Responding to the innovation imperative

A guide to accelerating innovation in Internal Audit
Contents

Introduction 3

The leadership imperative 5

How do innovative internal audit groups do it? 7

Standing still is not an option 10
Introduction

The most effective way for Internal Audit to meet stakeholders’ evolving needs, remain relevant to the organization, and capitalize on limited resources is to continually innovate and modernize. In fact, according to respondents of Deloitte Touche Tohmatsu Limited’s most recent global Chief Audit Executive survey, the most innovative internal audit groups believed they had the most impact and influence within their organizations.

It is the need for Internal Audit to increase its impact and influence that generates the innovation imperative. That imperative calls upon CAEs to lead their functions to adopt new technologies, new methods of working, new talent models, and new relationships with stakeholders, not as piecemeal, one-off initiatives, but within a larger innovation strategy.

This is not innovation for its own sake, but for the sake of the executive team, board, audit committee, business managers, risk functions, and other stakeholders, who are all coping with disruption. As the organization and stakeholders adopt new business models and technologies and face new risks, Internal Audit should evolve its capabilities if it is to continue to provide assurance, advise, and anticipate risk.

In addition, COVID-19 and its economic fallout have, to varying extents in various industries, upended audit plans, on-site visits, and traditional auditing methods. At the same time, most organizational activities have undergone change in the face of resource constraints and ongoing uncertainty. The suddenness and severity of this crisis has also prompted many executive teams and boards to call upon Internal Audit for advice regarding emerging risks and key decisions. As a result, many internal audit groups that had already been engaged in innovation have accelerated those efforts. Functions that had been only considering new ways of working are now actively adopting them. For example, a company that had been working on an app for two years was able to launch it in six days. Given the rapid pace of development, Internal Audit was involved far sooner and more deeply than it ordinarily would have been and performed as much advisory and risk anticipation work as it did assurance. Such drivers of internal audit innovation will remain in place after the current crisis passes and a “next normal” takes shape—with the next crisis lying in wait.

This document follows our previous paper, which presented a framework for internal audit innovation developed by Doblin, Deloitte Consulting LLP’s innovation and design practice. That paper discussed the “what” of internal audit innovation, whereas this one explores the “how.” That paper presented a conceptual framework (see details on the following page), while this one focuses on behaviors related to innovation.

Here we aim to illuminate ways in which internal audit leaders and functions are responding to the need to accelerate innovation as the risk landscape and stakeholder needs continue to evolve.
Bringing innovation into Internal Audit

Doblin has worked in the discipline of innovation for almost 40 years and has applied its Ten Types of Innovation™ framework in hundreds of business settings since developing it some 20 years ago. Originally intended to help development teams enrich their market offerings, the Ten Types can also be applied to internal audit work, particularly in activities associated with new or existing processes and initiatives within the function or in the business.

Ten Types of Innovation
A more expansive frame for innovation

<table>
<thead>
<tr>
<th>Network</th>
<th>Process</th>
<th>Product system</th>
<th>Channel</th>
<th>Customer engagement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connections with others to create value</td>
<td>Signature or superior methods for doing your work</td>
<td>Complementary products and services</td>
<td>How your offerings are delivered to customers and users</td>
<td>Distinctive interactions you foster</td>
</tr>
</tbody>
</table>

In the context of the Ten Types of Innovation—which are not steps, but rather ways to generate new approaches, processes, and offerings—consider the following concepts and activities:

**Flat teams**
Innovation teams collaborate best when they start with the understanding that all participants, regardless of their skills and positions, are workgroup peers. All are equally capable of contributing—and are invited to contribute—to any work product. Want to sit at a roundtable with your leadership? Ask your team to do the same with you as well.

**Iteration**
Accept that iteration is simply part of the process in innovation work. For example, a digital or automated version of a process or control may be the eventual goal of a project, but as an innovator, you can start with a handmade, low-fidelity diagram or model. What it may lack in visual elegance can be more than made up for in speed and cost savings.

**Generative research**
Generative research unearths people’s behaviors, motives, and needs in specific situations so better ways of supporting them can be identified. This also helps to establish credibility with new colleagues. Research to uncover why people do what they do can be deeply complementary to direct observation, which generally helps to see what people do.
The leadership imperative

Innovation does not just happen. It demands leadership. CAE leadership is needed to secure not only the buy-in, but also the active support of the C-suite, audit committee, and other stakeholders. That leadership is needed to expand internal audit priorities beyond compliance to anticipating and advising on key risks. It is needed to enable Internal Audit to develop the mindset and behaviors that generate innovation. And it is needed to set, or at least support, new priorities for Internal Audit and the culture change that the function and its stakeholders will need to undergo.

