

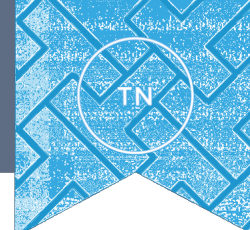
Evolving practices in internal audit

As business, regulatory, and risk environments evolve and become increasingly complex, internal audit (IA) must also evolve. In addition to providing objective assurance, internal audit teams are increasingly playing a consultative role within large companies.

In the fall of 2022, Tapestry Networks convened four in-person and one virtual discussion with audit committee chairs of nearly 100 large US public companies, as well as top audit and risk executives from many of these companies. The following EY experts joined these discussions on evolving practices in internal audit:

- Lisa Hartkopf, Americas Risk Markets Leader for the Consumer Sector
- John Hudson, Principal, Enterprise Risk Consulting Services
- Elizabeth Logan, Principal, Real Estate, Hospitality, and Construction Consulting Practice
- Justo Villasnil, US East Region Enterprise Risk Competency Leader

For a full list of meetings and participants, please see Appendix B (page 10).



Executive summary

ACN members and guest executives discussed the active transformation of their IA functions. This *ViewPoints* outlines four areas of focus for IA and audit committees as they transform internal audit in response to market conditions.¹

Implementing new technologies. As companies invest in technologies like data analytics, they are seeing new efficiencies in their IA functions. Process mining and automation pioneered in IA can be rolled out across the entire organization, increasing productivity, access to data, and return on investment (ROI).

Obtaining and retaining talent. Labor shortages leave many IA functions understaffed, particularly for specialist roles. Companies are using various techniques to fill open roles, including co-sourcing specialist talent, rotating staff from other functions through IA (which increases familiarity with and appreciation of IA across the business), and offering hybrid work options.

Redefining IA's value proposition. As risk-based audits gain popularity, IA functions are increasingly becoming business advisers and sources of proactive assurance. These consultative roles can help IA retain talent, but IA must be careful to stay within its mandate.

Overseeing the modern internal audit function. Open and frequent communication between audit committee chairs and chief audit executives is key to a strong IA function. Trust between the two is imperative as internal audit's role in advising and assessing the business grows.

For a list of reflection questions, see Appendix A (page 9).

Key takeaways on transforming internal audit

CREATING A MODERN FUNCTION

TECHNOLOGY

Implement across the firm

Deploy technologies pioneered in IA across business units and functions to improve return on investment.



TALENT

Innovate when sourcing IA talent

Optimize the workforce through outsourcing and cosourcing, and consider rotating talent between IA and other parts of the business.



VALUE PROPOSITION

Demonstrate IA's value across the firm

Consider expanding IA's focus as both internal advisers and proactive assurance providers.

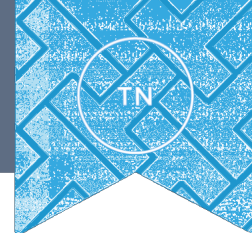


OVERSIGHT

Communicate openly

Support open dialogue between the audit committee; use dashboards to help the committee track IA's progress.





Implementing new technologies

Although data is at the core of IA's work, *"very few companies have found a way to use technology all the way through the internal audit process, from scoping to assessment to reporting,"* said Mr. Hudson. Opportunities abound to create value by optimizing technology, and audit committees can encourage IA to lead on this organizational transformation.

Data analytics and beyond

Ms. Hartkopf noted, *"When we talk about tech tools, we are primarily referring to data analytics,"* and indeed, among the companies represented, data analytics is the most used IA technology. In a poll at one of our virtual meetings, 90% of respondents (28 audit chairs and 19 executives) said their companies were employing data analytics in the IA function. (See "What tech tools are meeting attendees using to enhance the IA function.")

