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2018 internal audit agenda: culture, technology, and change

2018 internal audit plans reflect more consideration of corporate culture and the risks it might pose, reports **Tammy Whitehouse**.

Internal audit plans in 2018 give more consideration to corporate culture and the risks it might pose to the company's success.

"The continuing saga over the last couple of years is big companies getting in trouble over something that clearly has a cultural component to it," says Richard Chambers, president and CEO of the Institute of Internal Auditors. "Whether internal auditors want to or not, they have to acknowledge that culture is a risk—a big risk."

When the IIA first began suggesting that internal auditors should perform audits of corporate culture, the idea met with some skepticism. Internal auditors

historically have more experience auditing hard data that produces objective evidence. By comparison, culture is a soft, subjective area.

Now internal auditors are starting to reconsider, says Michelle Hubble, a partner at PwC in internal audit risk management and compliance. "They are warming up to it but they still don't know exactly how to audit it," she says.

Internal auditors are conducting polls that speak to cultural issues in many settings, but they also can look to other indicators of culture, like codes of conduct and incentive compensation. How well does the company live up to its code of conduct? Are incentives

aligned with strategy, or do they incentivize bad behavior (e.g., Wells Fargo)? What is the company messaging through its internal communications?

Sandy Pundmann, U.S. managing partner in internal audit at Deloitte Advisory, says culture is a hot topic with internal audit leaders, who are indeed still trying to figure out how to get their arms around it. "If you look at some of the high-impact issues that have come along, culture has been a key element of the control structure that really contributed to the issues identified," she says.

It's not yet clear whether internal audit leaders will embrace the idea of performing independent audits of culture, or whether they'll give more consideration to culture within the context of each audit performed. "We are seeing many organizations ask, 'How do we consider the culture as a control, or as an element we audit?'" says Pundmann.

It's possible internal auditors may be gathering information on culture already without necessarily calling it out or considering it as such. "You can do some very targeted procedures with surveys and targeted testing, but you're collecting information about culture throughout the entire year," says Dawnella Johnson, a partner at audit firm Crowe Horwath. "You're basically auditing culture all year long."

The internal audit plan for 2018 will contain far more than consideration of corporate culture. The list of risks internal auditors need to consider in many settings is varied and growing rapidly. It contains many of the classic concerns—internal controls, cyber-security, geopolitical uncertainty, regulatory shift.

It also includes risks around talent, technology, efficiency, and new accounting requirements, experts say. Rob Frattasio, a partner in audit firm RSM's risk advisory services, says internal auditors need to cope both with rapid change and the need to see further into the future.

"The time you have to adapt to change shortens all the time," says Frattasio. "The way companies do business and use tools to do business—the change is fast and furious." That makes it more imperative than ever for internal audit leaders to not just write an audit plan for 2018 based on current concerns, but to

work closely with executives and audit committees to anticipate the future.

Pundmann agrees the pressure on annual audit planning is growing. "The days of saying here's my plan for the year, then reporting, substituting this project for that—that's gone," she says.

Instead, the annual plan is more a way of planning focus and allocating resources. And some audit leaders are planning to devote X percent of resources to emerging risks, another X percent to core assurance activities like Sarbanes-Oxley controls and processes, and another X percent to cyber-security and other IT risks, says Pundmann.

Frattasio says he sees chief audit executives continue to struggle with persistent shortage of talent, particularly in middle-market and smaller companies. "I hear 'labor shortage' everywhere," he says. That leads to increased risks in areas like segregation of duties and reliance on a remote workforce. It adds to the mix of reason to worry about cyber-security and compliance in various areas across the board.

It also builds the case for turning to technology, also on the internal audit radar for next year, experts say. Audit leaders need to think both about employing new technology in the audit and auditing areas of the company that are employing new technology.

Most of the new technologies center on automation—using machines to do routine tasks that used to be performed by people. There's even a new acronym—RPA, which means robotic process automation—to describe the movement toward automation.

Continued strife over internal controls under SOX only adds to the incentive for internal audit to move further along the tech continuum. "We want companies to move fast and get cost out of the system, but there has to be some perspective on controls," says Hubble. "It's about understanding how RPA is going to change the basic operation of processes and controls."

RPA, however, will extend well beyond the scope of internal controls. Hubble says a lot of companies are engaged in some kind of transformation that has a strong element of technology to it, like adopting a new enterprise resource planning system. "When we do our surveys each year, it's well over 50 percent that

say they have some kind of transformational program within the company,” she says.

Internal audit is likely tasked with providing some kind of program assurance on such events, she says, and the efforts frequently involve some kind of automation. “We’ll see RPA in a lot of internal audits this year,” she says. “Most are saying they’re just trying to figure it out and see how it works.”

