# Top Priorities for Internal Audit in Financial Services Organizations

**Key Financial Services Industry Results from the 2017 Internal Audit Capabilities and Needs Survey**

## Executive Summary

In a digital world, financial institutions and the broader financial services industry are undergoing a profound change. This is permeating throughout organizations, and internal auditors need to be aware of how digitalization is impacting the business and how embracing new technologies can drive efficiencies in the internal audit function. Internal auditors are leveraging the use of analytics in the auditing process, albeit slowly, according to the financial services industry responses to Protiviti's ***2017 Internal Audit Capabilities and Needs Survey***.

### Data Analytics on the Rise, but the Journey Has Just Begun

As the financial world's digital transformation continues to expand, internal auditors increasingly understand the need to leverage analytics to keep pace with the transformation. Two-thirds of financial services industry (FSI) respondents to Protiviti's *2017 Internal Audit Capabilities and Needs Survey* utilize analytics as part of the audit process, with most recognizing significant value in the results. Demand for analytics in support of internal audits is growing, according to a strong majority of our FSI respondents, especially among those with internal audit functions that have an analytics champion or a dedicated analytics function.

Continuous auditing processes are becoming more prevalent in financial services firms as well. These practices are employed by nearly half of FSI organizations for a variety of uses, including audit planning and scoping, strengthening risk assessments, conducting risk-based audits, and more effectively tracking fraud indicators and key operational risk indicators, enabling a real-time view of organizational risk.

However, our results also indicate that a majority of financial services firms' analytics functions remain in their infancy. Respondents ranked data analytics as the top area where they need to improve their general technical knowledge, with dynamic risk assessments a close second. Dynamic risk assessments are possible only through the use of analytics and continuous auditing. This result aligns with the general finding that one-third of internal audit groups in FSI organizations are not using analytics, although 61 percent intend to implement analytics within the next two years.

By implementing a dynamic risk assessment process, organizations are able to continuously re-assess risks within the organization and adjust their internal audit plans to take account of emerging risks and reprioritize assurance activities. When combined with the use of more advanced data analytics, these are powerful tools that enable the function to become more responsive and flexible in ensuring that they are focused on the highest risk areas of the business for review.

Advancing the organization's internal audit data analytics capabilities can be a challenge due to several factors, including business-as-usual duties, as well as budget and headcount constraints, and a lack of knowledge and expertise with regard to advanced data analytics processes, measures, tools and innovations. Often, even internal audit leaders and professionals who desire to elevate their data analytics capabilities and functions to the next level do not know how to go about accomplishing this, particularly when there are issues surrounding data access and integrity. Having a clear vision, a long-term data strategy and knowledgeable resources are essential for building a more sophisticated analytics process, which also requires a longer-term strategy and an implementation roadmap, carefully chosen and well-crafted pilot programs, and clear direction from CAEs and organizational leaders that data analytics represents a valuable facet of the internal audit function's services and value.

## Other Key Findings — Cybersecurity, the Cloud and Model Risk

Model risk management and stress testing, specifically the Comprehensive Capital Analysis and Review (CCAR), are top-of-mind for financial services industry auditors, as are the new accounting standards for Current Expected Credit Loss (CECL). Our survey also shows that emerging technology-related challenges, including cybersecurity, are top-of-mind for internal auditors.

Cybersecurity is a constant issue, as many organizations seek to better understand cybersecurity threats and the majority of financial services auditors cite the need to improve their knowledge of the AICPA's *Proposed Description Criteria for Management's Description of an Entity's Cybersecurity Risk Management Program* (also known as the exposure draft).[1]

As more and more financial institutions embrace cloud adoption as a means of improving efficiency and offering more innovative products and services to their customers, internal audit functions need to expand their knowledge of the inherent risks involved, including auditing third-party risk management programs.[2]

The perpetual problem of big data, as well as the Internet of Things phenomenon, is raised in the survey results along with issues relating to auditing smart devices. As firms delve deeper into digitalization, internal audit's focus on business and digital transformation has increased significantly. Organizations are becoming more digital and data driven; thus, internal audit needs to both keep pace with the knowledge of a wide range of emerging technologies and their effects, both short-term and long-term, on risk management and internal controls, and remain up-to-date with new standards and rules related to these emerging technologies. It is unsurprising, therefore, that financial services audit functions are seeking more information about The Institute of Internal Auditors' newest Global Technology Audit Guide (GTAG), *Auditing Smart Devices: An Internal Auditor's Guide to Understanding and Auditing Smart Devices*.

