Organisational transformation:

What is Internal Audit’s role?
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Organisations across the world are increasingly undergoing transformation, and it is clear that this trend will continue. Markets are no longer constrained by geographic or legal boundaries, which means that companies can not only expand globally, but can collaborate within and across organisations.

Many of these organisational transformations take place on a large scale and over many years. In this new environment, ‘agility’ – the ability to move and react flexibly – has emerged as a key driver for enhancing shareholder value and ensuring sustainability.

To achieve agility, organisations are engaged in complex initiatives that are expected to deliver benefits to many different stakeholders without compromising the integrity of the existing environment or violating compliance requirements. This, along with the greater demand for accountability and transparency, has raised the stakes for program success.

Often these initiatives are referred to under the umbrella of transformation programs and are underpinned by multiple projects or work streams. Driven by a focus on new markets, improving operational efficiency, the need to retire aging and complex legacy systems, and the promise of a more agile business. The benefits to the organisation can be large, but not without risk.

Internal Audit is therefore faced with a challenge: how and when do we get involved, what does our involvement look like, and how can we add value over the full lifecycle of the transformation?

Internal Audit can and should play a key role in these initiatives, by looking at the end-to-end lifecycle of the program and embedding a risk-driven assurance approach in program delivery. This includes enabling and collaborating with the other sources and providers of assurance, and ensuring the assurance outcomes are efficiently delivered by the lines of defence.

If your organisation is undertaking a transformation, or indeed any large-scale program, we offer six suggestions based on our experience:

1. Get involved early and understand the program’s proposed risk management strategy
2. Understand existing/available sources and levels of assurance (build a ‘three lines of defence’ model)
3. Develop a rolling integrated assurance plan
4. Establish processes to operate and maintain the integrated assurance plan
5. Augment the team with subject matter experts with relevant program experience
6. Agree the reporting framework.
Get involved early and understand the program’s proposed risk management strategy

The earlier Internal Audit gets involved the better. Working with the program in the early stages increases your understanding of the program’s lifecycle and its key benefits, drivers and objectives. This enables Internal Audit to contribute to the program as it defines its risk management approach and strategy.

Most large-scale programs will have a quality plan and a risk management strategy, typically generated in the early stages of the program. The risk management strategy would typically set-out the program’s approach to the management of risk, including identification and assessment of strategic, operational and emerging risks, and the assessment of the adequacy of existing management control practices. It would also define the program’s approach to obtaining assurance, and the roles of the respective assurance providers.

Internal Audit’s involvement at this early stage ensures greater alignment of the risk management principles to those of the organisation itself. It also allows Internal Audit to establish and confirm its future involvement and method of engagement based on the level of inherent risk in the transformation.
Understand existing/available sources and levels of assurance
(build a ‘three lines of defence’ model)

Large transformations typically have various sources of assurance. Often these operate in isolation and are driven by their respective functional remits or needs. Examples are:

- quality assurance (QA) activities within the program
- event-triggered or stage-gate reviews performed by PMO functions
- QA outputs the vendor is often contracted to do (e.g. provide reports to the program that their team is operating in accordance with methodologies)
- operational risk team reviews
- internal regulatory and compliance reviews
- external audit activities.

Understanding the respective roles and levels of assurance allows Internal Audit to form a holistic picture of the integrated assurance being provided to the program. This in turn means we can identify gaps in the assurance coverage or opportunities to deliver efficiencies or synergies: for example, transparency of scope and closer interaction with the external auditor, or increasing the scope of level two assurance activities.

Figure 1.1 Three lines of defence model
Develop a rolling integrated assurance plan

Understanding the roles and sources of assurance available helps you develop a risk-driven integrated assurance plan that is aligned to the three lines of defence. Distinct from the organisational Internal Audit plan, this plan operates at a program level. Some of its assurance reviews might be included in the broader Internal Audit plan, but the key benefit is that similar assurance planning and risk alignment principles are applied to the transformation program itself.

This is best achieved through a simple framework that maps the key risks across the program lifecycle to the planned assurance activity and source of assurance. Ideally this occurs from the beginning of the program, and makes use of the program’s initial risk assessment activities. However, it can be implemented at any point in the lifecycle.

