

*Internal Audit as a 3rd line of defense
Partnering effectively with key
stakeholders.*

- *Navigating disruption*



At a glance

- PwC's 13th Annual State of the Internal Audit Profession study.
- Nearly **1,900 survey respondents**, including CAEs, CFOs, Audit Committee members, and more than 790 stakeholders across 42 countries
- More than **70 stakeholder and CAE interviews** conducted across North America, Europe, Australia, Africa and Asia to gain further insights.
- This year's 2017 study dives deeper into one of the major challenges facing Internal Audit as we strive to add value: business disruption.

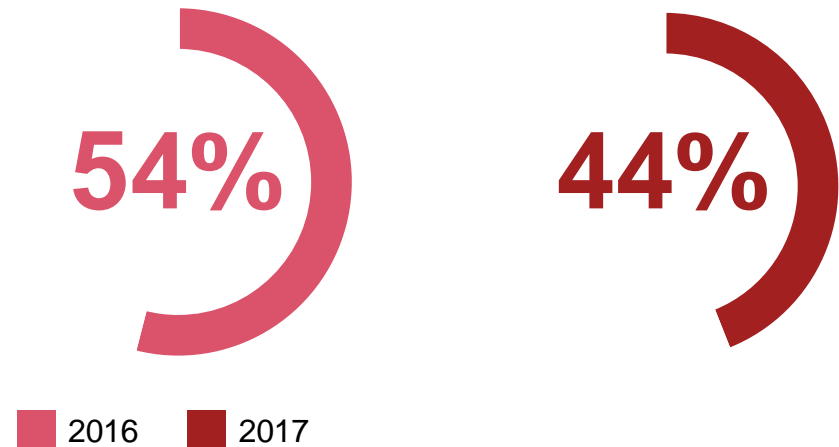


Stakeholders continue to raise the bar on value expectations...

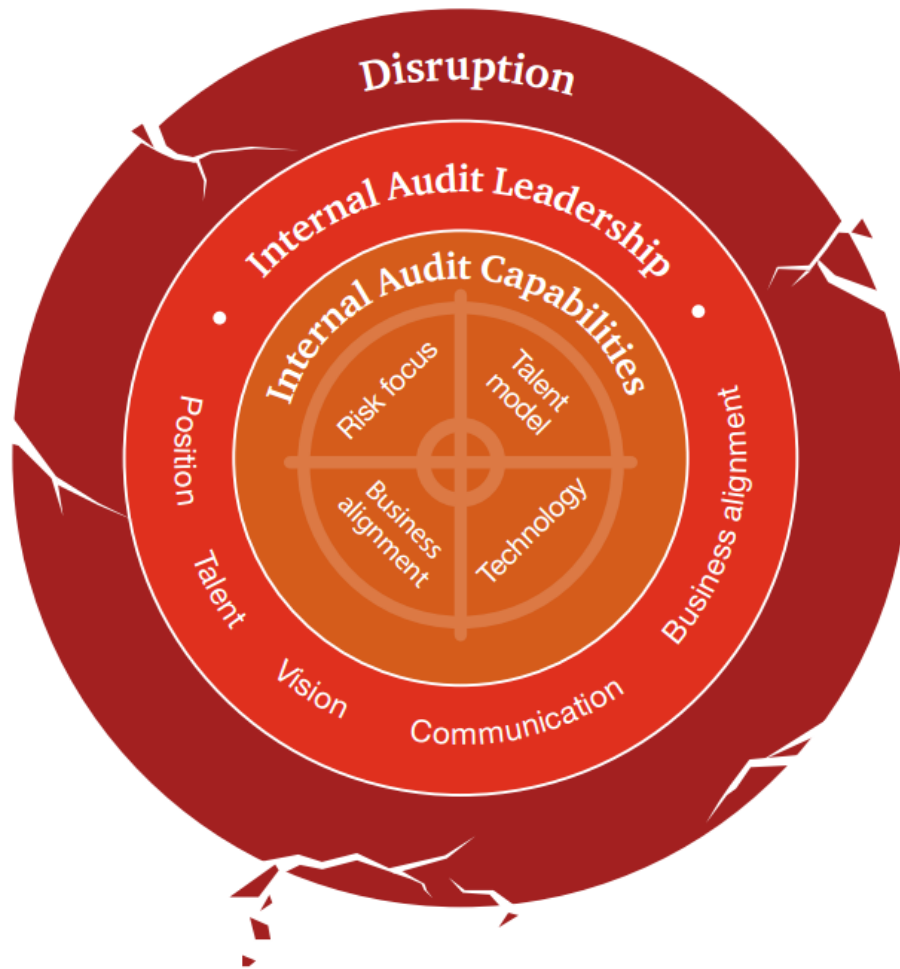
48%

of stakeholders want Internal Audit to reach trusted advisor status for the business – however Internal Audit appears to be losing ground in trying to keep pace with stakeholder expectations.

