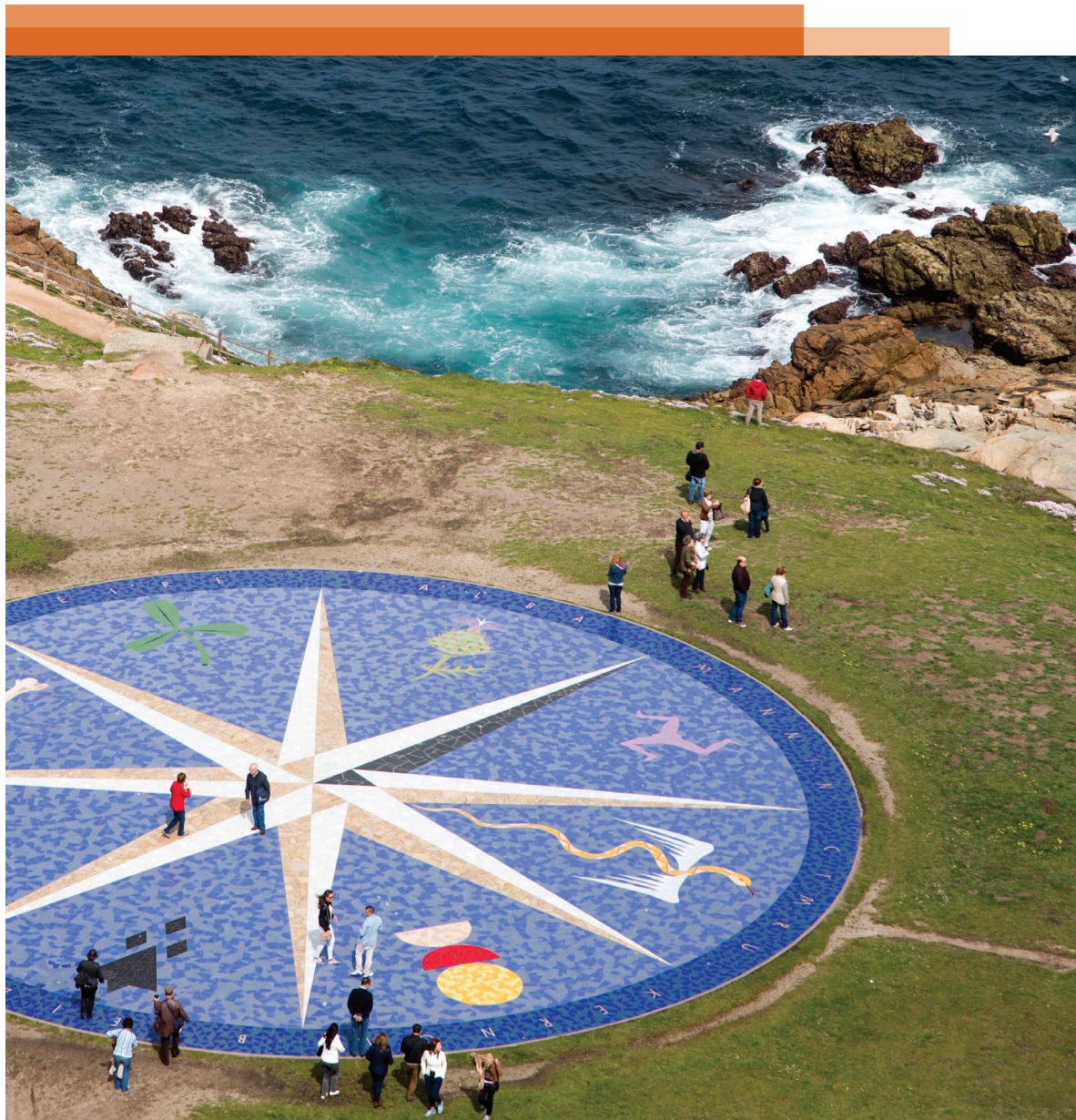


# **2015 State of the Internal Audit Profession Study**

## Finding True North in a period of rapid transformation

March 2015

*PwC's annual survey results suggest that external drivers of change are influencing how internal audit should evolve to maintain its relevance.*



*Finding True North in a period  
of rapid transformation*

N



---

<i>Finding True North</i> .....	2
<i>Uncharted territory</i> .....	4
<i>Finding internal audit's True North</i> .....	6
<i>Navigating the terrain: risk focus</i> .....	8
<i>Equipping the team: talent and business acumen</i> .....	10
<i>Triangulating your position: risk and business alignment</i> .....	14
<i>Mastering the compass: leveraging data to provide direction</i> ....	16
<i>Heading True North</i> .....	19

***The year 2015 marks PwC's 11th annual State of the Internal Audit Profession Study. A decade ago, when our study began, technologies such as the cloud were concepts far removed from mainstream use. Smartphones and social media were in their infancies. The global financial crisis of 2008 had not yet occurred. South Africa, Colombia, South Korea, Vietnam, and Indonesia were not on most corporate radar as the growth opportunities they are today. Fast-forward 10 years. The geopolitical landscape and global economy are remarkably changed, as is the business environment in which companies — and their internal audit functions — must now operate.***

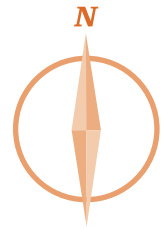
With the backdrop of rapid change over the past 10 years, even more change appears to be on the horizon. In PwC's 2015 *Annual Global CEO Survey*, CEOs reported that regulation, competition, and changes in customer behaviors are the trends that will be most disruptive to their industries over the next five years (Figure 1) and drive many to completely rethink their value propositions. In the face of this disruption, CEOs are also optimistic about their growth: 61% see more opportunities today than they did three years ago.

To capitalize on these opportunities, companies are taking strategic actions — by expanding into new markets, making acquisitions, forming joint ventures, radically innovating their product and service portfolio, and entering new industries. The survey found that 54% of CEOs have entered a new sector or considered it in the past three years and 56% of CEOs think it likely that companies will increasingly compete in new industries over the next three years.<sup>1</sup>

PwC's 2015 State of the Internal Audit Profession Study reflects the opinions of more than 1,300 chief audit executives (CAEs), senior management, and board members globally who tell us that, for many, internal audit must evolve to keep up with the needs of the business in this period of rapid transformation. Throughout our evaluation of the survey results and during more than 100 interviews with CAEs and stakeholders, we were consistently reminded of one concept: True North.

