

Global audit committee survey

Internal audit: Soaring through turbulent times

September, 2020

Internal audit: *Passenger or crew?*

Key insights from Deloitte's 2020 global survey of audit committee chairs

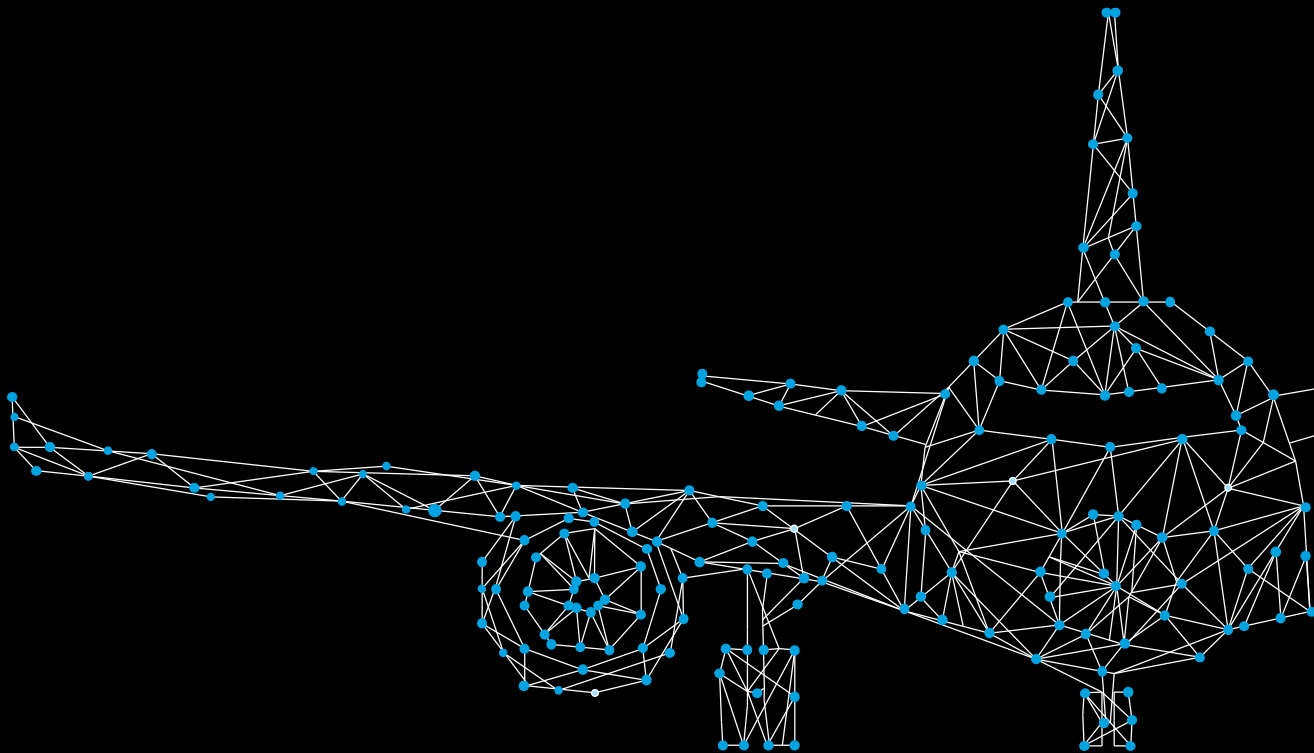
Caught in a turbulent flight, most airline passengers simply hope to land safely and deplane quickly. If they're lucky, their trauma will result in little more than a harrowing tale to share with friends at an (open-air) bar.


Yet to ensure the story has a happy ending, the airline crew must execute a complex choreography, both on the ground and in the air—from pre-flight checklists to in-flight adjustments to post-flight debriefs.

Today's challenging business environment shares many similarities with this bumpy flight scenario, although perhaps adding a smoldering cigarette in the lavatory, a belligerent inebriate in coach, and a leaking hydraulic line in the engine compartment would provide a more-precise comparison to the multiplicity of threats currently facing businesses across the globe.

Indeed, the converging risks of a global pandemic, climate change, economic downturn, isolationism, authoritarianism, and social unrest—to name only the most-prominent concerns—threaten not just profitability but viability, with the potential for crash-landing many an enterprise.

