THE PANDEMIC AWAKENED AN APPETITE FOR CHANGE

How can internal audit pivot with momentum?

By Lauren Massey, CIA, Greg Rotz, CPA, and Jason Meneses, CPA
Table of Contents

INTRODUCTION .................................................................................................................................................. 3
ACCELERATING AUTOMATION .......................................................................................................................... 4
THE THREE PIVOTS TO A TRANSFORMED INTERNAL AUDIT ........................................................................... 5
  PIVOT 1: RAMP UP VIRTUAL CAPABILITIES, INCLUDING COLLABORATION ........................................ 5
  PIVOT 2: EMBRACE DATA AND DIGITAL OPERATING MODELS ................................................................ 6
  PIVOT 3: LET PEOPLE — NOT TECHNOLOGY — LEAD THE TRANSFORMATION ..................................... 6
HOW TO HELP BOOST YOUR ODDS OF SUCCESS ....................................................................................... 8
CONCLUSION ....................................................................................................................................................... 9

About the Experts

Lauren Massey
Lauren is a PwC principal, helping companies integrate data and technology into their internal audit strategies, and a subject matter specialist in data mining and analysis around control deficiencies and potential instances of fraud. In her role, she is responsible for delivering continuous enterprise risk assessment, internal audit strategy, engagement planning and budgeting, as well as managing communications with audit committees and senior executives.

Greg Rotz
Greg is a PwC managing director and supports companies with their various risk management needs. He has extensive experience supporting pre-IPO companies in establishing their Sarbanes-Oxley controls programs and experience in financial reporting and regulatory reporting. He has provided a wide array of internal audit and risk services, including third-party risk management, enterprise-wide and fraud risk assessments, and vendor audits.

Jason Meneses
Jason is a PwC risk management professional. His experience includes controls design, implementation, and monitoring compliance, including internal audit consulting. He has worked in both business and information technology processes and risk and controls for large private and public companies and industries, including retail and consumer, technology, telecommunications, banking, and distribution.
**INTRODUCTION**

In the business world, March and April 2020 will be remembered as months of “great digital acceleration.” Putting established and newer technologies to work, businesses quickly shifted to digital modes that had been resisted, feared, or slow-walked before the pandemic. Internal audit (IA) began to pivot too: virtualizing operations and embracing digital ways of working — led by people who quickly reassessed current processes. IA should continue the momentum for change. Because of the pandemic, many audit clients have shifted to digital modes. IA functions have to respond accordingly. IA is now on a faster track toward fuller transformation. IA teams willing to transform can bring great value to their organizations. Facing an uncertain virus-altered recovery path, many businesses see increased digitalization as a strategy to survive under the tightest cost constraints. IA teams who are leaders in digital transformation can provide a full range of new, timely assurance and advisory services to their stakeholders, evaluation of cyber risks in today’s environment, and start thinking ahead for the post-pandemic world.
ACCELERATING AUTOMATION

The pandemic separated the agile and prepared from the disrupted. During the lockdown phase, organizations that continue operating are doing so by reaping the benefits of investments in modern technology and in digitally upskilling their people. They are able to pivot and maintain — or even increase — their relevance to their customers, partners, and suppliers. They shifted to direct-to-consumer channels, large-scale remote work, contactless payments, stepped-up cloud adoption, telehealth, virtual collaboration, and online learning, to name just a few strategies.

A pragmatic openness to new approaches pervades businesses today for their recovery plans. According to PwC’s May 2020 global CFO survey, 50% of CFOs are looking at accelerating automation and other new ways of working. Between 30% to 56% are planning changes to their supply chain strategy.

IA departments can capitalize on this momentum. In fact, they need to. Risks have soared in recent months. Some have emerged from the pandemic itself and some from the responses. For example, businesses proved they could shift much of their workforces to remote work quickly, but they have yet to prove that they have secured remote work. Other risks, like external and insider fraud, inevitably climb during crises.