Technology will be a key solution to help internal audit leaders continue to answer the demand to “do more with less,” says Pundmann. Whether that means using more analytics to perform audit work, rethink-

ing the approach to cyber-security, or employing other tools, the use of technology to drive efficiency will be a big theme this year, she says.

Internal audit groups also find they’re going to be allocating some time in 2018 around revenue recognition, leases, and the General Data Protection Regulation, a pronouncement of the European Parliament that affects U.S.-based multinational companies doing business in Europe. “It feels like companies have not paid enough attention to that,” says Frattasio, so internal auditors likely will need to assess implementation and post-implementation efforts there as well. ■

Deloitte discusses the focus on risk culture

Regulators and boards are focusing on risk culture because it largely determines decisions, conduct, and risk taking within an organization. Risk culture affects not only day-to-day operational and financial areas but also decisions involving research and development (R&D), development of products and services, and market entry and exit. Excessive risk taking is not always the problem. Often, organizations take too little risk, for example in innovation and technology adoption. A risk culture of informed risk taking can enable performance. Therefore, gauging risk culture within organizations on a periodic basis is becoming more critical across all industries. For example, public sector organizations tend to be sensitive to reputational risk. In life sciences organizations, risks related to R&D, acquisitions, business models and regulatory compliance are of high concern. At senior levels as well as in day-to-day operations, motivations, and behaviors around value creation and risk must be clarified and properly directed.

Steps to consider: First, the organization must define risk culture so all parties have the same view. For example, Deloitte defines risk culture as a system of values and behaviors present throughout an organization that shape day-to-day risk decisions. Deloitte identifies a framework with indicators of risk culture. Whatever the framework, indicators should be used to assess the existing risk culture and monitor desirable and undesirable changes. Internal Audit can audit risk culture within standard operational and financial audits by adding interview questions, gathering data, and developing an informal review. Alternatively, Internal Audit can conduct a formal audit of the risk culture management process, metrics, and outcomes. Since risk culture can vary across organizational areas, the results of risk culture reviews should be considered individually and in aggregate. Internal Audit can also make recommendations to strengthen an organization’s risk culture through training, incentives, controls, and other mechanisms. Quarterly “pulse checks” (of four to five questions) can assess the ongoing risk culture. While less technically complex than some auditable areas, risk culture demands knowledge of how to measure culture, frame questions, and seek insights.

Source: Deloitte

PCAOB ponders change to audit inspection process

A newly seated PCAOB wonders if it's time to reconsider how it performs audit inspections. **Tammy Whitehouse** has more.

A newly seated Public Company Accounting Oversight Board is taking a hard look at its approach to regulating the public company audit process, including whether its most visible and controversial activity—audit inspections—is in need of an overhaul.

Chairman William Duhnke said the new board is conducting a “comprehensive organizational assessment” via an external survey, internal questioning of staff, and direct stakeholder outreach to develop a new, five-year strategic plan.

Formed under the Sarbanes-Oxley Act, the PCAOB can no longer be regarded as an organization in its infancy, said Duhnke. “While the PCAOB is no longer a nascent organization, many of our operations and programs maintain their original design,” he said. “It is time we give them a fresh look to consider whether their design continues to meet our needs in a rapidly changing environment and to support us in achieving our mission.”

The new, five-member board has identified “substantial opportunities” to improve on policy making and external engagement, said Duhnke. “Based on our initial internal and external outreach, it appears that much of our workforce and many of you perceive similar opportunities,” he said in a speech at the University of Kansas. “We look forward to defining the contours of changes that are responsive to what we’ve learned.”

With extensive data on more than 3,500 inspections examining more than 13,000 engagements over its history, much of the self-examination appears focused on the inspections process. Noting concerns expressed earlier by the PCAOB about a plateau in improvements in inspection outcomes, Duhnke said “now is an excellent time for us to consider the potential reasons for those plateaus, including considering the continuing effectiveness of

our current inspection approach in driving further improvement in audit quality.”

The board has questions along those lines, he said, including whether there are targeted actions to drive improvements in specific areas, whether research efforts can help shape inspection priorities, whether historic inspections data can identify insights that would further improve audit quality, and whether such data should be shared more publicly.

The PCAOB is also exploring if the inspection process should be more targeted on the role of quality control systems to prevent audit deficiencies and whether a change in approach to selecting engagements for inspection would provide a different perspective. The examination is considering whether to decrease the number of audits inspected where firms have shown improvement and whether to modify the timing or frequency of inspections at certain firms.

“Is there additional guidance or transparency that we can provide about our remediation decisions?” Duhnke asked. “Finally, does our inspection approach introduce unnecessary and unexpected costs into the financial reporting system, without achieving corresponding benefits to audit quality and thus investor protection?”