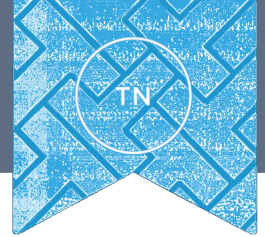
Commenting on how data analytics are used, Ms. Logan reported that she has *"seen progress in some companies around proactive compliance management and reporting by using data analytics dashboards for controls. They've taken tech and made it a real-time compliance management tool."*

Members and executives said the function can benefit from employing someone who is *"passionate and interested in analytics."* Mr. Hudson agreed: *"The companies furthest ahead on this have hired someone into the IA function to focus on data and technology."* One executive shared an example of value realized through technology: *"Our data assurance team noticed a manual process that took 8–10 hours to complete. They helped the team take it down to 30 seconds. It was an important win that helped us justify additional resources within the function. IA should help find ways to liberate the business of manual work."*

In addition to data analytics, companies are exploring ways to incorporate other technology tools—such as artificial intelligence (AI), robotic process automation (RPA), video surveillance, and drones—into the internal audit function. Ms. Logan referenced EY's 2022 Internal Audit Survey, which found that only 2% of respondents currently use AI in their audit risk assessments.² Interestingly, participants in Tapestry's meetings made greater use of AI and other technologies, as the poll results above show. One member described using AI for checking travel expenses;

What tech tools are meeting attendees using to enhance the IA function?





the algorithms proved 100% scalable with very few false positives. *“It’s just the beginning of what’s to come,”* the member said.

Members whose companies are reaching beyond data analytics agree that getting value from new technology requires thinking differently about IA. One member noted, *“It’s about getting audit to think differently about the process ... It’s a big aha moment to see RPA in action.”* A guest executive recommended the *“crawl-walk-run strategy”* whereby the function *“learns from experience and builds upon it. The role of audit committee chairs is to understand what the company is doing with technology, encourage thinking out of the box, and make sure there are solid processes around it.”*

Deploying process mining and automation

Buy-in from the broader organization is critical if IA’s technology investments are to create value. Ms. Hartkopf explained that with emerging technologies like process mining, *“it’s difficult to have ROI if it’s only used by IA.”* One executive pointed out that size makes a difference: *“We’re smaller, so it’s difficult to get the ROI. It’s hard to justify the mining process, especially if the company still struggles with data in general.”*

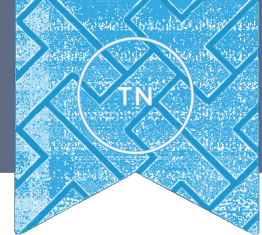


Increased automation continues to help IA functions accomplish more with fewer people, resources, and time.

Mr. Villasmil highlighted the value of automation: *“IA functions are incubators of innovation for the business. Process automation is showing more efficient and less expensive ways to check larger scopes, with less resources, in a compressed amount of time.”* A member shared an example: *“We used to do samples of 25; now we’re testing everything. We’re finding a few more errors, but now we know we’re finding all errors. We’re seeing tools we can pass to other areas of the business.”*

Obtaining and retaining talent

Talent shortages, especially in finance and audit, are a top concern for companies and boards alike. Keeping internal audit and finance functions fully staffed is challenging. As one executive put it, *“We need to convince would-be TikTok stars that audit offers a great future.”* Mr. Villasmil suggested questions that audit committees can ask management: *“For the pipeline of talent, how do you make IA an attractive function? What can you offer besides compensation and company reputation? What are you offering in career path development and opportunity?”* One executive said, *“We recruit on campus to gain interest earlier, offer multiple internships, and use a*



leadership development model for recruiting where they learn the company, understand the risks and controls, and move into other spaces. They can take different paths.”