Some internal auditors are ready for more change: 46% of IA departments are updating risk assessment/evaluating emerging risks, according to a PwC poll conducted in May 2020. Results from The Institute of Internal Auditors’ Audit Executive Center’s June 2020 Quick Poll indicate that “in every industry, at least 60% of the respondents expect to increase the frequency of audit plan updates.” IA departments are directing attention to unplanned activities to address new and emerging risks, both as a department and for the organization. “Remote technology readiness assessments” are being done to identify where IT infrastructure investments should be directed and help establish the short-term and long-term value proposition.

Increasingly, they’re also doing assessments digitally, making continuous audit plans possible. Forty percent of IA departments say that they want to learn more about using data and technology to support the function’s response to the pandemic.

Further demonstrating opportunity for audit functions that embrace agile audit techniques and technology, the Audit Executive Center’s June 2020 Quick Poll revealed 39% of respondents anticipated to increase their use of agile auditing techniques, while 49% were focused on expanding their use of data analytics.
THE THREE PIVOTS TO A TRANSFORMED INTERNAL AUDIT

Great opportunity meets tremendous need. Investments in a transformed IA will generate immediate savings in time, effort, and money — much needed relief during a period of unprecedented economic loss and distress. Half of nearly 900 chief financial officer (CFOs) surveyed globally by PwC expect revenue declines of up to 25%.

IA has already started the path. Now is the time to double down on reimagining how they operate, with these three pivots.

**Pivot 1: Ramp up virtual capabilities, including collaboration**

During the pandemic, agile and prepared IA teams are pivoting away from processes that require intensive face-to-face interactions and manual, paper-based documentation — as they continue to cover risks, including new or emergent ones. This pivot to virtualization and self-service models is worth accelerating, especially with the results of the Audit Executive Center’s June 2020 Quick Poll. The poll indicated that remote working arrangements for internal auditors will continue over the next 12 months, reinforcing the need to ramp up virtual capabilities.

Flexible and agile IA teams are demonstrating that they can engage with stakeholders and others in first and second line roles in increasingly Agile virtual ways, such as virtual fact finding and self-service. Companies once stored hard copies of audit information in a cabinet drawer, but the pandemic is driving enterprises toward more digital documentation and collaboration. Nonaudit/administrative work, such as document request lists and data-gathering activities, are ripe for virtualization.

IA directly benefits the business by operating a self-service model. No corporate function has the broad and unquestioned access to data that IA has. It can turn that unique advantage and responsibility into something more valuable and efficient through virtualization and automation.

For one organization, traditional audit approaches (e.g., walkthroughs, interviews, and workshops) to assess processes were put on hold as COVID-19 spread. IA saw an opportunity to take a data-enabled approach: by obtaining event logs from systems (e.g., transaction ID, activity name, user, and timestamp), they automatically analyzed various process paths (variants) that occurred in real time and shared with management a visual representation of the complexity and risks within each activity. IA worked with the second line of defense on process and control enhancements, and performed detailed audit steps in targeted areas — all with minimal impact on the business.

Another organization’s IA department was asked to stop site visits during the pandemic. For a department that was used to in-person interviews and relied on body cues for questioning, this was a challenge that they solved through obtaining data and challenging their approach. This IA department incorporated a “virtual discovery stage” into their planning process. Using dynamic questionnaires, IA performed detailed risk analysis with little intrusion on business operations. The business appreciated cutting back on meetings and being able to, on their own time, provide the required information, instead of engaging in time-consuming traditional
walkthroughs and workshops. IA implemented a cost-efficient, tech-enabled solution, conducting audit tasks remotely and over a longer period of time, while maintaining the same level of quality and reducing burden on the business. As a result, IA provided a summary report of the key areas that needed attention, as well as the information required for making targeted decisions on what would be remotely audited and what procedures had to be performed at a later date.