Prominent elements of that mindset and those behaviors include the willingness and ability to:

- Engage collaboratively with a broad range of stakeholders from diverse disciplines
- Be part of a team of equals, without concern for hierarchical roles
- Undertake a task with only a hypothesis and the expectation that the desired output may change
- Work on output in a fast-paced, iterative manner, prioritizing speed over elegance without seeking perfection every time
- Make decisions based on imperfect information in real time using on-the-spot judgment rather than existing standards and clear decision rules
- Be candid with colleagues and peers about evolving processes, and help them see how they can contribute to this evolution

These elements do not characterize traditional internal audit functions, leaders, or staff. However, that was changing even before the current crisis. Many internal audit leaders and groups have been leaning into advisory roles, delivering more relevant reporting, and using advanced analytics and new talent models. A good number of internal audit groups have been adopting new ways of working, as confirmed by Deloitte research. Many have been working to better understand themselves and their approaches. (See details on the following page: Read the room!)
Read the room!

Few things are trickier than trying to help people do their jobs better, particularly when they may view you with skepticism. Yet that’s the heart of Internal Audit’s advisory role, which requires sharp observation and listening skills, particularly in light of so many different and, at times, unaligned stakeholder expectations.

Deloitte’s Business Chemistry® has been designed to assist people who want to enhance those skills. Business Chemistry generates insights about individuals and teams based on observable traits and preferences that generate four patterns broadly characterized as follows:

- **Drivers** like logic, systems, and a laser focus on goals.
- **Guardians** like concrete details and stability; they respect what is tried and true.
- **Integrators** like personal connection and seeing how pieces fit together.
- **Pioneers** like variety, possibilities, and generating new ideas.

Although each of us is a unique blend of all four styles, most people strongly associate with one or two patterns. Would you be surprised to learn that the traditional internal auditor can be characterized as a Guardian?

Meanwhile, the pattern most associated with innovators would be the Guardian’s opposite, the Pioneer.

By understanding your own style, you can understand your approach to business situations more clearly. By gauging others’ styles, you can work with them more effectively by adjusting your mindset, views, and communications to accommodate theirs. For example, if you’re a Guardian and you’re aware that you are working with a Pioneer, you can better understand (and tolerate) their spontaneity, need for novelty, and dismissal of details than if you lack that awareness.

While you cannot pigeonhole people by type, let alone predict their behavior, appreciating how various people tend to approach business situations can help you foster collaboration and assemble more effective teams. It can also help you build a well-rounded internal audit group.
How do innovative internal audit groups do it?

In research, client engagements, and our CAE Greenhouses and Labs, we have found that certain broad initiatives—underpinned by the mindsets and behaviors summarized above—enable Internal Audit to innovate. Innovation, as we discuss here, goes beyond simply applying analytics to your risk assessment or using a new mode of reporting. Innovative CAEs think bigger, more holistically, and more strategically.

In general, these leaders and their groups:

**Grasp the need to innovate**
At the deepest level, you either believe that you need to innovate or you don’t. Given the rate at which organizations have been changing and the myriad of risks they face, it should be clear that Internal Audit should evolve. That evolution occurs through innovation, and it’s essential if Internal Audit is to build the resilience that it needs in these disruptive times.5 If COVID-19 and its economic fallout have not convinced a CAE and his or her stakeholders that Internal Audit should innovate, then it is hard to imagine what will.

Fortunately, as noted above, that realization has been manifested in this crisis. Senior leaders are now becoming more dependent on Internal Audit. Beyond consulting the function to understand the implications of certain actions from a regulatory and compliance perspective, many leaders have also sought Internal Audit’s views on broader risks, along with advice on how to address them.

This amounts to a mandate to innovate, a mandate that should be viewed as permanent even as immediate risks recede and economic growth returns. CAEs who have found themselves with a new seat at the table can assume that if they continue to add value, they will likely remain in that seat.

**Reposition Internal Audit**
Although most internal audit groups have expanded their purview beyond compliance and assurance, many are still seen as a policing function. Now is the time to change that. Concurrently, however, Internal Audit will need to provide assurance as efficiently as possible, particularly as the crisis recedes, travel once again becomes viable, and an accumulated backlog of audits looms. This will call for skillfully balancing the addition of new practices against refinements to existing ones.

That’s where innovation comes in. Innovative internal audit groups are taking this opportunity to initiate or expand their use of technologies that enable remote audits. Such uses include camera-equipped drones; remote visualization tools; and other means of conducting inventory counts, site inspections, and similar activities without being physically present. After the crisis, technologies like these can likely be permanently integrated into internal audit activities to meet ongoing and future needs.

