



Session 2.2 Internal Auditors' Response to Disruption and Innovation A Deeper Dive

By Dr. Margaret Christ



Dr. Margaret Christ

- Associate Professor of Accounting, UGA
- Research focus: control systems and internal audit
- Teaching focus: accounting information systems (including risk & control) & data analytics
- IIAMember since 1999
- Serves IIA as a member of CREA

Approach

- 11 CAEs interviewed
- 162 survey responses (5,000 surveys sent to IIA members)

This study addresses the following questions:

- What innovations & disruptions have affected organizations and their Internal Auditors?
- How has Internal Audit responded (or struggled to respond) to these innovations?

Question Asked of Internal Auditors

What innovations are your organizations currently implementing?

1. Data Analytics
2. Cloud Computing
3. Agile Processes
4. Mobile Technology
5. Robotic Process Automation (RPA)
6. Continuous Auditing
7. New Organizational Strategies
8. Artificial Intelligence / Machine Learning
9. Regulatory Changes
10. Digitalization
11. Other Innovations

IA's Involvement in the Decision to Innovate

IA was involved in the decision to implement this new practice/technology.

20%

IA was involved in vetting/identifying vendors for the practice.

34%

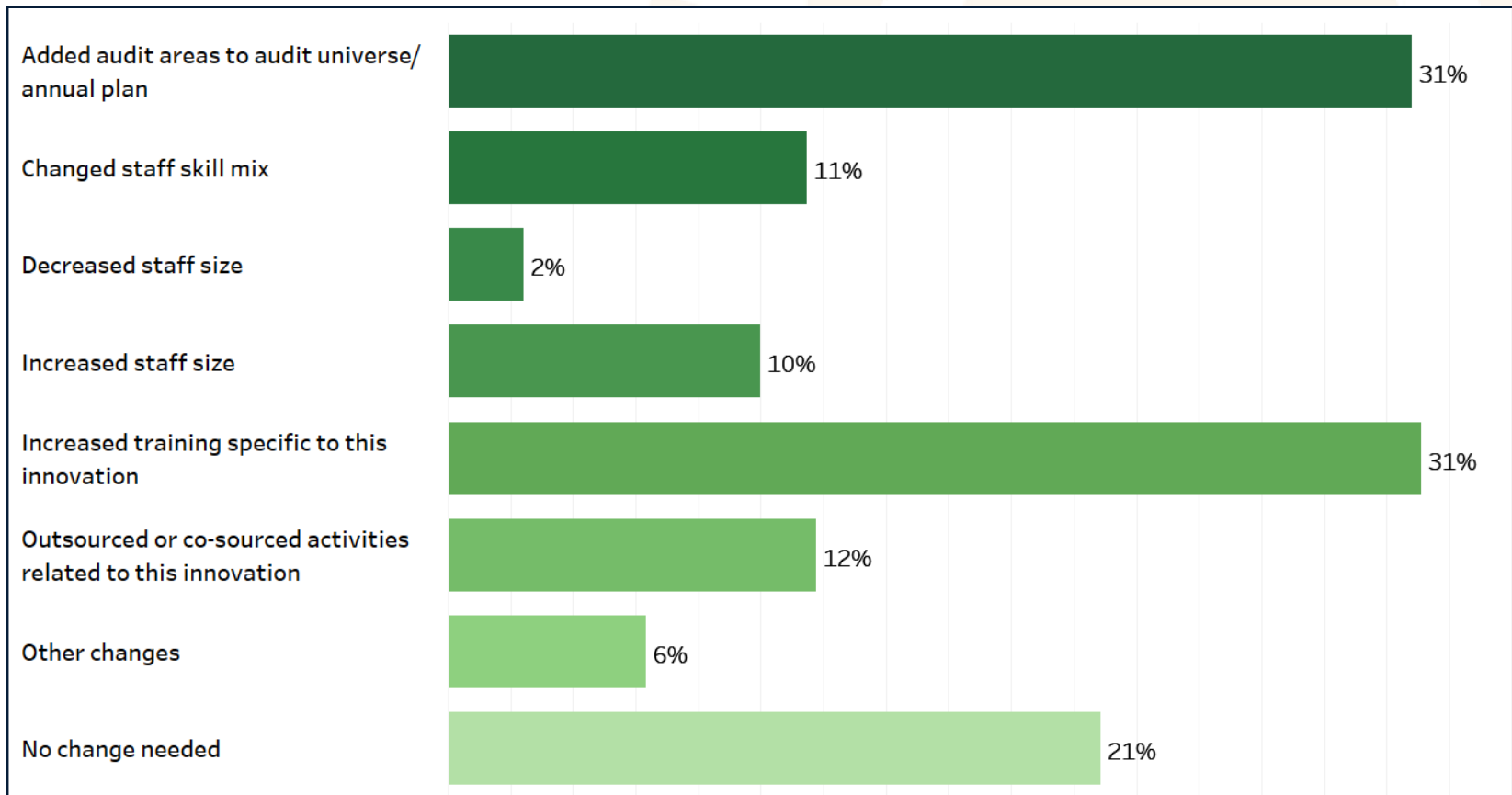
IA was consulted regarding the risks/controls involved in this new practice after the decision was made to initiate.