Which leads to the question: In this analogy, is your internal audit group more akin to the passengers at the bar rehashing their ordeal or the flight team collaborating on a safe landing? Are you reporting negative events, or are you driving positive outcomes?





The sudden onset of the global crisis is almost as notable as its severity, as entirely new problems swiftly merged with and amplified already-simmering issues. And while no one is under the illusion that internal audit can solve all the world's problems, the function nonetheless has a major role to play in helping organizations cope, with one caveat:

In this era of rapid change, internal audit must also change rapidly.

Faced with COVID-19 and its cohorts, internal audit must now report faster, engage with stakeholders more quickly, and find new ways to add value—while simultaneously replacing processes that have historically been manual, ad hoc, and unsustainable. Or, to use our turbulent flight analogy, flight crews are faced with maximizing their skills and talents to ensure passenger safety, while grappling with limited instruments at their disposal and onboard hazards to be quelled. Their task, to say the least, is not easy, and a safe landing is far from certain.

In our 2018 publication, *Internal Audit 3.0: The Future of Internal Audit is Now*,¹ we noted that “thinking that the same people operating in the same way with the same resources can deliver the value that stakeholders need now, let alone going forward, amounts to a failure of imagination.”

That observation rings even truer today than when written.

In the paper, we expanded on the *IA 3.0* concepts of *assure, advise, and anticipate*, which “constitute a triad of value that internal audit stakeholders now want and need ... covering the basics while advancing into activities that will deliver new value to the organization.”

Since the publication of *IA 3.0*, we have reached out to scores of leaders to get additional input on the critical issues facing their organizations and the role that internal audit should play in addressing them. The profound changes that have upended the world have also broadened the perspectives and spurred new insights from these leaders, which have been captured in this paper.

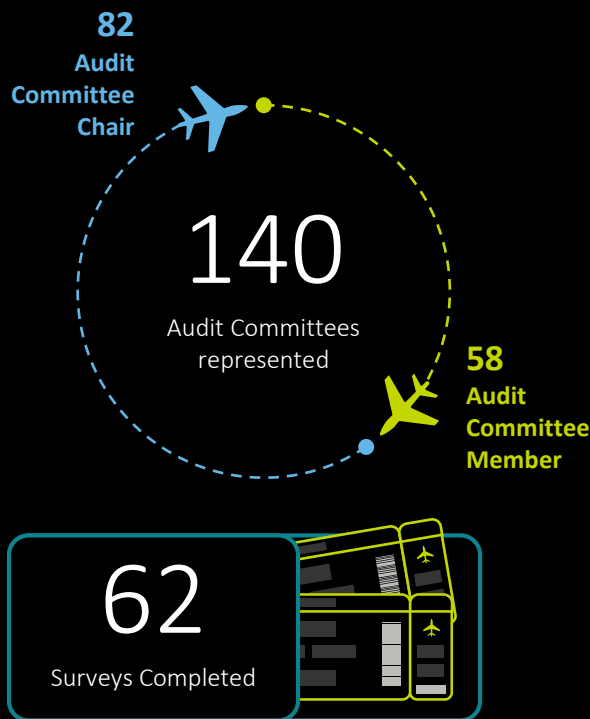
¹ <https://www2.deloitte.com/global/en/pages/audit/articles/internal-audit-3-0.html>

About the survey

To stay ahead of emerging trends and issues in the internal audit profession, Deloitte regularly surveys stakeholders throughout the organization. Our 2020 outreach focused on board and audit committee members, with senior Deloitte partners conducting 1-on-1 interviews to address a formal series of questions as well as engage in free-ranging discussions.

The survey collected insights from more than **60 board**

members, audit committee chairs, and audit committee members representing more than **130 companies** (many members sit on more than one board or committee), from **20 countries in every region**, including every **major industry sector**. We canvassed both **Fortune 500 companies** and **smaller organizations**, those with **innovative** internal audit groups and those with **more-traditional** functions.



