The now, next and beyond of internal audit
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The pressures on risk and audit functions have never been greater. The C-suite wants a more holistic view of the organisation’s position while internal stakeholders need a quick response to emerging risks. Current processes can be arduous, with teams spending too much time pulling data together from disparate systems to paint the full risk picture.

But the current Internal Audit (IA) approach and function isn’t set up to meet those challenges, and without fit-for-purpose technology, internal auditors will be resigned to viewing the world through the rear-view mirror. But with the right strategy, investment and insight, they can deliver something far more valuable to businesses.

This guide will look at the current state of many organisations’ IA function – the now. It will also explore where these businesses can make improvements and start to drive real value from their operations – the next. And then it will delve into the future, looking at the next developments in IA, from technology, to process to people – the beyond.
Then flesh out its requirements by agreeing on specific details, such as KPIs and objectives, before commencing planning – agreeing on timelines, delivery models, budgets and the audit plan.

Next is fieldwork, which needs to be executed accurately and compliantly so IA teams can move onto the crucial activities – the results. The team report back their findings with agreed recommendations and action plans, with implementation overseen to assess improvements.

While this approach is still effective, it ignores some of the modern challenges and, more importantly, the vast opportunities for IA teams to drive huge value to the business.
The challenges and opportunities of the ‘now’ of IA

The current methodology is only partially capable of identifying internal risks. The trouble is, the risk landscape is changing dramatically and moving far quicker than ever. From disease to extreme weather to price instability, a glance at the World Economic Forum's Global Risk Report 2021 shows the extent of the landscape of disruption businesses now have to navigate. The companies that can highlight these external risks, react and adapt to these changes quickest will have a serious competitive advantage moving forward.

Limited risk coverage only focusing in-house:

Sample data tells a story and has been used to great effect to get the IA function to where it is today. But samples are intrinsically limited, and when audits are only based on sample data, auditors don’t get the full picture. Making strategic decisions using sample data is a risk in itself. Businesses that have full control over their risk data will be able to think more proactively than reactively.

Capability to perform full population testing:

Highlighting risks and tackling them is a challenge, getting to the root cause of those risks is even tougher, taking up time and resources - two things IA teams are short on. Without root cause analysis, risk and IA teams are not assessing the fundamental risks to the business.

Assessing risks annually is too long a timeframe for today’s fast-paced business world. A more dynamic approach can help decision-makers take advantage of action plans to drive real value.

Looking to the past can help you prepare for future events, of course. But if businesses can see what’s coming down the road before it happens, they can move far quicker and more effectively to tackle the issue.

IA reports are often large, weighty documents that, while important, can be difficult for the C-suite to interpret. They want to see reports with key information in the formats that suit them. Anything else can delay or complicate decision-making.

The administrative lift in the current IA processes can be time and cost-intensive, limiting the business’s ability to consider risks outside its immediate scope. While it is logical to focus on the immediate risks first, it is also important to take a longer-term view to help tackle those more complicated risks of tomorrow’s world.

The ‘now’ of IA works. It’s a tried-and-tested methodology and is incredibly effective. But pressure from leadership to prove more value and deliver greater insight coupled with marketing pressures and increasing risks means audit teams need to look for new, innovative ways to do their work. The question, then, is what’s ‘next’?

The now, next and beyond of internal audit.

NOW - NEXT - BEYOND

Static annual risk assessment:

Only reporting what has happened in the past:

Not relevant for C-suite stakeholders:

No time to focus on risks beyond today’s scope:
At the heart of the new wave of IA reporting is technology. Technology is, of course, nothing new in IA.

But often the technology landscape within businesses is a mesh of different systems that either struggle to or don’t talk to each other. These systems, along with their data, need to be consolidated.

With data becoming the beating heart of IA strategy, companies are able to get insight into their biggest risks, move quicker to tackle those risks, spend less time on burdensome administrative tasks and make more informed decisions.

Take reporting as an example. It used to be, and still often is, a reactive, time-consuming process whereby auditors take a snapshot of the risk landscape at a certain period. But if businesses can get a better grasp on their data and have full visibility into risk and the company’s response to it, they can start thinking about continuous monitoring - having a view of the risk landscape in real-time without the heavy lifting that goes into delivering those reports. In turn, that helps IA become proactive - so businesses can gain a baseline support at all times to help them react to new and emerging risks faster.

Continuous monitoring is just one benefit to putting technology and data at the heart of IA.
Through more flexible audit response methods, businesses can gain a greater understanding of outside, upside and downside risks. And with more time afforded by automation, leadership can create better action plans to capitalise on these different types of risk.

