Impact of digitisation on the internal audit activity

Chartered Institute of Internal Auditors

Internal audit functions whilst independent in mind-set, operate within the infrastructure of the organisation. As the business transforms, internal audit need to keep pace with developments – moving too slowly or too quickly carries the risk of providing false assurance or losing credibility with stakeholders. This will impact not only the type of internal audits undertaken and the way assurance is provided but the skills required and the audit methodology itself. This guidance addresses each of these areas in turn.

Our technical blog post The role of internal audit in digitalisation also provides a good introduction to this topic.

Internal audit plan considerations
Assurance for the digital age
Revisiting audit skills
Adapting audit methodologies

Internal audit plan considerations

A comprehensive risk based internal audit plan will naturally reflect the rate of technological development within an organisation, although still be open to some of the considerations in this section.

Where risk maturity is still evolving and internal audit plans are created using a variety of insights and experience to support the risk information it may be useful to think about three themes within the digital organisation when developing the internal audit plan: collaboration, connectivity and communication.

1. Collaboration

In a digital organisation there is a cultural shift towards collaboration both internally and with external partners, internal audit areas to explore could include:

Data governance
The replacement of siloed file systems with cloud based sharing systems heightens the need for robust controls, particularly when those systems can be opened up to external parties.

Dependancy
Reliance on third party platforms is common in the digital workplace putting pressure on continuity arrangements and supplier management controls.
Decision making
Collaborative tools encourage fast decision making vital to productivity and agile project management, although appropriate due diligence is still required. With increased empowerment and less structure, delegations of authority beyond financial controls may need to be considered.

Temporary groups
Virtual meetings become easier, making it possible to set up temporary groups often negating formal protocols with the risk of personal agendas, stakeholder absence and lack of accountability.

Culture
Cultural shifts take longer than technological change, functions and managers continuing to work in a siloed manner present a risk to business success.

Misinformation
Knowledge sharing via wikis are uncontrolled and the provenance of information may not be known, understanding the risks around this is critical to internal audit and decision makers.

Innovation
It can be easy for people to get carried away with the latest crazes and lose sight of the day job, there needs to be a balance of risk/reward which internal audit is well positioned to advise on without stifling disruptive innovation.

2. Connectivity
Building on this, there is also greater connectivity of people, data and system, audit areas to explore around this include:

Data access
Increased access to data across the organisation puts effective cybersecurity and data privacy among the top risks, both external and internal threat actors (also called a malicious actor, is an entity that is partially or wholly responsible for an incident that impacts, or has the potential to impact, an organisation's security), non-compliance with protocols and human error.

End user computing
Extending beyond formulaic spreadsheets, technological innovations coupled with data access make it easier for people to undertake complex data analytics, how this potentially sensitive information is shared and used will be important.

Assets
With connectivity comes creation and the need to understand digital assets in order to protect them.

External stakeholders
Along with data privacy, ensuring appropriate protocols when collaborating or sharing information with third parties is essential, this becomes much harder in a digital organisation where data is more accessible. Consumer marketing risks increase considerably in the digital era due to the commercial opportunities afforded by technology.
Flexibility
Connecting people across disparate locations whilst enabling efficiency also introduces potential cultural risks and issues of work/life balance as people work late to compensate for time differences. The ability to work from home also challenges some traditional management values which can lead to disparity between departments and disaffected employees.

3. Communication
And finally, this all leads to the criticality of communication, with audit topics to explore including:

Immediacy
Conversations on instant chat improve efficiency yet culturally may be viewed as informal - what new boundaries need to be set?

People
During times of digital transformation the technology is often the focus, when in reality the risks lie with people and change management.

Communications
Ensuring all employees know the protocols for internal and external communications becomes critical to risk management in a digital age.

Customers
Multi-directional communications are becoming commonplace and introduce new risks to brand management, complaint handling, product development, manufacturing processes and everything in between.

While it would be exciting to fill the internal audit plan with new audits directed to the host of digital threats and opportunities facing the business, this would be inappropriate. Even in the digital age there are core activities which cannot be taken for granted, the processes may change, the technology being deployed may be different but basic controls still need to be audited.

Assurance for the digital age
Integrated assurance has the potential to become the new normal in the digital age. A wealth of capability for end user analysis and monitoring will create stronger first and second lines of defence, with much more automated, real time assurance. Internal audit will need to differentiate and articulate its third line role, or a new role, very clearly in order not to become obsolete.

Corporate data often hides insightful stories about control effectiveness, risk management, ethical behaviour, organisational performance and financial stability. Uncovering these stories and telling them in a way that captures the interest of decision makers will differentiate the assurance providers of the future.

The profession may need to make the case for conducting data analysis with empathy, instinct and ethics or risk being replaced by artificial intelligence. Our data analytics report addresses the business case for introducing or increasing analytics with added value.
Revisiting audit skills

The 2017 Pulse survey produced by IIA Global cites critical thinking, communication, collaboration and persuasion, professional ethics, understanding the audit process as key audit skills. Finding the balance between hard and soft skills will continue in the digital age and whilst there are no new skills per se, there needs to be recognition that some skills become non-negotiable or more important in the digital age. Examples of these include:

**Agility**
Digital transformations are change programmes without end, being able to work in an adaptable, learning environment will become essential.