![Figure 1.2 Overview of how to develop an assurance framework](image-url)

**Actions planned:**
- Identify gaps in assurance currently being provided
- Develop work program based on identified issues
- Agree Internal Audit role
- Assist in detailed timeline planning for work program(s)

**Develop and implement**

**Operate**
Establish processes to operate and maintain the integrated assurance plan

The risk profile of large programs is always changing. Maintaining a rolling view of the risk profile is key to ensuring that assurance activities are continuously aligned to the areas of greatest risk.

Where such models are applied well, the plan is typically reviewed on a periodic (quarterly or six-monthly) basis to ensure the risk profile remains up-to-date and the aligned assurance activities are valid and relevant. A review point would include the following:

• Review and align high level scope and risk coverage (key questions include: Are the forward/planned reviews still relevant and based on the current risk profile? Can more work be done by the level one and level two assurance providers?)

• Confirm follow-up of previous outcomes (key questions include: Have prior assurance outcomes been addressed and followed up?)

• Assess the timing of reviews to align them with program deliverables and management of review outputs (key questions include: Will the program have time to respond to and address any of the findings, or has the schedule moved?)

• Assess the impact on resourcing (key questions include: Are the reviews targeted to a point in time where resources won’t be available as it is a critical phase?)

• Assess emerging risks and their relevance to the program (key questions include: Are there any emerging risks that warrant consideration for assurance activities, and which line of defence is logical to perform these?)

• Look for any synergies and efficiencies (e.g. joint IA/external audit workshops on key processes in scope for respective reviews).

The key point here is the need for agility. Program objectives may shift, timelines may shift, priorities may be adjusted and risk profiles are ever changing. There is therefore a need to continuously check and recalibrate the alignment of the assurance activities to the program’s risk profile. The challenge for Internal Audit is to ensure comfort over the key risks is obtained and that the touch points with the program are relevant, maintained and add value.
Augment the team with subject matter experts with relevant program experience

It is critical to have relevant expertise on the team. Transformation programs are typically large and may have multiple streams, deep technology components and complex organisational change agendas. Aligning the right expertise to the planning and review activities is therefore essential on a number of fronts, enabling the review team to:

- ensure a sound understanding of the problems and risks
- establish credibility and confidence with the program team
- build empathy with the program team
- bring insights and perspectives from similar programs or industries
- be practical and pragmatic about the materiality of any issues raised in the context of the program versus reviewing against a methodology.
Agree the reporting framework

Are the reviews formal internal audits, or are they health checks or other more advisory style activities performed by the Internal Audit function?

It’s advisable to work with the program and the business to agree the most efficient and practical reporting format. Many programs are running at high speed and in a high-pressure environment. Quite often value can be most realised by ‘near real-time feedback’ – i.e. What can we change now? What are you (the program) concerned about?

Timely and practical reporting is important. It’s critical that the program be able to address any issues identified, and timely reporting is a key element in this.

Additional benefits are derived from ensuring consistency in the format and output of all assurance activities, regardless of the provider. This helps the program team when they are reviewing assurance outputs and adopting and tracking progress against recommendations. Considerations include:

- Are all reports rated in accordance with the same risk/rating scale?
- Are the timelines for agreed resolution of activities consistent based on the rating scale used?
- How does the rating scale align to the program’s risk rating scale and the organisation’s risk rating scale?
- Do the reports specifically state new risks that should be included in the program risk registers?
- Are the outputs of the assurance activities shared with other assurance providers to inform detailed scoping?
- Will all assurance outputs and agreed action registers be centrally managed?
Case Study 1
Telco

A large Asia-Pacific Telco was implementing a major technological change to its network, which was going to have a significant impact on customers, both from a network performance perspective and from the introduction of new product offerings. As part of the change, key support processes and systems had to be upgraded and certain departments restructured.

The implementation involved major risks to customer service, revenue, brand and share price. In addition, a major concern was the ability to roll back changes if it failed, and the costs to rectify changes.