% of stakeholders who say internal audit adds significant value



What is influencing this decline?



PwC's 20th CEO survey shows CEOs are optimistic amidst uncertainty. This year's State of the Internal Audit Profession survey identified that Internal Audit's ability to help stakeholders navigate disruption contributes to a stronger perceived value.

Disruption – A source of challenge and opportunity

The top five disruptions experienced by companies in the last 2 years.



58%
New regulation



44%
Changes in business model
or strategy



37%
Cybersecurity and
privacy treats



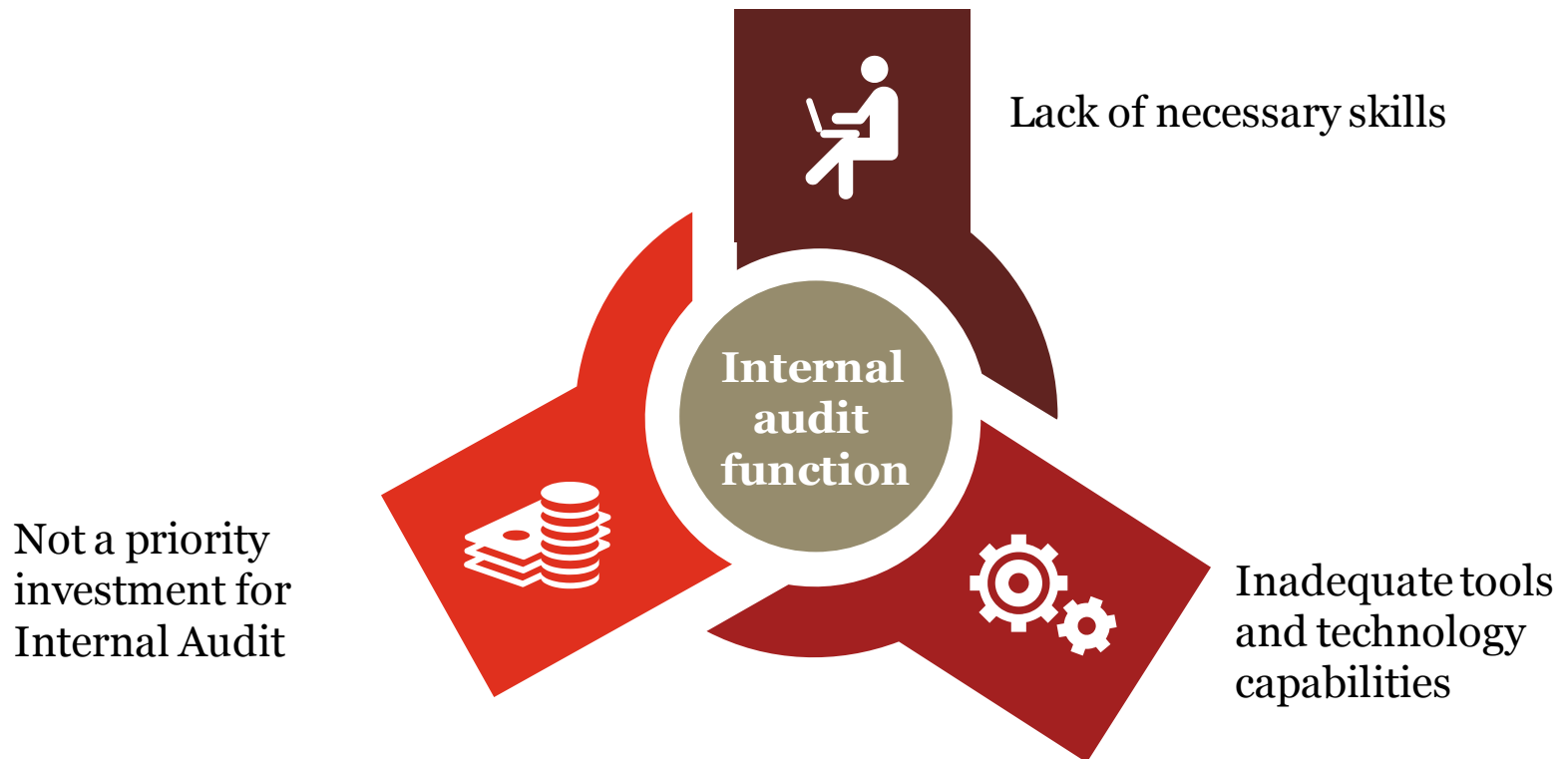
36%
Financial challenges



34%
Technology advancement

What's holding some internal audit functions back?

77% of board members and 68% of management believe Internal Audit's current level of involvement in disruption is not sufficient



The Agile IA function

18%

of the nearly 1,900 respondents to this year's survey report that their internal audit function plays a valuable role in helping their companies anticipate and respond to disruptive events. We call these Agile IA functions.

Agile = Prepared + Adaptive

Prepared

Distinctive Behaviors:

