot projects, diversification, and other methods?
- How will Internal Audit know whether improvement has been achieved?

Internal Audit groups can leverage these and other Doblin tools and methods through joint workshops with business groups. These workshops can help develop specific initiatives or entire programs that align with management's goals and the organization's needs. This includes creating action plans related to stakeholder expectations, team capabilities, and change management and facilitation needs.

Doblin's structured, outcome-focused approach to innovation typically resonates with Internal Audit and its constituents, including CFOs and audit committees. Employing these techniques, Internal Audit can position itself to identify and select promising opportunities and to innovate with discipline and impact.

Waiting for inspiration?

Don't! Popular images of inspiration—cartoon lightbulbs, pop-eyed inventors, and that famous apple hitting Isaac Newton on the head—misrepresent business innovation, which focuses on actively developing ideas that emerge from insights into business issues.

Internal Audit stakeholders increasingly expect the function to adopt new methods and provide more value. For many Internal Audit groups, this expectation equals a call for innovation, and the time to respond is now.

How?

Here are four steps you can consider:

1

Develop and then share a picture of how integrated, iterative, incremental, and independent innovation might look in your Internal Audit function.

2

Identify four to seven wants, needs, or expectations that Internal Audit stakeholders have expressed. If they haven't expressed any, issue a quick survey of stakeholders or simply ask them.

3

Consider the Ten Types of Innovation framework and how you might select a combination that would work to help you identify a specific innovation to get started on.

4

Identify the internal and external resources required to begin working on that initiative or to structure a more comprehensive response to the need for new approaches in your Internal Audit function.

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Contact one of Deloitte's Internal Audit innovation specialists to explore how to inspire change in your organization.

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