Duhnke’s remarks followed the announcement that Helen Munter, the board’s longtime director of inspections, would be departing from the board. In a prepared statement, Munter said she was proud of the inspections process that has been established. She did not indicate what she plans to do after departing the PCAOB. Earlier staff departures since the announcement of an all-new PCAOB have included Gordon Seymour as general counsel and Samantha Ross, the board’s original chief of staff who served as special counsel to its most recent former chairman, James Doty. ■



New accounting rules mean new tools to achieve compliance

Massive new accounting requirements present a strong case for the deployment of new technologies to achieve compliance.

Tammy Whitehouse reports.

In the face of major new accounting requirements, even the biggest technophobe can't stand up to the freight train of change that necessitates technological solutions to achieve compliance.

The newest star on the stage of technological advancements—artificial intelligence—along with advancements like “optimal character recognition” and “natural language processing” have a key role to play in how companies adapt to new requirements for recognizing revenue and accounting for leases. In some large, complex business environments, the task of extracting the necessary data and detail from contracts

would be daunting, even impossible, otherwise.

To comply with the new revenue standard, for example, which calendar-year public companies began doing Jan. 1, companies needed to analyze and extract multiple data points from each of their contracts with customers before they could debit or credit the appropriate accounts at the appropriate times under the new rules. Tools using artificial intelligence can help with large volumes of contracts to look for consistent themes or patterns, says Sean Torr, managing director at Deloitte. It's also useful to flag outliers.

With leases, some of the largest companies have leases numbering in the tens of thousands. “It takes somewhere from nine to 10 hours for a human to review a lease,” finding and collecting all the details needed to comply with the accounting requirements, says Mike Baccala, an assurance partner at PwC.

There aren’t enough humans trained in that analysis to complete the work in the timeframe necessary, says Baccala. To varying degrees, depending on the setting and the circumstances, tools like AI, OCR, and NLS are helping companies get structured data out of static documents. “It’s a real problem when you start to do the math on some of these areas,” he says. “We’re using a number of technologies together to look at the problem of GAAP change,” he says.

Rob Bruce, vice president at software developer Kimble Applications, says companies can use such advanced technology to “drive the right behaviors” in three important ways. First, technology like artificial intelligence, or augmented intelligence, prompts all the right behaviors to get contract information recorded in the ways necessary to comply with the standards. Correctly identifying transaction pricing is key to compliance with the new revenue standard, for example.

Second, it facilitates analysis, assuring data is both complete and correct. “Using diagnostics technology helps people look at what results they are getting, what forecasts they are getting, what are the trends,” says Bruce. Completeness and accuracy has been a big problem for companies trying to satisfy demands from auditors under existing standards, as auditors have been pressured through regulatory inspections under the Public Company Accounting Oversight Board to get better evidence to support their audit opinions.

Finally, it drives collaboration across departments in an organization. “This is not just a finance problem,” says Bruce, “Knowing whether an obligation is complete, or how complete it is, is important.” The new revenue standard allows companies to recognize revenue only as they fulfill separately identified performance obligations within each contract, and

DATA QUALITY STATS

Below are some recent statistics from the *Harvard Business Review* on companies’ data quality.

- » On average, 47% of newly created data records have at least one critical (e.g., work-impacting) error. A full quarter of the scores in our sample are below 30% and half are below 57%. In today’s business world, work and data are inextricably tied to one another. No manager can claim that his area is functioning properly in the face of data quality issues. It is hard to see how businesses can survive, never mind thrive, under such conditions.
- » Only 3% of the DQ scores in our study can be rated “acceptable” using the loosest-possible standard. We often ask managers (both in these classes and in consulting engagements) how good their data needs to be. While a fine-grained answer depends on their uses of the data, how much an error costs them, and other company- and department-specific considerations, none has ever thought a score less than the “high nineties” acceptable. Less than 3% in our sample meet this standard. For the vast majority, the problem is severe.
- » The variation in DQ scores is enormous. Individual tallies range from 0% to 99%. Our deeper analyses (to see if, for instance, specific industries are better or worse) have yielded no meaningful insights. Thus, no sector, government agency, or department is immune to the ravages of extremely poor data quality.

Source: *Harvard Business Review*

“Companies are seeing how important it is to have an electronic format to manage their portfolio going forward.”

Will Bible, Audit Partner, Deloitte

they must make some disclosures about obligations that are not yet satisfied on the reporting date.

It's still early in the curve toward corporate adoption of advanced technologies to achieve compliance with the revenue standard, says Bruce. “People are daunted by the amount of manual work that may be associated with this,” he says. As a result, companies are showing interest, but are not committing in droves to advanced deployment.

