

Evolving Internal Audit

Starting your journey to
Continuous Assurance

December 2015



Contents



1.

*Executive
Summary*

1



2

*The evolving
expectations
from IA*

2



3

*Opportunities
for
transforming
IA*

4



4

*The need
for skill
transformation*

6



5

*The potential
role and
benefits of
continuous
auditing*

8



6

*Integrating
analytics into
the IA fabric*

10



7

*The journey
towards
continuous
auditing and
monitoring*

12

1. Executive Summary



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. As such the expectations of internal audit (IA) are also changing. Even though providing reasonable assurance around compliance and control environments is important, it is simply not enough anymore. Business expects IA to bring valuable business insights to the table and to become a strategic and value advisor.

The expectation of IA to do “more with less” is a daunting task, and will not be achieved by continuing with traditional internal audit practices.

PwC’s latest State of the Profession Survey has highlighted the importance of the adoption of data analytics by Internal Audit functions in enhancing internal audit value to its various stakeholders, whilst optimising audit efficiency.

Although data analytics and continuous auditing and monitoring are not new concepts, many organisations have not received the value they were promised with these initiatives. As such it is a focussed, practical and methodological approach needs to be followed to realise tangible benefits.

PwC has developed an Internal Audit Data Assurance maturity model and methodology in support of this journey, applying a holistic approach aligned with the Risk and Assurance requirement of the key stakeholders. This document describes the steps required for an organisation that wants to embark on the journey toward continuous auditing and monitoring, and how PwC can help you every step of the way.

2 The evolving expectations from IA

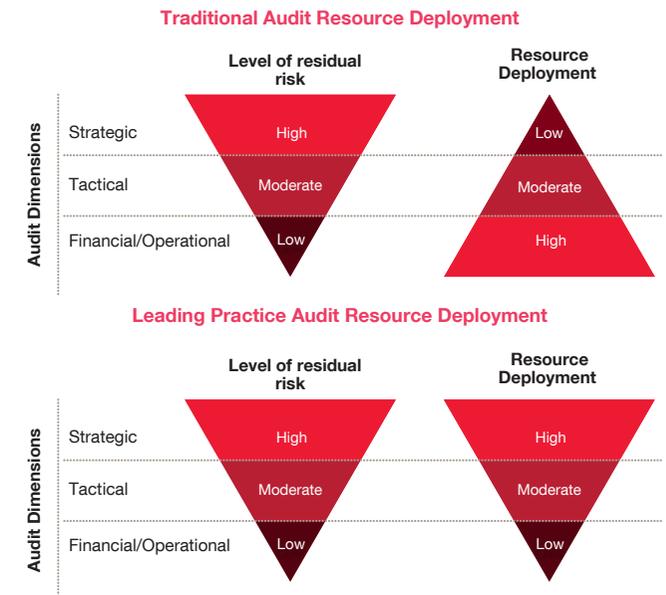


Internal audit (IA) functions are expected to deliver increasing value to business, and the only way to do this is keep pace with business change by being adaptive to the risk landscape. PwC's latest State of the Profession Survey shows that a certain group of internal audit functions has separated itself 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

PwC found that IA functions that are delivering the value senior management expects deploy their resources quite differently from what traditional IA functions would as illustrated in from IA functions, the way IA deploys its resources (Figure 1).