20
Countries represented

EMEA

- | | | |
|---------|----------------|--------------|
| Belarus | Ireland | South Africa |
| Denmark | Israel | Kazakhstan |
| Finland | Italy | Netherlands |
| Germany | Turkey | Russia |
| Iceland | United Kingdom | |



Industry Coverage

The resultant report reflects the viewpoints of an upper echelon of leaders—some of the most senior audit committee members within the global business community today. This demographic represents a significant departure from prior surveys, which gathered inputs from chief audit executives and other members of the c-suite. This paper presents a very different perspective.

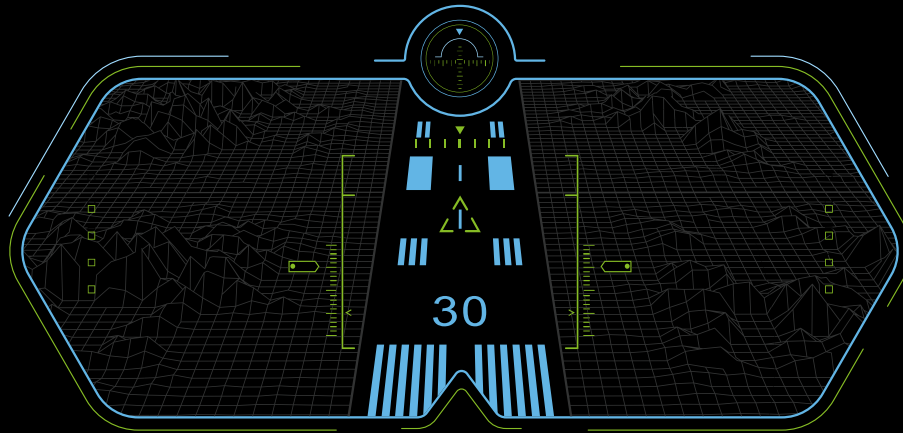
The participants were asked to provide—and delivered—candor. No punches were pulled as these leaders spoke frankly about the state of internal audit within their organizations.

Considered in the context of these previous surveys, the findings that follow both reinforce earlier messages and break new ground. It is clear that while significant progress has been made in the internal audit profession over the last few years, changing conditions and rising expectations demand that more headway be made—and quickly.

The survey participants' insights, overlaid with Deloitte's perspective, will have relevance for any organization that could benefit from internal audit's ability to assure, advise, and anticipate, a skillset more in demand than ever in turbulent times.



Role: *Safe landings*



Internal audit must move the needle toward more advisory work

In Deloitte's 2020 survey of audit committee chairs and members:

- 70% said internal audit should spend more time on advisory activities
- 92% said IA should provide insights on and help prepare for emerging risks

Assessment | The debate over the appropriateness of an advisory role for internal audit ended long ago. In its place, a broad consensus emerged that it makes no sense for internal audit to stand back during moments that matter for their organizations, only to swoop in after the fact to criticize management on the governance, risk, and control choices they made previously.

Today, internal audit functions of all stripes—from cutting-edge to traditional shops—engage in advisory work alongside their traditional assurance role. The issue now is one of degree: Has internal audit reached a level of maturity that permits an expanded advisory role? Is the IA group equipped to increase its advisory and anticipatory services? Where can internal audit provide the most value to the business?

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It gives me great comfort that our IA function is immediately looked to as a problem solver rather than a nuisance and something to be avoided. 99

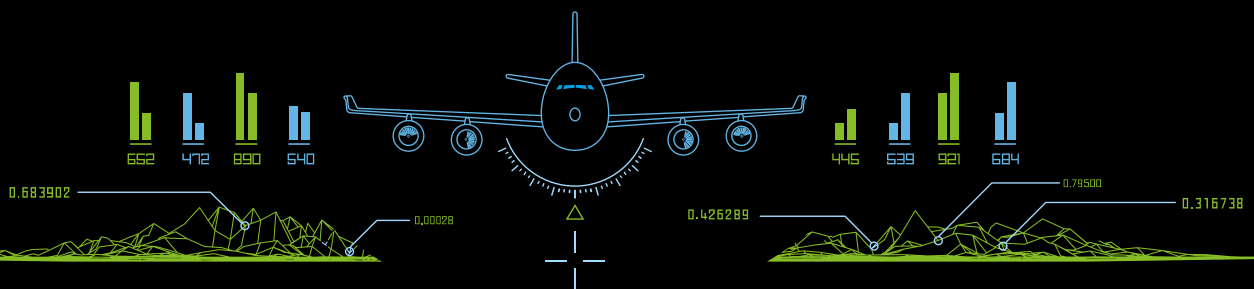


- Audit committee chair at multinational energy company

Action | With threats to profitability, continuity, and even viability increasing at an alarming rate, a large majority of audit committee chairs and members want their CAEs to expand their focus on emerging risks. This request, of course, creates dynamic tension in times of limited resources. In response, CAEs may need to fast-track plans to automate routine assurance tasks to free up personnel for more advise and anticipate activities.

