



2018 State of the Internal Audit Profession Study for New Zealand

Moving at the speed of innovation

The foundational tools and talents
of technology-enabled Internal Audit

Would you say your internal audit function is innovative? Does your organisation have the talent and tools to deal with the risks arising from emerging technologies? And how will you attract the next generation of talent?



The value: expectation gap

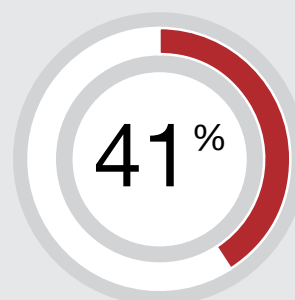
For the past five years PwC has compared stakeholder perceptions and expectations of internal audit value. The results for receiving significant value from Internal Audit languish at an average of 50%, and show a persistent expectation gap. In fact, the gap is increasing, with only 41% of stakeholders in our 2018 survey saying Internal Audit adds significant value, with expectations considerably higher.

On a positive note, Internal Audit departments in New Zealand are performing ahead of their global counterparts in how well they align their scope and audit plan with ercent expectations. Thirty-five per cent stated this is done very well compared to 26% globally. So why is the perception of value so low, and why does the expectation gap persist?

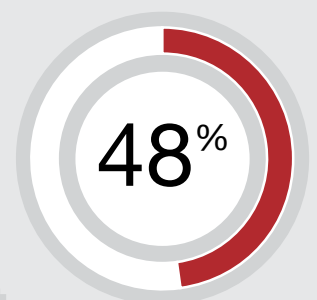
Our survey tells us that many stakeholders are already there, but issues persist with some Chief Audit Executives feeling they lack the mandate for a more strategic Internal Audit while others struggle to bring about the necessary change. Key to closing the expectation gap lies in evolving to this more strategic and expansive role for Internal Audit, and getting to the heart of what stakeholder value means for each organisation's Internal Audit.

By 2023, 71% of New Zealand respondents expect Internal Audit to go beyond just executing the audit plan to providing real time feedback as the business executes change, and also prospective strategic advice on risk.

Does your organisation receive significant value from its Internal Audit function?



New Zealand



Global



Closing the gap in a technology enabled future

The technology advancement that is driving innovation in every industry, bringing new risks and new opportunities is a powerful enabler for Internal Audit evolution which drives perceptions of value. PwC's 21st Global CEO Survey found that the speed of technological change is one of the top concerns amongst CEOs. Boards and management are turning to Internal Audit to bring a perspective on the risks new technologies can bring and how these risks can and are being managed, without slowing the pace of innovation. Internal Audit risks diminishing the value it delivers if it cannot meet these increasing expectations.

As the pace of technology-driven innovation increases, it is hard to forecast exactly how Internal Audit's capabilities will need to change – but change they must!

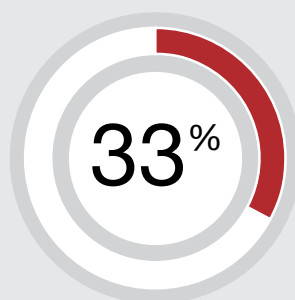
Innovation-driven organisations need innovation-driven Internal Audit functions, or Internal Audit's value will diminish.

It is clear that Internal Audit functions must not only fully understand innovation's impact on their organisation but also fully embrace that impact themselves.

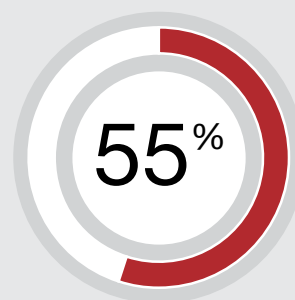
For Internal Audit to continue to be relevant it can and must advance in building its technology and talent foundation.

Does your Internal Audit function focus on technology enablement as part of its strategic plan?

It is clear there is more scope in New Zealand for Internal Audit teams to increase their use of technology. But, adopting new tools without changing the mindset of the team will not work.