The new standards are driving interest in automated contract management systems, says Nagi Prabhu, chief product officer at technology firm Icertis. Powered by artificial intelligence and machine learning technologies, contract management systems take in contract information in a way that automatically sorts data into the right buckets necessary for accounting compliance. It recognizes both the data and the language to apply the proper accounting treatment, he says.

Prabhu also sees growing interest in advanced technologies as a result of the onslaught of new accounting requirements. “Every second or third conversation with customers is asking us: What can you do to provide technology to solve this problem?” he says.

Those automated technologies may be helpful going forward, but they don't address the mounds of paper contracts companies have today. That means the first big hurdle companies have to clear in the short term is to convert paper contracts into digital data, says Deloitte Audit Partner Will Bible.

Accounting leaders have reported companies are using a mix of automated systems and manual controls to achieve compliance with the revenue recognition standard. The enormity of the work to comply with the new revenue rule is leading companies to think hard about how they'll comply with

the leasing standard when it takes effect a year later.

The experience of trying to comb through contracts for necessary accounting detail to comply with revenue recognition has given companies reason to move more expeditiously into lease compliance. “Companies are seeing how important it is to have an electronic format to manage their portfolio going forward,” says Bible.

Despite futuristic predictions that migration to AI and other advanced technology will replace humans, Henri Leveque, another PwC partner, believes that won't happen. “None of these solutions eliminate humans,” he says. Instead, “the technology is making humans significantly more relevant and valuable.” It still takes human intelligence to read and analyze results and to make decisions based on what the data indicate. In fact, accounting and auditing standards over the past several years have moved away from routinized application of bright-line requirements into principles that necessitate more judgment and analysis.

Chris Stephenson, a principal at Grant Thornton, says both the technology and corporate adoption have a long way to go before companies will fully utilize the technology to achieve seamless compliance. Artificial intelligence suggests software is making decisions, and human intervention or expertise is not needed. Today, the environment is one where humans are complying with rules and relying on software to help. “Artificial intelligence is the other side of the goal post where humans aren't there at all,” he says.

Companies still have a long way to go to digitize, assemble, and cleanse the data they have now, says Stephenson. A recent *Harvard Business Review* analysis suggests only 3 percent of corporate departments have acceptable levels of data quality. On average, 47

percent of newly created data records have at least one critical error, the analysis found.

That suggests continued corporate adoption of automated processes to originate contract data will go a long way toward moving companies into a realm where artificial intelligence is truly a factor in achieving compliance. “Once that happens, I see huge opportunity,” says Stephenson.

As machine learning gets deeper into contract data, maybe it could even learn to negotiate contracts, making decisions at lightning speed based on reams of historic data on pricing and terms. “In revenue, the contract negotiation goal is to be the most prepared person in the room,” says Stephenson. “A bot can grab internal data [and] historic data

and can set terms even better than a human. With leasing, you could be in a position where the lessee and the lessor have bots doing the negotiation with a human approver.”

But back in the present, there’s a more timely, compelling reason for companies to get further along the curve of adopting artificial intelligence and related tools to perform their accounting processes under new standards. To respond to growing demands for better audit quality, auditors are adopting the tools to perform more robust checks on accounting and internal controls.

“In certain cases where there are high volumes, we deploy platforms that read contracts and can assist in audit procedures,” says Bible. ■

Tips to prevent robots from stealing your job

1. **Take the time to build rapport with your clients.** Given time constraints, this may be a challenge, but gaining your clients’ trust is key, and it doesn’t happen overnight. This is especially important because you will be asking them probing questions that may seem intrusive if you do not develop a relationship first.
2. **Even though you have audited this client before, you still have to act with professional skepticism now.** You never know, conditions may have changed from year-to-year. I was once given the advice to approach every audit as if it was a new client that I didn’t know or trust.
3. **Make sure you have enough evidence to support your conclusion.** As auditors, we need to consider internal and external factors that might support or challenge our findings. It’s often easy to stop once we’ve seen evidence that supports client’s explanations. But it’s our job to ensure we’ve looked at and evaluated all available evidence, whether it supports our understanding or not.
4. **Separate your relationship with the client from the job that you have to get done.** Remaining objective is key. Even if your client is a friend, you need to take off your friendship hat and put on your auditor hat.
5. **Make sure to leave enough time.** Sometimes deadline pressures can inhibit appropriate professional skepticism. Prevent this from happening to you by planning ahead and building time into your schedule for the unexpected.
6. **Maintain focus from start to finish.** If you see something that strikes you as unusual, look into it, even if you find it as you are wrapping up the audit. Let’s say it’s your last day of fieldwork and you spot a variance that’s just over your threshold for an individually significant item. Stay diligent and investigate further—what seems like a minor issue may indicate something bigger.