**Pivot 2: Embrace data and digital operating models**

Agile and prepared IA teams were able to easily pivot to more tech-based and data-driven work during the early part of the pandemic. This is the second pivot worth propelling; it’s time to abandon old approaches. By taking advantage of technology and data analytics, IA can identify root causes and behavioral trends, spotting emerging risks in real time rather than finding out after the fact and having to put the puzzle pieces together. Here’s an example. One organization had a highly manual monitoring process for numerous third-party service agreements. The IA team automated repeatable processes and applied advanced analytics. The results? Near-time analysis and centralized reporting across their 15+ different time and expense tracking systems; duplicates and exceptions identified within a matter of minutes; blindspots and high-risk expenses uncovered; and a highly efficient auditing process with 100% coverage. Policy improvements ultimately led to improved management and ongoing monitoring of workforce utilization, guided by the company’s strategy to reduce cost by $25 million.

That program changed IA’s value proposition in the eyes of the business. The audit committee now has better risk coverage over an area that has high-dollar impact and significant compliance risk. IA practitioners were excited that they ended the spreadsheet and sample-based approach. For the first time, they were seen by business leadership as pioneers in leveraging new technology, and the approach soon spread to the first and second lines, as well.

This may sound daunting, and you may be thinking “this is not possible here.” But it doesn’t need to be complicated. The data the IA team was already using as part of their audit execution process identified key objectives and indicators and redefined the way they execute the audit with new technology.

IA teams can use this opportunity to improve the lack of collaboration across other first and second line roles. They can work together to identify common sources of data and combine data retrieval and analysis. IA can share analytics and other tools that can become real-time monitoring capabilities for the first and second lines. With an eye on the broader risk capabilities of the organization, IA can help bring a greater level of insight and more effective assurance to the management team, while driving a greater return on investment over risk management activities and technology.

**Pivot 3: Let people — not technology — lead the transformation**

In IA, as in many other corporate functions, the ability to use tools for data wrangling, advanced data analysis, and visualization is foundational. It is not just a bolt-on, but a fundamental change in the DNA.

An organization’s IA department seeking to include analytics in 100% of their internal audits hired offshore data scientists to begin the process. After a couple of months, IA realized that the analytics provided by the offshore team were relegated to the appendix of the audit report — not integrated throughout to drive audit activities or discover insights. The lack of an overall strategy for upskilling their current team rendered the potentially valuable analytics ineffective.
IA created a road map to move critical audit activities from traditional, sample-based audit procedures toward full population techniques. IA identified gaps in the company’s ability to connect disparate data sources. IA shaped the transformation while internal auditors digitally upskilled and learned new ways of working.

This organization was not an exception; in fact, most digital transformations fail. According to IDC FutureScape, 70% of the time it’s because employees don’t readily adopt the new technologies. It’s not because they don’t want to. Most employees (77%) want to learn new skills now or completely retrain to improve their future employability, according to PwC’s Upskilling Hopes and Fears survey. In fact, U.S. job seekers are even willing to forgo up to 12% of their salary to gain the training and flexibility they need, according to PwC’s Future of Recruiting survey of 10,000 respondents.

Transformations designed as tech-first or tech-led are destined for less-than-satisfactory outcomes. Traditional upskilling programs tend to be ineffective for the same reason.

IA should get ready for upskilling 2.0, which challenges long-held beliefs and forces a pivot toward people-powered, business-led, results-oriented program design.

**Pivot toward upskilling 2.0**

1. **Express the business strategy-led vision for your IA**
   
   Ground the vision for the IA transformation in business growth objectives. That’s how the vision becomes a compelling reason for change and a common rallying point for the IA team and stakeholders across the business.

2. **Assess capabilities and allow personalized learning paths**
   
   Abandon one-size-fits-all training. Start from individual assessments of capabilities and then provide individualized learning paths. More targeted and correctly paced for each individual, the program speeds up the entire team’s upskilling.

3. **Set up for citizen-led innovation**
   
   Give immediate opportunities and incentives for people to apply what they’ve learned. Give them the tools and the freedom to introduce innovations that immediately result in cost savings or new revenue for the business.

4. **Inject new talent**
   
   Hire catalysts who bring needed talents and skills, based on the risk profile of your organization. Cross-skilling between the new and the current IA teams propels IA transformation.