1. Build the likelihood of disruption into planning and risk assessment
2. Meaningfully collaborate with other lines of defense
3. Invest in and elevate business and technical IQ

“It is a role of Internal Audit to be pioneering and proactive, and if there are changes it has to be ready.”

– Abdulrahman al Harthy, Chief of Group Assurance, Oman Oil Group

49% of Agile IA Functions have increased or shifted internal audit budget to **enable greater participation** in areas of business disruption (*vs. 27% of peers*)

76% of Agile IA Functions **cohesively partner** with other risk management and compliance functions to address disruption (*vs. 40% of peers*)

Adaptive

Distinctive Behaviors:

1. Create more flexible processes and reporting mechanisms
2. Drive the use of data analytics and technology
3. Implement flexible talent models

“We need to be innovative to respond to disruption, which takes courage and capacity.”

– Jim Hunt, AC Chair, Penn Mutual, Brown & Brown, Nemours Health System

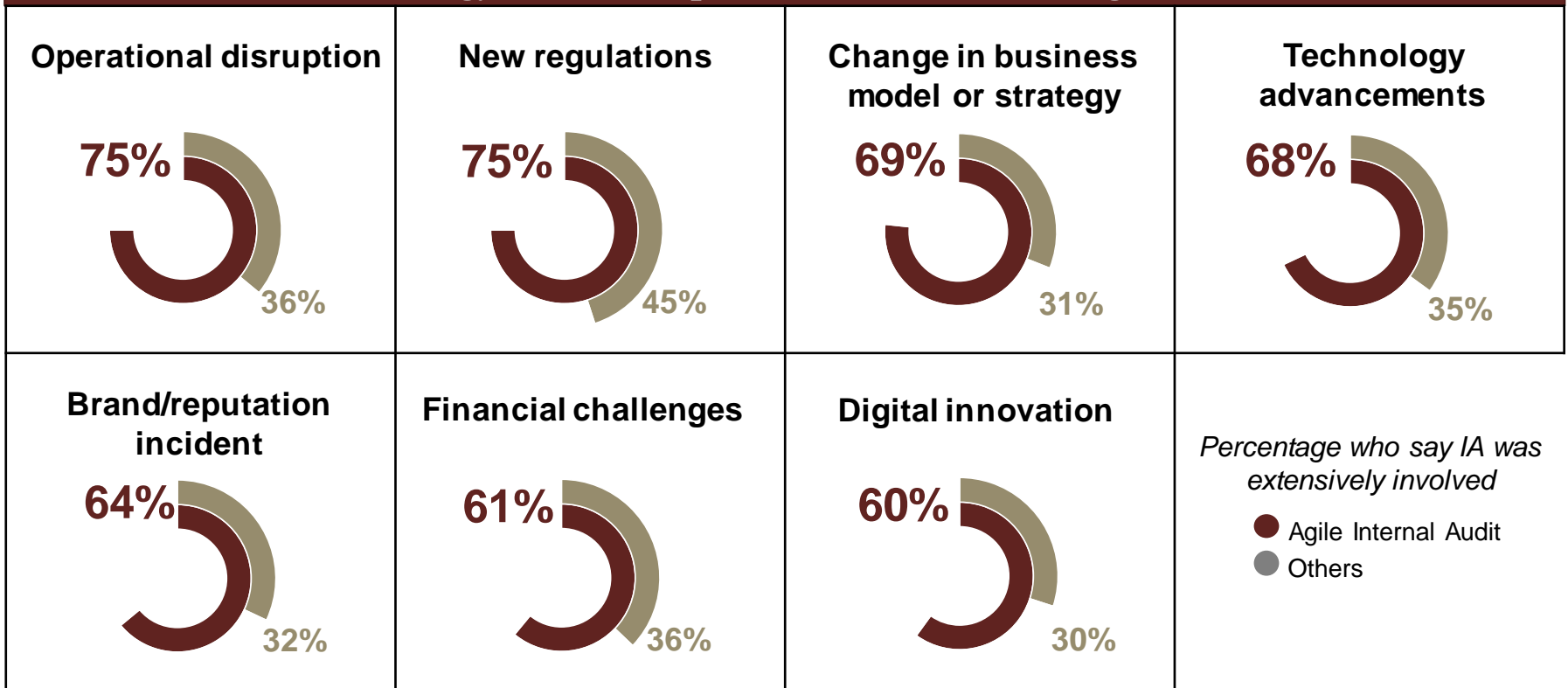
73% of Agile IA Functions change course and evaluate risk **at the speed required** by the business (vs. 37% of peers)