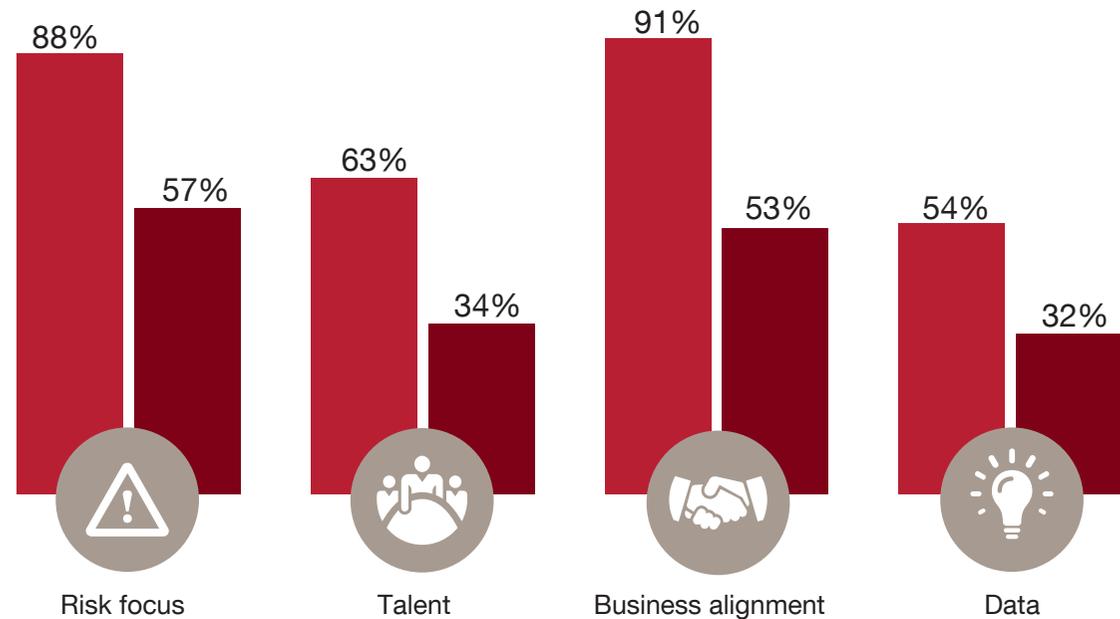
Figure 1: Audit resource development comparison



Acknowledging that the business landscape and risks are rapidly changing, the majority of CAEs report they are on an evolutionary journey. While 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.

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. 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 2).

Figure 2: Internal audit functions adding significant value outperform others in these four areas

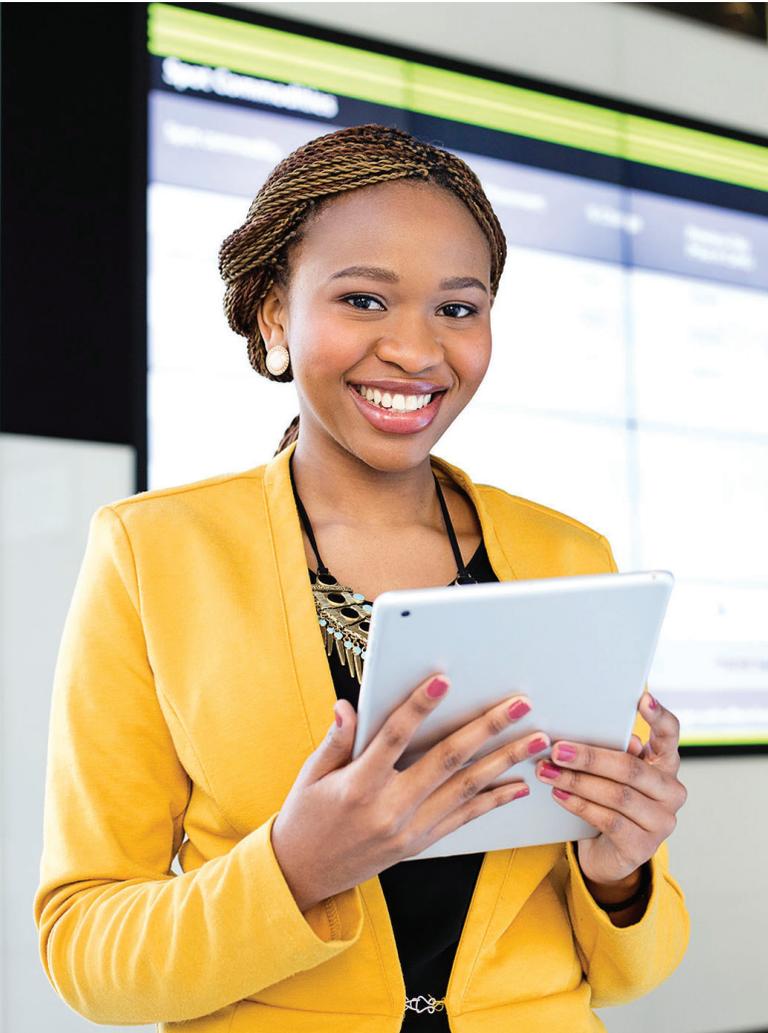


While every IA function's path to deliver value will be different our research shows that concentrating on the following four actions will be critical to achieving IA's objectives:

- 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

The journey toward continuous auditing and monitoring aims to improve and enable the four focus areas mentioned above

3 Opportunities for transforming IA



Although the ever evolving environment organisations find themselves in seems to put IA under increasing pressure to deliver value, it does also present IA functions with unique opportunities to meet these high expectations. Consider some of the reasons below:

- 1** The speed of changes in business and operating models, sourcing models, the as well as changing nature and location of transactions/controls, and the explosion of data are creating an opportunity for IA to add valuable insights as these changes unfold.
- 2** Stakeholders are expecting higher quality communication from IA to assist them understand new risks and opportunities. They are also looking to IA to contribute to efficiencies in monitoring or auditing operational areas that have become increasingly more mature and standardised.
- 3** Internal auditors are looking to build their skills to work effectively and navigate environments with an increasing focus on digital, devices and data.

The appropriate use of analytics is crucial to realising these opportunities. If implemented correctly data analytics and continuous auditing are the processes that can help IA departments:

- Simplify and improve audit processes through improving operational efficiencies,
- Optimise the use of audit resources by freeing up resources from executing recurring audits and refocussing them on areas of higher risk,
- Gain real-time visibility over control environments through key control indicators moving from sample testing to population testing,
- Detect fraud, errors and abuse earlier, and
- Increase audit quality.

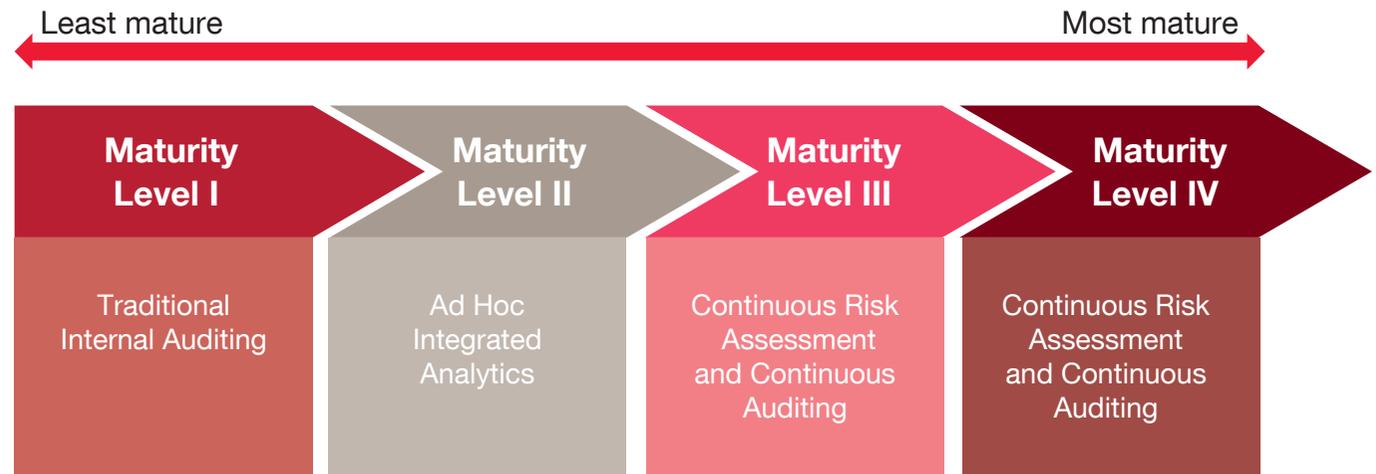
3 Opportunities for transforming IA

The use of data analytics tools and techniques can help to fundamentally transform and improve audit approaches. The traditional IA approach is based on a cyclical process that involves manually identifying control objectives, assessing and testing controls, performing tests and sampling only a small population to measure control effectiveness or operational performance.