The skills IA builds—an ability to view and leverage data with insight and provide assurance to business units—is highly valued. Ms. Logan said, *“We want to build risk athletes, not just auditors, with backgrounds that can operate tech. There is a limited supply, and everyone wants them. They’re the hardest to hire right now.”* Mr. Hudson pointed out that in many cases, other divisions in the company want the same talent that internal audit wants: *“It’s really hard, for example, for IA to bring in cyber experts. IA doesn’t always get access to the top talent.”*

Mr. Villasmil elaborated: *“Ten years ago, we would staff the function as 90% business, 10% IT; now it’s 70% IT, 30% business.”* A member said that in addition to technical skills, companies are seeking “softer” capabilities: *“Critical thinking, problem solving, and soft skills that are moldable are highly desired. The challenge is competing against other functions to get those people.”* One member asked, *“Has anyone thought of embedding a training capability in data analytics and digital tools in IA to help with the fact that demand exceeds supply and to increase the attractiveness of IA?”*

Rotating staff adds value, but brings frustrations for IA executives

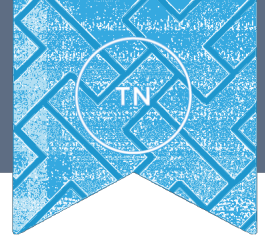
Many members and executives agreed that rotating leaders from other business functions through internal audit can deliver substantial benefits: increased business acumen in audit, stronger cross-organizational knowledge, increased employee engagement, and new leadership opportunities. One member said, *“It helps to recruit people to spend time in internal audit and then pop back out. It makes the function more attractive if people can spend a few years there.”* An executive added, *“I’ve had 100% team turnover into the business. It’s a pain for me, but awesome for the company. It’s also good to have relationships with former internal auditors in the business.”*

But participants also pointed out drawbacks of rotation. One executive said, *“Sometimes you have an excellent auditor and just want to keep them as a professional auditor.”* Another said, *“It’s hard when you are pushed résumés that really don’t meet your job specification, but you feel pressure to make it work for the sake of the rotation.”* An audit chair said success really depends on the focus of the function: *“If internal audit is more consulting-based, it can provide great leadership development. If the function is more compliance-based, that’s less likely to happen.”*

Remote work is a recruitment tool

According to the US Census Bureau, the number of people working primarily from home tripled between 2019 and 2021.³ Many participants confirmed that their IA functions remain in a hybrid mode because their employees prefer it. One executive reported, *“We have limited it to three days per week in the office because anything more and you have people resign.”*

Though efficiencies resulting from remote work are clear, many participants were concerned about the impact on company culture and social cohesion. A member feared that without physical presence, *“you’re losing ... that instinctual taking-in that gives a cultural scent. Without site visits, you lose that.”* Many members and executives think having some in-person requirement is important for a successful IA function.



Outsourcing and co-sourcing can help IA functions of all maturities

Members have tried a range of staffing strategies for internal audit, including completely outsourced, co-sourced (where specialist internal auditors are contracted from outside to work with internal teams), and fully in-house. One member asked, *“Should there be more co-sourcing or outsourcing? Is that a solution to take care of the talent issue, or do you lose something if it’s not in-house?”*

Ms. Hartkopf noted that *“co-sourcing allows access to people with constant training,”* and members and executives saw value in co-sourcing where talent is scarce. For companies that don’t consistently require specialists, it can be cost-effective. Ms. Logan explained, *“Strategically, co-sourcing can help with planning risk assessments, and, from a strategic standpoint, specialty skills are hard to hire and expensive and aren’t always used throughout the year.”*

Determining which aspects of IA to outsource is important. One member said, *“In one case, IA is outsourced for SOX [Sarbanes-Oxley compliance]; in the other case, IA is a small internal group mostly focused on SOX. I’m wondering how to make the leap to what I saw in larger companies.”* How a company sources and grows internal audit talent depends on where in the transformation process the IA function is.

Redefining internal audit’s value proposition

Diverse talent and technological advances have increased IA’s efficiency, and in some companies the function has taken on a greater advising role. Members and guests cautioned, however, that IA’s fundamental assurance role remains necessary.