Source: Ahava Goldman, Associate Director, American Institute of Certified Public Accountants

Beyond Quality: The Four-Part Approach for Audit Efficiency and Effectiveness

Written by Ernest Anunciacion

The Institute of Internal Auditors' [International Standards for the Professional Practice of Internal Auditing](#), colloquially known as the "Standards," is a set of core principles and a "framework for performing and promoting internal auditing." As they function as guide rails for the practice, not mandated tactics, the Standards offer best practices on how an auditor should conduct his or her work.

In many professions, the concept of quality is vague and frequently differs from person to person or team to team. However, the IIA and the Standards are articulate about what constitutes quality for the internal audit function, going so far as to establish a [Quality Assessment Manual](#).

Accordingly, any discussion of quality in internal audit—and, subsequently, effectiveness and efficiency—must first begin with a clear understanding of the IIA's existing interpretation of quality, as well as an understanding of the actions that should be taken to promote it.

This paper will detail how internal audit leaders can improve the efficiency and effectiveness of their teams, despite time and resource constraints, using existing guidelines for improving audit quality.

The IIA and quality assurance

As [the introduction to the Standards](#) explains, the practice of internal auditing is conducted in diverse legal and cultural environments, spanning organizations "that vary in purpose, size, complexity, and structure." While these differences influence the internal audit practice in each

environment, conformance with the Standards helps assure the fundamental responsibilities of the role are being met.

Chief audit executives need assurance that their internal audit activity is performing to expectations and that staff members are performing quality work. I have found that the only way to meet these expectations is through a comprehensive quality assurance program, which must include ongoing and periodic internal assessments. The Standards agree: section 1300 states that the chief audit executive "must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity."

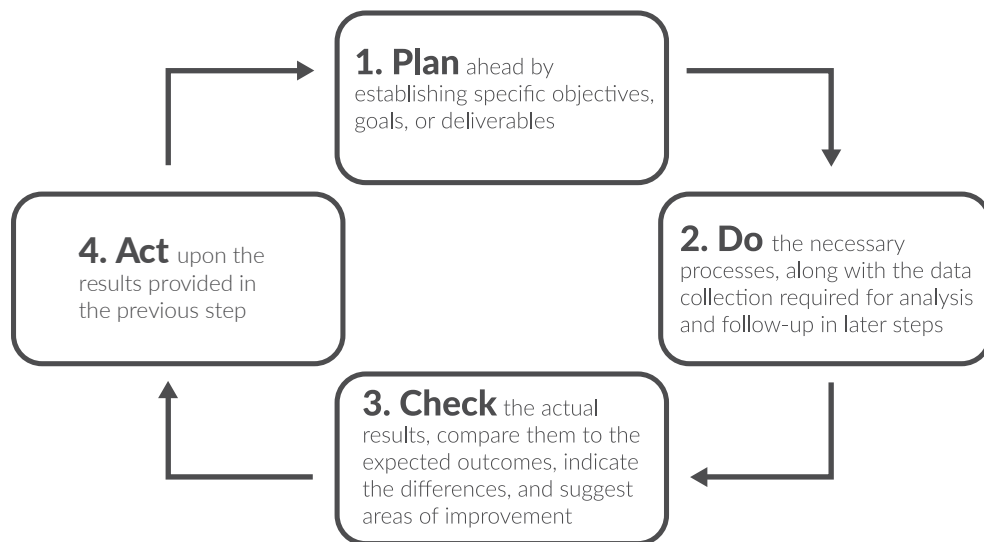
Additionally, these assessments, according to the Quality Assessment Manual, should not be an afterthought nor an element to be tacked on at the end of the year. Rather, they should be an ideology of constant, iterative growth:

"Quality should be built into, not onto, the way the activity conducts its business—through its internal audit methodology, policies and procedures, and human resource practices. Building quality into a process is essential to validate and continuously improve the internal audit activity, demonstrating value as defined by stakeholders."

With this core tenet in mind—that quality must be approached throughout the process, not just acknowledged at the end—the IIA suggests the following [four-part approach](#) to monitoring and improving audit quality.

Four Steps to Audit Improvement

The IIA suggests using the following four-part approach to monitoring and improving audit quality. It can also be used to improve audit effectiveness and efficiency.



Going further than quality

The four steps above give a high-level perspective on the creation of a quality assurance and improvement program for the internal audit function of an organization. With such a set of standards, quality is effectively a baseline expectation.

