



When the world pivots,
how do you harness
the momentum?

Find out how internal audit teams have
turned the recent crisis into a springboard
for transformation.

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The better the question. The better the answer.
The better the world works.



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Building a better
working world



Post-COVID-19 landscape

As the business world and society transition to the post-COVID-19 landscape, most corporations are learning that there is no point in trying to return to a pre-pandemic normal. The world has changed, and the only path that makes sense is to move forward. In working with our clients, we've learned that most companies are eager to embrace this new future, to use the crisis as an inflection point for transforming and to deploy new ways of doing business. For many companies, their internal audit teams will help them step up to this challenge. In this white paper, we tell the story of internal audit teams that leveraged the crisis to accelerate their own transformation and embrace a role where they become key advisors to senior executives and management teams, providing insights on how to thrive in a digital environment.

Sam Johnson
EY Vice Chair, Accounts

Did your internal audit function have a seat at the table? If not, why not?

The COVID-19 virus came on fast, disrupting our businesses and lives unlike any other event in recent years. While organizations can try to prepare for these types of risks, it is hard to be truly prepared. When looking back at major events, we commonly ask ourselves “what could we have done better?” to increase our preparedness for the future.

Key questions internal audit functions should be asking themselves today

- ▶ Did management seek our opinion or just want us to get out of the way?
- ▶ What role did we play, and what could we have done better?
- ▶ Were we capable of providing insights into changing risks?
- ▶ Were we prepared to operate in a digital environment?
- ▶ How did Internal Audit contribute to the strengthening of the control environment during this period of rapid change?



Most internal audit teams have been exploring some type of digital advancements for years. But the response to the COVID-19 pandemic served as a stress test that judged each function's brand with brutal clarity.

For those tasked with leading or overseeing internal audit, we should ask ourselves a similar question. What role did we play, and what could we have done better? Did we positively impact the control environment during this period of rapid change? Did we provide the Audit Committee with new and insightful information? Were we capable of providing insights into changing risks? Were we prepared to operate in a digital environment?

In assessing organizations where internal audit played an active role in the pandemic response efforts and those where internal audit did not – distinct characteristics emerged between the two groups. We examined our conversations with hundreds of organizations to identify the shared characteristics of the ones that were called upon to grab a chair and bring their perspectives and insights to the table.

In the functions called upon by management, several specific traits stood out. By and large, the internal audit teams that were invited to the

table had created a brand of digital readiness and regularly providing insights to the C-suite. "Digital readiness" emerging as one of the key differentiators should not come as a surprise. Most internal audit teams have been exploring some type of digital advancements for years. But the response to the COVID-19 pandemic served as a stress test that judged each function's brand with brutal clarity.

For leading internal audit functions, the shift to digital represented an anticipated change. They had been building "digital muscle memory" for some time. Other traditional internal audit functions were not ready. Unprepared to go digital, they struggled to pivot and execute activities in an adaptive and remote way. Similar to a soccer team that hadn't practiced in weeks, these internal audit functions found they were not coordinated, lacked the right technologies and – most importantly – the right talent to assess the risks to the business without being overly disruptive. As a result, they found their role diminished.

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The purpose and mandate of most audit functions remain the same – but HOW the mandate is achieved is drastically changing.

Fortune 500 Chief Audit Executive

In asking executives and board members to describe the mandate of their function, we often hear words such as “objective,” “independent” and “assurance.” The same words would have been used 30 years ago. So, if the purpose and mandate of most audit functions remain the same, what separates past from present and – most important – the future?

What has changed, at least within the more progressive functions that earned a seat at the table during the pandemic response – is HOW these organizations achieved their mandate. In addition to digital maturity, the functions that were called upon to play an important role during the pandemic response were also more focused on assessing risk than on primarily assessing compliance.

These functions build a brand within the organization of being able to create new insights. They continued to provide direct assurance where needed – evolving their approach and using new tools and methods to assess controls. In addition, they didn’t view their job solely to “execute audits” or to provide assurance. They also focused more closely on HOW they can impact and influence the control environment in a positive way during this period of rapid change - knowing the execution of a traditional assurance based audit isn’t the answer to every question.