True North, a lean concept, born decades ago from the Toyota Production System, has evolved to become a set of ideals used to guide

**Finding True North requires innovation, self-reflection, and the ability to ask, *What should we do?* not *What can we do?***

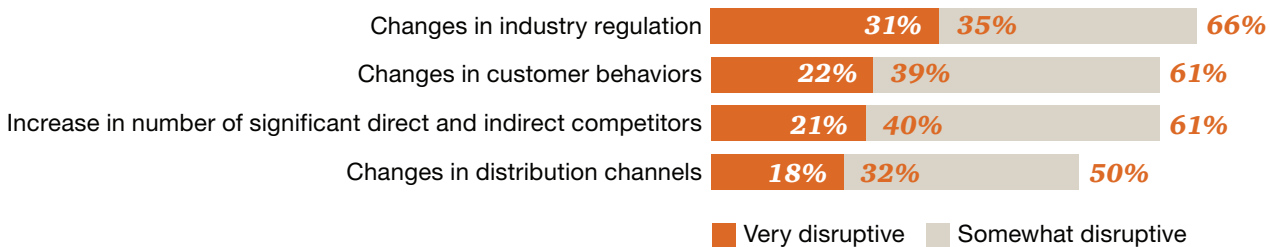


an organization from its current state to where it wants to be. When the environment around us is rapidly evolving, it is easy to lose our way or fall behind. True North is a fixed orienteering point—the unchanging vision that helps us stay on track as the world around us changes. Finding True North requires innovation, self-reflection, and the ability to ask, *What should we do?* not *What can we do?* In this year's research, we are

grounded by the external drivers of change and explore how internal audit can find its True North amidst this constantly changing risk landscape. We look closely at the responsibilities, capabilities, and skills of innovative internal audit functions, and we provide insight on how internal audit can stay focused on being a valuable and relevant contributor to the business while fulfilling its charter.

**Figure 1: CEOs see regulation, competition, and customer behaviors as the top industry disruptors**

Q: How disruptive do you think the following trends will be for your industry over the next five years?



Source: PwC's 2015 Annual Global CEO Survey

“Considering the change in the global risk landscape, **boards today are forced to assess the limited resources they have available to provide assurance**, as well as assistance, as their mandate changes and responsibilities increase. This, along with an increased sensitivity to risk, will drive companies to reconsider internal audit’s role and importance. Internal auditors must use this opportunity to gain the confidence of the audit committee, executive management, the board, and, in certain circumstances, regulators.”

—Anton van Wyk, Global Institute of Internal Auditors Chair, South Africa

## Uncharted territory

Companies are operating in an environment of largely uncharted territory where risks challenge their ability to successfully execute their strategy. As macro and market trends evolve at an increasingly swift pace, the business environment is substantially different than it was even a few years ago.

PwC’s 2015 State of the Internal Audit Profession Study confirmed this changing market and competitive environment. Three-fourths of respondents continue to see regulatory complexity as an area of concern, but evolving risks such as data security and privacy are now also formidable challenges (Figure 2). Changing consumer behavior, the top-rated market opportunity in our survey, has dramatically escalated in business impact with the rise of social media, digital, and mobile channels. New threats, such as the information piracy witnessed recently in top global brands, add to the scope of the risk landscape that companies must now manage with new or improved processes and controls.

Figure 2: Macro and market forces...

...that are creating the biggest challenges



77%  
Regulatory complexity



74%  
Data security and privacy



69%  
Cost pressures



69%  
Government policy changes



66%  
Talent availability

...that are creating the biggest opportunities



53%  
Changing consumer behavior



45%  
Urbanization



41%  
Shifts in competition



41%  
Emerging technology



39%  
Government policy changes



39%  
Global economic shifts and uncertainty

**“Our organization is focused on becoming a digital leader, which requires constant innovation** in an environment that can easily adapt and flex. Similarly, internal audit must disrupt its conventional thinking—innovating in tandem with its business partners and developing centers of excellence to bring value to our stakeholders.”

—Jim Tietjen, Executive Vice President & Chief Auditor, Capital One Financial, USA

Certainly change is not new. A decade ago, companies were entering new markets, shifting their manufacturing overseas, vertically integrating, and creating more-efficient operations. But now, compelled by unparalleled global trends and market forces, we are witnessing the total transformation of companies and entire industries, such as retailers entering the healthcare provider space or owning and operating a bank to better serve their customers, news and production companies transforming into digital and social media

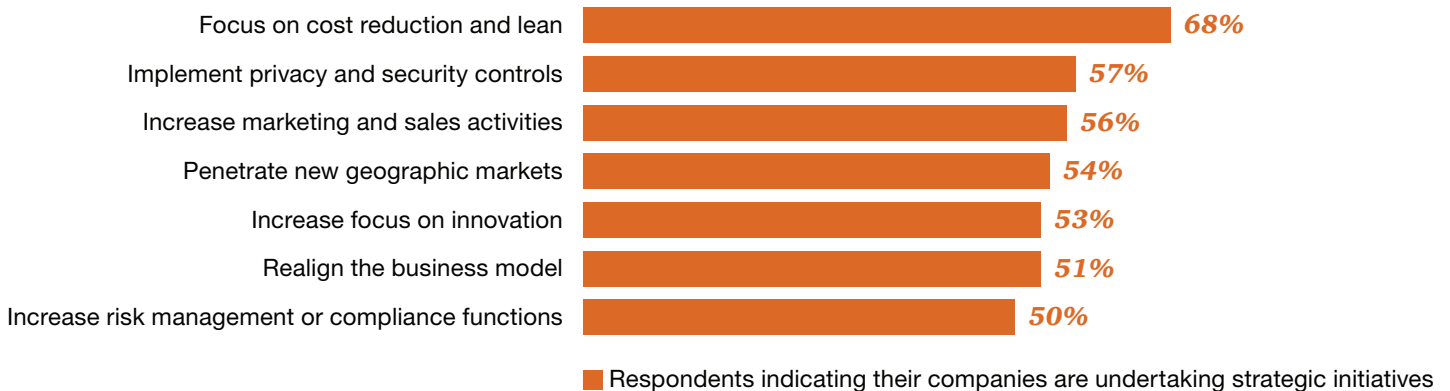
companies, and technology companies becoming gateways to everything from media consumption to personal fitness and home security.

In response to external forces, companies are rethinking and redesigning the entirety of their businesses, from their overall business models, product and service portfolios, and go-to-market strategies to their back-office and supply chain operations. Our survey shows that nearly 70% of companies have gone through or are going through a

business transformation in response to market shifts. Another 12% anticipate doing so in the next 18 to 24 months. These transformation initiatives range from focusing on cost reduction to increasing marketing and sales activities, to increasing focus on innovation and realigning business models (Figure 3).

With such dramatic industry convergence and business transformation under way, companies inherently face new and more-complex risks.

**Figure 3: Top strategic initiatives companies are undertaking in response to market challenges and opportunities**



“Through constantly raising the bar on what we deliver back to the business, the organization’s perception of the value of internal audit is increasing.”