As a former practitioner for some of the largest companies in the country, I have learned that good work is not enough. Organizations must go further than quality. Improving efficiency and effectiveness throughout the methodology can streamline processes and save money, time, and resources.

What, precisely, do “efficiency” and “effectiveness” mean in the context of quality? Loosely defined, effectiveness is the results that come from work, while efficiency is the time and resources that are required to achieve those results. In essence, effectiveness is about doing the correct things, while efficiency is about doing things correctly.

High-quality work can be done in the absence of effectiveness and efficiency, but it is ultimately not as beneficial to the company if it fails to consider the resources used or if the right work is being conducted.

I recall a time when my team was scheduled to conduct a routine travel and expense audit. The testing procedures were fairly standard—however, the company had recently switched expense systems, and we failed to update the appropriate procedures.

All of my staff were allocated to other projects, and the only available team member was a new hire who came from the company's operations with no auditing background. Given the urgency to complete the engagement before the next audit committee meeting, I ended up postponing one of my audits to assist the new associate.

While we were able to complete the audit on time and identify transactions inconsistent with our policies, what should have been a 40-hour engagement required more time for me to coach the new associate. I failed to forecast the schedule appropriately to ensure that the best resources possible were available at that time. Also, I failed to ensure that the testing steps were updated accurately to reflect the new travel and expense system.

In this example, efficiency was sacrificed for quality and effectiveness. While some circumstances are unavoidable, proper planning can afford internal auditors the ability to improve and optimize their work.

To evaluate and find opportunities to improve your team's effectiveness and efficiency, use the aforementioned four-part approach—plan, do, check, and act—and take your internal audit processes further than quality.

Step 1: Plan for organizational growth

While the concept of quality is uniform for internal auditors of different varieties and capacities, effectiveness and efficiency can vary from organization to organization. Accordingly, clear definitions for these terms—the expectations for your team—must be established and adopted to plan for growth.

Use these questions as guidance when defining exactly what effectiveness and efficiency mean for you and your team:

- Are we equipped with the up-to-date tools needed to conduct the best work possible?
- Do we have the right resources and skill sets required to deliver our audit plan?
- Are we contributing to organizational improvement? If so, can others see this?

- Have we obtained any validation of our team's quality, such as notification from managers or executives?
- Is feedback effectively distributed to team members, so they know what areas to improve?
- What quantifiable metrics can we associate with these definitions?

While you and your team's definitions of effectiveness and efficiency are crucial, it is also important to gain the approval of key stakeholders involved in internal audit. A major reason that process improvement initiatives fail, according to one [Harvard Business Review article](#), is that the people whose work will be directly impacted are often left out of the process.

Accordingly, feedback from stakeholders at the helm of the financial success of your company should also be incorporated. Here are a few stakeholders who should weigh in on your definitions of effectiveness and efficiency:

- **Internal stakeholders:** Board of directors, audit committee, executives, senior management, and department leads
- **External stakeholders:** Regulators, standard-setters, vendors, customers, and external audit teams

Step 2: Do the work needed to set expectations

The second step of this process continues to articulate the definitions of effectiveness and efficiency, and sets expectations for your team.

By this stage, you should have an internal definition of effectiveness and efficiency, and you have tempered that definition in the context of what key internal and external stakeholders need. To better set your organization up for success, make these definitions more actionable and specific through the assignment of qualitative and quantitative metrics.

As described in a [Forbes article](#), Forrester reports 74 percent of firms say they want to be “data-driven,” but only 29 percent are actually successful at connecting analytics to action. Actionable insights appear to be the missing link for companies that want to drive business outcomes from their data.

Make these definitions more actionable and specific for your team by assigning qualitative and quantitative metrics for each. To collect qualitative and quantitative metrics, try the following tactics:

- Look back at past performance data to determine quantitative metrics:
 - How many audits were scheduled?
 - How many were completed?
 - How was staff utilized?
 - What were the budgeted hours as compared to the actual hours?
- Go on a listening tour of departments impacted by your work to determine qualitative metrics:
 - What do clients think of your team's performance?
 - What do other internal stakeholders think of your team's performance?
 - Do they consider you and your team leaders in their role or order-takers?
 - Would they want to engage in future projects with your team?

One of the things I implemented in the past was a balanced scorecard—a view of metrics and key performance indicators detailing areas of strength and areas for improvement. As part of the audit committee presentations, we presented to the audit committee both the quantitative and qualitative metrics that comprised our key performance indicators. In addition to items such as budget, time, and expenses, we also included metrics that highlighted staff utilization, CPE tracking for active certifications, and net promoter scores from our internal stakeholders. My goal with the balanced scorecard was to be open and honest about our team's performance and back those statements with data-driven results.