They recognized that the internal audit platform provides unique visibility across the organization, and they used this platform to provide management and the audit committee with insights to help them to better manage risk. One could say they are playing the official role of chief audit executive as well as the unofficial role of chief insights officer. In these roles they remain objective, yet still encourage their teams to look forward - as well as into the past for relevant lessons learned - to help management to protect the company’s assets and reputation in a sustainable way.

What challenges did your internal audit function experience during the COVID-19 pandemic?

54%

of respondents mentioned pushback from the business

37%

noted a lack of technology or access to data

26%

listed talent and workforce as a key challenge

EY Survey - COVID-19 - How are chief audit executives responding in the now? April 2020

Progressive Internal Audit functions – Achieving the mandate of today

The tools and methods used today continue to evolve – unlocking new opportunities for internal audit functions to become more effective. The levers used to maximize efficiency in providing direct assurance are commonly different than those being used to derive new insights. While organizations may focus on prioritizing the optimization of a single attribute of their function before another – the best functions organize around the following areas of focus below – in recognition that every project doesn't need to be a traditional audit.

Area of Focus	Design Disposition	Examples
Providing direct assurance to executive management and the audit committee	<ul style="list-style-type: none"> ▶ Extremely efficient and effective ▶ The right resources with the right skills at the right cost 	<ul style="list-style-type: none"> ▶ Compliance testing (SOX, regulatory, FCPA, IT etc..) includes off-shore component ▶ Financial and policy compliance testing is achieved through a combination of on-site, off-site and analytical testing ▶ Corporate, IT, digital and location-based control assessments are scoped to align risk to audit effort
Impacting the control environment in a positive way	<ul style="list-style-type: none"> ▶ High level of skill and trust ▶ Capability to engage and influence the business ▶ Broad understanding of leading practices, ways to use technology and areas of emerging risk and change 	<ul style="list-style-type: none"> ▶ Deliver menu of training and leading practice presentations ▶ Provide control insights on the front end of operating model changes/ key initiatives ▶ Leverage new technologies and ways of working to positively impact the control environment
Generating insights to help executive management and the audit committee better manage risk and opportunities	<ul style="list-style-type: none"> ▶ Aptitude to turn information into insights ▶ Ability to triangulate different pieces of data ▶ Can help predict unforeseen risks 	<ul style="list-style-type: none"> ▶ Execute activities to identify root causes - create insights which can help to predict future control or compliance failures ▶ Continuously use new tools and methods to derive new information ▶ Focus audit committee communications on assurance as well as providing new insights

Did your internal audit function have a seat at the table? If not, why not?

The pandemic is a watershed moment for executives and audit committees to evaluate the effectiveness of their internal audit function. That means asking critical questions such as: are you receiving the optimal service from internal audit, or is it time to make an overarching change to the way your internal audit function operates.

To that end, consider the following:

- ▶ Did your team have the right skills, processes and technologies to effectively evaluate risk management efforts throughout the pandemic response process, as well as to truly understand your business risks?
- ▶ Was your function able to create insights to help position the organization to stay ahead of the risks that come with rapid change?
- ▶ Do you need to further intensify your focus on high-value, high-risk audit areas in the future – directing your efforts toward projects aimed at creating real-time insights and improving the operating effectiveness of the company?
- ▶ How frequently does your team communicate with senior leadership? Weekly, monthly, before quarterly audit committee meetings?

From a **traditional internal audit mandate and brand**

100% assurance-focused

Independence is the cornerstone; minimal advice provided to avoid any indication of auditing your own work

Compliance-oriented; focused on what happened in the past; audit work is largely driven by policy compliance



To a **leading internal audit mandate and brand**

Both assurance- and advisory-focused

Objectivity is key; capable of providing insights on the front-end design of risk mitigation efforts as well as to assess management's efforts to mitigate the actual risks

Both compliance-oriented and future-focused on upside risks

Serves as a control tower to monitor the effectiveness of risk mitigation efforts

How will internal audit work in the future?

Leading class internal audit functions are driving evolution across a number of key elements, from governance to how they interpret their mandate. Moving toward a more dynamic assessment of risk, they are employing more digital tools and teaming with others within their organizations as they develop new, more strategic approaches.

Leading class IA functions include the following key elements:

Governance and mandate

The best functions are proactive and forward-looking, setting internal priorities in response to market disruptions.

