

Evolution or Irrelevance

Internal Audit at Crossroads

17th IIA Annual Conference- Julie Nyang'aya

Table of Contents

| | |
|--|----|
| About the research survey | 3 |
| Executive summary | 5 |
| Internal Audit's impact and influence have strengthened | 6 |
| Innovation is now the imperative | 7 |
| Resourcing models must evolve faster | 8 |
| Use of advanced analytics is up, but there's still far to go | 9 |
| Enhancing the process-Agile Internal Audit | 10 |
| Robotic Process Automation (RPA) is making inroads | 11 |
| Only half of Internal Audit groups are assessing cyber risks | 13 |
| Internal Audit is considering culture more frequently – but not frequently enough | 15 |
| Key performance indicators (KPIs) can be better aligned to Internal Audit's objectives | 16 |
| Written reports dominates | 17 |
| Toward the function of the future | 18 |
| Q & A | 19 |

About the research survey

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

Towards the function of the future

Q & A

A dark blue world map is centered in the background of the right-hand section of the slide. The map shows the outlines of continents and is set against a slightly lighter blue background.

The data contained in this report is derived from a survey of more than 1,100 Internal Audit leaders from across 40 countries conducted in late 2017/early 2018.

The results of this global research survey reveal specific innovations that Internal Audit functions can apply, and are applying, to enhance their impact and influence within the broader organization.

All respondents were Chief Audit Executives and responses were distributed across the Americas, EMEA, and Asia Pacific regions and a range of industries.

How do you measure up against Alice?



Executive Summary

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

Towards the function of the future

Q & A

 Internal Audit's impact and influence are stronger—but awareness and views of the function across the organization still need to improve.

 Resourcing models are evolving—but must evolve faster.

 RPA is making inroads. RPA substitutes scanning

 KPIs are used by most groups, but need updating.

 Key challenges facing Internal Audit include a shortage of new skills, while analytics is the highest priority.

 Advanced analytics is seeing greater adoption.

 Cyber risk assessments are conducted by only about half of Internal Audit groups.

 Reporting is poised to become more agile and dynamic.

 Internal Audit innovation is linked to stronger impact and influence.

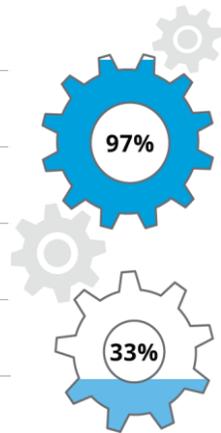
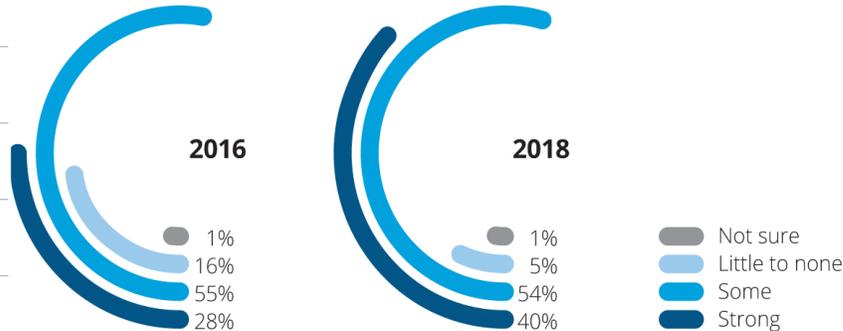
 Agile practices are gaining momentum.

 Organizational culture audits are conducted by less than 30 percent.

Internal Audit's impact and influence have strengthened

Over the last 2 years, Chief Audit Executives (CAEs) feel the Internal Audit (IA) function's impact and influence within organizations have increased—but there's still room for improvement.

Impact and influence of the Head of Internal Audit and broader Internal Audit function