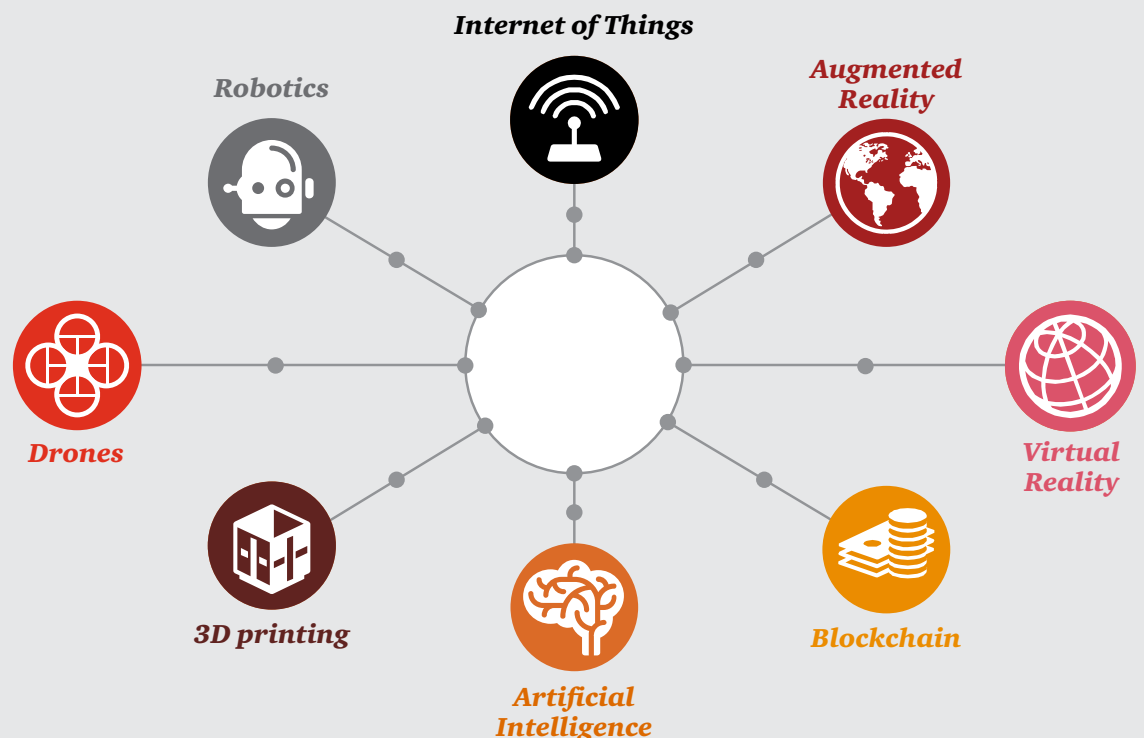
New Zealand



Global

Mindset change: facing into emerging technologies

The following eight emerging technologies are expected to have a significant global impact in the near term.



Only 31% of Internal Audit functions in New Zealand are monitoring emerging technologies. This has implications for both how Internal Audit maintains relevance in its own organisation, and for how it responds to take advantage of these technologies in delivery.

Skills: Looking forward, Internal Audit functions need to build new skill sets and methodologies, including a shift to real-time auditing. They will no longer be able to audit the way they have in the past. They will have to understand these new technologies, the risks inherent within them, and how those risks will be mitigated to execute their work.

Forward-thinking Internal Audit leaders have already started to execute on programs to upskill their people so they have the talent available to support their organisation to capitalise on their technology investments. In order of priority, the survey ranked data analytics, followed by cyber security, as the highest priority technology skill sets for future investment. It is clear that IT general controls should be part of everyone's core skills. New Internal Audit recruits should be technologically curious, come from a range of backgrounds and have an adaptable mindset that allows them to adapt to emerging technologies and business risks.

Technology adoption: Internal Audit functions also need to leverage technology more in the delivery to allow deeper insights and better root-cause analysis, increased team productivity along with the ability to provide a more real-time response. Technology can also give a more comprehensive risk coverage when used for audit scoping and planning.

Those investing in technology now are building a foundation for a future that positions them to be valuable contributors, partner cohesively across the organisation, and better identify and understand risks.

Internal Audit functions can be split into three groups depending on their level of technology adoption and the sophistication of its application.

The business case for being an evolver is strong; they are rated as more valuable to the organisation, more innovative and more collaborative with other lines of defence - all of which contribute to an increase in relevance to the organisation.

New Zealand is slower on technology uptake compared to our global counterparts, with over half of respondents still being at the Observer stage. Technology use is generally limited to collaboration tools and analytics. The potential to expand Internal Audit's exposure, adoption and application of emerging technologies is high.