A fundamental goal of internal audit innovation—and of Internal Audit 3.0⁶—has been to use technology to automate assurance, thus freeing internal auditors for advisory work and risk anticipation. That effort should intensify going forward.

**Go beyond technology**
It can be easy to make innovation about technology. While technology enables automated controls testing and the like, use of technology itself is not the goal of internal audit innovation, and it would be a mistake to think so.

That mistake can lead to others. For example, some internal audit groups have been directed to “use analytics in their audits.” This has prompted some to simply consult the analytics team within Internal Audit or elsewhere in the organization, hear their views, check that box, then audit as usual. Similarly, point-specific solutions, such as those enabling automated testing or real-time dashboards, while useful, should not be mistaken for innovation.

Put another way, an innovation is not necessarily innovation. Internal audit innovation encompasses the elements discussed earlier, as well as the function’s approach to its mission, stakeholders, and work. Technologies are a tool of innovation, not its goal. They assist in evaluation, but do not replace interpretation from Internal Audit. Technology is an enabler and an accelerator in achieving a desired objective.
Adopt Agile IA

In contrast to point-specific technological solutions, Agile Internal Audit (or Agile IA) is among the leading ways for Internal Audit to shift to more innovative approaches. Agile IA applies methods from agile software development to internal audit work. It prompts innovation by encouraging Internal Audit to, for example, step away from rigid audit plans, compliance-driven priorities, check-the-box activities, and overly detailed reporting and into more dynamic, collaborative, and relevant planning, auditing, and reporting. We invite you to learn more about Agile IA from our previous publications on the topic. Agile methods flatten hierarchies, demand collaboration, and focus on users’ genuine needs—all of which foster innovation. Agile itself comes from the world of software development, where it was adapted from manufacturing techniques intended to boost efficiency. Yet agile methods are so suited to today’s dynamic environment that they have been applied to a wide range of activities.

That raises a note of caution: Simply calling something agile does not make it so. Agile methods are flexible, but specific, and their application depends on the mission and objectives. It is not advisable to apply them without understanding them, having a plan for scaling them, and accessing knowledgeable internal or external agile coaches.

Diversify the team

New hires with various business backgrounds and Business Chemistry types—and different life experiences and points of view—can enrich the diversity of thinking and behavior in a function. That diversity enables Internal Audit to discover new ways of seeing and solving problems and enhances its ability to work with different stakeholders.

Diversity can be achieved, without expanding staff, through alternative sourcing models. For example, guest auditor and rotational programs pave a two-way street for exposing internal auditors to areas of the organization and exposing those areas to Internal Audit. Cosourcing and outsourcing enable Internal Audit to tap specialized skills that are in high demand. Forward-thinking internal audit groups are even using crowdsourcing to attack problems.

As the team diversifies, it also flattens to improve collaboration. With changes to the team and its tasks, new leadership at the level of the CAE and his or her direct reports may be needed. We increasingly see internal audit leaders coming from other disciplines or with strong organizational transformation or change management backgrounds. Indeed, this often reflects an executive team’s and board’s desire to refresh Internal Audit.

Burnish the brand

Innovative internal audit groups often find themselves viewed differently by stakeholders. The CAE is invited to take (or retain) his or her seat at the table. Internal Audit becomes a magnet for talent, and work becomes more engaging to internal auditors as it becomes more relevant to stakeholders. And this occurs without compromising Internal Audit’s objectivity, independence, and professionalism because those are the qualities that position the function to advise management properly on strategic risks.

Although this differs from a “rebranding exercise,” it does entail communicating in new ways with stakeholders. They need to know what you will be doing differently and why you are doing it that way. For example, instead of springing an agile internal audit or a new report on them, you prepare them for the changes you will be making in the way you conduct an audit or deliver findings.

As a result, over time, and with rigorous planning, implementation, and follow-through, you will likely find that the internal audit brand—its value proposition, stakeholder perceptions, and organizational position—change almost organically. It doesn’t happen by itself. It happens as a result of focused, intentional, successful innovation.

Exercise transformative leadership

Internal Audit often provides assurance and advice on major change initiatives, such as an IT installation, finance transformation, or postmerger integration, and generally does a good job. Yet when it comes to internal audit change initiatives, we’ve often seen reluctance to apply the same rigor.

For most internal audit groups, innovation amounts to transformative change. Such change occurs only when the function and the larger organization fully support it. Innovation is not achieved by hanging new names on existing activities or introducing a few new solutions. It is achieved by changing the role of Internal Audit and how it works with stakeholders.