Fast forward to a continuous auditing approach using repeatable and sustainable data analytics and the approach becomes much more risk-based and comprehensive. With data analytics, organisations have the ability to move away from sampling and review every transaction which enables a more efficient analysis on a greater scale. In addition, leveraging data analytics also accommodates the growing risk-based focus on fraud detections and regulatory compliance.

PwC has established a maturity model to measure the overall maturity of Assurance Analytics used in an organisation (Figure 3).

Figure 3 PwC's Assurance Analytics maturity model

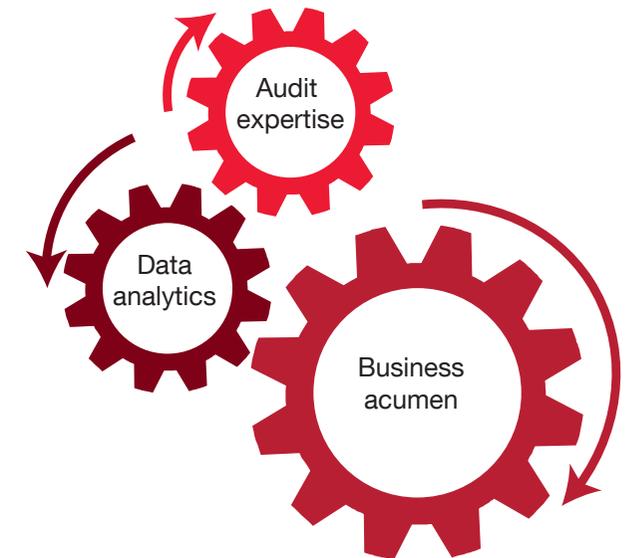


4 The need for skill transformation



As the expectations of IA functions increase, the skills required within an IA function are also expanding. The focus has shifted from audit expertise toward also having extensive skills in business acumen, as well as having a deep understanding of data (see Figure 4).

Figure 4: The IA professional skillset expectations



PwC's most recent state of the profession survey reveals that 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 visualisation 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. 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 jumpstart the momentum needed to drive more-creative use of data.

The transformation of skills also requires a culture change that is conducive to the use and integration of analytics in daily operations. IA personnel must become eager to learn and should not only become comfortable with data but also savvy about using it. If an IA function's size allows, a three-tier resource model is recommended to enable a deep understanding of data and a deep understanding of business to be imbedded. These tiers include a group of (1) power users with deep analytical skills, (2) data analytics champions on each business and technology team, and (3) business auditors who, while not as deeply skilled in analytics, are increasingly comfortable with using analytic tools and continue to obtain additional training.

5 The potential role and benefits of continuous auditing



Resource optimisation activities, increased risk exposure and organisational change are common in today's economic climate. As a means of responding to these elements, organisations are employing Continuous Auditing (CA) and Monitoring (CM) techniques to better manage risk while optimising resource use, improve performance and to create value. Additional drivers to implement CA and CM include the ever-changing regulatory landscape and the increasing stakeholder demands to improve governance and risk management, enhance oversight and transparency, all while driving performance and profitability. The value proposition of CA and CM can be seen realised in terms of risk, resource optimisation and value (see Figure 5)