—Neil Aaron, Senior Vice President of Internal Audit, News Corp, USA

## Finding internal audit’s True North

It is typically easy to stay on course when you are familiar with the landscape. But today’s business environment is not familiar terrain. For this reason, internal audit leaders must find and stay focused on their True North, their ideal of how their function should operate to keep pace with the changes in their companies and their critical risks.

Internal audit functions adding the greatest value today and poised to contribute well into the future are progressing toward a True North that is most often characterized by their ability to keep pace with business change by being adaptive to the risk landscape. When operating in the construct of,

What should they do? these internal audit functions are innovative, and they consistently operate with a mind-set to push beyond standard objectives and deliverables.

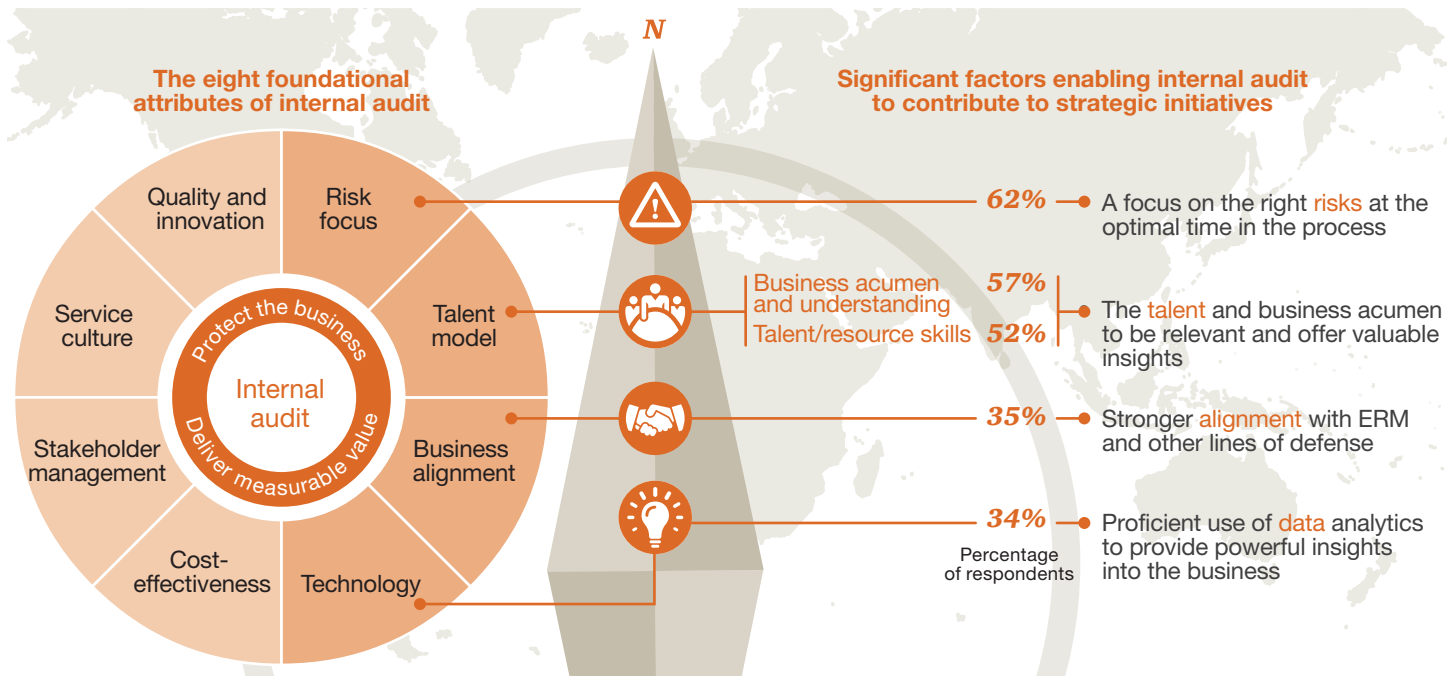
Our research shows that a certain group of internal audit functions has separated itself as contributing significant value to their companies in the eyes of senior management and the board. In these companies, internal audit is proactively evolving. Stakeholders within these companies report not only that their company manages and anticipates risk well but also that internal audit:

- Is actively involved in the most impactful business imperatives

- Offers a proactive perspective on all business risks (strategic, compliance, financial, and operational)
- Provides recommendations on how to mitigate risks before they occur

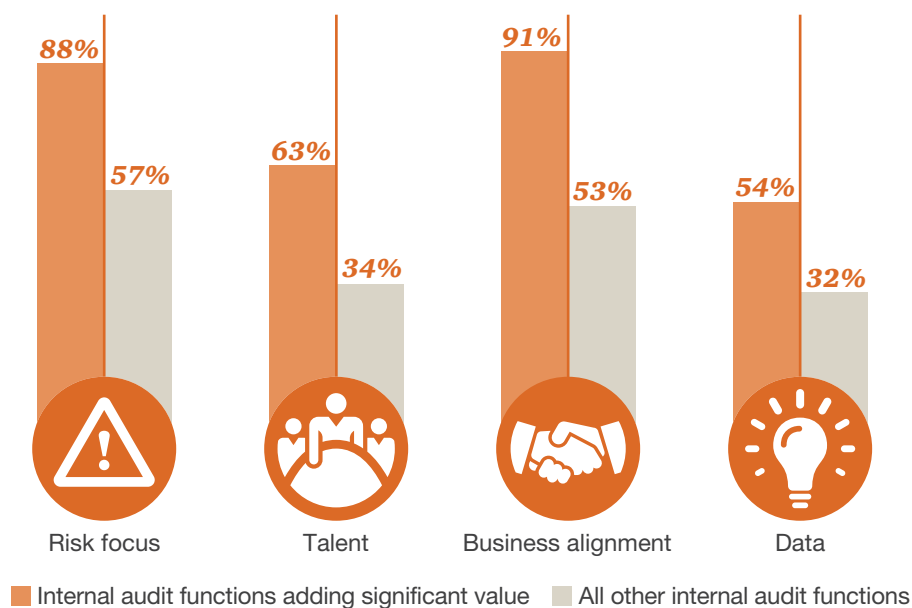
Acknowledging that the business landscape and risks are rapidly changing, the majority of CAEs report they are on an evolutionary journey. While just 11% characterize their current internal audit function as providing value-added services and proactive advice for the business, 60% believe that they will need to be doing this within the next five years. Stakeholders share this same vision, with just over 45% expecting internal audit to extend its traditional assurance provider role into a more proactive trusted advisor role within the next five years.