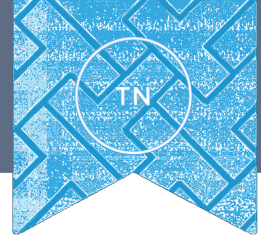
Companies are transitioning to risk-based audit planning

As internal audit’s role has evolved, so too has audit planning. Ms. Hartkopf said, *“We are seeing companies combine working through the business on a cyclic basis with a risk-based approach to audit planning. They are picking the highest-risk locations as opposed to hitting every location over time.”* One member described an approach that has been successful: *“We have moved to a continuous risk assessment using key metrics across our distribution centers and investigating outliers to determine where to audit. The power is in informing the business of the metrics and discussing how audit sees them, how the business sees them—it creates a continuous loop and gets better with repetition.”* Technology has also contributed to more strategic audits. One member noted, *“You don’t need a two-to-four-week audit anymore. You can do certain procedures and know within 24 hours if there is a problem. If there is, then you give it the full treatment. If it passes the test, then move on.”*

For risks that keep executives up at night, see Appendix C, “Risk lightning-round results” (page 15).

Assurance and advisory roles depend on many factors

Members and executives shared the priorities of their IA functions, ranging from a near-exclusive focus on SOX to substantial advisory work. These priorities ultimately depend on the internal audit team’s mandate from the company and on the function’s resources, talent, and maturity. Ms. Logan said, *“We do see companies stripping SOX out of internal audit functions completely—it’s probably about 50/50 at my clients. I’ve seen these clients create internal controls groups or*



outsource SOX testing because it's relatively inexpensive and (outsourcing) keeps the in-house team doing operational audits."

Companies can hesitate to expand IA's advisory role because assurance remains critical. One member noted that *"SOX assurances are all value add because finance is a huge value to an organization ... Advisory is more fun, but IA needs to do that which only IA can do."* But the need to retain talent can drive IA teams away from a tight focus on SOX and assurance. One member described how one company *"was heavy in SOX and saw a significant spike in turnover."* Another executive agreed, noting, *"Risk-based and advisory work is more fun from a staff perspective. It keeps them motivated."*

"Proactive assurance," where IA helps identify control problems before they occur, can demonstrate IA's value to other business units. One member said, *"IA must be positioned as a partner and not as the police."* An executive added, *"Tone is important—don't take their watch and tell them what time it is ... But IA will always have a broader perspective around a process, and more peripheral vision can always bring in something new the business hadn't considered."*

Overseeing the modern internal audit function

Oversight of internal audit requires effective and open communication between audit committee chairs and executives. The frequency of communication matters: some members and executives reported speaking as often as monthly.

In addition to frequency of communication, Ms. Hartkopf shared that there are a few categories audit committees should focus on with respect to supervision of the internal audit function: oversight, insight, and foresight.

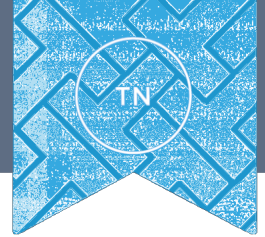
Presentations to the audit committee are also key and need to be effective. A member said, *"A great chief audit executive helps us understand what's important. They will synthesize information and raise concerns when necessary. They will be relied upon heavily by management to help on a variety of issues and [will continue] to tell us what's coming around the corner."*

Another component of communication between the audit committee and the IA executive is the dashboard. Though getting the level of detail right can be challenging, there was a general desire among members to have, as one member put it, a *"high-level dashboard which speaks to key risks and trends, but a full report or appendix to dissect some issues further."* One member offered an example: *"I receive a color-coded executive summary. The detail is described succinctly in a way that's easy*

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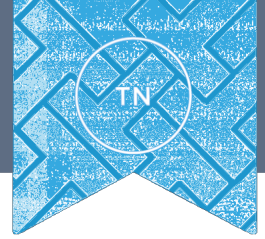
Most audit committee presentations are 98% oversight information and we need to shift to increase the insight and foresight discussions.