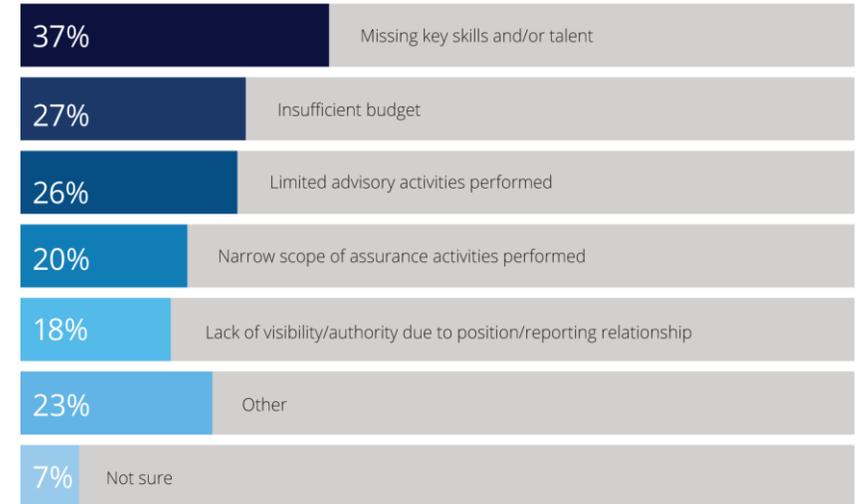
Most respondents believe their organizations are at least somewhat aware of the role that Internal Audit plays.

However, only a third believe the function is viewed very positively.

Delivering more value can boost stakeholders' perception of IA.

However, a shortage of skills and talent presents a key challenge to making more of an impact within the organization.

Key challenges faced by the Internal Audit function in making an impact



About the research Survey

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

Towards the function of the future

Q & A

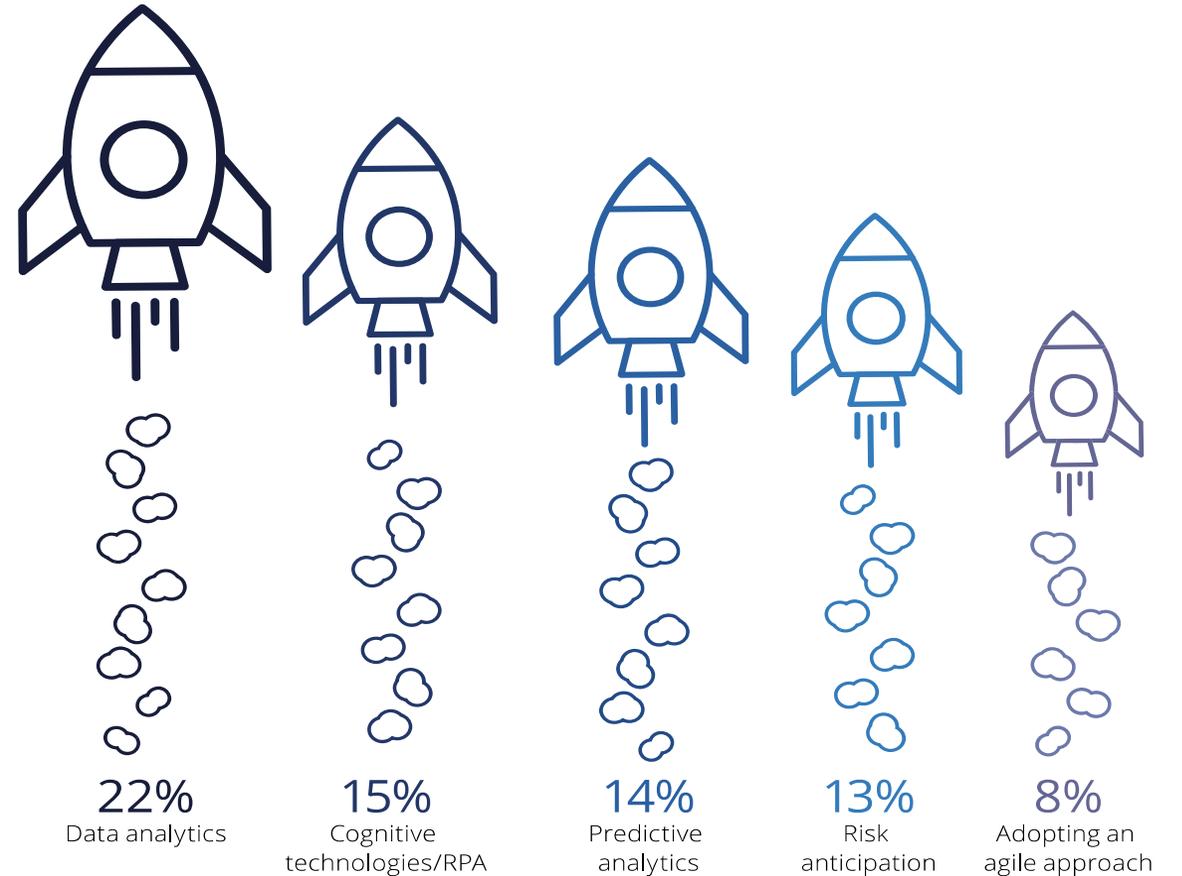
Innovation is now the imperative

Survey findings indicate that IA functions that have adopted innovative approaches and methods tend to have greater impact and influence than those that have not.

