

# Internal Audit for the Disrupted Business

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**As businesses respond to disruption, internal audit is increasingly expected to provide support beyond the traditional compliance and control functions. This requires the internal audit function to disrupt and change itself.**

In today's disruptive business landscape and rapid technological changes, business transformation is inevitable. Business models, technology, operations and organisational culture transformation are par for the course for transformation.

To stay ahead, the organisation including its people, processes and systems, must be able to keep pace and effectively manage the emerging risks of business transformation.

Internal audit plays an important role in helping the disrupted business transform and manage its risks.

Internal audit today covers a wide spectrum of activities, beyond the traditional compliance and control function. Increasingly, the stakeholders of internal audit (including audit committees, management and regulators) expect internal audit efforts to be focused on strategic, business and operational areas.

The recent corporate governance changes underscore the importance of internal audit in promoting good governance, risk management and internal control. Under the Singapore Exchange Listing Rules, it is now mandatory for a listed company to establish an effective internal audit function that is adequately resourced and independent of the activities it audits.

In this new context, internal audit needs to also transform itself as it supports the business in its broader transformation.

How should internal audit do so?

## Internal audit strategy

Transformation starts with strategy.

A good strategy should begin with a good understanding of the value proposition of internal audit and its mission.

According to the International Professional Practices Framework (IPPF) of the Institute of Internal Auditors (IIA), internal audit's value proposition to the business include:

- Assurance that the organisation is operating as management intends.
- Insights for improving controls, processes, procedures, performance, and risk management; and for reducing expenses, enhancing revenues, and improving profits.
- Objective assessments of operations.

The IPPF states that the mission of all internal audit functions should be "to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight".

In line with this mission, internal audit's strategic plan should provide a holistic approach that integrates corporate governance, risk management, internal controls addressing financial, operational, compliance and information technology risks.

The internal audit plan must be aligned with the organisational strategic objectives and risks. Changes in the business landscape resulting in a shift in the organisational risk profile would require the internal audit work plan to be

adjusted and realigned, in order to be relevant and value adding.

The head of internal audit or chief audit executive needs to be a strong leader who is both technically competent with good industry knowledge, as well as a strategic thinker. He (or she) needs to be innovative and possess the ability to exercise influence and make a positive difference to the organisation. He needs to communicate well and proactively address stakeholder concerns and expectations.

Last, but not least, the positioning and empowerment of the internal audit function in any organisation should be laid down in an Internal Audit Charter that states and clarifies internal audit's purpose, authority and responsibility. The position, scope and resourcing of the internal function should address the core principles of integrity, competence, objectivity and independence.

### **Transforming internal audit**

According to the IIA's *2018 Pulse of Internal Audit*, to transform internal audit, agility, innovation and talent are key.

First, agility means the internal audit function must be a risk-centric function that is insightful, proactive and future-focused. In the current business landscape, internal auditors need to know the organisation's strategic priorities and risks and be responsive to both existing and emerging risks.

Agility is enabled by an understanding and use of big data and analytics so that audits can be more efficiently executed while generating insights concerning risks and identify new opportunities to drive business value.

To be agile, internal audit needs to collaborate with operational management, compliance and monitoring functions. There is maximum synergy

when it leverages on the expertise and knowledge of the respective teams while improving coordination and communications.

Secondly, innovation requires the internal audit function to re-think and re-invent the focus and approach of internal audit.

To do so, it should leverage on the technology super-powers – artificial intelligence, blockchain, cloud and data analytics. A mindset of innovation requires embracing technology in planning the future, not avoiding it.

The breadth and depth of knowledge that internal auditors have of the organisation is itself an engine for innovation and business improvements.

Finally, transformation requires the right talent. It requires internal audit leaders to be strategic business partners and effective change agents.

The internal audit team needs to possess multi-disciplinary skills in order to deal with strategic, business, operational and technology risks and must be technology and data-enabled. At the very core, internal audit staff should be professionally qualified and adopt the IIA International Standards for the Professional Practice of Internal Auditing.

### **The future**

A collaborative model that integrates internal audit with operational management, compliance and monitoring using technology is the way of the future. The "virtual internal audit team" can perform internal audit reviews 24/7 without being physically present.

The future holds many possibilities for internal audit as the profession continues to push on with the transformation of internal audit in a digital world to deliver increasing value to organisations. ■