Lacking the skillset to effectively leverage the new technology, poor quality of data within the business and budget restraints are the main barriers cited for limiting further adoption and application.



Evolvers – are advanced in their technology adoption.



7%



14%



Followers – follow the Evolver's technology adoption but at a slower pace.



38%



46%



Observers – have basic to no technology use.



52%

New Zealand



37%

Global

To get the most from analytics, they need to be embedded into every audit phase; from planning through to execution and reporting and then back round to continuous risk assessment.





Data analytics

Not a new topic, many Internal Audit functions have some level of data analytics. Mostly, it's for identification of unusual transactions. There is much more to consider to transform the way of auditing in the future.

For example, using analytics for risk assessment moves it away from a static, annual process to one that can be performed more frequently as new data becomes available and means the audit plan can be adjusted accordingly when a new risk emerges.

With 52% of New Zealand Internal Audit functions still at the Observer stage, we look to the Evolvers to see where the opportunities lie.

Per cent of functions using analytics regularly

	 Evolvers	 Followers	 Observers
Standard audit test procedures	61%	29%	15%
Advanced testing procedures	47%	18%	9%
Identification of risk to determine audit scope and planning	27%	13%	8%
Analytic visualisation	29%	9%	6%
Specialised programs or analytics	28%	10%	4%



Emerging technologies of today will become the foundational tools for tomorrow.

Intelligent automation

Robotic Process Automation ('RPA')

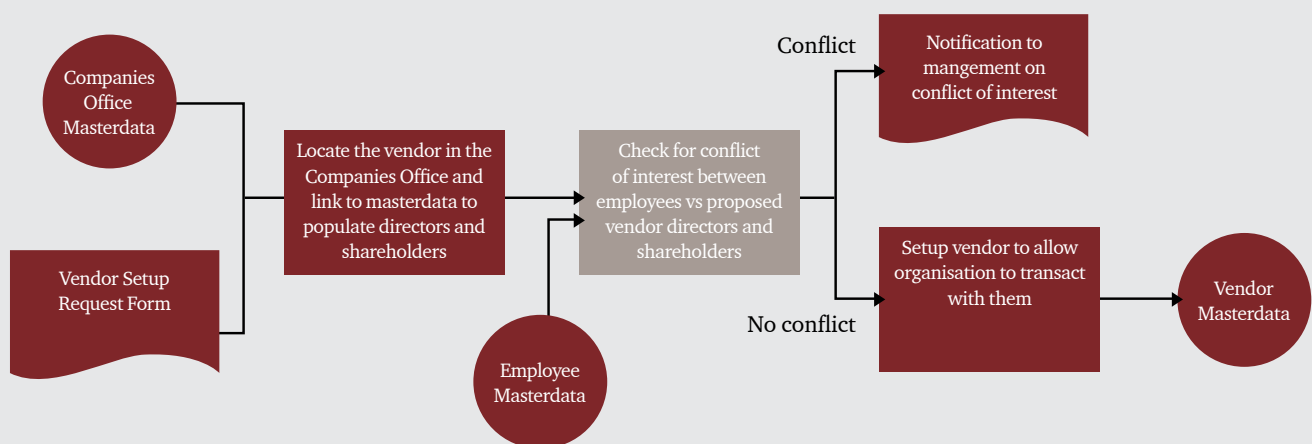
Although only 2% of Internal Audit functions globally use Robotic Process Automation ('RPA'), its use is gaining momentum. We anticipate RPA will soon become one of the foundational tools for Internal Audit and something Internal Audit leaders in New Zealand should consider sooner rather than later.

Activities generally appropriate for RPA are high volume, low complexity, highly standardised and rules based. Put simply, basic and repetitive processes. RPA can help Internal Audit increase productivity, expand risk coverage and help address the ongoing burden of doing more with less.

Functions generally start their RPA journey with a pilot. This allows a smoother transition into using the technology and if successful, results in a build that can be demonstrated to the business to generate senior buy-in.

For example, using RPA for conflict of interest checking moves Internal Audit away from needing to manually test the process, to assessing the configuration which automatically applies validation rules against data to prevent risks from materialising. Additionally, RPA helps Internal Audit drive risk mitigation for all (and not just a sample of) transactions as there is no longer reliance on manual checks to confirm compliance or deviations from accepted practices. Freed up capacity helps Internal Audit play a more strategic role on complex areas where control expectations are yet to be driven by defined logic.