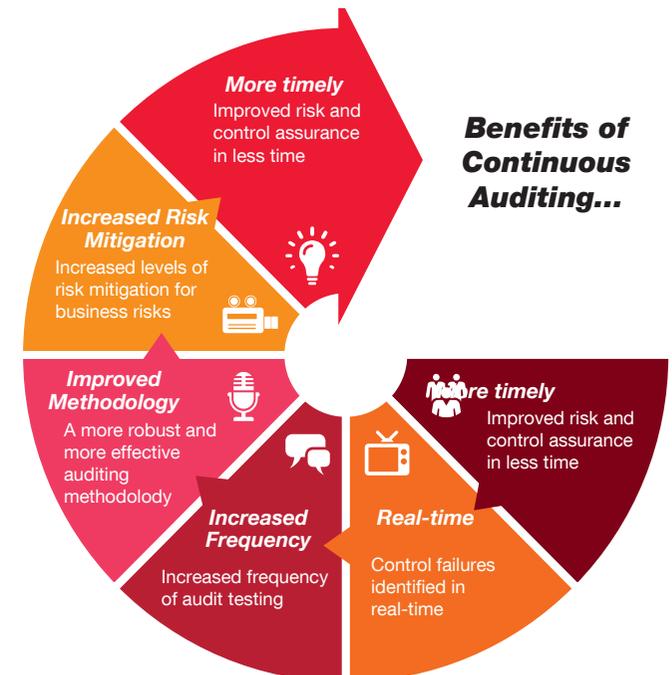
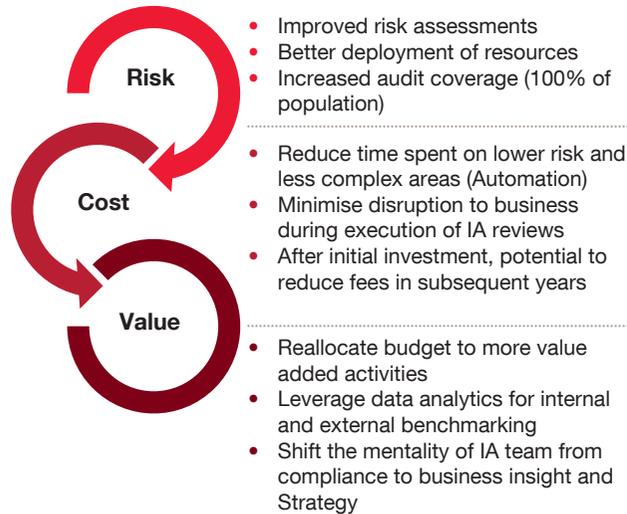


Figure 5: The value proposition of Continuous Auditing



A common misperception that occurs is CA is often confused with CM. Before the role of CA can be clearly defined and understood, closely related concepts like CM and data analytics will be explained together with CA to avoid confusing these concepts with CA as well as understanding the interrelationship between these three concepts (Figure 6).

Figure 6: Clarifying Data analytics vs. Continuous auditing and Continuous Monitoring

	Data Analytics 	Continuous Auditing 	Continuous Monitoring 
Definition	The process by which insights are extracted from operational and financial data	The collection of audit evidence and indicators by IA through the use of IT	Feedback and monitoring mechanisms used by management to ensure controls operate as designed and transaction as prescribed
Areas of use	The tools and techniques used by both CA and CM	IA functions evaluate controls in a frequent, repeatable and sustainable basis	Management's monitor and maintain controls within their business unit
Enablement	Provides the "how?" and "why?" answers to the initial "what?" question	Empowers IA to continually gather information from process data that supports auditing activities	Enables management to continually review business processes for adherence to and deviations from their intended levels of performance

Organisations that aim to maximise the value derived from CA and CM tend to use combination of both throughout the business. While neither CA nor CM needs to be present for the other to be implemented, they do complement one another. As such organisations that combine them tend to coordinate the efforts of IA with management to avoid the unnecessary duplication of efforts and unproductive resources.

Some organisations that have successfully implemented CA without having a CM process in place did so to better understand the risks to the enterprise, assess control effectiveness, support compliance efforts, and to better manage and utilise their internal audit resources. Implementing CA together with CM can also enable organisations to adapt more quickly and effectively to changes in the risk and regulatory climate.

6 Integrating analytics into the IA fabric



Many IA departments have dabbled in using data analytics in planning, scoping and execution of audits, but this is mostly done in an ad hoc fashion. One or two technical resources are usually used for specific areas of audit focus, and these skills are usually stays with them. As a result IA departments are not effectively integrating this powerful capability across the whole of their department and audit universe, which means they remain only skimming the surface and not realising and utilising the full potential of data analytics.