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[1] *And So the Guidance Begins – AICPA Issues Audit Risk Alert on Revenue Recognition*, Protiviti: www.protiviti.com/sites/default/files/united_states/protiviti-flash-report-aicpa-audit-risk-alert-revenue-recognition-071116.pdf

[2] *Cloud Adoption: Putting the Cloud at the Heart of Business and IT Strategy,* Protiviti*:* www.protiviti.com/sites/default/files/united_states/insights/cloud-adoption-putting-cloud-at-heart-of-business-and-it-strategy-protiviti.pdf

## Our notable findings:

01 **Data analytics is gaining a foothold in financial services internal auditing but it needs to be taken to another level to meet expectations and to keep pace with technological change –** Two out of three departments utilize analytics as part of the audit process.

02 **Most internal audit shops are still in their "analytics infancy" –** A majority of respondents judge their analytics capabilities to be at the lower end of the maturity spectrum.

03 **The more mature analytics capabilities are, the greater value they're perceived to deliver –** Organizations with more advanced analytics capabilities in the internal audit department, as well as those employing proven best practices, see greater value coming from data analytics.

04 **Stress testing and CCAR remain top-of-mind for financial services auditors –** Model risk-related issues, such as stress testing and CCAR, are foremost concerns, as are new accounting standards for CECL.

05 **Cybersecurity, cloud computing and big data are constant issues for financial services firms –** Auditors are grappling with technology-related risks, new legislation and the need to become more efficient in a digital world.

06 **Business and digital transformation is drawing more attention –** Not only is this a much higher priority compared to prior years, but its effects are infiltrating most audit plans and activities.

# Data Analytics and the Financial Services Audit Process

## Does your internal audit department currently utilize data analytics as part of the audit process?

**Base: All Financial Services Industry Respondents**

| | |
|---|---|
| Yes | 68% |
| No | 23% |
| Unsure | 9% |

## Does your internal audit department have plans to implement data analytics as part of the audit process?

**Base: Respondents whose internal audit departments do not utilize data analytics as part of the audit process**

| | |
|---|---|
| Yes, we plan to do so within the next year | 26% |
| Yes, we plan to do so within the next two years | 35% |
| No, we do not plan to implement data analytics as part of the audit process | 39% |

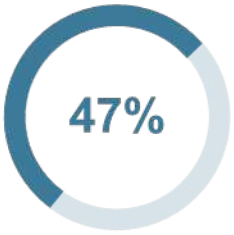
## Current State of Analytics Capabilities

### Which of the following statements best defines the current maturity of your data analytics function?*

| | Financial Services Responses |
|---|---|
| **Initial:** Ad-hoc processes that are undocumented | 31% |
| **Repeatable:** Process is documented sufficiently so steps can be requested | 35% |
| **Defined:** Process is defined as a standard business process | 26% |
| **Managed:** Process is quantitatively managed in accordance with agreed-upon metrics | 6% |
| **Optimized:** Process management includes deliberate process improvement | 2% |

**KEY FACTS**


FSI Internal audit departments with analytics champions




FSI Internal audit departments with dedicated data analytics function

### What percentage of total audits utilizes some form of data analytics?

| | Financial Services Responses |
|---|---|
| 1%–25% | 33% |
| 26%–50% | 29% |
| 51%–75% | 23% |
| 76%–100% | 16% |

## On a scale of 1 to 10, where “10” is a high level of value and “1” is little or no value, rate the level of value that your internal audit department receives from utilizing data analytics as part of the audit process:


## Compared to one year ago, how has the demand for data analytics services to support audits within your organization changed?

| | Financial Services Responses |
|---|---|
| Increased significantly | 26% |
| Increased somewhat | 50% |
| No change | 22% |
| Decreased | 1% |

## 10 Data Analytics Action Items for CAEs and Internal Audit

01 Recognize that the demand for data analytics in internal auditing is growing across all organizations and industries. This trend is certain to continue as more organizations undergo business and digital transformation initiatives and as regulators increasingly call for organizations to use analytics.