71% of those with strong impact and influence plan to increase their function's investment in innovation over the next 3-5 years

Respondents recognize the importance of innovation and they are embracing it. Data analytics is the top-cited key innovative development impacting IA over the coming 3-5 years

Key innovative development impacting Internal Audit over the coming 3-5 years

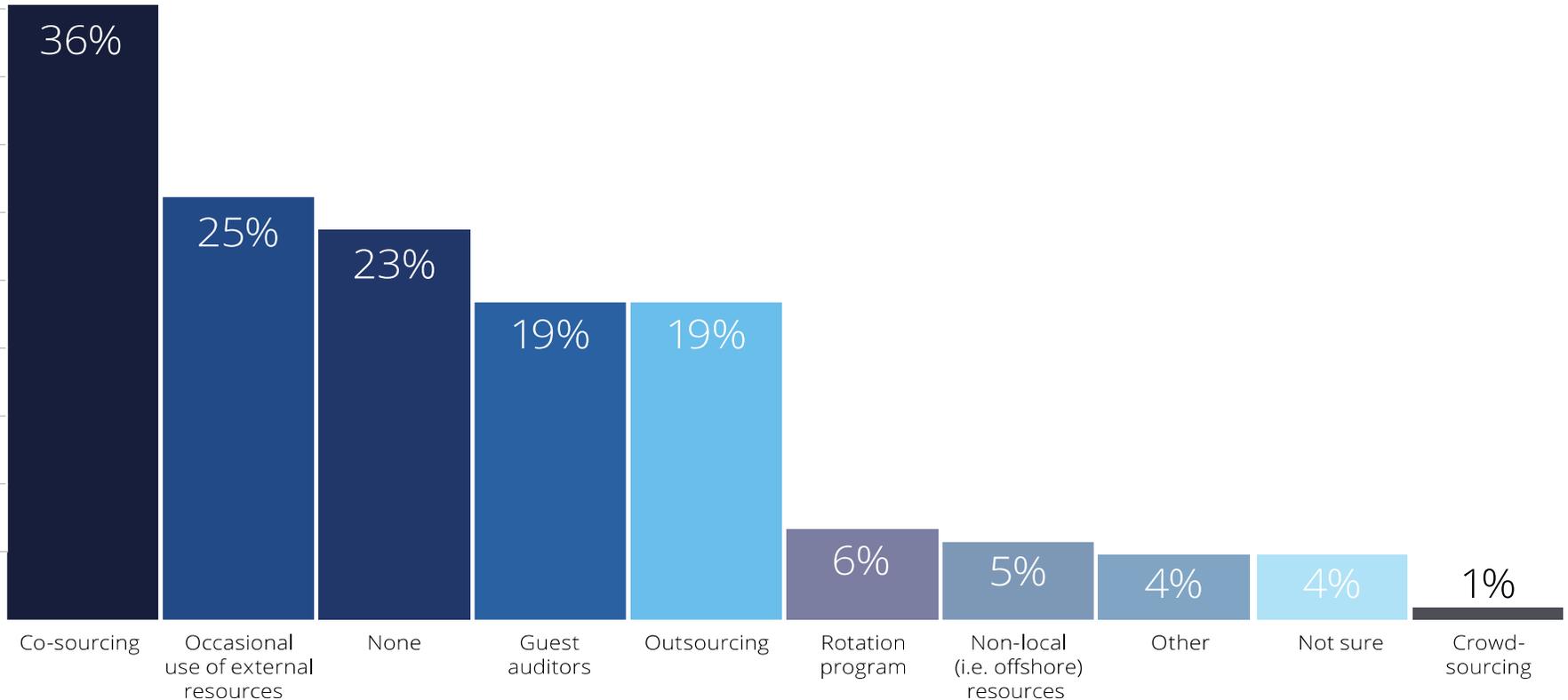


Resourcing models must evolve faster

80% of IA functions using an alternative resourcing model use it to access specialized skills. Alternative resourcing models help fill skill gaps, effect knowledge transfer, and enhance budget flexibility.