Communication

Internal audit employs multiple dynamic outputs, in real time, to deliver its message and meet stakeholder needs.

Strategic ways of working

Professionals apply more judgment, focusing on emerging risks and outcomes, not just processes and controls.

Continuous monitoring

Adopting continuous monitoring techniques shifts focus from detecting to predicting control failures and risk triggers.

Risk assessment

Enabled by technology, an agile, dynamic risk assessment process allows a faster response to emerging risks.

Business insights

Internal audit continues to assess internal controls, while also providing business insights and strategic advice.

Talent management

Creative problem solving, an innovative mindset and social intelligence are becoming just as valuable as technical knowledge.

Digital and automation

Deploying advanced data analytics and other digital tools enables internal audit to better handle the volume, speed and complexity of incoming data.

- ▶ Clear purpose and mandate
- ▶ Risk coordinated with other functions
- ▶ Dynamic risk assessment and reporting

- ▶ Be agile and dynamic
- ▶ Apply more judgment
- ▶ Provide dynamic outputs



- ▶ Digitally augment its capabilities
- ▶ Predict control failures and risk triggers
- ▶ Report results digitally

- ▶ Build and participate in risk communities
- ▶ Implement a balanced workforce
- ▶ Deploy resources with the right skill sets

The progressive internal audit operating model



Building digital literacy among all team members is critical.

Many companies have an effective purpose and strategy but struggle when it comes to execution because they aren't effectively organized. The same holds true for internal audit. On the surface, many mandates seem similar, but the design of the underlying organization and talent to address the risks at hand can significantly impact their ability to add value.

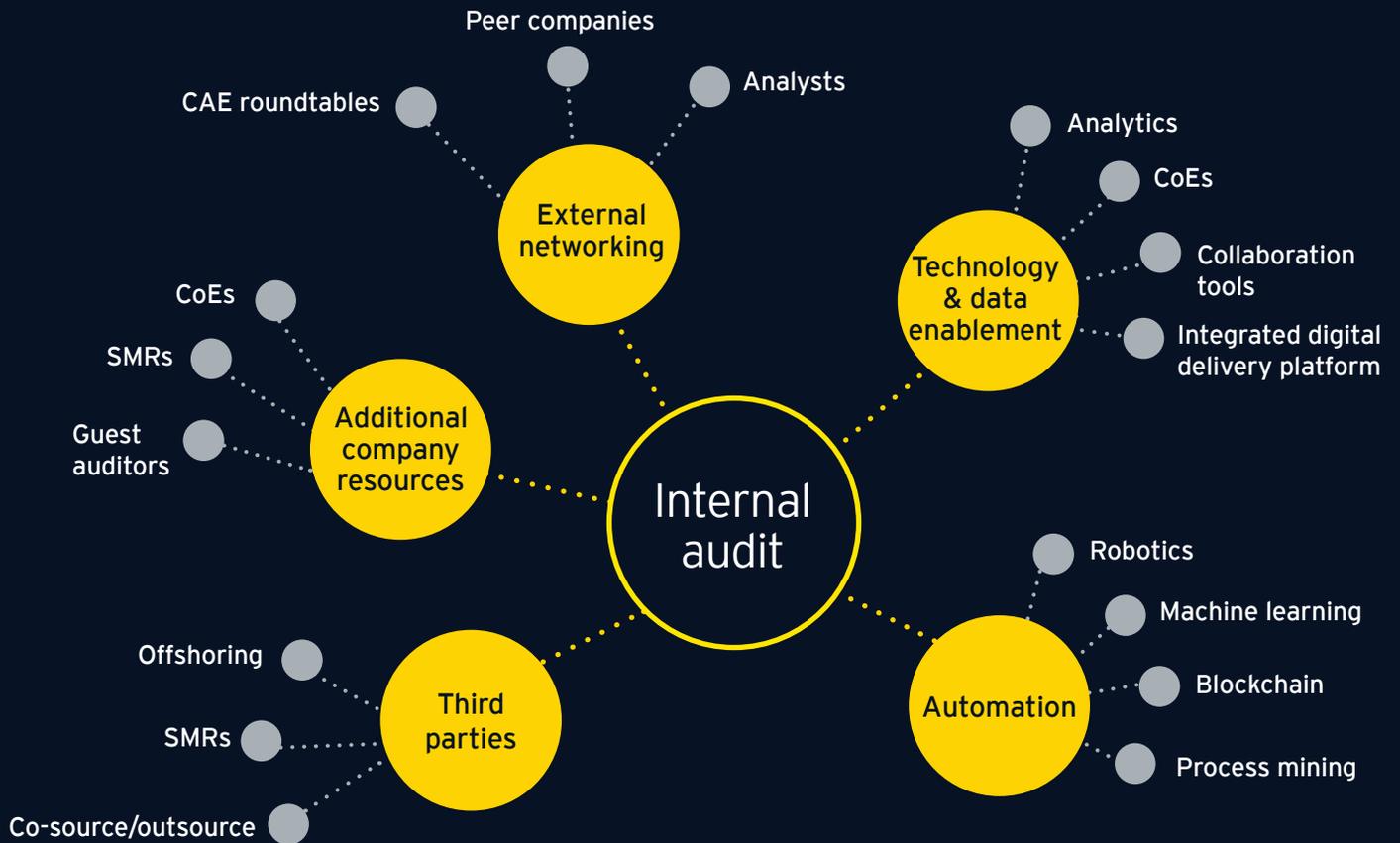
As most global organizations are not led exclusively out of a centralized hub – most leading internal audit functions are not either. Most of the internal audit functions today include multiple hubs; some with specialized skills or “centers of excellence (CoEs)” to own certain activities such as continuous monitoring or data analytics. The more progressive organizations have taken this a step further to design a nimble resource model and risk identification process where tasks can be managed globally or locally.