Potential steps to increase advisory activities include:

- ✓ Setting up recurring touchpoints with key stakeholders for open discussion of emerging risks, issues, and opportunities, with the goal of helping the organization get better rather than just “keeping score”
- ✓ Spreading best practices and insights from inside and outside the company by drawing on IA’s broad business understanding
- ✓ Providing actionable recommendations, both formally, within reports, and informally, by offering real-time insights on trends, issues, and potential concerns
- ✓ Incorporating digital solutions to aid in risk anticipation, such as dynamic risk assessment and data visualization
- ✓ Getting involved in transformation projects and helping assist in control design rather than waiting for issues to arise post-implementation
- ✓ Optimizing alignment across the three lines of defense, with each group having clear expectations and accountability
- ✓ Considering audit reports not the end, but rather the beginning of an “after-care” process that consults with management to leverage the report for insights, actions, and solutions
- ✓ Adopting Agile methodologies, working in sprints, and raising issues and concerns early even if they haven’t been fully researched or tested
- ✓ Providing more forward-looking intelligence, with less focus on what went wrong and more on what can go right



Talent: *Grounded and soaring*



Augment your team with complementary, nontraditional skillsets

In Deloitte's 2020 survey of audit committee chairs and members:

- 96% said internal audit needs to broaden its skillset

Assessment | Talent creates a conundrum. While many audit committee interviewees emphasized the need for specialized skills—in cyber, artificial intelligence, analytics, and more—many others stressed the necessity of generalized business knowledge and rounded skillsets.

The solution, of course, is not “either/or.” Rather, it is found in carefully composed teams of complementary skillsets, a collection of talent that we call “power teams.”

Thinking in terms of power teams rather than individuals is based on the notion that the most formidable insights are borne from collaboration and diversity of thinking, combining different experiences to generate new ideas and perspectives. Power teams allow functions to operate at maximum speed, focusing the collective effort on prioritized work and reducing the time required to provide insight and value. And power teams provide a natural level of resilience, maintaining the flow of work and productivity of the function.



My concern is the quality of IA is uneven. If you have internal auditors who are not fully trained and experienced in actual management programs, they tend to be more process-oriented rather than real-life oriented. 99

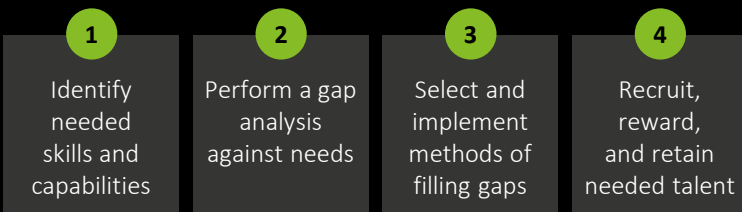


- Audit committee chair at
Canadian public sector organization

Action | Given the criticality of the talent issue, Deloitte is devoting an entire research paper to the topic, due for release later in 2020. The paper will elaborate on the optimal mix of people and capabilities required to create a high-performing function, along with recruitment and education considerations for attracting, retaining, and developing the best possible team.