However, about one-fifth have no alternative resourcing model, and guest auditor and rotation programs see relatively low usage.

Alternative resourcing models used by the Internal Audit function



About the research Survey

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

Towards the function of the future

Q & A

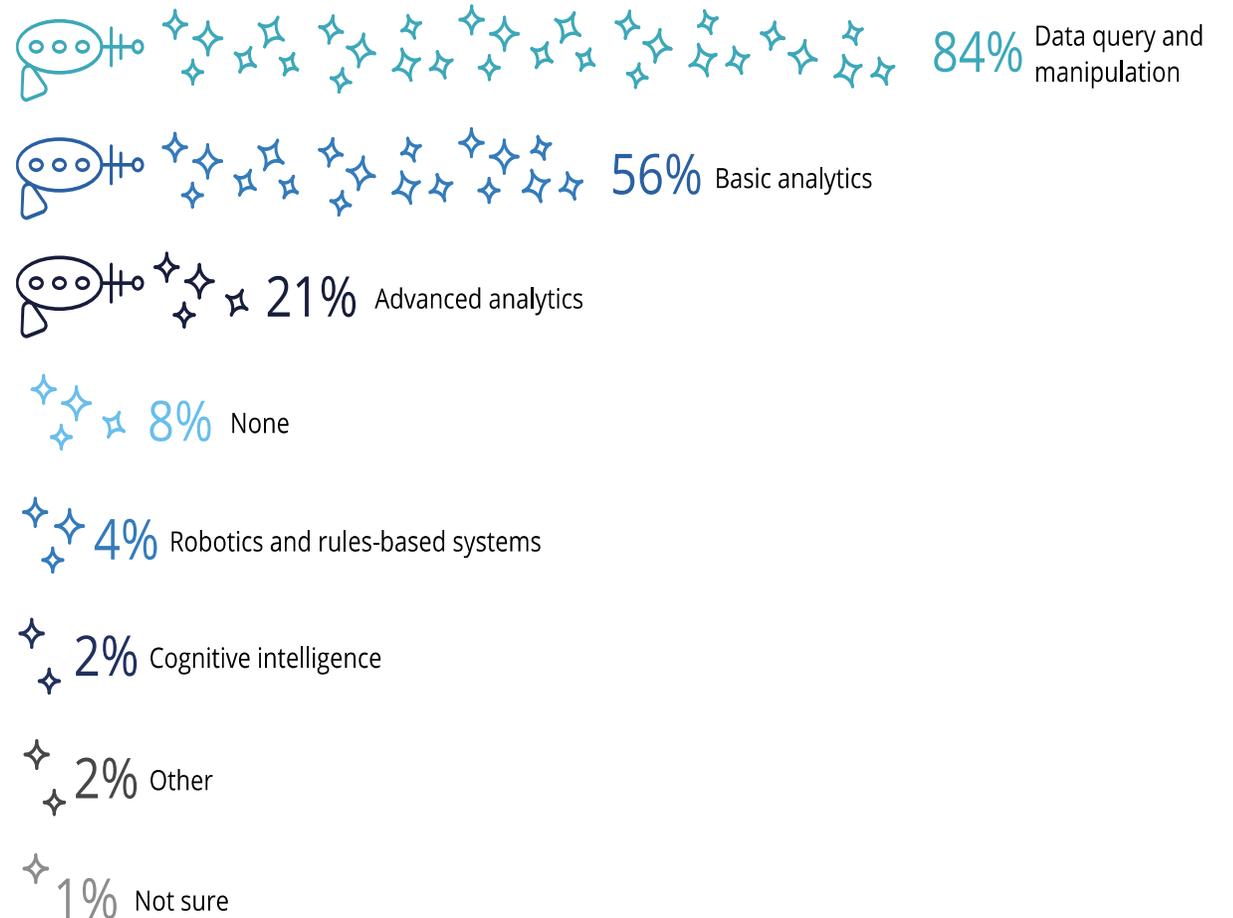
Use of advanced analytics is up, but there's still far to go

The use of advanced analytics has tripled since 2016, from 7% to 21%. While encouraging, that number has room to grow since advanced analytics is the key to more efficient audits, automated assurance, and risk anticipation.

Currently, 84% of respondents typically use data query and manipulation and 56% use basic analytics.

However, 61% of respondents indicated that implementing IA analytics is their key strategic priority over the next 3-5 years.