Figure 4: Finding True North requires building four priority capabilities





**Figure 5: Internal audit functions adding significant value outperform others in these four areas**



While most internal audit functions have identified the need to add more value, few are exploring how to do this with a purposeful plan to attain the mission. PwC has long discussed the importance of internal audit’s eight foundational attributes (Figure 4).<sup>2</sup> In this time of constantly changing business terrain, our survey identified that four areas—risk focus, talent model, business alignment, and technology—are seen by CAEs and stakeholders alike as top enablers for internal audit to be a more valued contributor. Our survey also showed that in companies where internal audit

is adding significant value, internal audit is performing at a higher level in each of these areas (Figure 5).

In addition to these four areas, stakeholder support was identified as a priority but is, in part, a by-product of internal audit’s ability to deliver value. Other attributes, such as cost-effectiveness and service culture, are still relevant to performance, but our research indicates that they are not as critical to enabling internal audit participation in the transformational activities of the business.

While every internal audit function’s path to True North will be different, our research shows that concentrating on the following four actions will be critical to pointing internal audit in the right direction.

- Focusing on the right risks at the optimal time in the process
- Developing the talent and business acumen to be relevant and offer valuable insight
- Strengthening alignment with enterprise risk management (ERM) and other lines of defense
- Harnessing the power of data throughout the audit life cycle to provide better insights into the business

## Navigating the terrain: risk focus

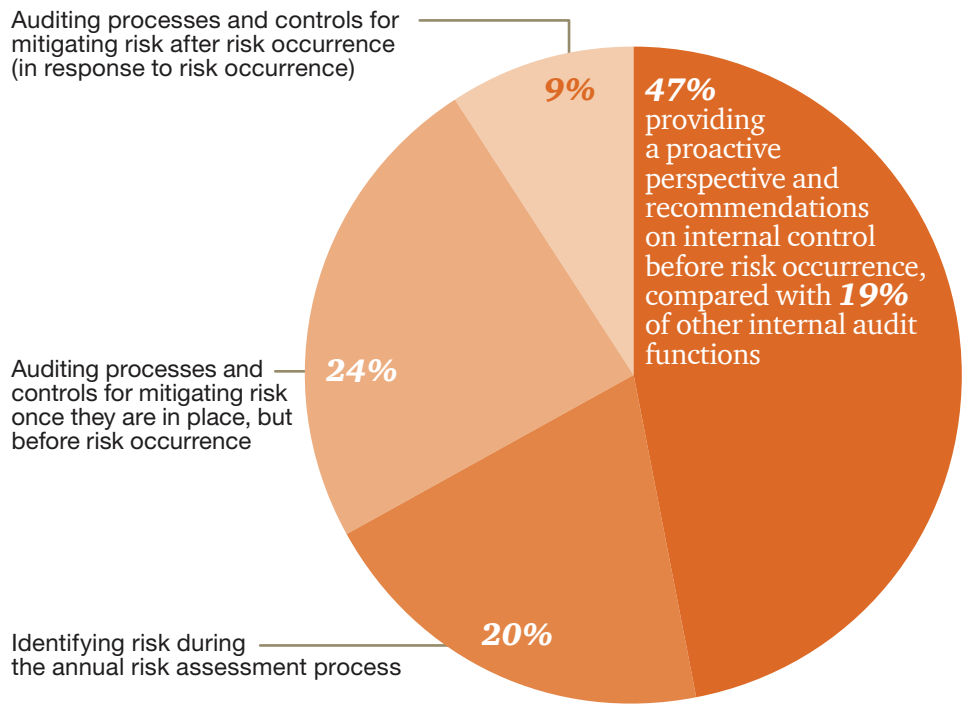
As companies adapt to rapid change, the risks they face are often unknown and uncharted and their potential impact on the business's future is substantial. Internal audit functions that are adapting to the changing risk landscape are involved in significant initiatives at the optimal time in the process to be able to focus on strategic risks ahead of risk occurrence.

Our study revealed that those internal audit functions considered by stakeholders to be contributing significant value are involved in transformational initiatives up to twice as frequently as are their peer functions and are providing a proactive perspective on such transformational initiatives (Figure 6). Forward-looking internal audit functions are providing input on what to consider as the business evaluates a certain path such as a possible acquisition or entry into a new market. At other times, internal audit identifies potential risks as the initiative is underway, such as during a sales transformation or cost reduction program.

To ensure they are involved at the optimal time in the process, CAEs need to be positioned to provide their perspective. Those with strong support from management and the audit committee report they actively participate in leadership and steering committee meetings, which enables them to identify new initiatives and engage early to provide a view on risks.

**Figure 6: Internal audit functions adding significant value are providing a proactive perspective on transformational initiatives**

### How internal audit functions adding value are participating in transformational initiatives:



### Defining your own path



- To what extent is internal audit involved in your company's transformational initiatives?
- Is internal audit providing proactive perspective on your company's strategic risks?
- How does internal audit facilitate a deeper understanding of risks across your company?
- Is internal audit's strategic plan aligned with the company's strategic initiatives?

“There are so many transformation initiatives where internal audit needs to be closer to the front end process design rather than the auditing postimplementation. Doing so requires **people who can operate in a less-structured engagement while still maintaining independence.** We identify these opportunities in a strategic way.”

—Kathy St. Louis,  
Chief Audit Executive,  
Eli Lilly, USA

“Internal audit should be involved in strategic initiatives but purely from a process and governance perspective. **Internal audit is not second-guessing strategic direction.** They should be looking at the project management of strategic initiatives, the key risks, and the business processes. This requires specific capabilities: the wrong team adds no value.”

—JoAnne Stephenson, Chair,  
Audit & Risk Committees,  
Challenger Limited,  
Asaleo Care Limited,  
Department of Health (VIC),  
Peter MacCallum Cancer Institute

## *On the journey: an internal audit function integrated with the company’s strategic initiatives*

Within US-based Google, Internal Audit is regarded as a true business partner—a partner that is involved in pushing forward the company’s most strategic initiatives by providing a proactive perspective on risks. To be successful in this role, Chief Audit Executive Lisa Lee believes Internal Audit should be resourceful to add value as part of the solution. Google operates under a strong culture of quarterly goals, called OKRs (Objectives and Key Results), and Internal Audit has become an integral part of cross-functional teams working toward achieving these OKRs.

Tactically, two success factors help Internal Audit operationalize this approach. First, building strong relationships across functions enables Internal Audit to be active in the initiatives that matter the most to the company. To be at the forefront of changes within the business, Google’s internal audit function follows a matrix organization structure with resources aligned by product and business process. This specialty enables the internal audit team leads to foster deep relationships with the product teams, keep an active pulse on the business, and identify key risks.