Assessment of Internal Audit’s involvement
Internal Audit provided the following benefits while maintaining an independent position:

- Upfront guidance on risk and controls, which helped developers and vendors to deliver more consistently against expectations
- Regular reviews that identify key risks which, if not addressed, may have prevented new product launches from succeeding
- Recommendations that addressed control gaps and helped to ‘tweak’ and optimise controls design.

Of particular value was the use of global industry experts (who had been involved in similar changes) to support pre-launch Internal Audit reviews. Although initially cautious, the business quickly connected with these experts and considered what went wrong elsewhere, how it might happen here and how it could be avoided. This use of global expertise gave Internal Audit a more informed (independent) position and increased their relevance in the eyes of the business.

What role did Internal Audit play?
Internal Audit was part of the project governance structure, performing regular status reviews of overall project risk before key decision dates. The board looked to Internal Audit to provide comfort the key risks had been appropriately addressed, and also guidance on its expectations of the delivered project solution from a risk and controls perspective.
Case Study 2
Government

A federal government department was faced with the challenge of organisational change after an election. The nature of services it delivered changed significantly, altering the risk profile, organisational structure, geographic disbursement of operations, cultural mix of staff, and profile of external stakeholders.

What role did Internal Audit play?
The challenges Internal Audit faced were understanding the impact of the change on both the organisation and the people within it, and the need to build relationships quickly with new stakeholders to facilitate this understanding.

Internal Audit helped in a number of ways, for example by:

- experience from other clients working with similar issues and mitigation strategies
- reviewing the change management process
- gaining an understanding of new stakeholder attitudes to risk management and Internal Audit to facilitate better communication across the department.

Assessment of Internal Audit’s involvement
Internal Audit provided a second set of eyes, which helped the agency focus on higher level issues rather than the detail. In addition, the timeliness of the review enabled issues to be addressed at appropriate times. The audit committee was able to see the changing risk profile and react appropriately by approving subsequent Internal Audit reviews to manage emerging risks.

Being able to build relationships and share the journey of change with the client gave Internal Audit a better understanding of the client’s operations and provided insights into their culture, that would have otherwise been unobtainable.
Case Study 3
Insurance

An Australian insurance company with two major lines of business had decided to transform its core systems from a mainframe to an open system environment.

The challenges facing the company were:

- both systems projects were running concurrently
- one project’s objective was to deliver a vendor-base solution, while the other’s was a bespoke system
- key operational staff had to be seconded from the business for two to three years.

What role did Internal Audit play?

1. Ongoing monitoring and review of the continued operation of the legacy systems and controls during the life of the projects, involving the following:
   - project risk assessment highlighting key focus areas and milestones for internal audit involvement
   - probity services as required
   - review of business processes and proposed business processes
   - review of key project outputs at key stages, ie UAT, data conversion, go-live readiness, change management, interfaces and reporting
   - review of security and configuration controls.

2. Benefits realisation of the projects

Assessment of Internal Audit’s involvement

- Internal Audit’s involvement was considered highly successful, as they helped the project team identify the project milestones upfront. Being a member of the IT steering committee also ensured they had a valuable organisational perspective. And finally, Internal Audit was able to develop and maintain strong relationships with key people from IT and the business operations.
Case Study 4
Education

A large Australian educational institute wanted to transform itself from a departmental model into a more commercial statutory authority. To help with this transformation they engaged Internal Audit to implement a three-year strategic internal audit plan and an annual operational plan.

The institute faced several challenges with this transformation, including:
- embedding appropriate governance structures and operational systems and processes
- managing funding commitments under a Public-Private Partnership (PPP) model
- establishing quality and compliance management frameworks to achieve standards required of its registration processes
- building systems and processes to not only provide access to high calibre educators but also develop them and capture intellectual property.

What role did Internal Audit play?
Internal Audit’s initial role was to help build controls consciousness and internal processes. A Controls Optimisation Diagnostic workshop was conducted to provide a benchmark and to help decide the areas of focus for reviews of process controls improvement and process and controls efficiency.