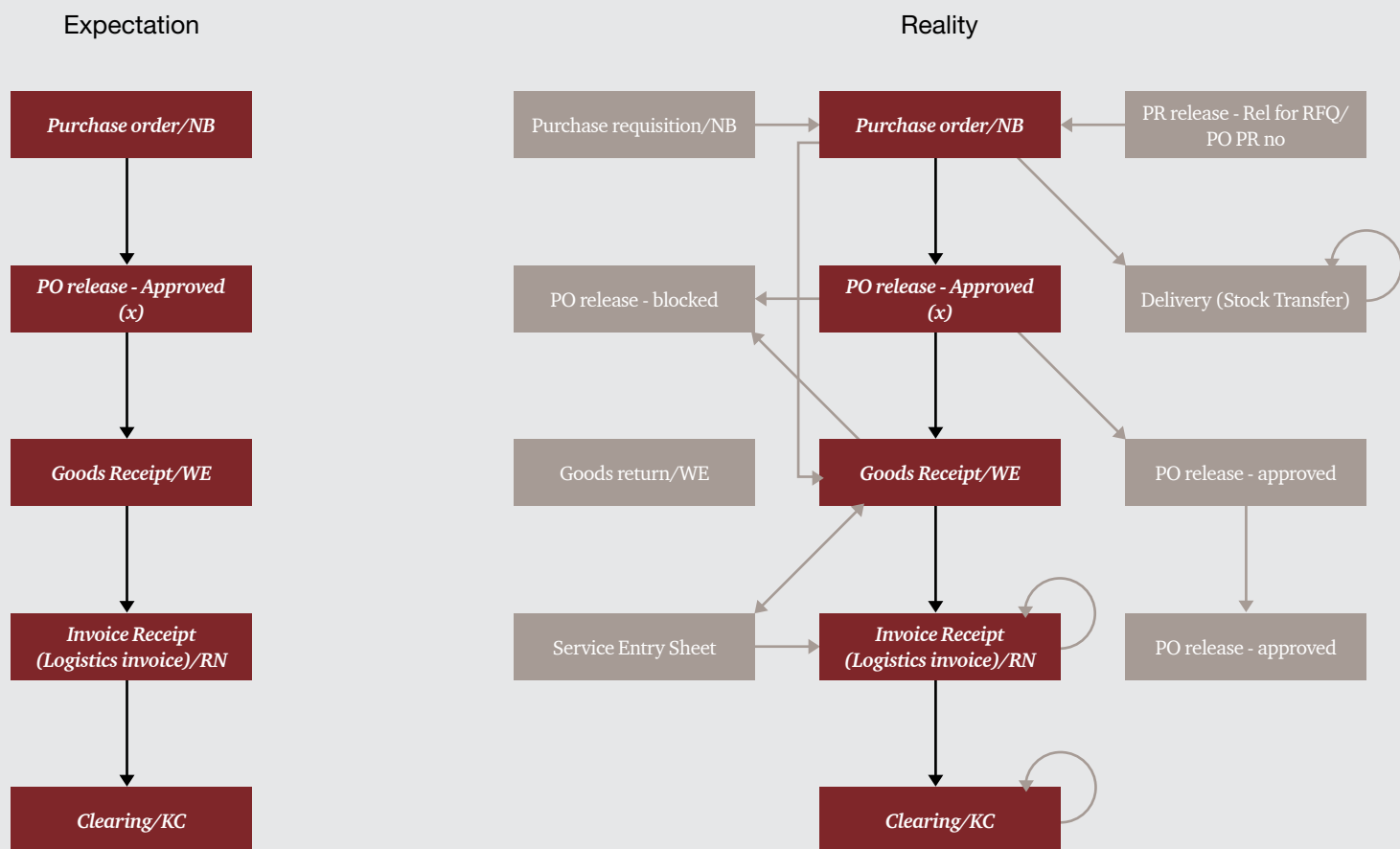
RPA to automate conflict of interest checks



Automated control usually assessed manually by Internal Audit pre-RPA

Another tool gaining popularity in New Zealand is PI which helps visualise what really happens in a business process by moving Internal Audit away from manually testing the “paper process” to analysing the digital footprint to uncover how a process actually works. PI allows Internal Audit to assess all (and not just a sample of) transactions to:

- Discover – execution and lead times involved in the process.
- Confirm compliance – or deviations from an accepted execution path or process.
- Conduct organisational analysis - which determines user rights, segregation of duties, distribution of work and training needs.