With these actionable definitions in hand, the expectations for your team should be crystal clear. It is ultimately up to chief audit executives to hold their teams accountable for efficient and effective—along with quality—work.

Step 3: Check progress against set expectations

To check the quality, effectiveness, and efficiency of your team's work, internal audit leaders should look at individual performance on an ongoing basis—not just an annual one. After all, it is easier and less problematic for leaders to reevaluate individual performance in small increments before it becomes a major issue.

In organizations of all sizes, a traditional once-per-year approach to employee reviews is fading away in favor of more ongoing ones. As a [Washington Post article](#) describes, today's employees have come to expect instant feedback in many other areas of their

lives, and performance reviews should be the same. Besides, the article states, one report found that two-thirds of employees who receive the highest scores in a typical performance management system are not actually the organization's highest performers.

Chief audit executives should encourage the completion of self-appraisals. A [Harvard Business Review article](#) explains that an effective self-appraisal should focus on what you have accomplished and talk about weaknesses carefully, using language with an emphasis on growth and improvement, rather than admonishment. Highlight your team's blind spots that they might not be aware exists.

In short, employees want more frequent and iterative assessments of their work, and internal audit leaders need to step up to deliver this and ensure quality, effectiveness, and efficiency at all stages.

Step 4: Act upon what you have learned

By this step, internal audit leaders have an array of tools at their disposal, including:

- Actionable definitions of effectiveness and efficiency for their teams
- Qualitative and quantitative metrics to bolster these definitions
- Information gathered from self- and manager-guided evaluations
- An understanding of how team members have performed along these guidelines

With this information in hand, many opportunities for growth are apparent—simply compare where you want your team members to be against where they are right now. By implementing these fact-based changes into your internal audit processes, leaders set the stage for cyclical organizational and personal improvement.

According to a [survey](#), this type of continuous improvement yields a positive ROI for organizations, helping increase revenue, along with saving time and money—an average annual impact of \$6,000. Additionally, these improvements are designed to compound with each cycle.

Just as the approach to monitoring and improving audit quality is ongoing and cyclical—there are always improvements yet to be made—this approach to improving effectiveness and efficiency is fluid as well.

By weaving this four-part process into the fabric of your internal audit methodology, leaders can improve effectiveness and efficiency in their organizations.

In closing

Quality, effectiveness, and efficiency intermingle and collaborate to make a high-performing internal audit function. Years of internal audit experience have taught me that, when improving those three aspects, an often-overlooked tool is technology.

The IIA recognizes the importance of technology's role, as reflected in the Standards. Section 1220 states: "In exercising due professional care, internal auditors must consider use of technology-based audit and other data analysis techniques."

That said, according to the [2017 AuditNet Survey](#), the majority of internal audit functions only use basic technologies to support their activities. Improving the tools used in internal audit can ultimately improve quality, build more efficient teams, and prove the worth and effectiveness of the function throughout the organization.

About Workiva

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Innovators hear call to take up technology

The newest intelligence is calling on audit leaders to embrace their new normal—that nothing is normal—and innovate with technology to face it. **Tammy Whitehouse** has more.

For internal audit leaders, the new normal is to expect nothing to be normal. Transformation, especially as a result of technology, is inevitable.

That's the state of affairs based on a spate of new intelligence emerging from the annual General Audit Management conference of the Institute of Internal Auditors. The IIA's "pulse of the profession" study calls on internal auditors to transform their operations to remain relevant to stakeholders and improve their responses to constantly evolving busi-

ness disruption.

According to the IIA's survey of more than 600 chief audit executives, directors, and senior managers, two-thirds regard agility and adaptability to change as important to the profession, yet less than half consider their departments to be highly agile. Less than half say they are fully or partially prepared to anticipate and react to disruption.

Audit leaders see some big obstacles to agility, like inadequate resources, organizational complexity, and "overly traditional" expectations of the in-

ternal audit function on the part of executive management. Yet, the survey group doesn't give itself particularly strong marks on innovation activities that might improve agility, says Jim Pelletier, vice president at the IIA.

Only 13 percent strongly agree, for example, that their internal audit functions quickly adapt to new technologies or processes. Only 32 percent strongly agree that their particular department challenges the status quo, and only 36 percent strongly agree that they seek new ways to gather audit evidence. "We're talking a lot about innovation and agility," says Pelletier. "It's an internal audit transformation imperative. There are growing expectations of the internal audit function, so it's an opportunity for internal audit to play a more critical role in the organization in support of the board."

PwC's annual "state of internal audit" study calls on internal auditors to get more comfortable with technology—both understanding how it produces risk for the entity and how internal auditors can better leverage it to identify and help mitigate those risks. The firm's poll of more than 2,500 audit professionals and audit stakeholders indicates a good number recognize emerging technologies that will be key to their operations in the future but haven't adopted them yet.