Similar to shared service trends, forward-thinking teams designed “audit hubs” with “global leads” that could run 24 hours a day by taking advantage of work handoffs across time zones as well as labor arbitrage efficiencies. They don't abandon the assurance work that audit committees are focused on, but rather use technology to compress this effort and complete it faster to free time to inject new capabilities and create new insights. They continually make investments to stay ahead, teaming with third-party providers to provide new ideas to their team. They supplement skill set gaps, using technologies available for internal audit as well as various collaboration technologies and data analytical tools that are already available within the business. By teaming with partners on the outside, or inside, progressive functions create “digital scale” in areas that would be counterproductive to build on their own.

What these leading functions have shown is that building a digital operating model goes beyond just using data analytics on a handful of projects. It really means expanding the entire toolbox of technologies available to the team to allow the global function to serve as a “control tower” of risk across the organization. Building digital literacy among all team members is also critical. Having only one guru who writes code does not help broaden team skills. The opposite approach better aligns the audit effort to risk and enables the team to access data within the company and beyond as well, and to build and leverage repeatable analytics and automation routines.



Internal audit operating model

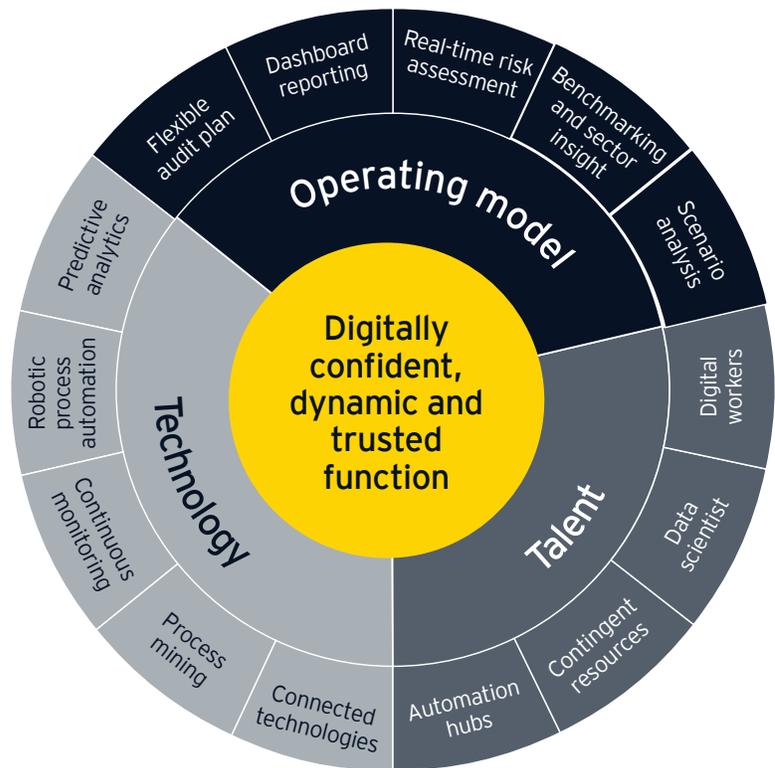


Ways of working – going digital is no longer an optional activity

Most executives agree today that work will never go back to exactly where it was before the pandemic, which means that all functions, including internal audit, need to adapt their operating procedures to better reflect the new expectations and the new reality.

As most organizations implemented remote working measures throughout the COVID-19 pandemic, the ability to operate digitally separated those internal audit functions that “walk the walk” vs. those that just “talk the talk.” Most executives agree work will never go back to exactly where it was before, which means all functions, including internal audit, must adapt their operating procedures to better reflect the new expectations and the new reality.

These new “ways of working” for internal audit has chief audit executives designing a model that places humans@center and is focused on leveraging technology@speed to create insights. They are also seeking opportunities to innovate@scale and use digital elements to compress the amount of time it takes to complete an audit – placing less disruption on management while allowing for a more insightful and impactful audit experience at the same time. The linear audit approach of planning, execution and reporting has evolved and become more fluid and not every business interaction needs to result in an audit and related report. This was necessary as leaders adapted activities to COVID-19 risks



using new solutions to enable remote risk monitoring and collection of control evidence. No one anticipated closing the books in a 100% remote manner – just as no one anticipated monitoring the underlying controls in a similar way.

Internal audit executives who earned a seat at the table generally shared a common theme: their digital transformation agenda and flexible ways of working enabled them to excel during a fast-changing environment where physical presence wasn’t an option.

Three teams that rose to the challenge

1

Life sciences company

A Fortune 100 life sciences company was able to leverage their digital analytics platform to continuously audit and provide visibility across the global organization as the organization adapted to remote work. “This was a true game changer for us in monitoring and managing risks as controls were changing on the fly and management was seeking comfort that significant risks were not going unseen.” This also served as a proof point to the organization “that we should continue to accelerate the digitalization plans that we were planning to deploy over the next 18 months.”

2

Technology company

A Fortune 300 technology manufacturing organization built a digital dashboard that houses control evidence and allows the IA function to remotely assess risks across the global organization. This dashboard and the underlying evidence could be reviewed by anyone, anywhere, at any time. The head of internal audit for this organization said that “the ability to quickly score and understand the regions, business units and geographies which were struggling to meet control expectations on a real-time basis gave management actionable insights” in real time while an audit that relied on prior samples would have delivered inadequate hindsight analysis.