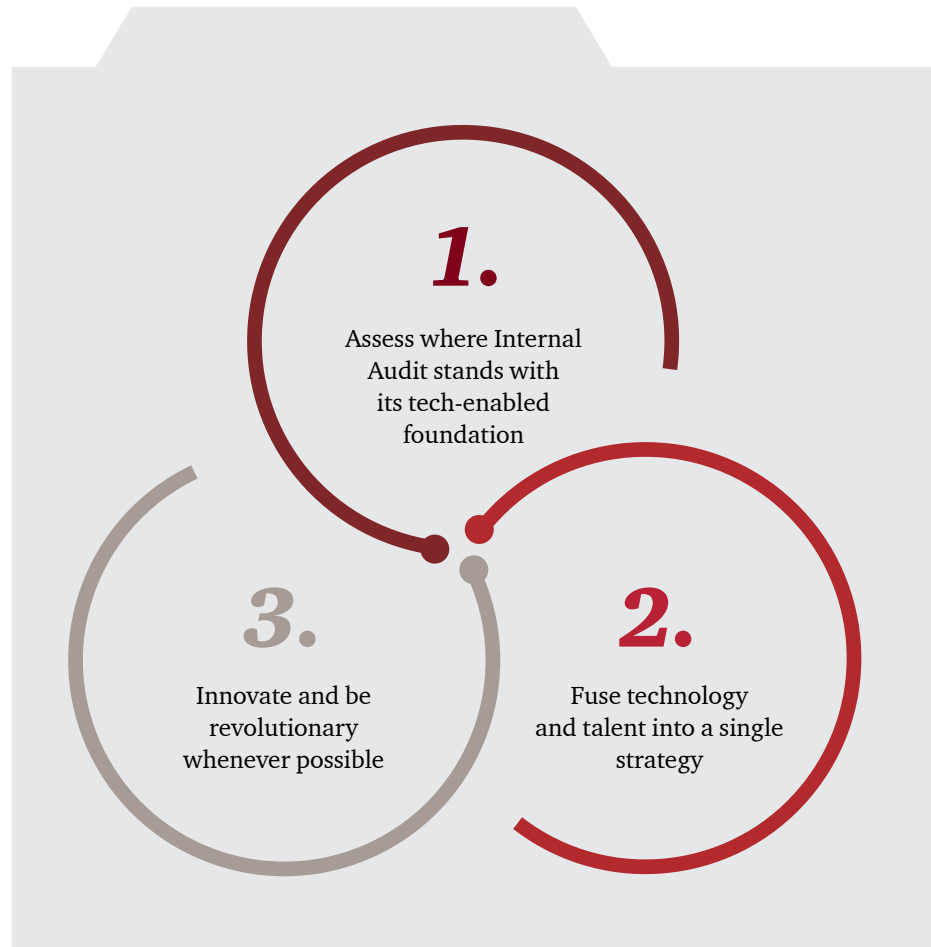
Making it happen

To close the expectation gap, Internal Audit needs to evolve to a more strategic and expansive role, while getting to the heart of what stakeholder value means. Just executing an audit plan aligned to stakeholder expectations is no longer going to be enough.

In today's fast paced world of technological advancements, this means Internal Audit must actively monitor and understand new technologies, helping their organisation to ensure effective processes and controls exist. All while not hindering progress. They must also embrace and incorporate these technologies into their audit program. This requires teams to be upskilled, and often involves co-sourcing arrangements to source technology-enabled talent where this is not available in house.

Actions to be taken by Internal Audit leaders

- Be clear on the strategic and expansive role Internal Audit can play – being proactive, bringing more analysis and perspective on root causes and suggesting meaningful organisational improvements, in real time.
- Determine the vision for the department in the next 5 years and work on upskilling the team to achieve this. Do not let the lack of skills stop Internal Audit from delivering value. Access the skills needed.
- Determine whether the technology used in the department is sufficient to identify emerging business risks. Incorporate new technologies one at a time.



Actions to be taken by Stakeholders

- Hold your Internal Audit leader accountable for aligning Internal Audit's people and technology strategy with that of the business.
- Challenge Internal Audit to step into a more strategic and expansive role.

Contact

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