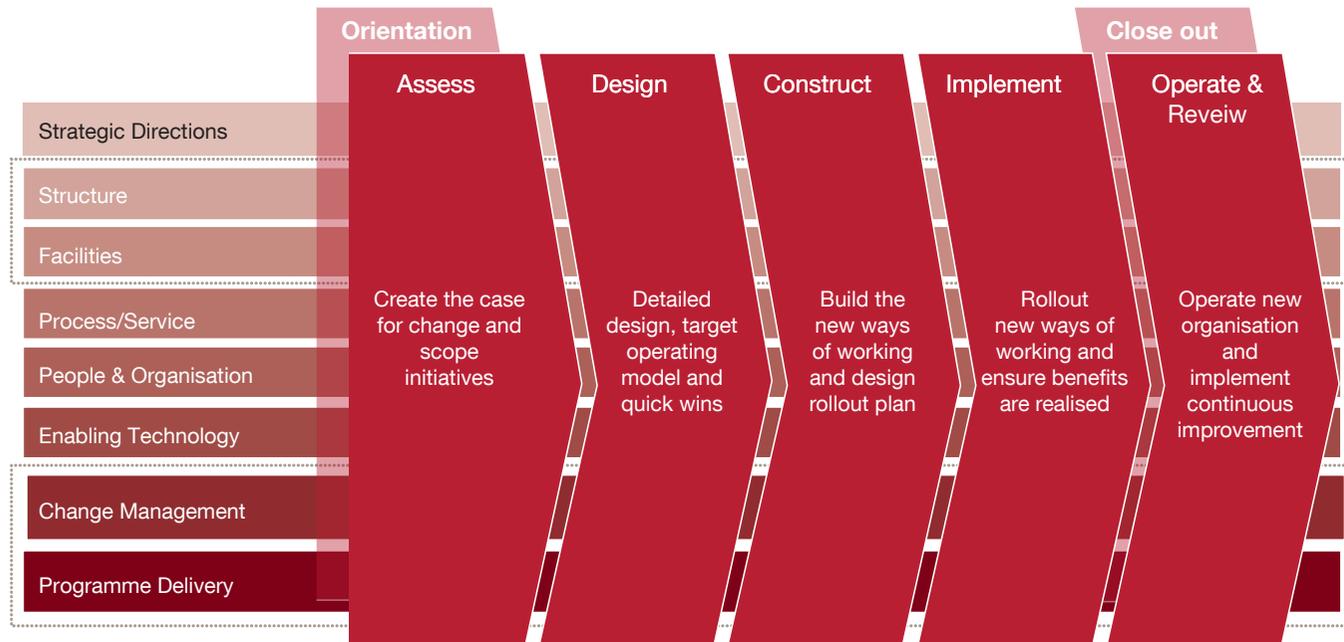
The fundamental problem is that many organisations do not consider the use of data analytics or CA in relation to their IA department's methodology, but rather only as another audit tool. To truly reap the benefits of data analytics in internal auditing the way audits are planned, executing, and reported needs to evolve. For example, most IA methodologies do not connect or integrate the use of data analytics or CA throughout the various phases of an audit cycle. As a result analytics become of a bolt-on activity that IA departments try to sustain by building technical capabilities, rather than the strategic enabler that needs to be integrated into the fabric of the audit process.

If data analytics isn't integrated into the audit methodology on a strategic level IA department regularly struggle to expand data analytics across more audit areas. If the technical analytical capabilities are also retained within one or two key resources, the data analytics practices often stop when these resource move out of the department. Consequently, the results and value generated from the traditional ad hoc analytics are usually not very impactful or significant.

Transforming the audit process through integrating data analytics into the methodology is also not a quick and easy process, and as such detailed and structured guidance in the form of roadmaps and maturity levels need to be established in order for IA departments to take stock of their progress.

PwC aims to integrate analytics into every stage of the internal audit lifecycle by identifying logical integration points for repeatable and sustainable analytics. We will undertake this using Transform™, the global PwC methodology to approaching and delivering value to our clients, from strategy through to implementation, Refer to Figure 7 for more information.

Figure 7: PwC Transform Methodology



The result is a new evolved IA methodology that supports data analytics-enabled internal auditing at each phase of the audit approach, capable of delivering true value to business.