Second, internal audit resources have an open mind when entering a new initiative by their display of a how-can-we-help mind-set as they define their roles in meeting the new initiative’s needs. For example, the role may be different if processes are well established and thus auditable, versus nascent, in which case Internal Audit must provide a more consultative perspective on risks and controls. As an integral part of the team, sometimes Internal Audit takes on nontraditional roles such as project management or providing support across the traditional lines of defense. Quite simply, it is about ensuring risks are addressed appropriately, and Internal Audit adds much more value if it focuses on collaborating with the business to do that.

To scale its involvement across initiatives, Google Internal Audit has found it most productive to involve senior internal audit team members early in brainstorming and then, as the initiative is progressing, to create transparency around key findings. This allows the team to change course when needed and meet the end objective of “helping and adding value” to the business.

## Equipping the team: talent and business acumen

Alone, a compass pointing internal audit functions to True North does not guarantee their ability to add value. Making the journey is dependent on the function's collective talent and business acumen. As companies disrupt their business models and drive their strategies forward, the mix of skills required by internal audit must evolve. For example, as a retailer moves into the healthcare provider segment, a retail-focused internal audit team is unlikely to have the depth of knowledge of the healthcare industry to understand sector-related risks such as regulatory compliance requirements. We continue to learn from our research that nontraditional skills are helping the most-valued internal audit functions make the journey successfully.

"Your own caliber as a senior executive gets you to the C-suite, not your mandate."

—Andrew Dix, Audit Committee Chair, Swinburne University, Audit Committee Member, Department of Justice, Australia

Yet despite all of the business change that is occurring, many companies' internal audit skill sets have not evolved significantly relative to 10 years ago. By far, the skills most often found within internal audit functions include financial controls skills, general information technology (IT) skills, and compliance skills, where 95%, 90%, and 89%, respectively, have these skills.

Our survey results clearly point to the talent gap as fueling a poor perception of internal audit's relevance and value: 65% of stakeholders who do not find value in their internal audit functions cite talent as a top barrier. Forty-three percent of CAEs agree with this point of view.

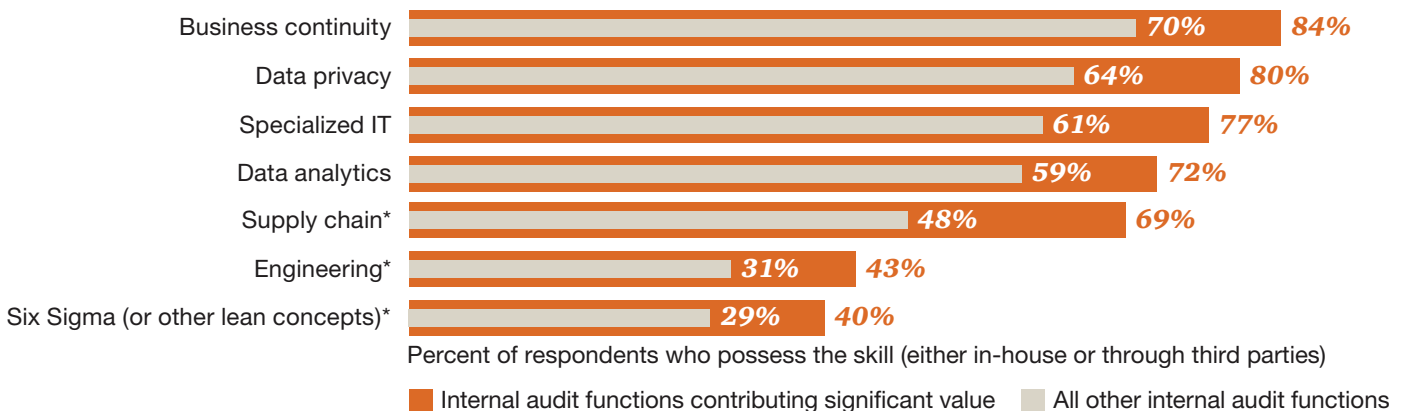
In contrast, those who are keeping pace with business change and contributing greater value to the company are proactively acquiring the skills needed to address the most critical risks facing their companies. These internal

audit functions are building teams with diverse skill sets, aligned to their company's agenda of transformational initiatives (Figure 7).

Skill sets they possess include business continuity, data privacy, and specialized IT skills such as cybersecurity, cloud services, mobile computing, and enterprise resource planning (such as SAP or Oracle).

These functions also possess a broad set of operational skills, such as supply chain, Six Sigma/lean, or engineering skills, depending on the company's industry and strategies. Our interviews showed it is becoming increasingly more common to recruit talent with backgrounds in human resources, legal, ethics and compliance, particularly in highly regulated industries. Many have brought in skills ranging from tax, sales, and marketing to civil, mechanical, electrical, and systems engineering.

**Figure 7: Internal audit functions providing significant value have built more diversified skill sets than their peers**

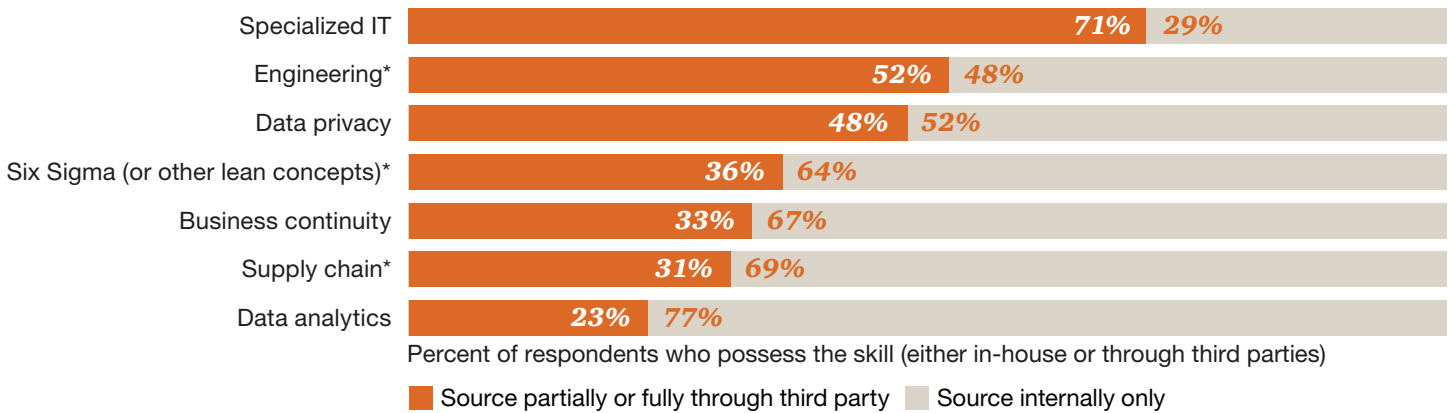


\*Excludes financial services sector.