Types of analytics techniques 'typically' in use within the Internal Audit function



About the research Survey

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

Towards the function of the future

Q & A

Enhancing the process – Agile Internal Audit

Adopting Agile Internal Audit methods provides ways of enhancing flexibility in audit planning, execution, and reporting.

56% of Internal Audit groups are either using Agile Internal Audit methods or are considering adopting them.

Internal Audit functions that embrace this methodology enjoy benefits such as more timely audits, streamlined documentation, engaged clients, empowered Internal Audit teams, and insightful results.

Adoption of agile approach by the Internal Audit function*

Considering informally adopting an agile approach



Considering formally adopting an agile approach



Not sure what "agile" Internal Audit is

Currently formally operates under agile principles



Not considering adopting an agile approach



Not sure

*Figures do not add to 100% due to rounding.

About the research Survey

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

Towards the function of the future

Q & A

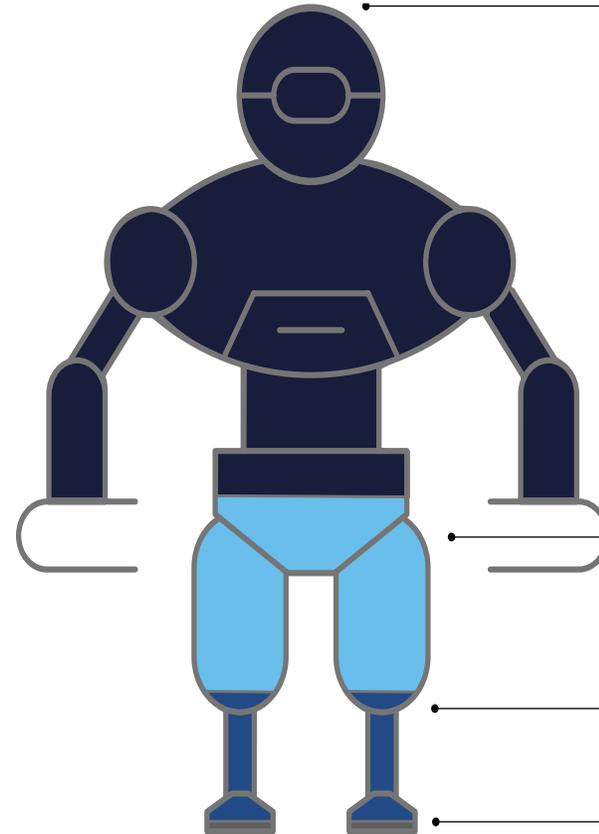
Robotic Process Automation (RPA) is making inroads

RPA has the ability to remove the burden of **performing repetitive rules-based tasks**. Among other things, it can help Internal Auditors **fill forms, make calculations, and extract structured data** from documents.

The 2% of groups that have already adopted RPA are on the leading edge of Internal Audit innovation.

Internal Audit groups will need to assist the broader organization in understanding where RPA may be practically applied.

Use of RPA as an enabling technology in Internal Audit*



65%
Not considering using and/or
have not researched

21%
Considering using and/or
are researching

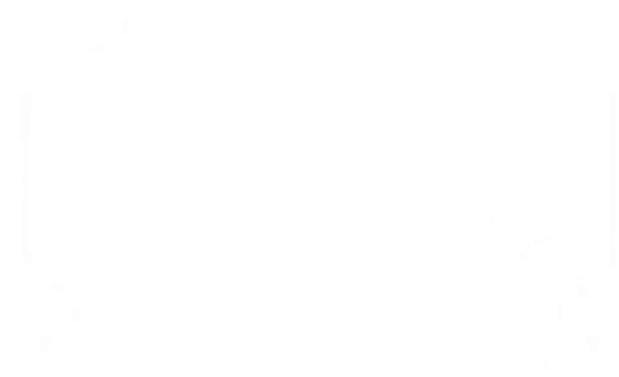
11%
Not sure

2%
Already using

*Figures do not add to 100% due to rounding.