7 The journey towards continuous auditing and monitoring

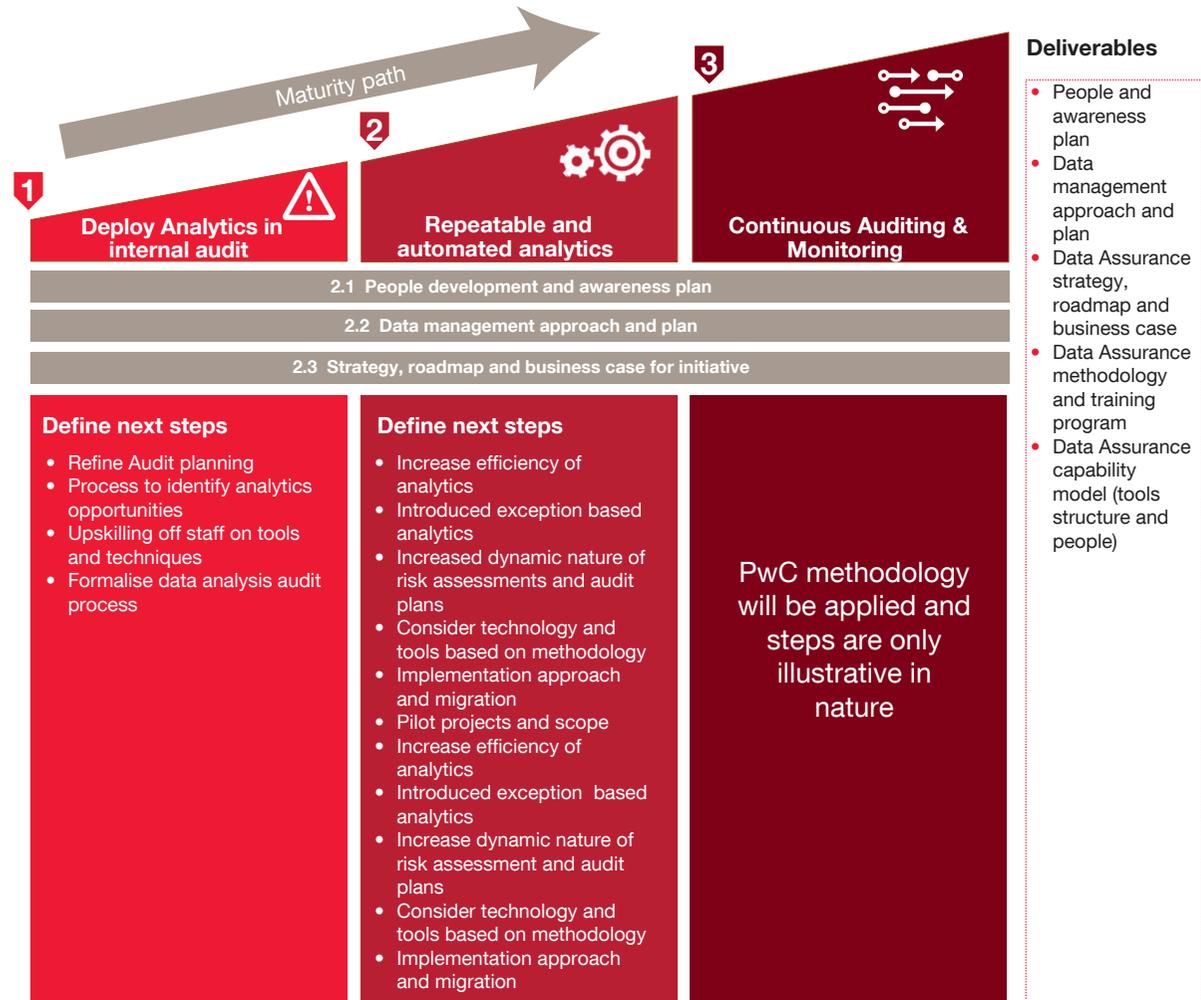


Achieving continuous auditing and monitoring is goal that may seem very far at first, and the inevitable changes that are required to achieve it might seem disheartening at first, but taking the feasible, incremented steps we suggest, the journey won't be so overwhelming. Our Assurance Analytics methodology is divided into three main phases and each phase has practical guidance to assist IA departments on this journey.

The methodology is informed by the information gathered during a current state assessment and further engagement with key stakeholders. Now that a client knows where they stand in terms of IA maturity, the maturity ambition must be determined.

Approach

- Step 1**
Determine and define maturity ambition
- Step 2**
Develop overall plans
- Step 3**
Developed based on current and desired maturity





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