In the meantime, CAEs can consider these steps for upping their team’s game:

- ✓ Recruit “[purple people](#)”² and non-traditional skillsets.
- ✓ Team for success—within and outside IA—to drive progress. Think less about “auditors of the future” and more about “teams of the future.”
- ✓ Invest not just in technical skills, but in “soft” skills, e.g., impact and influence, social competency, emotional intelligence, communication and presentation skills, negotiation, leadership, integrity, and generalized business knowledge, in order for team members to successfully navigate the advisory world of internal audit.
- ✓ Adopt a “four-pillared” approach to talent:



Find more details on these concepts in the Deloitte paper, *Internal audit leaders as talent warriors: Winning the war for talent, now and in the future*³

In addition to building a top team, CAEs should also self-assess. Consider professional development activities to hone the skills of catalyst, strategist, steward, and operator—critical roles that will underpin both the CAE’s success and that of the IA team. Learn more in the Deloitte whitepaper, *Chief audit executives: Ready for the spotlight?*⁴

CAE LEADERSHIP QUALITIES

As the responsibilities and expectations of internal audit have expanded over time, so too has the role of the chief audit executive. In addition to baseline assurance and controls expertise, CAEs must now possess formidable business and leadership skills across multiple domains. Review the list below to learn what audit committee chairs want, need, and expect from the chief audit executive.

Desired Leadership Qualities for Chief Audit Executives

- Impact & Influence
- Emotional Intelligence
- Executive Presence
- Generalized Business Knowledge
- Social Competency
- Integrity
- Negotiation Skills
- Communication & Presentation skills

² <https://www2.deloitte.com/us/en/pages/advisory/articles/internal-audit-leaders.html>
³ <https://www2.deloitte.com/content/dam/Deloitte/us/Documents/risk/us-deloitte-chief-audit-executives-trends.pdf>
⁴ <https://www2.deloitte.com/us/en/insights/focus/cognitive-technologies/artificial-intelligence-purple-people.html>

Budget: *More legroom in coach?*



Leverage technology to accomplish more with flat budgets

In Deloitte's 2020 survey of audit committee chairs and members:

- only 9% considered budgets to be a barrier to increased impact of IA

Assessment | It's not exactly newsworthy that budget has been a source of consternation for chief audit executives for as long as internal audit has existed.

But here's some news worth reporting:

The bad news: With a mere 9% of those surveyed considering budget to be of concern, internal audit groups will not likely see a significant budget increase this year (or next).

The good news: Internal audit groups with the greatest impact are not necessarily those with biggest budget.

The fake news: IA must do more with less.



I think there are no barriers that impede internal audit goals.



- Audit committee chair at South American life sciences company



Action | Take a close look in the mirror and ask yourself these questions:

1. Are our ways of working any different than they were 10 years ago?
2. Is dropping a retrospective report four months after initiating an audit the most important role our IA group can play?
3. Have we leveraged available technology to automate assurance activities wherever possible?
4. Is an audit the only way we can provide assurance and insight?

If you answered “no” to these questions, then you have an opportunity to rebut the misleading mantra of doing more with less—by doing different with less.

The solution hinges on risk-ranking and prioritizing, by doing things smarter, adopting different approaches, and generating more insights through use of technology. To augment your core assurance work, pick the right things to focus on—the top risks and main concerns that provide the greatest ROI—and allocate budget resources to those areas. This might mean:

- ✓ Challenging the status quo and reevaluating your approach
- ✓ Stopping some activities that have limited impact
- ✓ Moving toward more automated solutions for assurance work that will free up time for value-added advise and anticipate work
- ✓ Engaging in less reporting and rating and more timely and proactive advisory and anticipatory activities
- ✓ Embracing an innovative mindset and a creative approach
- ✓ Adopting [Agile internal audit methodology](https://www2.deloitte.com/us/en/pages/advisory/articles/agile-internal-audit-planning-performance-value.html)⁵ to reduce costs and time to delivery while improving quality

To be sure, these are all challenging actions that upend the traditional internal auditor role. But the shakeup will be worth the effort, as a comprehensive realignment of internal audit’s activities around ROI will elevate the function’s reputation and impact, and the organization as a whole.

⁵ <https://www2.deloitte.com/us/en/pages/advisory/articles/agile-internal-audit-planning-performance-value.html>

Culture: *Fear of flying?*



Fostering trust and open communications will drive progress

In Deloitte's 2020 survey of audit committee chairs and members:

- 86% said that management is encouraged to present issues and findings to the audit committee, but institutional barriers often prevent this from happening

Assessment | “Success is 99 percent failure,” said Soichiro Honda, founder of Honda Motor Co.

Unfortunately, recognizing failure as an inextricable component of success is not the norm in many organizations, where people are often penalized or marginalized for their mistakes.