Robotic Process Automation (RPA) Implementation: Video Demo

01:00:00



Robotic Process Automation
Doing more with less

About the research Survey

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

Towards the function of the future

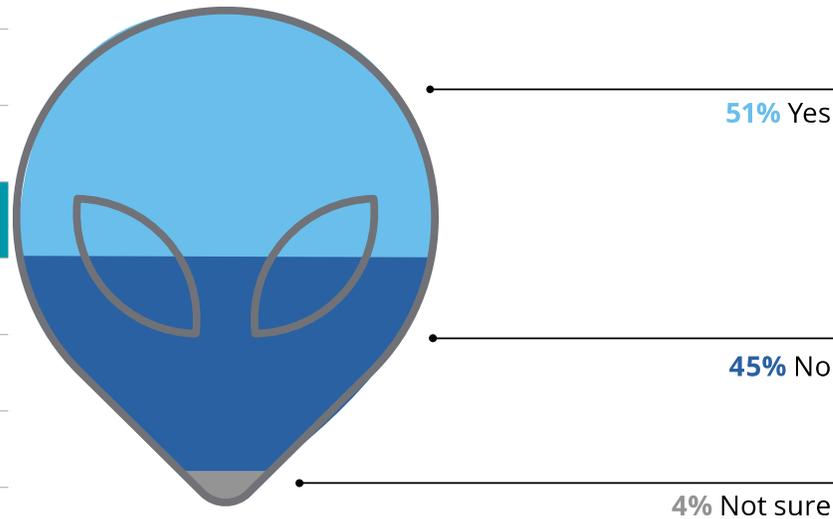
Q & A

Only half of Internal Audit groups are assessing cyber risks

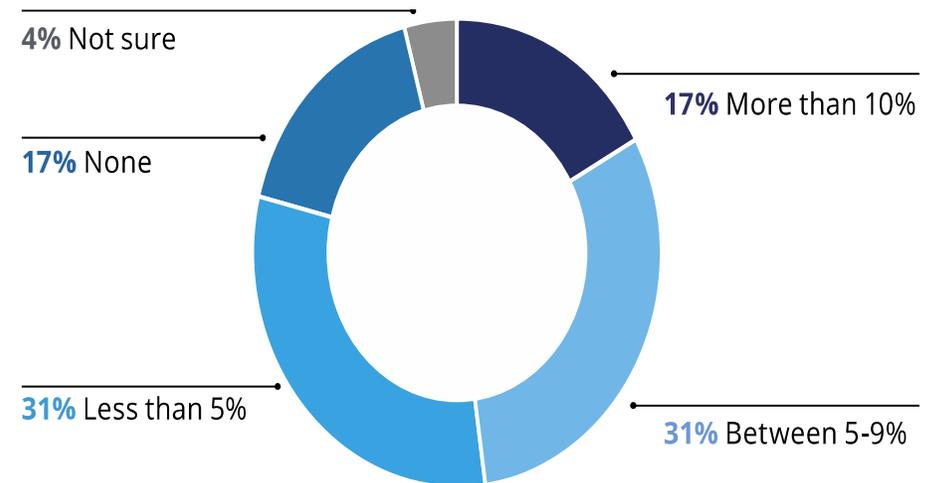
As applications, digitized processes, Internet of Things (IoT) devices, and use of cloud services expand within the enterprise, cyber risks increase dramatically.

Yet only about half of Internal Audit groups are conducting cyber risk assessments, while about four in five devote less than 10% of their audit plans to cyber risks.

Conducted a cyber-focused risk assessment



Percentage of Internal Audit plan related to cyber risk



Expanding coverage of cyber risks—a high-profile issue for senior executives and boards—can greatly enhance impact and influence.