3

Consumer products company

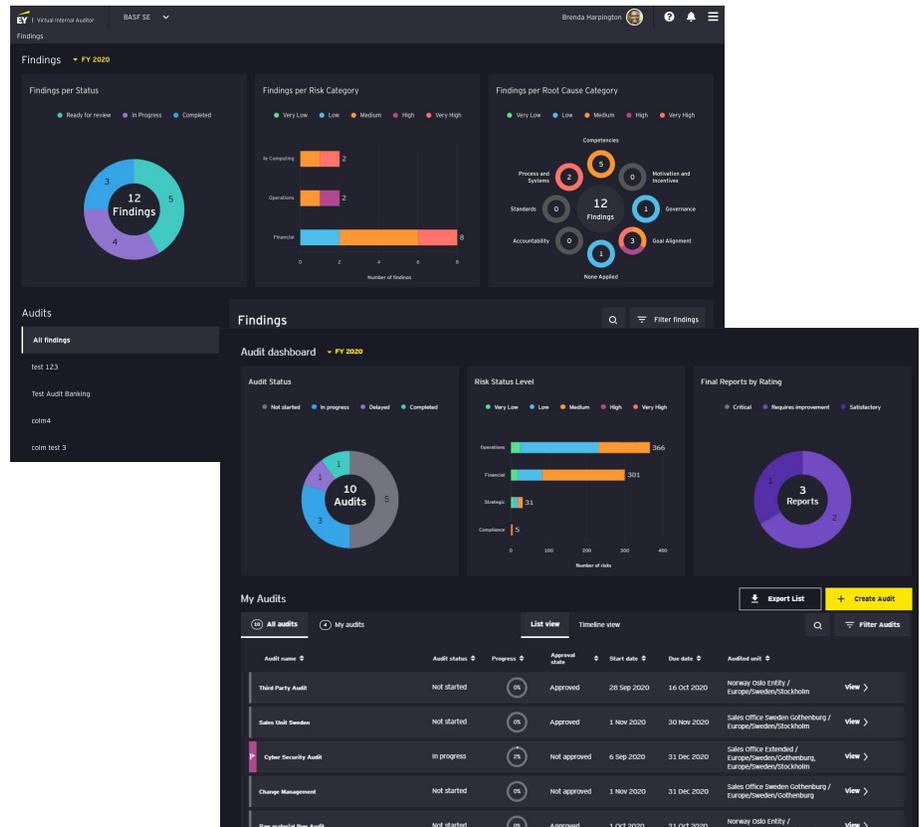
A Fortune 200 food manufacturer built on-premises/real-time data analytics for four key processes (Order to Cash, Accounting to Report, Manufacture to Inventory, Procure to Pay) across two ERP systems. The data analytics include dashboard visualization across 100+ key risk indicators that were developed by internal audit. These are real-time risk analytics (last 12 months) and Key Risk Indicators (KRI) accessible across the three lines of the business, not only improving Internal Audit efficiency and relevance but also helping the first and second lines manage risks, thereby improving processes and the overall control environment. In addition, the team developed a risk analytics center of excellence and continuous risk monitoring program to complement their internal audit plan and drive better insights to the business through innovative risk reporting. When the pandemic forced the business to change, the team did not miss a beat in pivoting quickly to remote audits and desktop procedures supported by meaningful data analytics during planning and execution.

Audit teams have already begun to prove that they don't need to travel on-site to execute all audit tests and to monitor risks. They are also realizing that the output of each project doesn't need to fit nicely into a single report template. What will this mean going forward? That the traditional approach toward internal audit has become outdated.

For example, a risk assessment completed before the onset of the pandemic would not have aligned with an audit plan that reflects the risks of most organizations today. As such, internal audit must adopt an operating model, way of working and reporting mechanisms that are flexible enough to monitor new risks in a way that can remain insightful, identify both weakness and strengths, prevent failures and drive value for the organization. Nothing is less efficient than auditing something that doesn't need to be audited at all. An internal audit function that isn't nimble and adaptive may be creating more risk for an organization than it does to help prevent it.

This leaves many asking the following question, with new technologies at our fingertips – what will be the optimal way to identify and prioritize risk in the future?

The power of data and digital tools – Insights, impact and influence



Traditional audit skills and techniques will not go away in the future.

Digital tools are not new to internal audit teams. Analytics and other tools have been around for over 20 years. What is new is the inherent digital literacy and ability of the younger auditors joining the profession to use a much wider variety of tools effectively and in creative ways.

Traditional audit skills and techniques will not go away in the future. Rather they will continue to evolve. The more progressive functions approach a risk (or an audit) with a menu of options on how they will objectively assess and provide assurance to management and the board that they are appropriately managing a risk. Different risks require diverse approaches. In other words, an audit plan shouldn't be designed to fit the skills of the team. The team should be assembled in a way that brings the right set of skills to address the risks at hand.

Leading class internal audit functions are using technology solutions to derive new insights and monitor risk. This includes incorporating automation techniques into the workflow, from an analytics workbench to machine learning capabilities that predict upside, outside and downside risks to the organization. This expanded use of technology has helped them move away from sampling to identify anomalies or control failures through continuous monitoring and real-time evaluation of risks.

In addition, they are also sharing technology to blur the lines between audit tools and business tools. Many technologies owned by the business bring value to audit work, while many tools used by internal audit have other benefits to the business. Tools that can benefit either side should be leveraged and shared.