44% of Agile IA Functions have increased **investment in data analytics** for risk assessment and continuous auditing (*vs. 28% of peers*)

74% of Agile IA Functions **redirect or reorganize resources** as needed to help the organization manage or respond to disruption (*vs. 40% of peers*)

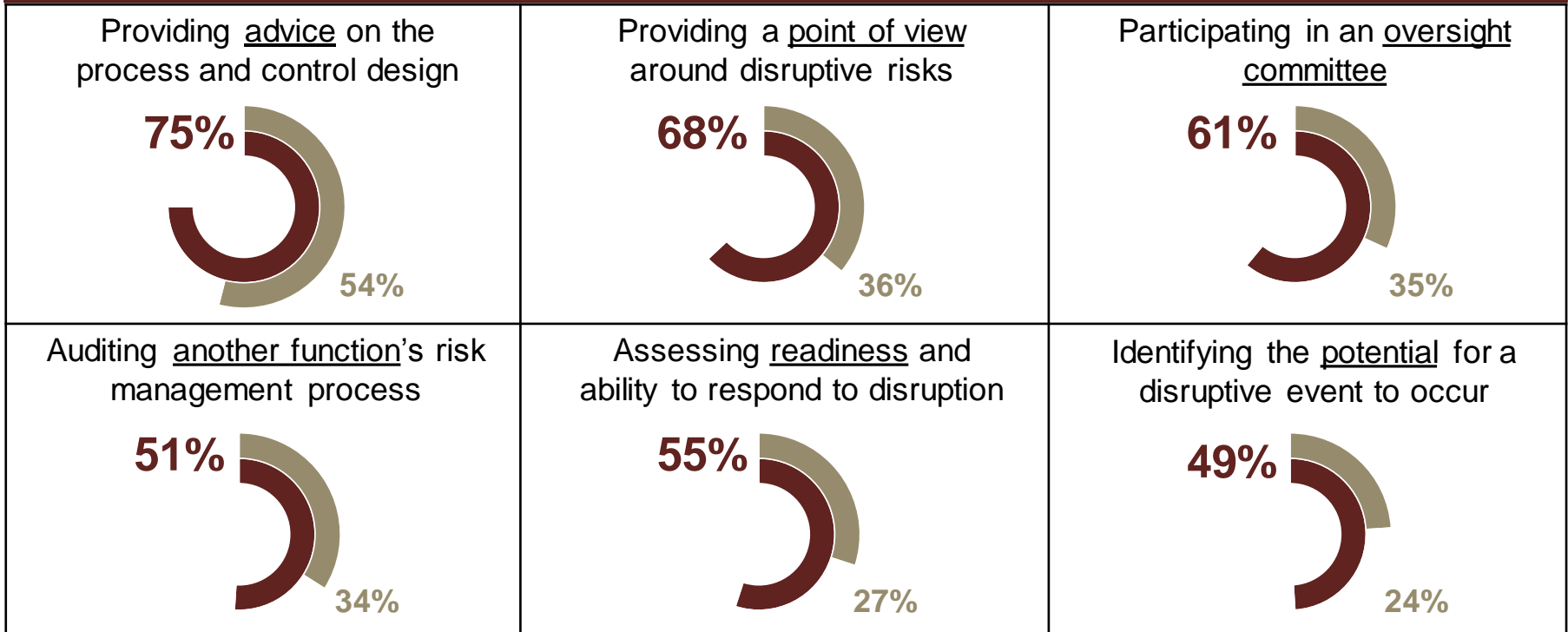
The Agile IA function - Is involved in many disruptors