Subsequently Internal Audit took a flexible, scaled approach, conducting a mix of design effectiveness, compliance and performance reviews based on the growing maturity of the institute and its policies and procedures. The reviews covered a range of areas across the institute, including high risk areas, baseline compliance, financial controls, performance improvement, and comparisons with best practice guidelines.

Assessment of Internal Audit’s Involvement
Internal Audit gave the board a good understanding of the pace of the institute’s maturity and the importance of a robust compliance culture. The board also received an objective view that the newly established processes and controls, which were communicated by management, were in fact aligned with the institute’s strategic objectives, understood by staff and applied throughout. Finally, Internal Audit’s ongoing reviews offer insight into how well governance and controls are functioning, and highlight any gaps in the control framework which still need to be addressed.
Case Study 5
Workers’ compensation

A workers’ compensation authority was replacing its core business systems for both premium collections and managing claims. The legacy system no longer met the needs of the organisation, and a number of inefficient manual and detective internal control activities were required in order to manage operational risk.

The new system was to be, as far as possible, implemented ‘out of the box’ with minimal customisation. Therefore, major business process change was required to accommodate the new system and streamline processes and controls.

What role did Internal Audit play?

• Provided independent project risk management advice to the project sponsor and board audit and risk committee
• Reviewed key deliverables and attended steering committee meetings to provide independent advice on managing project risks
• Conducted a detailed review of the change management process
• Reviewed design of new business processes to assess operational risks and internal controls

• Reviewed the planned configuration for operating systems and databases
• Reviewed update of business continuity and disaster recovery plans
• Tested operating effectiveness of controls in:
  – User acceptance testing
  – Data transition
  – User access.

Assessment of Internal Audit’s involvement

Internal Audit’s early involvement meant they gained a valuable understanding of the business and could provide an independent voice to help ensure project decisions took in account the operational risk impact.

Reviewing business processes before implementation also helped to embed internal controls into the project rather than it being an afterthought.

Internal Audit was therefore able to keep the client, and the project team in particular, focused on the business-as-usual impacts of project decisions, rather than solely on getting the project ‘done’ – particularly in the lead-up to go-live.
Checklist – things to consider

An integrated framework
• Build an integrated assurance framework across the full lifecycle of the program, supported by a risk-driven ‘three lines of defence’ approach
• Develop simple sustainable processes with periodic review points to maintain the currency of the framework
• Look to develop short reporting cycles – ensuring that issues are fed back in a timely manner and the program can actually respond to and remediate them.

Resourcing
• Ensure reviews are not timed at critical junctures when the program team simply does not have the capacity to assist
• Ensure teams have sufficient program or technical expertise – even if it is an SME for one meeting to add deep context to that particular interview or document review.

Understanding and efficiency
• Take the time to understand what the program wants to get out of each review
• Have a pragmatic view of materiality – i.e auditing against a methodology vs understanding the issue in the context of the program and the bigger picture
• Seek efficiencies and remove overlaps by understanding and sharing outputs of other QA or assurance activities
• Understand early and align with the needs of the external auditor
• For health checks, align risk/reporting scales to those in use within the program and the organisation
• Consider taking an independent role on the program steering committee
• Take advantage of the role of the PMOs or other Risk and Governance functions to provide level 1 assurance; for example, the PMO could review compliance with the organisation’s project delivery methodology, enabling level 2 and level 3 assurance to focus on higher risk areas
• Work with the program to understand the quality assurance outcomes its vendors have committed to providing, and ensure those activities are occurring.

Involving the business
• Ensure reviewers interview not just the program leaders, but those operating ‘at the coalface’ to understand their views
• Engage the business/end-recipients of the program – What does it mean to them? Are they engaged by the program? Are they clear about what the transformation means? Again ensure you get views from the coalface.

Findings and recommendations
• Consider innovative ways of agreeing findings – for example, a workshop approach with all stakeholders. This saves time and drives collective buy in
• Maintain an interest in how the program will implement the findings and recommendations (don’t simply disengage following the review)
• Ensure the program manages centrally a consolidated view of all audit and review findings.

Above all, be agile. These programs move at high speed and the risk profile is ever changing. Challenge the team to align the assurance to the areas of greatest risk and where the most value can be derived.
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