This tendency is readily apparent in communications between management and the audit committee. Despite being encouraged to raise risk and control issues with the audit committee, management often hesitates. Reasons for this reluctance vary, from fear of retaliation or accusation, to a desire to have a solution before revealing a problem, to worries about not having the right answer. As a result, potentially manageable problems fester and opportunities for improvement dissipate.



Management should be encouraged to talk about their risks/control gaps and propose their own action plans, and the audit committee and CAE should clearly demonstrate support, confidence, and recognition. 99

- Audit committee chair at South American energy company



Action | The concept of “[psychological safety](#)”⁶ has gained traction in recent years, built on the notion that people operate better in open and transparent environments. In a “safe” culture, candid feedback is encouraged; mistakes are readily admitted to; and learning drives progress.

To reap these benefits, organizations should shift their institutional mindset away from treating failure as a negative to failure as an opportunity—for instructing, sharing, and advancing.

The first step toward a solution may be checking IA’s remit. Is internal audit playing a compliance role that the business more appropriately should be leading? Does the lack of proper controls and governance at the first and second lines of defense force IA to engage in exception-reporting that exacerbates the problem?

To develop an environment of psychological safety, consider these steps:

- ✓ Contribute to developing an atmosphere of trust, a culture of sharing views, and an acceptance of constructive criticism.
- ✓ Focus audit reports on improvements and being part of the solution, recognizing what went wrong but emphasizing the learning.
- ✓ Work closely with management in the decision-making process through regular meetings with executives, especially the CEO and CFO.
- ✓ Educate management on the key risks/controls; help them mitigate and manage those risks; and assist them in self-identifying areas where controls should be enhanced at the outset of an audit.
- ✓ Share constructive feedback with management and clearly give management credit for self-identifying control issues.
- ✓ Help develop incentives for management to communicate need for controls improvement, anomalies, or new risk drivers, without fear of retaliation or unfavorable consequences.
- ✓ Consider the use of a dual-rated report structure (control environment and management awareness) to hone in on the risk-and-control culture and to acknowledge positive behaviors based on a defined ratings scale.



RATINGS REASSESSMENT

Unrated work offers several advantages, e.g., allowing teams to issue reports more quickly. The absence of ratings refocuses the discussion around outcomes—how things get fixed rather than who is to blame. It’s amazing what organizations can achieve if they don’t punish people for learning!

Ratings remain effective and necessary when applied to assurance- or compliance-related work, but are not necessarily required in advisory, investigative, and critical-thinking situations. Evaluate these areas for unrated work:

1 - Best practice identification across the organization

2 - Emerging risks

3 - IT system changes

4 - Advisory services in emergency situations and participation in crisis management teams

5 - Project-related advisory work

6 - Control enhancement/transformation

7 - Special advisory services (such as evaluating M&A outcomes)



For your audit reports, develop a clear methodology for when ratings should and shouldn’t be used. Review the language and use of traffic lights in the reports. Consider ways to highlight discussions around the unrated work that is separate from the report conclusion, such as a section labeled “For information” or “For discussion.”

⁶ <https://hbr.org/2017/08/high-performing-teams-need-psychological-safety-heres-how-to-create-it>

Reporting: *In-flight adjustments and post-flight debriefs*



Inform stakeholders of emerging concerns—before they reach critical mass

In Deloitte's 2020 survey of audit committee chairs and members:

- 63% said internal audit should be faster reporting results of their work
- Multiple respondents said they'd like improvements in report messaging, presentation, accessibility, and interactivity

Assessment | Put diplomatically, the current state of reporting offers the opportunity for significant improvement. Expressed less delicately: we've seen far too many internal audit reports that are stale, overly retrospective, poorly presented, text heavy, uninspired, uninformative, and ultimately forgettable.

Conversely, the best reports are timely, impactful, risk-prioritized, engaging, and persuasive. Supported by good conversations, they provide constructive recommendations to enable a positive transformation of the organization's culture, systems, and processes.

In *Internal Audit 3.0*, we noted that IA "can join the dots that others don't see in their entirety, connect people, and be a catalyst for change." Internal audit has the insights, knows where problems lie, and can help bring the right people together. Effective reporting provides the spark.