Leading traits of the 'next/beyond' persona of the chief audit executive

If ever there was a time for transformative leaders to step to the forefront, it's now. As organizations plan their return to the new normal, savvy leaders must assume the right mindset and characteristics of transformative leadership. These soft characteristics may prove to be more valuable than historical audit experience. Based on our experience, we have increasingly seen leading Fortune 500 organizations place executives into the top chief insights advisor role without a requirement that these executives have prior audit experience. Why? These executives were tasked with breaking complacency and building a new internal audit function, unconstrained by historical practices or old approaches.

In the past, internal audit functions have largely played the role of an assurance provider for their internal and external stakeholders. Given the inherent uncertainty of the new normal,

chief audit executives must reflect and embody leadership traits that encourage a new growth mindset.

As employees return to the workplace, internal audit leaders should help their teams adopt a mindset that encourages them to approach and take on new challenges; advance their abilities, talent and intelligence; and incorporate feedback to adopt more effective problem-solving strategies. This will also require them to hone their emotional intelligence so they can encourage people to change behaviors and also recruit new talent who may not have the traditional skill set of internal auditors but can help them expand their digital and business presence.

Chief audit executives who embrace this growth mindset will be the ones most apt to initiate innovative growth and progress and take action in new directions. Ultimately, they will cultivate a culture of change and empower teams

to challenge the status quo. They are also the ones most likely to get invited to the table during a crisis to help fulfill the role of chief insights advisor.

How can we enable a transformed IA?

- ▶ Data-driven, digital cockpit that anticipates risk and enables trusted advice.
- ▶ Machine and deep-learning capabilities predict upside, outside and downside risks.
- ▶ Informed advisor equipped with macro trends and scenario analysis.
- ▶ Real-time monitoring of risks embedded into strategic decision-making.
- ▶ Centralized risk mitigation, with digital technology and capabilities leveraged by business and internal audit.
- ▶ Focusing on positively impacting the internal control environment in ways beyond executing audits



Will you choose to lead or get left behind?

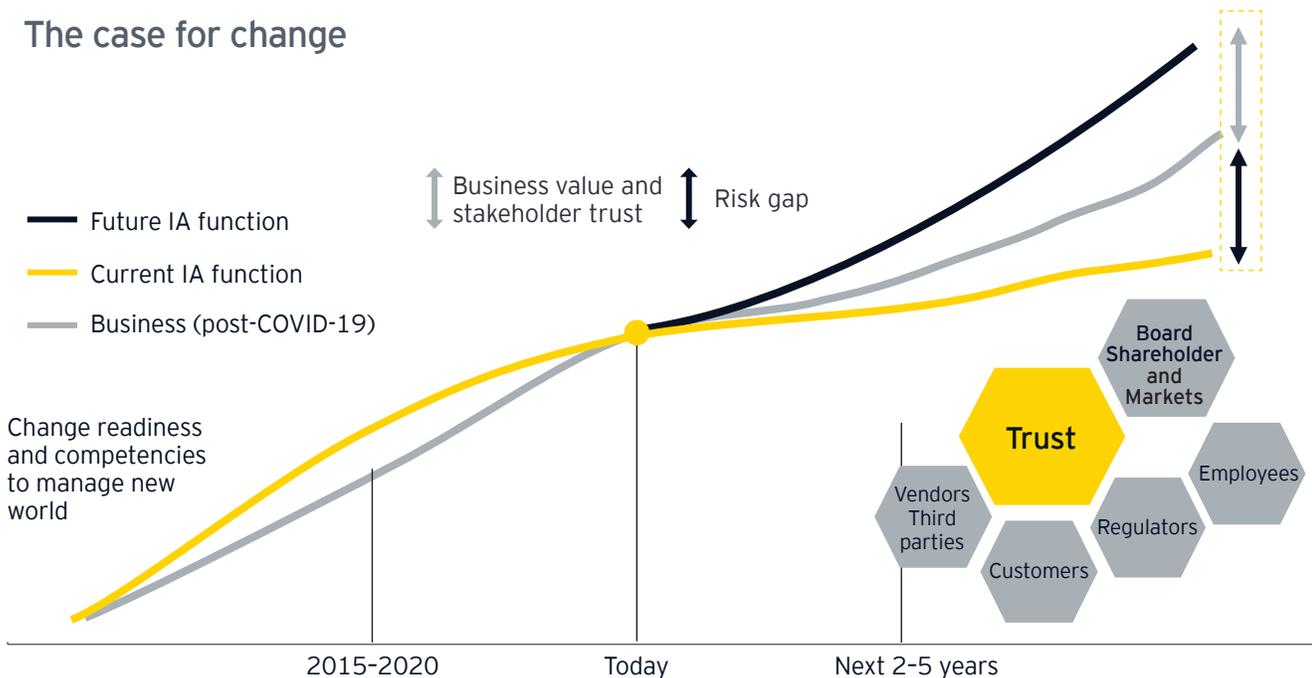
To embrace this new mindset, organizations should find and cultivate bold leaders who will be encouraged to challenge the status quo and continually strive for improvement as they embark on this journey. They will need to be ready to take calculated risks and view failures as opportunities for growth. In addition, the chief auditor will need to have the confidence and courage to channel their bold ideas into a vision that will instill confidence in the board and executives about their long-term value to the organization.