4%

Not involved in the decision.

42%

Changes Made in Response to Innovation



Most Popular Innovations Among Responders

- Data Analytics
- Cloud Computing
- Robotic Process Automation
- Artificial Intelligence
- Digitalization
- Agile Processes

Data Analytics

Risks/Disruptions

- Risks related to data integrity.
- Data tends to be spread out and disparate, making effective use of data challenging.
- Challenging to bring it together effectively.
- Can detract from performing other types of audits due to insufficient time, causing frustrated stakeholders
- Staff turnover

IA Involvement in Innovation: 30%

Cloud Computing

Risks/Disruptions

- Privacy, security, data breaches, data sensitivity, reputation, and regulation
- Approach to data storage, use, and management

IA Involvement in Innovation: 4%

Robotic Process Automation

Risks/Disruptions

- IA not traditionally effective with RPA
- Lack of involvement
- No perceived need
- IA not fully understanding what this change involves
- IA overconfident in their abilities to perform utilizing RPA
- Can be highly efficient at doing the wrong thing

IA Involvement in Innovation: 27%

Artificial Intelligence

Risks/Disruptions

- IA tend to overestimate abilities
- Steep learning curves
- Little understand what AI is actually doing, especially in a new scenario
- Requires significant technological skills to understand underlying code
- “Black box” nature of AI
- Not sure how to audit the technology
- Potential for large scale error

IA Involvement in Innovation: 36%

Digitalization

Risks/Disruptions

- Increased cybersecurity risks
- Risks related to the functionality of the technology
- Technology failure or obsolescence can have a major impact on operational performance
- Requires partnership with third-party vendors
- Staff skill mix and requires substantial training

IA Involvement in Innovation: 40%

Agile Processes

Risks/Disruptions

- Requires a culture shift
- Tends to be more fast paced, "sprints"
- Internal Auditors feel unprepared for agile processes
- Can cause burn out in staff auditors
- Lack of resources

IA Involvement in Innovation: 21%

Changes in Response to Innovation

- Added audit areas to audit universe/annual plan – 31%
- Changed staff skill mix – 11%
- Decreased staff size – 2%
- Increased staff size – 10%
- Increased training specific to this innovation – 31%
- Outsourced or co-sourced activities related to this innovation – 12%
- Other changes – 6%
- No change needed – 21%

Evaluations of IA's Preparedness & Effectiveness Related to Innovation

- Overall, respondents believed they were neither prepared nor unprepared for the innovation.
- They also believed they were neither effective nor ineffective in their response to innovation.

General Response to Innovation

Our analysis yielded 3 important insights:

- IA does not seem to have a seat at the table
- Lukewarm ratings internal auditors give themselves regarding preparedness & effectiveness
- Innovation stretches and requires internal auditors to change

Questions

Let's continue the conversation!

mchrist@uga.edu