Leveraging extensive root cause analysis and continuous monitoring facilitates the paradigm shift from reactive to proactive, giving the C-suite more time, visibility and insights to help anticipate future risks faster, and manage said risks more effectively. Then it becomes a cultural question: how long will businesses need to adapt to this new approach? Instilling a proactive culture will take time, but it will also build a more flexible, productive and efficient business, bringing benefits for all.

With a data-driven strategy, full population testing can become a reality. This can help businesses to gain a detailed view of their risks and to see them in real-time.

The move to a data-driven approach means more integration and better analytics. These real-time insights can help leadership monitor operations and allocate resources more effectively.
More sophisticated risk analytics:

New technologies are using a combination of predictive and periodic risk analytics across the entire organisation to focus on those issues that pose the most significant future risk. This approach paints the full picture, supporting leadership with strategic decision-making.

Flexible audit response methods:

New flexible audit response methodology is giving internal auditors the power to collect, manage and interrogate data in different ways. This means internal auditors can begin to break free from rigid structures and start providing strategic value-adding insights.

Digitised audit results:

Internal auditors can make greater sense of results when they’re presented in a digitised format. With customisable menus and designs, internal auditors can visualise the data in a range of forms and drill down into granular detail. Scratching beneath the surface reveals insights that may have otherwise been overlooked.

Technology is no panacea; it doesn’t solve all of IA’s challenges, nor does it replace the people making the decisions. Instead, it operates as a smart assistant, delivering insight that helps IA teams spend more time on strategy. This changes the profile of IA as a function, providing all-important value for the whole business. Better application of data and technology is ushering in new opportunities for IA. And the possibilities that lie beyond this are substantial.
Technology will undoubtedly continue to sit at the heart of future evolutions. But it’s not an answer in itself, it’s a means to an end. So how will technology continue to shift and shape IA? At present, Artificial Intelligence (AI) is helping teams tackle manual, heavy-lift admin, bringing data together to offer insights and trends that help the business make better decisions. In a few years, with more data and more human learnt behaviours, there’s little doubt that AI can start suggesting courses of action that are profitable and impactful for the business.

Linked to that is data. While there is a raft of data already at the fingertips of audit teams now, technology can improve both in terms of collecting, assessing and linking data points together, both internally and externally. Linking internal insights with global trends, data sets and predictions will give businesses a far more holistic and predictive view of global risk. Internally, it will help IA impact the entire business, showing how micro decisions can have macro impacts on the business’ direction of travel and strategies. It will also go a long way to helping cement better collaboration between risk, finance and the C-suite.
Other emerging technologies will have a sizeable impact on IA, too. Add quantum computing capabilities into the IA technology mix and businesses will be able to profit from market shifts and fluctuations instantaneously. Faster and more comprehensive problem-solving means more opportunity. On the other side of the spectrum, with ultra-fast speed and latency of no more than a millisecond, the shift to 5G will transform how businesses tackle risk. It will connect more technologies, remove existing limitations, and significantly influence productivity and automation. All this amounts to giving business leaders more risk/reward decisions to make, and benefit from.

Away from technology, the risk landscape will continue to shift. IA will continue to be under pressure to adapt, react and predict new environmental, social and governance challenges. New risks will emerge, new threats to adapt to and new compliance and regulation challenges to meet. As we move forward into a new generation of corporate social responsibility, the inner workings of businesses will continue to come under the microscope, more associated risks will emerge, and IA teams will require more advanced ways of identifying and handling these more complicated risks. The evolution of current technologies will be key to supporting that too.

The exciting challenge for risk and IA functions is that the world is constantly shifting. And with each challenge or disruption comes a new set of questions every business needs to answer. Investment in transformation – of processes, approaches, teams and strategies – will continue. And as IA continues to switch from a cost to a value-driver, the most effective teams will be those that can quickly isolate future risks, deliver a strategy to tackle those risks and be agile enough to shift focus to head them off. Speed, flexibility and resilience will sit at the heart of future IA evolution.
It’s time for your organisation to move to ‘The Next’ level of IA – and we’re well placed to support this transition. EY Virtual Internal Auditor (VIA) solution supports you to gain a more cohesive view of your risk universe, with real-time continuous monitoring of your organisation’s threats and opportunities, so you can respond to risks faster and manage them more effectively.

To find out how EY VIA can support your business’s requirements, arrange your personalised demonstration with one of our consultants using the email below:

hali1@uk.ey.com for demos.
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