Cyber Risks

About the research Survey

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

Towards the function of the future

Q & A

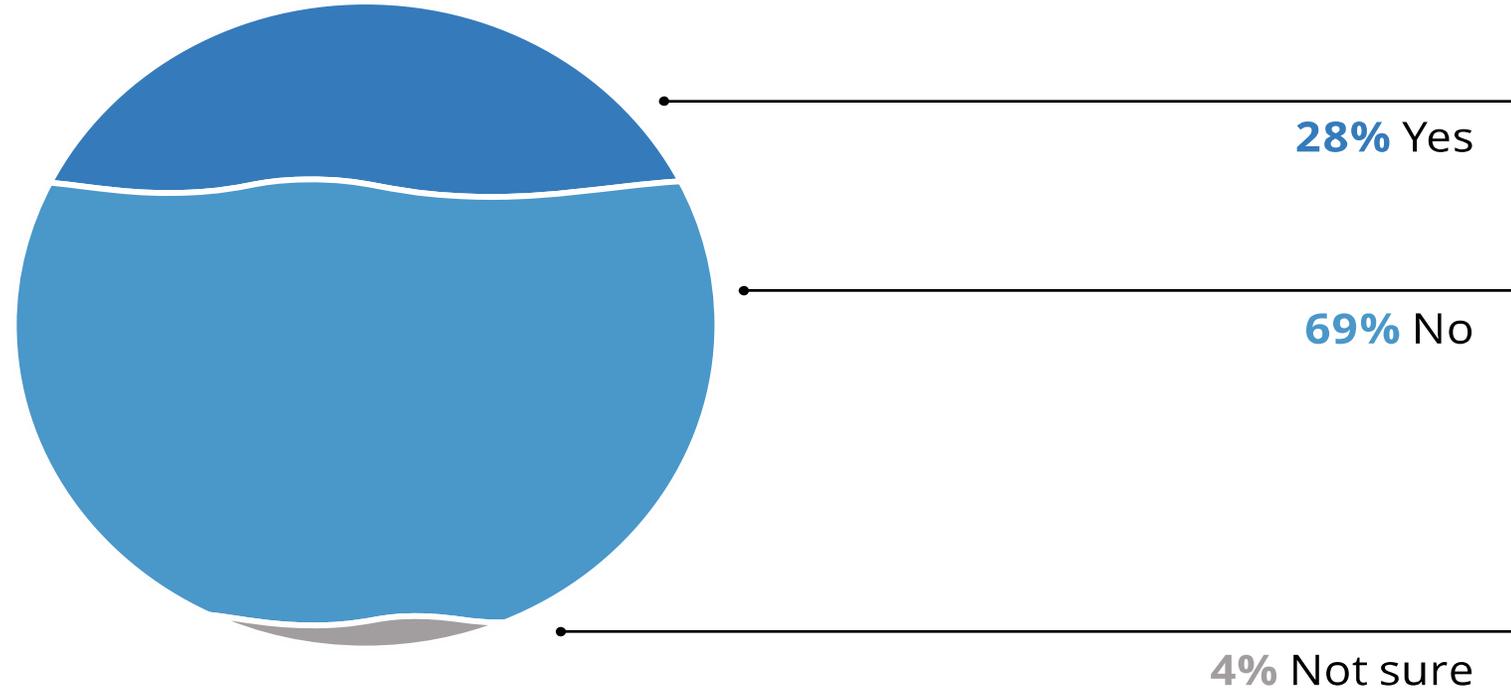
Internal Audit is considering culture more frequently- but not frequently enough

About 70% of IA groups are not conducting assessments of organizational culture.

Among those that are, many are in Financial Services, given that financial services regulators often expect Internal Audit to review culture.

Organizations in every industry face risks arising from culture breakdowns, as well as the need to build a culture that will enable the organization to implement its strategies and achieve its goals.