**“The main area of challenge is not technical but behavioral: finding auditors with sufficient global and business acumen who can face management and provide appropriate and constructive levels of challenge.”**

—Abdulrahman al Harthy, Chief Audit Executive, Oman Oil Group, Oman

**Figure 8: How CAEs currently source or plan to source skills**



\*Excludes financial services sector.

Another fundamental component of internal audit relevance is having the business acumen to understand the risks facing the company and offer valuable insights. Similar to talent, lack of business acumen is seen as a significant barrier for internal audit to add value: 70% of stakeholders who find little value in their internal audit functions say business acumen is a top barrier. Internal audit teams keeping pace with the business have a deep understanding of the industry sectors their company operates in as well as the trends facing the company. Further, they are able to clearly identify and link risks to business imperatives and provide valuable insight, thereby partnering more effectively. They cultivate this business acumen by strengthening

the team’s verbal and written communication, presentation, and leadership skills, providing challenging work assignments, by helping resources see how their work matters to the business, and by coaching them on how to be successful in work and life.

The rate of business change makes recruiting and hiring the diverse skills internal audit needs to support the business a formidable challenge. Some internal audit functions are able to recruit the variety of skills needed internally and make use of formal rotation programs to bring in relevant talent from the business. Building training programs to address specific skills gaps, including teaching generalists specific lines of business such as

insurance underwriting or auto leasing, is also a strategy that is being used to fill the talent gap.

Those internal audit functions that manage talent well have their own strategic plan that aligns their recruiting, sourcing, and talent development needs with the strategic direction of the business, their True North in talent management. As companies drive their most important initiatives forward—redesigning their business models, entering new industries, vertically integrating—internal audit functions aligned to these initiatives will have a proactive plan that builds the right mix of future skills to stay in step with business transformational initiatives.

## ***On the journey: an internal audit function evolving its talent model to meet the needs of a changing business***

Founded in 2003, **LinkedIn** is now the world's largest professional network, with more than 300 million members in over 200 countries and territories around the globe.

In this high-growth environment, LinkedIn's Internal Audit function is looking forward, focused on identifying and sourcing the skills it will need to provide value as LinkedIn pursues the strategies that will drive its growth. Internal audit is identifying what skills are missing today and building for tomorrow, bringing in resources with a diverse set of skills — from IT and data analytics skills, to forensics, compliance expertise, and operational excellence experience.

As it builds this diverse skill set, LinkedIn's Head of Internal Audit Inder Gulati is not taking a traditional approach. He is thinking broadly about skill needs and is incubating and developing centers of excellence within internal audit that, as the business matures, can become independent business functions. For example, the bench of skills internal audit is currently building in operational excellence, including Six Sigma, could, when the team matures and the business is ready, become its own operational excellence function, with a broad charter within the organization. In this way, internal audit is not only keeping pace with the organization's strategic risks today but also building valuable skills that will be needed by the company as it matures as a business and continues its rapid growth.

"If internal audit says it is going to 'learn business acumen,' it will fail. Internal audit needs people who will train themselves by digging into the details, and that starts with intellectual curiosity. Intellectual curiosity is key."

—*Ninette Caruso,*  
*Chief Audit Executive,*  
*Genworth Financial, USA*

That said, now more than ever companies are turning to third parties to close the talent and business acumen gap, finding it an attractive way to stay contemporary with evolving skill needs while remaining organizationally lean (Figure 8). In our experience, internal audit functions continue to see increased benefits from cosourcing — and when warranted, full outsourcing — for a variety of reasons, including gaining access to a variety of talent, deep technical skill sets, and technological capabilities.

## Defining your own path



- How does internal audit's talent development and sourcing plan align with the strategic direction of the company?
- Has a capabilities assessment of internal audit been performed?
- What actions is internal audit taking to obtain skill sets aligned to the company's most significant risks?

## *On the journey: an internal audit function evolving its talent model to meet the needs of a changing business*

**Bertelsmann SE & Co. KGaA** is an international media company headquartered in Germany whose core divisions encompass television, book publishing, magazine publishing, services, and printing. In an industry undergoing massive digital transformation, Bertelsmann has had to transform as well, by making acquisitions, investing in new markets, and changing underlying processes. Bertelsmann's internal audit function is deeply involved in the changes under way in its core business.

Over the course of expanding its strategic involvement, Internal Audit has broadened its skills and increased its professionalism. As a result, the department gets more requests from the business rather than solely identifying risks from the top. The department name, Corporate Audit and Consulting, reflects the expansion of Internal Audit's charter to include a focus on innovation and business transformation.

The 23-person department covers all areas of the business. Collectively, the team speaks 11 languages. While 60% of the team has prior experience working at major auditing firms, others come from diverse backgrounds ranging from IT to economics and law. Recognizing the need to keep pace with the digital world, Internal Audit even hired an expert who did not possess an advanced degree but specialized in information security. Recognizing that digitalization is the most important trend Bertelsmann faces, Internal Audit conducted internal workshops and training to get auditors up to speed on the digital world and its expected implications for the business.

As needs continue to evolve, Executive Vice President and General Auditor Marc Wössner is committed to expanding his team's skills to keep pace with business requirements—through a combination of training, hiring, and cosourcing.

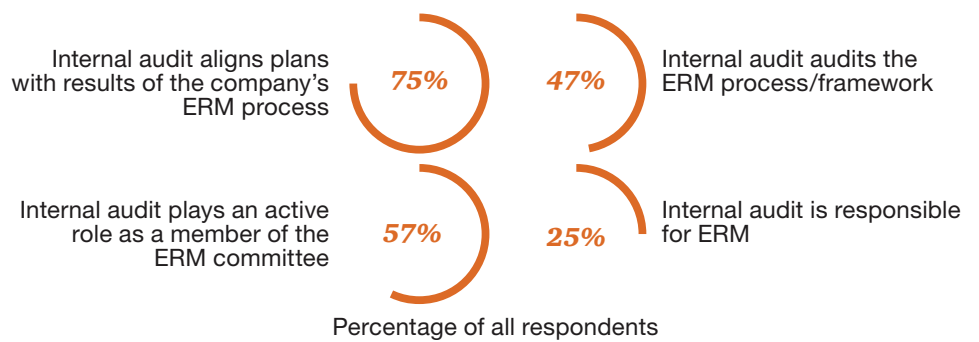
## Triangulating your position: risk and business alignment

When charting the course toward True North, teams need landmarks to ensure they stay on course. The ERM function and other second-line-of-defense functions serve as two of internal audit's key landmarks, helping it keep sight of the company's most significant risks.

In concept, the risk management process is fairly simple: identify risks, assess and seek to understand them, assign ownership, manage, monitor, and report on progress. All companies move through these steps in some fashion, but industry dynamics, company demographics, and varying risk appetites result in very different executions of the process.