One-fourth, for example, believe robotics will have a significant impact on the organization over the next three years, but only 2 percent of internal audit functions are using robotics, and 20 percent plan to adopt the technology in the next few years. In addition to robotics, PwC identifies seven other categories of technology that deserve more attention from internal auditors in the near future, including drones, three-dimensional printing, artificial intelligence, blockchain, virtual reality, augmented reality, and the internet of things.

Innovation is a reality in most organizations today, says Lauren Massey, a partner in risk assurance at PwC, and velocity of change and innovation only compound the imperative. The study identifies internal audit functions that are most advanced in their journey toward adopting new

technologies as those that are also most valued by their stakeholders.

Meanwhile, Crowe Horwath and the Internal Audit Foundation focused their recent poll on cyber-security and the extent to which internal auditors are keeping pace with the demands. The report describes cyber-security as one of the most significant risks facing business today.

"The pace of change in the internal audit function is not meeting the expectations. That's provocative."

Brian Christensen, Executive Vice President,
Protiviti

Gauging internal audit engagement on cyber-risks, the survey found 78 percent of internal auditors have visibility into the organization's information security plan looking one to three years out, and two-thirds are part of a formal information security steering committee. More than half of internal audit teams, however, do not have adequate access to information security assessment results and incident-related information.

The results also suggest that it may stem from a lack of connection with information security and information technology functions in organizations. The data showed internal auditors have stronger relationships with compliance and risk management offices, but not as much of a working relationship with information security or IT staff.

Chris Wilkinson, a principal at Crowe Horwath and co-author of the white paper, says survey results also suggest internal audit functions have made strides in helping organizations build up controls designed to prevent cyber-breaches, but have made less progress with detective controls and even less in incident response. "As internal audit professionals,

we need to focus on all three,” he says. “They all play an important part in the overall cyber-security posture of the organization.”

Internal audit teams have been increasing their capabilities internally to deal with cyber-risks, says Wilkinson. But finding internal audit talent, especially in the technology areas, has been an ongoing challenge for chief audit executives. The data suggests that one way audit leaders could leverage talent internally is by working on relationship building with the information technology and information security functions, he says. “Building more collaborative relationships is absolutely essential to this process,” he says.

Data analytics, another technology hot button, also garnered significant attention in this year’s crop of internal audit studies. Protiviti’s newest annual study says internal audit is making some inroads in adopting advanced analytics technologies, but the overall maturity level is considered low. The firm says its results suggest many audit functions are likely using analytics tools as “point solutions” rather than as part of a broader initiative to leverage the technology throughout the audit process.

Brian Christensen, executive vice president at Protiviti, says he sees firsthand the need for internal auditors to advance along the technology

curve. Based in the Phoenix area, he’s a witness to self-driving cars in his own neighborhood, the risks of which became obvious enough after a recent pedestrian fatality involving a driverless car. “This is what’s happening,” he says. “This is the pace of change.”

Auditors are under increasing pressure to provide actionable insight to boards of directors and executive management, which suggests a need for faster audit outcomes, or even continuous auditing, says Christensen. “The high-level results say we’re not moving fast enough,” he says. “The pace of change in the internal audit function is not meeting the expectations. That’s provocative.”

Finding and leveraging talent remains a big obstacle, Christensen acknowledges, which makes it a high priority for audit leaders. “That’s the call to action that’s challenging our profession,” he says. “We as humans tend to rely on the status quo, but people need to become comfortable at being uncomfortable. We have to innovate, identify problems, and solve problems.”

A new book by Grant Thornton and the Internal Audit Foundation tackles the challenges of data analytics in even greater depth. The very title promises to provide a roadmap to help internal auditors expand their capabilities in analytics, exploring how to harness the technology to address risks and controls.

Meredith Murphy, a director at Grant Thornton and co-author of the book, says this particular survey found more than 90 percent of internal auditors agreeing on the value of data analytics, yet less than 40 percent actually leveraging analytics. As such, the book puts some emphasis on how internal auditors can build the case internally for increased uptake in organizations, whatever the obstacles or barriers audit leaders might face.

“The most critical component to drive analytics success is people,” says Murphy. “Data holds insight, but it’s people that ensure the data generates value.” The book tells audit executives it’s up to them to understand the stakes and forge the path forward. ■

Top 2018 audit plan priorities:

- » Fraud risk management
- » Cyber-security risk/threat
- » Vendor/third-party risk management
- » Enterprise risk management
- » New revenue recognition standard
- » Agile risk and compliance
- » Auditing corporate culture
- » Cloud computing

Source: Deloitte



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