- Lisa Hartkopf



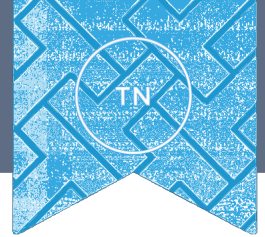
to understand. Sometimes too much detail and the message gets lost. We can see who by title is responsible for what and the follow-up actions.” An executive explained why compiling those reports can be such a challenge: “There are many different stakeholders, so to form a picture of what’s going on takes balance. The relationship between the audit chair and head of IA helps convey the information that’s not necessarily in the report.” Another member stressed the importance of not becoming complacent: “Keep challenging dashboards to keep them fresh. ‘Meets expectations’? What is the scoring methodology? Why is that a 90 and not an 80? We get used to what we have been seeing, but it’s important to ask if the weight or scoring we have been used to is still appropriate.”

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Appendix A: Questions for audit chairs to consider

- ? How does audit technology today differ from audit technology five years ago? What more can and should be done to accelerate the use of technology within the IA function?
- ? Is internal audit's mandate reflective of and aligned with the company's business strategy and related risks?
- ? How are IA and other business units coordinating on technology needs?
- ? How is your board learning about technology implementation at the top levels of the organization?
- ? What are you and your organization doing to ensure there is a robust talent pipeline with good throughput?
- ? What questions do you ask management to assure there is a strong talent pipeline in finance?
- ? How can the audit committee support the IA function as IA's priorities shift?
- ? Do your audit committee members and management share a single vision on risk? Why or why not? How can any dissonance be reconciled?



Appendix B: Meeting participants

Central Audit Committee Network—September 29, 2022

The following network members participated in the meeting:

- Kapila Anand, Elanco Animal Health
- Anne Arvia, GATX
- John Bryant, Macy's
- Pat Condon, Entergy
- Cheryl Francis, Morningstar
- Marla Gottschalk, Big Lots and Reynolds Consumer Products
- Frank Jaehnert, Nordson
- Derrick Roman, CommScope
- Al Smith, Simon Property Group
- Phoebe Wood, Invesco and Leggett & Platt

The following audit executives participated in the meeting:

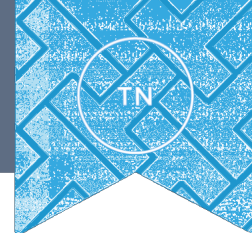
- Katie Colacarro, Nordson
- Megan Reed Kramer, GATX
- Lindsey Odaffer, Leggett & Platt
- Lea Turnipseed, Entergy
- Conan Wiersema, Morningstar

EY was represented by the following:

- Jud Snyder, Chicago Office Managing Partner

Tapestry Networks was represented by the following:

- Kate Cady, Project and Event Manager Team Leader
- Allison Greene, Associate
- Amy Sampson, Principal
- Eric Shor, Partner



West Audit Committee Network-South—October 10, 2022

The following network members participated in the meeting:

- Prat Bhatt, Seagate Technology (*WACN-N member*)
- Eric Brandt, Norton LifeLock
- George Bravante, Sabre
- Richard Dozer, Viad
- Leslie Heisz, Edwards Lifesciences
- Ginnie Henkels, LCI Industries
- Liz Jenkins, Snap
- Sara Grootwassink Lewis, Weyerhaeuser
- Jim Morris, Edison International
- Kristy Pipes, AECOM and Public Storage
- Dick Poladian, Occidental Petroleum
- Jim Scilacci, Hawaiian Electric Industries

The following executive guests participated in the meeting:

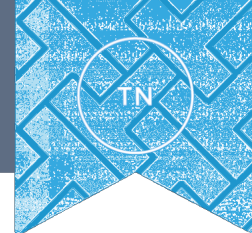
- Cherie Axelrod, Western Union
- George Karam, Viad
- Richard Lee, Snap
- Joan Motsinger, Seagate Technology
- Scott Ullem, Edwards Lifesciences
- Bob Sellers, Edwards Lifesciences

EY was represented by the following:

- Scott Hefner, Global Client Service Partner
- Frank Mahoney, US-West Vice Chair and Regional Managing Partner
- Pat Niemann, Center for Board Matters – Americas Leader, EY Audit Committee Forum

Tapestry Networks was represented by the following:

- Kate Cady, Project and Event Manager Team Leader
- Amy Sampson, Principal
- Eric Shor, Partner



Southwest Audit Committee Network—October 12, 2022

The following network members participated in the meeting:

- Marcela Donadio, Norfolk Southern and NOV
- Barbara Duganier, MRC Global
- Donna Epps, Texas Pacific Land Corp.
- Mark Hawkins, Secureworks
- Don Kendall, Talos Energy
- Holli Ladhani, Marathon Oil
- Cathy Lego, Guidewire Software
- Teresa Madden, Cooper Companies and Enbridge
- Gil Marmol, Foot Locker
- Don Robillard, Cheniere Energy and Helmerich & Payne
- Brenda Schroer, Antero Resources
- Valerie Williams, Devon Energy and DTE Energy
- Laura Wright, CMS Energy

The following executives participated in the meeting:

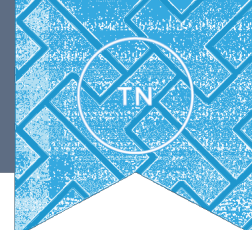
- Imole Babaniji, Texas Pacific Land Corp.
- Zach Dailey, Marathon Oil
- Serhat Khan, McDermott
- Cristina O’Naghten, Millicom
- Ryan Phillips, Par Pacific Holdings

EY was represented by the following:

- Robyn Bew, West Region Leader, Center for Board Matters
- Scott Hefner, Global Client Service Partner
- Sandra Oliver, US-West Region Assurance Managing Partner

Tapestry Networks was represented by the following:

- Kate Cady, Project and Event Manager Team Leader
- Allison Greene, Associate
- Amy Sampson, Principal
- Eric Shor, Partner



East and West Audit Committee Networks—November 2, 2022

The following network members participated in the virtual meeting:

- Curt Anastasio, Chemours and Par Pacific Holdings
- Ed Coleman, Ameren
- Rodney Eads, NOW
- Marie Gallagher, Glatfelter
- Art Garcia, ABM Industries
- Ken Goldman, GoPro
- Mary Guilfoile, Interpublic Group of Companies
- Bruce Hanks, Lumen Technologies
- Sandy Helton, Covetrus
- Brian Hudson, Erie Indemnity
- Leon Janks, PriceSmart
- Tim Keaney, Unum
- Debbie Kissire, Celanese
- Lew Kramer, Las Vegas Sands Corporation
- Mercedes Johnson, Millicom and Synopsys
- Barb Loughran, Jacobs Solutions
- Ellen Masterson, Insperity
- Cary McMillan, Hyatt Hotels
- JoAnn Reed, American Tower
- Karen Rogge, Rambus
- Gretchen Schar, Carter's
- Judy Schmeling, Constellation Brands
- Wendy Schoppert, The Hershey Co.
- Janice Sears, Invitation Homes
- Daren Shaw, Ensign Group
- Karin Teglia, Wintrust Financial
- Christine Tsingos, Envista Holdings
- Ray Young, International Paper

The following executives participated in the virtual meeting:

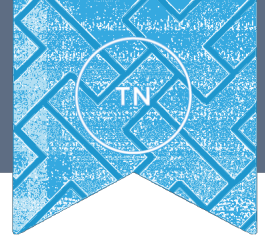
- Alma Adajar-Aban, PriceSmart
- Mike Beck, ABM Industries
- Andy Brown, Luna Innovations
- Chris Chung, The Doctors Company
- Quo Vadis Cobb, Jacobs Solutions
- Jeremy Holley, Wintrust Financial
- Scott Lowry, AppFolio
- Des Lynch, Rambus
- Ryan Martin, Ameren
- Adam Matteo, ADP
- Sarah McCarty, C.H. Robinson
- Frank Obermeyer, Cincinnati Financial
- Patricia Quinones, Invitation Homes
- Mark Slicer, Onto Innovation
- Josh Stibrich, Insperity
- Laura Toubin, Envista Holdings
- Francisco Velasco, PriceSmart
- Jim Werner, Hyatt Hotels
- Allison Woody, Luna Innovations