**Analysis**
A core audit skill that is now a business standard, internal auditors can raise their game by honing root cause techniques to get to the heart of the issues where others may be skimming the surface for quick wins.

**Coding**
Being part geek is no longer optional, learning basic coding is becoming an essential skill to be able to talk with gravitas not only to IT colleagues but millennials and Gen Z (also known as post-millennials or the iGeneration, for example, the demographic cohort following the millennials) colleagues going forward, there are lots of websites offering free courses.

**Digital IQ**
It is not enough to have a Facebook presence, being confident and capable in all things digital is a pre-requisite to engage in meaningful dialogue with the c-suite.

**Facilitation**
Collaboration is a key feature of the digital age and being able to manage a workshop, temporary group or Skype meeting is essential for the 21st century internal auditor.

**Initiative**
Workspaces are transient with hotdesking and zones becoming commonplace, this makes it easier for internal auditors to sit with auditees, observe practices and gain cultural insights.

**Personal branding**
Internal auditors and their reports have always been the shop window of the department, however, in the digital age where everyone has a brand, this becomes ever more important, consider updating old style photos and biographies for video biogs and blogs. Internal auditors need to be mindful of their digital footprint both professional and personal as credibility can be easily lost with an inappropriate social media comment.

**Presentation**
Being able to present to a group is an essential skill as it brings intention to life delivering education, inspiration and often entertainment, it is harder to forget a good presentation than a good report.

The recruitment challenge for these skills may lead to more secondments into internal audit from
the business, second or third careers moves into audit from industry as well as entry routes into organisations for graduates.

**Adapting audit methodologies**

Technological advances are intrinsic to digitalisation and without question will reshape internal audit processes depending on systems deployed, alongside this will also be cultural shifts in the digital workplace. This opportunity could be the catalyst to change long standing methodologies around areas such as:

**Analysis**

In an organisation with a high digital IQ and vast quantities of data, comprehensive analysis will be expected and not just financial data, to be credible, internal auditors will need to perform above the standard for their organisation. Ideally this would involve exploiting tools within the business in addition to complementary audit specific data mining tools. Our data analytics report addresses the business case for introducing or increasing analytics.

**Data sharing**

Tools such as Microsoft SharePoint now enable documents to be worked on collaboratively, shared in virtual presentations and stored in the cloud, this has the potential to improve information gathering, validation processes and dissemination of results. Could it also replace electronic working papers?

**Delivery**

The Standards do not require a written report, Standard 2440 Disseminating Results says that the ‘chief audit executive must communicate results to the appropriate parties. The implementation guide goes on to say that ‘results may be communicated verbally or in writing, and the format may differ depending on the recipient’.

Whilst PowerPoint and Prezzi presentation software tools have been around for years, new data connected tools such as SharpCloud mean that digital business leaders will start to demand more tech savvy reporting.

**Expected controls**

Continual technical innovation coupled with improved understanding of risk appetite mean that it is no longer appropriate for internal auditors to start an engagement with a list of expected controls as they will become obsolete much more quickly in the digital age either due to design or requirement. Focusing on how a risk is being managed rather than controlled will enable auditors to embrace innovations quickly and focus on evaluation rather than expectation.

**Governance, risk management and compliance (GRC) tools**

Internal audit and risk functions can capitalise on the digital journey to promote the use of systems to make assurance more efficient and insightful.

**Insurance**

Internal audit has always worked closely with insurance, going forward this two way relationship will be more important than ever as digital risk insurance requires regular updating and robust understanding of coverage so that internal auditors can balance control advice.
Proactive
The pace of business in the digital age will see pressure for internal auditors to deliver prognosis on governance, risk and control in addition to diagnosing issues and advising treatment. In a fast moving environment telling a director about an issue is not as effective as raising a red flag that something may become an issue. Pre-empting change and associated opportunities and threats enables capitalising on risk rather than leading to digital disruption.

Programmes/checklists
Caution should be exercised in using historical internal audit programmes and checklists in a digital organisation due to the speed by which change can happen. Whilst this is an approach already advocated for risk based auditing, it may also be necessary when undertaking routine compliance and financial controls reviews particularly where systems are cloud based with frequent updates.

Sustainability
Internal audits often include commentary on basic business continuity arrangements, in the unforgiving digital age this will need to be extended to sustainability to encompass wider factors such as talent retention and change overload.

Further reading

Standards
1220.A2: Data Analysis
2050: Coordination and Reliance
2310: Identifying information
2320: Analysis and evaluation
2440: Disseminating results

Implementation guides
Coordination and reliance
Identifying information
Analysis and evaluation
Disseminating results

Guidance
Auditing cyber security
Data analytics, data mining and big data

Research report
Data analytics

Blog
The role of internal audit in digitilisation

External resources
Deloitte: The Digital Workplace: Think, Share, Do
Capgemini Consulting: The New Digital Workplace
PwC: Ten Digital Trust Challenges
PwC: Next Generation Survey 2016

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