Aligning the risk management process, language, and framework across the three lines of defense (business functions as the first line, ERM and other risk and compliance oversight functions as the second line, and internal audit as the third line) can be highly beneficial.<sup>3</sup> Alignment results in enhanced risk management and reduced audit fatigue. All risk management functions are more efficient, and information regarding risks is more clearly and consistently presented to stakeholders when functions across the lines of defense are effectively aligned.

Figure 9: Internal audit involvement with ERM



### Alignment with ERM

Organizations in which internal audit contributes significant value report their internal audit functions are better aligned with the company's risk management program: 87% are well aligned versus only 21% of lesser-valued internal audit functions. Three-fourths of survey respondents report that internal audit aligns its audit plans with the results of the company's ERM process. About half audit the ERM process and just over half are members of the ERM committee (Figure 9), yet the majority of interviewees report they have significant work to do to truly work in harmony with ERM and other second-line-of-defense functions.

While the majority of internal audit functions report they are aligned with ERM on the top enterprise risks, our interviews pointed to two common ways that alignment breaks down in practice:

- Internal audit maps the top risks it identifies back to those identified by ERM, but the actual audit scope set by internal audit for a particular area may not align with the risk attributes that ERM identified, causing the audit to potentially miss the most significant risks.
- Internal audit limits its plan and scope based on what it is capable of auditing within the set of enterprise risks, based on either time or talent constraints.

To optimize risk management across the company, internal audit, ERM, and other second-line functions should begin by speaking the same language with a common enterprise risk framework, processes, and evaluation criteria.

### Alignment with the second line of defense beyond ERM

Many companies, particularly those in nonregulated industries, may still be in the process of maturing their risk management programs. In these organizations, as well as those with more-established risk management capabilities, the second-line-of-defense functions can serve as the landmark that helps internal audit on its journey northward.

Best-in-class second-line functions are moving beyond interpretation and advice to enforcement and validation. More and more, second-line functions are performing independent monitoring of key business risks, typically in the form of testing controls related to compliance and operational risk areas. This second-line monitoring and testing then become critical components of the company's overall risk management ecosystem.

Once internal audit, in its role as the third line of defense, gains comfort in the work performed by the second line, it can leverage that work to provide a point of view for management and the audit committee on a broader set of risks.



While responsibilities between the second and third lines of defense may be different company to company, organizations that are best in class in risk management have a common risk framework, clear role definitions, and a sharing of work back and forth to operate as one risk management ecosystem across the different lines of defense.

### Defining your own path



- How clear are the roles and responsibilities between the second and third lines of defense in your company?
- Does your company have a common, unified risk framework that is well understood by all lines of defense and stakeholders?
- Has internal audit evaluated the second line of defense in its role as the third line?
- To what extent is internal audit leveraging the work of the other lines of defense to inform its risk assessment process and avoid redundancy while strengthening the organization's overall risk management?

### *On the journey: an internal audit function that is well aligned with the other lines of defense*

Like most large organizations, global pharmaceutical company **Eli Lilly** has numerous business initiatives under way. Facing increased regulation and greater competition with patents expiring, Eli Lilly is evolving on several fronts, including forging new R&D partnerships with third parties, making acquisitions, driving growth in emerging markets, and closely managing cost. These programs create strategic risks such as ensuring intellectual property protection across the third parties with which it now shares R&D. In this evolving risk environment, Eli Lilly benefits from strong collaboration across its lines of defense.

Alignment across the lines of defense is facilitated by a governance structure composed of several committees, including one focused on coordination between the second and third lines. Leadership from ERM, Internal Audit, Quality, Health and Safety, and Ethics and Compliance Monitoring meet on a regular basis. A primary function of this committee is to coordinate audit and monitoring plans across the various groups and review and share results of each group's efforts, all of them in alignment with identified enterprise risks. On an annual basis, the group takes all risks identified by ERM and matches them against the assurance functions to determine collective coverage levels. Plans are built based on that effort, resulting in more-holistic coverage and audit plans and more-effective use of limited resources.

Since this governance approach was enacted and the lines of defense began speaking the same language several years ago, dialogue has increased, integration of enterprise risks into Internal Audit's long-range planning process has improved, and overall risk management is more effective.

## Mastering the compass: leveraging data to provide direction

The growing amount and accessibility of data can be a significant contributor guiding internal audit toward its True North—or, as sometimes happens, too much data can result in taking internal audit off course when it is not effectively used. Today there are 2.7 zettabytes of data in the digital universe, and by 2020, big data is predicted to be 50 times what it is today.<sup>4</sup> As business operations become more proficient in their use of both structured and unstructured data, analytics are informing decisions across the business in ways never before considered.

For many years, internal audit has focused on using data in limited ways to conduct analytics for fieldwork purposes—commonly known as computer-assisted audit techniques. With advancements in technology, ease of use, and affordability of tools, now more than ever internal audit can focus on building a keen sense of direction to leverage data in a way that provides greater business insights, increases efficiency, enhances monitoring activities, and allows the company to respond better to risks. Leveraging data is not a destination of its own, but, rather, a mindset shift to integrate data into the audit life cycle—from risk assessment to planning, fieldwork, execution, monitoring and reporting.

“More data is not better; better data is better.”

—Carolyn Chin, Audit Committee Chair, State Farm Bank, USA

Our survey and interviews revealed that most, if not all, internal audit functions are thinking about how they can better leverage data to be not only more efficient but also far more effective. Most are experimenting with expanding its use, particularly in such areas as fraud management, compliance monitoring, and risk analytics (Figure 10). However, a critical difference between where internal audit functions are today and their True North lies in how data is being used. While 82% of CAEs report they leverage data analytics in some specific audits, just 48% use analytics for scoping decisions, and only 43% leverage data to inform their risk assessment. Thus many still report they have a substantial journey ahead.

Figure 10: Internal audit’s use of data analytics



“Internal Audit worked alongside global procurement to develop analytics for continuous monitoring. **It took time—about three years—to gain support, build awareness, and create momentum and buy-in. But now those analytics provide a 90% hit rate** on identifying problem areas, making them very effective for the business.”

—Michelle Stillman, Vice President, Internal Audit, Hewlett-Packard, USA

Internal audit functions that are evolving in pace with the business are more advanced in their use of data, including wider application across the audit life cycle. For example, risk identification has traditionally been done through a combination of executive meetings and the use of limited financial data. Internal audit functions that are headed toward True North are using data to identify where risks reside in the organization in order to determine where they should focus their efforts. They are also leveraging data not only to focus on where and what could be audited but also to decide whether auditing is needed at all. Ultimately, success with data is predicated on connecting data to insights about the business and the risks it is facing.