We’re not saying that you need a project management office and massive resources. We are, however, saying that you need leadership capable of committing to a sustained effort, setting expectations, and making and supporting the culture change needed to integrate internal audit innovation into the larger organization. This means communicating the need for innovation, aligning innovation initiatives with the business strategy, understanding how to assist stakeholders in achieving the strategy, developing a transformation plan, and applying a formal change methodology. That methodology should include substantive goals and useful metrics for measuring progress.
Internal Audit innovation in action

The following brief examples, drawn from Deloitte engagements, point to ways in which Internal Audit can benefit by applying innovation to the essential areas of people, processes, and technology.

**Transforming the talent strategy at a major insurer [People]**
A leading insurance organization’s internal audit department wanted to provide more advisory services to its stakeholders.

To support this initiative, it needed to take a fresh look at its talent model, including required skills, needed training, and use of external resources.

To achieve this, Deloitte helped the organization to:
- Design and implement a revised competency model, including technical and nontechnical skills, with a training curriculum and incentive system aligned to the revised model; key skills include data literacy, relationship management, critical thinking, and storytelling
- Build a business case based on the relative ROI, in both hard and soft dollars, for use of service centers and third-party resources to enhance specific internal audit services
- Develop an organizational change management and communications plan to coordinate the rollout of the revised talent model and related programs
- Obtain benefits, including a comprehensive refresh of internal audit skills, alignment of the talent model with stakeholder needs, and a cost-justified strategy for use of external resources

**Adopting Agile at an investment manager [Process]**
A multinational investment management organization wanted to adopt agile methodologies and undertook an organizational restructure to enhance the focus on change management.

To achieve this, the organization’s team worked with Deloitte to:
- Create a change management process and road map for adoption of Agile IA, informed by a current-state assessment and a facilitated lab experience
- Upskill teams via “boot-camp” training and ongoing coaching, as well as debriefings after each agile sprint to enhance their agile practices
- Coordinate planning with the leadership team and internal coaches to transform the 150-person internal audit function within six months
- Realize benefits, including greater focus on key risks to the organization and its strategy, as well as faster, higher-quality audits and more engaged internal audit staff and stakeholders

**Automating testing at a global bank [Technology]**
A global financial services organization had set the goal of automating a majority of its internal audit testing procedures.

Key features of this initiative included:
- Designing and implementing an operating model that combined and balanced the people, process, and technology dimensions of automation
- Using Business Chemistry to promote collaboration, first among internal audit leadership, then in plans to roll it out to the rest of this large internal audit group
- Obtaining the buy-in of the organization’s senior leadership, who then let Internal Audit and the development team run with the project
- Delivering more accurate, more real-time, less labor-intensive assurance within a sustainable, scalable automated testing regime
Standing still is not an option

We believe, as do many senior executives and board members, that Internal Audit has more to offer their organizations in our environment of high risk and ongoing disruption. While certain activities remain essential, continual evolution means that standing still is not an option. That need to evolve presents an opportunity for Internal Audit to raise awareness of the function’s capabilities and to educate stakeholders about the need for internal audit innovation. In our research, engagements, and CAE Greenhouse and Lab experiences, we have found that the missing piece in internal audit innovation is typically not Internal Audit’s desire to change, but rather a well-articulated plan for bringing about change. As we hope we have indicated in this and our earlier document, innovation represents a practical approach to changing Internal Audit in ways that stakeholders see as relevant, impactful, and valuable.

Innovation in Internal Audit hinges on fresh approaches to audit activities, diverse backgrounds and skills, savvy use of technology, and clear explanations of why this year’s internal audits will be different. These are excellent starting points, but they realize their full potential only when undertaken with an innovation mindset and a commitment to experiment, iterate, learn, and adapt. To signal Internal Audit’s readiness for growth, the internal audit leader should, with equal portions of courage and humility, clarify the value of this mindset and commitment for leaders, stakeholders, and colleagues and be prepared to do so repeatedly.
Endnotes


3. Deloitte, The innovation imperative: Forging Internal Audit’s path to greater impact and influence.


This document contains general information only and Deloitte is not, by means of this document, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This document is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your business. Before making any decision or taking any action that may affect your business, you should consult a qualified professional adviser.

Deloitte shall not be responsible for any loss sustained by any person who relies on this document.

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. In the United States, Deloitte refers to one or more of the US member firms of DTTL, their related entities that operate using the “Deloitte” name in the United States, and their respective affiliates. Certain services may not be available to attest clients under the rules and regulations of public accounting. Please see www.deloitte.com/about to learn more about our global network of member firms.

Copyright © 2020 Deloitte Development LLC. All rights reserved.