EY was represented by the following:

- Robyn Bew, West Region Leader, Center for Board Matters
- Dante D'Egidio, US-East Region Assurance Managing Partner
- Jennifer Lee, Managing Director, Center for Board Matters – Americas
- Molly Tucker McCue, US-East Region Audit Leader
- Alysia Steinmann, New York City Office Managing Partner
- Kevin Virostek, Greater Washington Office Managing Partner

Tapestry Networks was represented by the following:

- Kate Cady, Project and Event Manager Team Leader
- Allison Greene, Associate
- Amy Sampson, Principal
- Eric Shor, Partner



Southeast Audit Committee Network—November 3, 2022

The following network members participated in the meeting:

- Art Beattie, PPL
- Theo Bunting, NiSource
- Denise Dickins, Watsco
- Juan Figuereo, Deckers Outdoor Corp.
- Lisa Flavin, Caleres
- Jim Hunt, Brown & Brown
- Karole Lloyd, Aflac
- Rich Macchia, FLEETCOR
- Maureen Morrison, Asbury Automotive Group
- Wendy Needham, Genuine Parts
- Carol Yancey, BlueLinx

The following executives participated in the meeting:

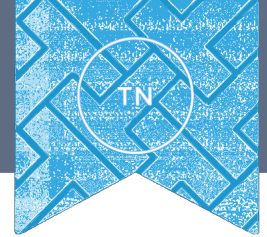
- Kelly Baker, Asbury Automotive Group
- Heidie Cotey, NiSource
- Stephen Gentry, Genuine Parts
- Rick Machold, Conduent
- Michelle Moersch, Emerson
- Seye Ogunjimi, Deckers Outdoor Corp.
- Colette Simo, Watsco

EY was represented by the following:

- Angie Christie, US-Central Region Vice Chair
- Cigdem Oktem, Central Region Leader - Center for Board Matters
- Dave Sewell, US-Central Region Audit Leader

Tapestry Networks was represented by the following:

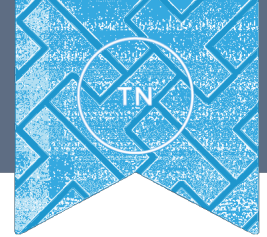
- Kate Cady, Project and Event Manager Team Leader
- Allison Greene, Associate
- Amy Sampson, Principal
- Eric Shor, Partner



Appendix C: Risk lightning-round results

At several of this fall's meetings, both members and executives commented on emerging risks that are *"keeping them up at night."* Below is a visualization of more than 50 members' and executives' "top-of-mind risks."⁴

TOP-OF-MIND RISKS					
CYBER/AI	17	GLOBAL RECESSION	3	CIVIL WAR	1
GEOPOLITICS	13	INFLATION	2	CURRENCY	1
TALENT	10	CAPITAL MARKETS	2	DATA PRIVACY	1
REGULATORY CHANGE	6	DEBT/BANKRUPTCIES	2	DECLINING BIRTH RATE	1
CLIMATE	4	ECONOMY	2	FOOD DISRUPTION	1
SUPPLY CHAIN	4	INFRASTRUCTURE	2	NUCLEAR WAR	1
THIRD PARTY RISK	4	VALUE REALIZATION	2	PANDEMIC	1



Endnotes

¹ *ViewPoints* reflects the use of a modified version of the Chatham House Rule whereby names of participants and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Quotations in italics are drawn directly from these meetings.

² EY, *Risk Leaders Continue to Pave Way for Disruptive Change: 2022 Global Internal Audit and Internal Control Survey Results* (Ernst & Young LLP, 2022), 4.

³ US Census Bureau, "[The Number of People Primarily Working from Home Tripled Between 2019 and 2021](#)," news release, September 15, 2022.

⁴ Some members and executives reported multiple top risks. Some responses were subsumed under more general categories of risk.