CAEs report that obtaining data skills is a top challenge. While 65% of CAEs report they have some data skills on their team either in-house or through third parties, our interviews revealed a lack of the combined business acumen and data skills. Internal audit functions with sufficient size and scale are reporting the ability to invest in a combination of in-house and third-party resources, while many are turning completely to third parties to gain more-immediate access to business-minded data-skill sets.

Enhancements in tools have made it easier and more intuitive for business users to access data and gain comfort with how data can be leveraged. By providing a better view of risks, data visualization tools are enabling internal audit functions to absorb information in new and more-constructive ways so they can identify and respond to emerging trends faster.

For those functions that are not far along the maturity curve of embedding data analytics into their audit life cycle, we have found that there is a need to work through various roadblocks, create quick wins, and gain momentum. In order to do this, many internal audit functions are starting with pilot data programs.<sup>5</sup> These pilots serve as proof of concepts for both stakeholders and those in the internal audit function. Pilots give practitioners the opportunity to work with data, get comfortable with it, and increase their creativity in thinking about how to use it. Sharing early wins with stakeholders will jump-start the momentum needed to drive more-creative use of data.

## Defining your own path



- Has internal audit considered how to utilize data more broadly across the internal audit life cycle?
- Is there buy-in among stakeholders on the importance of internal audit's use of data?
- Does internal audit have the right tools to leverage data and make findings more meaningful?
- What talent does internal audit need to acquire to deliver the value of leveraging data?

### ***On the journey: an internal audit function leveraging the power of data to provide insights for the business***

A leading global financial services company provides retail, institutional, and corporate clients worldwide with wealth management, asset management, and investment banking services. Three years ago, the bank's internal audit function committed to investing in the use of data analytics. Today, as its use of data analytics expands, it is finding itself an agent of change that is continuously solicited by other functions for guidance.

Many initiatives have been accomplished between internal audit and the business to more broadly identify and monitor risks and to enable staff to better address potential risks and issues. Accomplishments range from customer-account risk profiling and visualization to product suitability and usage analysis. One joint effort involved the analysis of potential insider-trading activity. Business and internal audit were able to leverage their individual expertise to identify the trade activity of financial advisors at specific branches who were potentially utilizing inside knowledge of future bank news releases to gain an edge in trading on behalf of clients and family.

In addition to advanced spreadsheet trainings, personnel use visualization software to help demonstrate findings, issues, and trends discovered during audits. Through continued training, development and awareness building, business auditors are using analytical tools in their everyday jobs with greater success and efficiency.

Critical to success was having a general auditor who was committed to the endeavor. He set the tone at the top and stressed the importance of embracing analytics. The general auditor was able to get buy-in by using visualization packages to show leadership the many risks that business and the function were overlooking and to identify trends and relationships that had never before been considered. Using the outcomes of these leadership meetings and the momentum they generated, the general auditor's team worked with PwC to build and implement an analytics culture wherein personnel have become eager to learn and are not only comfortable with data but also savvy about using it. The bank created a three-tier resource model within internal audit that enabled it to blend a deep understanding of data together with a deep understanding of the business. These tiers included a group of (1) power users with deep analytics skills, (2) data analytics champions on each business and technology audit team, and (3) business auditors who, while not as deeply skilled, are increasingly comfortable with using analytic tools and continue to obtain additional training.

Internal audit now partners with the business, routinely brings its analytics-based insights to the business, and foresees greater collaboration in the future. The relationship between internal audit and the business has been forever changed, and their closer collaboration has benefited the bank in identifying new areas of risk to address and monitor.

“It is important for internal audit to have a strategic plan to complement the audit plan—a plan that focuses on what internal audit needs to do to continue to **evolve, improve, and deliver value** to the organization.”

—Karla Munden, Senior Vice President, Chief Audit Executive, Lincoln Financial Group, USA

## Heading True North

In an environment where companies are redesigning the entirety of their business, high-performing internal audit functions are evolving as well, operating at the forefront of the companies' most relevant risks.

When the territory is unfamiliar and change is constant, internal audit must find its True North—its ideal of what it should be striving toward to remain a relevant and a valuable contributor to the business. True North guides

internal audit from its current position to where it needs to be. It is a vision set jointly by CAEs and stakeholders of how and where internal audit should be contributing—one that challenges the status quo and pushes internal audit to think beyond standard objectives and deliverables.

This journey almost always begins with a mind-set shift and, as our research indicates, a focus on the right risks at the right time, intentional and proactive talent development,

alignment with other lines of defense, and the leveraging of data throughout the internal audit life cycle.

Each year, internal audit can move closer to that ideal and keep pace with the company, but to truly chart a course, leading internal audit functions develop a strategic plan that serves to chart the journey. Without this clearly charted path, internal audit risks falling behind its broader, companywide business imperatives, which can diminish its ability to effectively and proactively contribute.<sup>6</sup>



### Stakeholders:

Is internal audit headed True North?

- Have you shifted your mind-set about internal audit to require more value?
- Are you enabling internal audit to bring value to the organization?
- Do you ask for a common view of risks across the lines of defense?
- Is the information you are getting from internal audit valuable in providing insights into business risk?
- Do you understand internal audit's strategic plan to keep pace with the business?



### Chief Audit Executives:

Where is your compass pointing you?

- Have you shifted your mind-set toward innovating and evolving your internal audit function?
- Is your function providing a proactive perspective on the changing risk landscape?
- Are you evolving your talent to address the most significant risks of your business?
- Are you proactive in aligning with the second line of defense?
- Are you providing business insights through broad use of data?
- Do you have a strategic plan to remain relevant as your business changes?

## ***Endnotes***

1. PwC's 2015 *Annual Global CEO Survey*, accessed January 29, 2015.
2. Refer to PwC's 2014 *State of the Internal Audit Profession* report for a more detailed discussion on the eight attributes.
3. For more information on how to create best-in-class enterprise risk management, refer to PwC's 2015 *Risk in Review* study.
4. "Infographic: The Explosion of Big Data," sales-i, October 16, 2014, accessed January 26, 2015.
5. For more information on what internal audit can be doing to help utilize analytics across its audit plan, refer to *The Internal Audit Analytics Conundrum — Finding your path through data*.
6. For more information on building internal audit's strategic plan, refer to *Defining a path: Strategic planning for your internal audit function*, forthcoming, April 2015.



***To have a deeper conversation about how this subject may affect your business, please contact:***

**Oktay Aktolun, Partner**

Risk Assurance Services  
+90 212 326 6073  
oktay.aktolun@tr.pwc.com

**Tumin Gültekin, Partner**

Risk Assurance Services  
+90 212 326 6067  
tumin.gultekin@tr.pwc.com

**Işıl Uysun, Director**

Risk Assurance Services  
+90 212 326 6520  
isil.uysun@tr.pwc.com