Formally evaluated the broader organization's culture within the past 3 years*



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About the research Survey

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

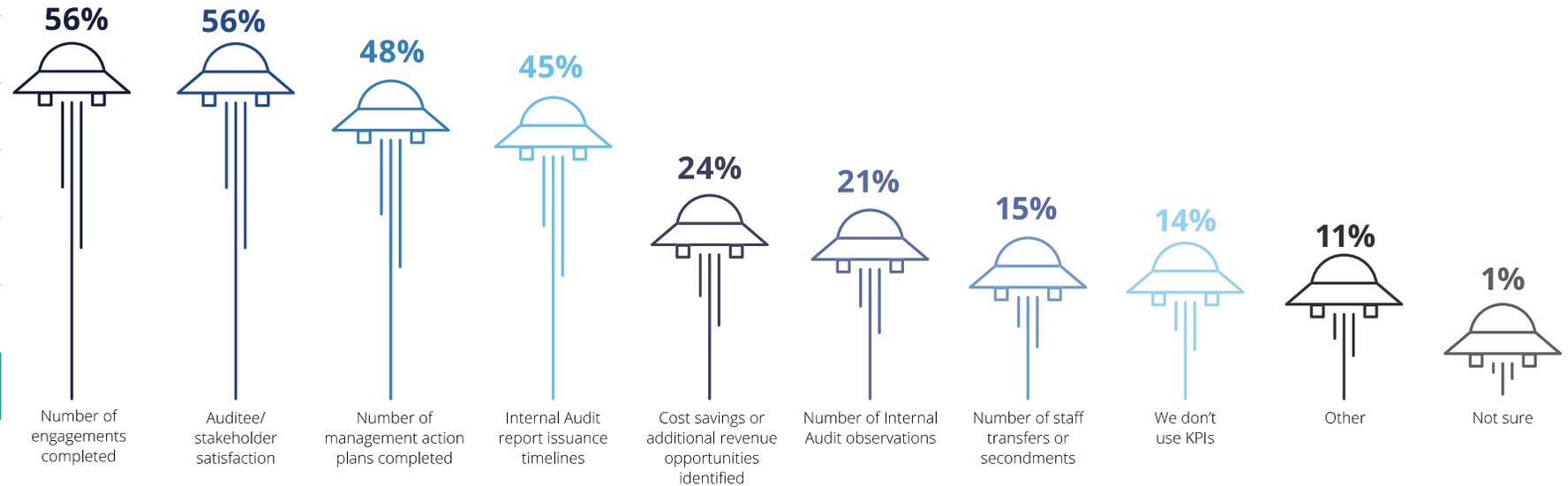
Towards the function of the future

Q & A

Key performance indicators (KPIs) can be better aligned to Internal Audit's objectives

About 85% of IA groups use KPIs, with engagements completed, stakeholder satisfaction, and management action plans completed the most common.

KPIs used to measure success and impact on the broader organization



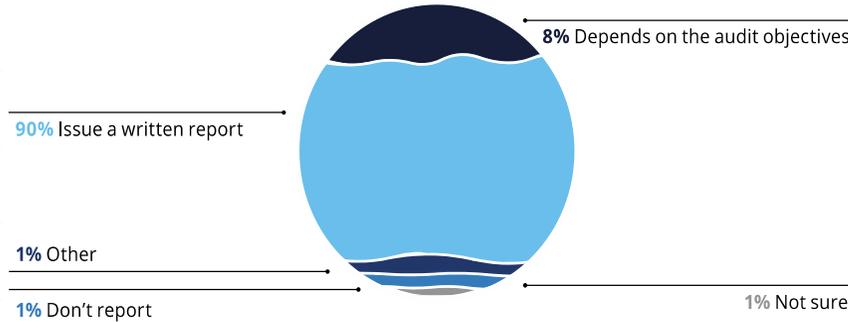
IA can better serve stakeholders and itself by looking to include additional measures aligned with stakeholder expectations—such as **cost savings, revenue opportunities identified**, and other updated metrics that capture positive impacts on the business.

Written reports dominate

Stakeholders' reading time is limited, and risks and issues emerge rapidly—meaning reporting must become increasingly more streamlined and visual.

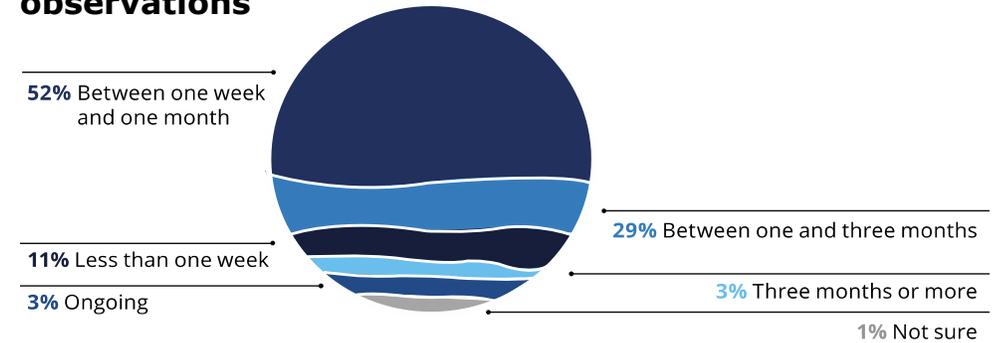
The one-third of functions that take more than a month to issue their findings and the majority of functions that issue standard written reports may enhance their impact and influence by communicating their insights in a more timely and compelling manner.

Primary way in which Internal Audit results are delivered*



*Figures do not add to 100% due to rounding.

Typical delivery timeframe for Internal Audit observations*



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About the research Survey

Executive Summary

Impact and influence

Innovation is now the imperative

Resourcing models

Embrace Analytics

Agile Internal Audit

Robotic Process Automation (RPA)

Cyber Risks

Culture

KPIs

Reporting

Towards the function of the future

Q & A

Toward the function of the future

Here are key considerations which can enable you to become more innovative and, as a result, more impactful and influential within your organizations:





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