☞ *People will remember not the report, but the conversation around it.* ☞



☞ *Have an opinion!* ☞




☞ *The speed of changes in the business environment demands IA to provide updated information to executive and board level almost in real time.* ☞



☞ *Get to the point, provide less-dense reports, get the facts in front of the AC quicker.* ☞



- Multiple audit committee chairs and members



Action | To improve the relevance and value of your reports, consider these steps:

✔ **Tell a story:** Master the art of storytelling. That's not to say you should spin a complex tale with an intriguing plotline. Rather, you should convey, in compelling-but-concise fashion, information that resonates with your audience. Be sure to include success stories in the mix, showing problems overcome, issues anticipated, and progress made. But don't shy away from mentioning failures; as noted above, failure is a building block of success.

✔ **Tailor your reports:** Full reports, generally intended for management, should drive action by highlighting key priorities and recommended responses. Thematic reports, generally for audit committee consumption, should employ root cause analyses and deploy visualization tools to join the dots and call out key messages across different audits.

✔ **Capture the big picture:** Start your report with an executive summary replete with compelling visuals. Direct your audience's attention by highlighting key points and emphasizing the most important information.

✔ **Peer ahead:** The audit committee and management act on information and need to know what's important. They especially appreciate forward-looking narratives that anticipate emerging risks. Tell them what's coming and why it's critical. Have confidence to offer a point of view even if you only have 80 percent of the data, rather than waiting for 100 percent certainty.

✔ **Reinforce psychological safety:** Consider how your reports factor into the concept of psychological safety. Does the language, risk ratings, and escalation of issues contribute to or take away from the management's willingness to consult early on challenges?

✔ **Treat reports as the starting point, not the ending point:** Many progressive internal audit groups have decided that reports don't mark the end of a cycle, but the beginning. Adopting the concept of "after-sales care," they use their reports to generate conversations, collaboration, action, and positive outcomes. Of course, this post-report engagement cannot be provided for every emerging issue, controls breakdown, or audit finding, but certain elements of the report, typically non-rated items, readily lend themselves to follow-up.

✔ **Provide insights—not the entire backstory:** Many reports contain details that are unnecessary and distracting to an executive audience. Get to the gist quickly, and save the technical details for the appendix (or provide only upon request).

✔ **Go beyond plain text:** Consider the best way to present your information, with infographics and data visualizations part of the reporting mix. Reach out to your organization's marketing team for help with visual presentations.

✔ **Don't wait for the report:** Issues bubble up at inconvenient times, and the gaps between reporting cycles shouldn't result in a shutdown of communications. Schedule regular touchpoints with the audit committee chair and executive team to alert them about items on internal audit's radar.



Holistic Reporting

- Provide a holistic view describing the impact on the control environment.



Prioritization

- Prioritize the risks. Don't just show the current risks; also show emerging risks.



Proactive & Open Relationship

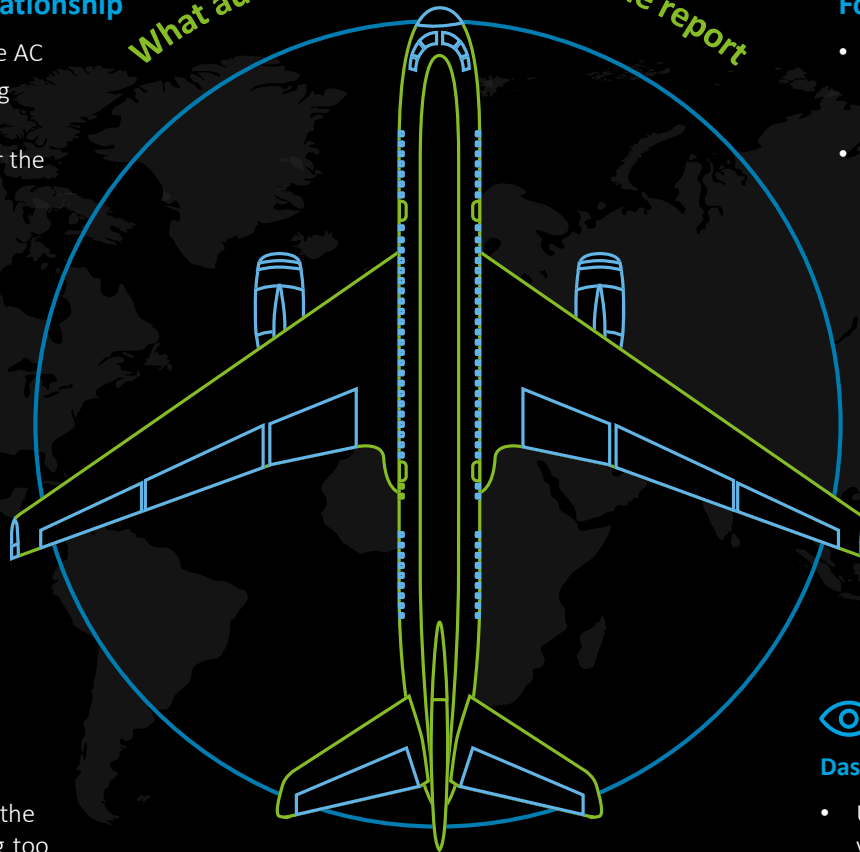
- Seek more time with the AC
- Be proactive in reporting issues
- Be the eyes and ears for the AC