They are twice as likely as their peers to be involved in less traditional, but high value add, areas of focus for internal audit functions, such as operational disruption, changes in business strategy, brand & reputation incidents and digital innovation.



The Agile IA function – Is involved early in the disruption cycle

They provide a point of view around disruptive events beyond the identification of existing process or control gaps and are twice as likely as their peers to assist in identifying the potential for a disruptive event to occur.



Percentage who say IA was involved in these activities: ● Agile IA ● Others

The Agile IA function - Helps the organization better manage risk

Internal Audit involvement correlates with more effective management of disruption

(Representative impact on various disruptions)

	Internal audit was moderately to extensively involved		Overall, the business managed the disruption effectively	
Digital innovation:	60%	30%	51%	39%
Financial challenges:	61%	36%	64%	52%
Culture/comp change:	54%	27%	41%	27%

88%

of stakeholders with Agile IA Functions report Internal Audit is contributing significant value compared to 41% of stakeholders with less agile Internal Audit functions

Accelerating the pace of change

Within internal audit will likely be disruptive

Internal audit must evolve to keep pace. Business is changing fast, our stakeholders expect more, and we need to disrupt ourselves to deliver maximum value in a disrupted business environment.

Closing the value gap and achieving “Trusted Advisor” status will require:

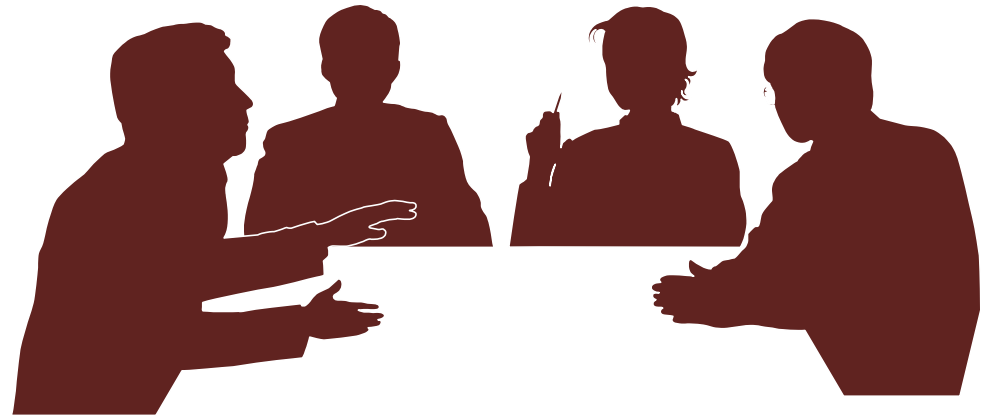
- **Increasing the team’s operational capabilities**, specifically, around risk focus, business alignment, talent and technology
- **Increasing leadership effectiveness** to inspire confidence in the team and among stakeholders
- **Increasing the team’s agility** to contribute on the disruptive risks affecting the company

What you can be doing now

- Be deliberate about building preparedness and adaptability into the departmental DNA.
- Take the time to think more strategically about where you are operating today and what your ideal state is. Validate your True North.
 - Is your function doing anything different today than it did three years ago?
 - Are those differences marginal or more transformative?
 - Are you realizing value in those changes?
 - Should you rethink how you are measuring your value?
 - Is transformation and disruption within your internal audit function required to remain relevant to the business?

It is true that expectations of IA are rising, but we are also finding that simply maintaining previous expectations is an increasing challenge in the face of disrupted businesses.

Analytics demo



Questions?

For more information

The 2017 State of the Internal Audit Profession Study and related materials may be found at www.pwc.com/us/2017internalauditstudy.

Additional materials of relevance

PwC 20th Annual Global CEO Survey

The eight attributes – Delivering internal audit excellence as stakeholders expect more

Thank you for your participation

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