HOW TO HELP BOOST YOUR ODDS OF SUCCESS

Once just aspirational for all but the most innovative, the transformed IA function can fast become a necessity and a reality. In the next normal, IA will operate in a smarter and more digitally driven operating model characterized by a proactive risk focus, agile operating model, diversified scope and nature of audits (audit spectrum), higher-precision activities, and analyses informed by behavioral science.

Digitally-Driven Operating Model

- **Proactive Risk Focus**
  Embed a continuous Risk Sensing process that uses external and internal sources of data identification of risk areas

- **Audit Spectrum, not audit plan**
  Diversify the scope and nature of audit activities. Issues based reviews, audit insight workshops and more.

- **Flexible Operating Model**
  More dynamic teams with leverage models across the 3 lines of defense

- **Behavioral Science**
  Leverage data to identify behavioral trends and root cause - uncover the blind spots!

- **Higher Precision Audit Activities**
  Analyze 100% of populations using neural networks and AI to scope highly focused audits.

*Source: PwC, “Avoiding change is not an option: Why the time to transform internal audit is now,” 2020.*
CONCLUSION

Don’t be tempted to embark on a “transformation effort” that’s too big and too slow. Instead, start small, solving governance and control problems as they emerge, for example, in securing remote work setups that were done quickly and early in the pandemic. Celebrate quick wins, such as reassessments of fraud risk and automated fraud detection and analysis. Collaborate, don’t go it alone. There are many risks you aren’t aware of or can’t control during this pandemic; but risk stemming from lack of coordination within your organization is one that you can and should mitigate. And remember that resilience means being prepared to iterate on plan A, or move to plans B, C, or D as macro and organizational circumstances change or until you get something that is scalable in the function and organization.

The three pivots described here will start you on the fast track to the new business environment. A new way of thinking and operating during this pandemic can help IA go a long way in the much-desired transformation, while propelling the business.

Suggested Reading

- NEW! COVID-19 Quick Poll #4: Survey results on changes to budgets, audit processes, and trending competencies (AEC)
- The Virtual Audit (Internal Auditor Magazine)
- Resilience of a Tech-Enabled and Digitally Upskilled Work Force in the COVID-19 Era (Video)
- PwC’s Digital Trust Insights Pulse Survey
- COVID-19: How to prevent the global pandemic from becoming a fraud pandemic
- Four ways internal audit is responding to COVID-19
- PwC’s COVID-19 CFO Pulse
- How to spot, prevent, and mitigate insider fraud during the current crisis
- NEW! IT Change Management: Critical for Organizational Success, 3rd Edition
- NEW! IT Essentials for Internal Auditors
ABOUT THE INTERNAL AUDIT FOUNDATION
The Internal Audit Foundation strives to be an essential global resource for advancing the internal audit profession. The Foundation's research and educational products provide insight on emerging topics to internal audit practitioners and their stakeholders and promotes and advances the value of the internal audit profession globally. Through the Academic Fund, the Foundation supports the future of the profession by providing grants to students and educators who participate in The IIA's Internal Auditing Education Partnership Program. For more information, visit www.theiia.org/Foundation.

ABOUT THE IIA
The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 200,000 members from more than 170 countries and territories. The association's global headquarters is in Lake Mary, FL. For more information, visit www.theiia.org.

ABOUT PwC
PwC’s purpose is to build trust in society and solve important problems. With us, you're supported by a global network of over 276,000 people in 157 countries who are committed to delivering quality in assurance, advisory, and tax services.

DISCLAIMER
The Internal Audit Foundation and The Institute of Internal Auditors publish this document for informational and educational purposes. This material is not intended to provide definitive answers to specific individual circumstances and as such is only intended to be used as a guide. The Foundation and The IIA recommend seeking independent expert advice relating directly to any specific situation. The Foundation and The IIA accept no responsibility for anyone placing sole reliance on this material. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

COPYRIGHT
Copyright © 2020 by the Internal Audit Foundation, formerly The Institute of Internal Auditors Research Foundation (IIARF). All rights reserved. Copyright © 2020 PricewaterhouseCoopers LLP, a Delaware limited liability partnership. All rights reserved.