Forward-looking consideration

- Highlight suggestions provided for a further improvement of the internal governance system.
- Inform the AC about possible future challenges which might affect the business and the internal governance system.

What audit committees want in the report



Multilayer Reporting

- Provide a short executive summary: a quick overview and annexed documents allowing a deeper analysis of the work carried out by auditors.



Conversation

- Be persuasive, tell a story, something the reader will remember. (People will recall not the report, but the conversation around it.)



Big-picture messaging

- Keep reports relevant to the audience. Avoid including too many details and focus more on the most significant issues. Provide a one-page executive summary.



Dashboards and visualizations

- Use graphics, dashboards, and visuals to summarize and crystallize the information.



Informal issue presentation

- Establish a mechanism to escalate significant risks to the audit committee without formally issuing reports. Allow for real-time reporting.



Enabling technology

- Use technology and constant innovation to improve reports, e.g., click-through analytics on tablets; artificial intelligence; tools for testing and analytics, to test operating controls.

Conclusion: *Crash landing? Or, the sky's the limit?*



Collaborate and communicate as if your job depended on it

In Deloitte's 2020 survey of audit committee chairs and members:

- More than one-third of respondents said internal audit is not as impactful as it could be

One needn't resort to hyperbole to characterize the current business environment:

The aggregate risks facing organizations today represent the greatest challenge to business since the onset of the industrial revolution.

The emergent threats of 2020 emphasize a critical need for internal audit to elevate its game. Even functions that were previously high-flying cannot afford to glide at a time when acceleration is desperately needed.

Internal audit is uniquely positioned to help navigate these perilous times, but to do so, the function must evolve as rapidly as the threats it faces. This requires a willingness to cast aside old ways, squeeze out inefficiencies, embrace innovation, operate proactively with a future focus, and prioritize high-value and risk-ranked activities. It means helping to develop and sustain a working environment of psychological safety that is open, transparent, and supportive.

Internal audit cannot function in a vacuum. The group needs the backing of the audit committee and c-suite. If IA is sequestered or marginalized, progress will stall.

The challenge falls squarely on the chief audit executive, who must be courageous and independent. As the "eyes and ears" of the audit committee, the CAE must be a truth-teller, willing to say what others won't, offering an alternative point of view, focusing more on foresight than hindsight.



Having balance is the most crucial part of internal audit. If you only do assurance, you are lost. 99

- Audit committee member,
North American financial services company



Truth-telling can be scary, but it should be noted that most CAEs don't lose their jobs because they are frank and independent. Rather, most are dismissed because they failed to recognize and elevate important, percolating issues that had significant negative repercussions for their organizations.

The turbulence is considerable. Can internal audit singlehandedly calm the storm? Surely not. But IA can help immensely, not only to keep the enterprise aloft, but piloted toward a new era of greater resiliency, responsiveness, and, even in trying times, profitability.

Contacts - Hungary



Péter Ujvári

Partner

+36 20 407 0392

pujvari@deloittece.com



Zoltán Szöllősi

Director

+36 20 910 7644

zszollosi@deloittece.com



Adél Virág György

Senior Manager

+36 20 386 8760

agyorgy@deloittece.com



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