Naturally, the COVID-19 pandemic will give rise to a period of reflection for everyone – from board level to executive management and those responsible for risk management. Did we anticipate the potential for such an abrupt, unprecedented shutdown? Were we ready? Did our response go as planned? What more should we do to be ready in the future?

Audit functions that transition back to their previous ways of working may

achieve some measure of comfort, but they will be missing a tremendous opportunity. Those that transform will be poised to take advantage of new opportunities for transformation, organize tasks in a better way, bring insights and value to leadership, and be better prepared for the next crisis. On the other hand, those that follow a business-as-usual approach will be left behind and miss their opportunity to be a strategic contributor to their organization's growth.

The case for change



Appendix

	Traditional internal audit function approach	Progressive internal audit functions of today	Impact to COVID-19 response and brand
Risk assessment and audit plan prioritization	Risk assessment and audit planning process is developed once a year and remains static. Plan remains constant once approved.	Risk assessment and audit plan prioritization is a continuous process. The audit plan adapts to changing risks and progressive inputs, and digital data points are evaluated throughout the year.	Progressive functions adjusted their audit plan and activities on a real-time basis to pivot and address new risks brought upon with the pandemic to the organization.
Project Execution vs. Audit Project Execution	Most projects consist of an “audit” that is planned and executed in a traditional linear fashion (planning followed by execution/testing and then reporting).	Progressive functions create a “menu” of options consisting of different approaches and different “responses” to address different risks. Projects range in length and focus from short notice dashboard reviews to multi-week deep dive audits. Functions may also elect to providing training or participate in sessions to influence the control environment on the front end of a significant change. Project efforts are closely aligned to the risk at hand.	Progressive functions were able to pivot and focus more closely on the risks at hand. Traditional projects became a lower priority and new risks were prioritized, allowing internal audit to focus on areas that mattered most to management and audit committee.
Use of technology	Internal audit technology tools are used to drive consistency in workpapers and reporting. Analytics are used selectively.	Progressive functions are moving measures to become more digital and provide the scale to create additional flexibility. Data is leveraged, where possible and new tools are continuously explored and incorporated.	The use of technology was paramount and helped to effectively monitor risk throughout the environment while most organizations were working remote.
Stakeholder relationships	Relationships are owned by the chief audit executive and directors across the organization. Periodic touch points to understand the business and risks.	Full relationship maps are developed across the entire internal audit team at all levels. They become trusted advisors, gaining real influence with the C-suite by sharing trends and information with the business in addition to audit results.	Better relationships allowed for both “easier” and “better” communications when operating remote. Those functions with stronger relationships with the business were able to react quickly and add value in the eyes of their stakeholders.
Audit reporting	Single report template is used for audits; minimal flexibility in reporting. Commonly focus on rated observations and process improvements.	Flexible audit reporting mechanisms range from traditional reporting to the use of innovative dashboards and other means to communicate project results. Most reporting mechanisms include graphical depictions, leading practices and other means to allow executives to quickly understand what they need to know. Audit Committee reporting focuses on how risks are being managed vs. # of audits completed	Leading functions understood that audit reporting needs to be very fluid and “real time.” Many leading functions leveraged a variety of “deliverables” to provide value throughout the pandemic response planning process, incorporating some type of “creative reporting.”

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