02 Seek out opportunities to expand internal audit's knowledge of sophisticated data analytics capabilities so that the function has a more comprehensive and precise understanding of what is possible with analytics, what similar organizations are doing with analytics, and what progress is needed to advance these capabilities.

03 Understanding that budget and resource constraints, along with business-as-usual workloads, can limit internal audit's ability to optimize its data analytics efforts, try conducting even modest demonstrations of analytics capabilities that can set an influential tone and are positive steps toward building a stronger internal audit data analytics function.

04 Consider the use of champions to lead the analytics effort and, when appropriate, to create a dedicated analytics function. Having champions helps bridge the gap between the analytics function and operational auditors. It also encourages more analytics use, including basic usage by the whole team. Compared to other organizations, those with analytics champions and dedicated analytics functions in place deliver more value, experience higher demand for their analytics services and obtain better access to higher-quality data.

05 Explore avenues to expand internal audit's access to quality data and implement protocols (including those related to completeness, conformity, data quality and reliability) that govern the extraction of data used during the audit process.

06 Identify new data sources, both internal and external, that can enhance internal audit's view of risk across the organization.

07 Increase the use and reach of data-based continuous auditing and monitoring to perform activities such as monitoring fraud indicators, KRIs in operational processes and information used in the leadership team's strategic decision-making activities.

08 Leveraging continuous auditing, develop real-time snapshots of the organization's risks and incorporate results into a risk-based audit approach that is adaptable and flexible enough to focus on the highest areas of risk at any point in time.

09 Seek ways to increase the level of input that stakeholders provide when building and using continuous auditing tools and when determining which data should be monitored by these tools. It is important that the effort is focused on building tools that internal audit can leverage to monitor risk in the business. Many stakeholders have important insights to help determine areas of focus.

10 Implement steps to measure the success of your data analytics efforts, and consider the most effective ways to report success and value to management and other key stakeholders. Internal audit groups that can successfully demonstrate tangible value will build a stronger business case for increased budgets and resources dedicated to a data analytics function, as well as underscore throughout the organization the importance of analytics and, in the process, boost internal audit's reputation internally.

# Financial Services General Technical Knowledge and Audit Process Knowledge Results

**METHODOLOGY**

For each of the sections summarized below, respondents from financial services firms were asked to assess, on a scale of 1 to 5, their competency in different areas of knowledge important to internal auditing, with "1" being the lowest level of competency and "5" being the highest. For each area, they were then asked to indicate whether they believe their level of knowledge is adequate or requires improvement, taking into account the circumstances of their organization and industry. The areas of knowledge under consideration are listed in the tables below, which also compare "Need to Improve" versus "Competency" ratings.

## General Technical Knowledge – FSI Results

| "Need to Improve" Rank | Areas Requiring Improvement | Financial Services Competency Level (5-pt. scale) |
|---|---|---|
| 1 | AICPA'S *Proposed Description Criteria for Management's Description of an Entity's Cybersecurity Risk Management Program* (exposure draft) | 1.9 |
| 2 | Cloud computing | 2.4 |
| 3 | Cloud Computing Accounting Standard – (Accounting Update 2015-05 – Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement) | 1.8 |
| 4 | Big data/business intelligence | 2.4 |
| 5 | Cybersecurity risk/threat | 2.8 |
| 6 | GTAG – *Auditing Smart Devices: An Internal Auditor's Guide to Understanding and Auditing Smart Devices* | 2.0 |
| 7 | Business/digital transformation | 2.3 |
| 8 | Mobile applications | 2.5 |
| 9 | Auditing corporate culture | 2.6 |
| 10 | Data analytics | 3.0 |

## Audit Process Knowledge – FSI Results

| "Need to Improve" Rank | Areas Requiring Improvement | Financial Services Competency Level (5-pt. scale) |
|---|---|---|
| 1 | Stress testing (CCAR/DFAST) | 2.2 |
| 2 | Current Expected Credit Loss (CECL) | 2.0 |
| 3 | Data analytics tools – data manipulation | 2.8 |
| 4 | Data analytics | 3.0 |
| 5 | Derivatives and hedging | 2.2 |
| 6 | Derivatives and securities | 2.3 |
| 7 | Auditing IT – new technologies | 2.7 |
| 8 | Capital planning | 2.3 |
| 9 | Mergers and acquisitions due diligence | 2.3 |
| 10 | Fraud – fraud risk assessment | 2.9 |

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