The Next Generation of Internal Audit
Adopt new concepts and capabilities

By Jarod Baccus and Landon Adkins

The next generation of internal audit is rapidly evolving across all industries. Next-generation departments seek to innovate with automation and advanced analytics to improve the ways they perform risk assessments, conduct audits, execute continuous monitoring and report results. They are on a continuous journey to provide broader and more timely risk coverage for their organizations.

It is not necessary to change. Survival is not mandatory. – W. Edwards Deming

Although next-generation status is not rigidly defined and may look different from organization to organization, internal audit must undoubtedly innovate to ensure its future relevance. The internal audit functions that are leading the way in innovation are successfully utilizing enabling technologies such as automation and advanced analytics to evolve to a more dynamic and responsive audit methodology.

Traditional audit approach

Regarding risk awareness, the best practice for decades was to conduct an annual risk assessment that established the internal audit plan for the year. In some cases, the risk assessment was only performed every two or three years.

Audit hours would then be inflexibly focused on executing the projects from the plan. Occasionally, an event or request of such magnitude would occur that internal audit would be required to dramatically shift its focus from the audit plan. The hours needed for unanticipated developments would be taken from a contingency category of special request hours or would mean canceling audits. As we have all learned during the pandemic, the agility to shift focus quickly and dynamically to new areas almost overnight cannot be overvalued.

Internal audit functions traditionally built their audit plans and projects around key steps that generally had to be performed in a specific sequence, commonly referred to as a waterfall approach. Projects were scheduled to flow from planning, to fieldwork, to reporting and finally to wrap-up.

However, with more next-generation audit-framework concepts (shown in Exhibit 1) being incorporated into internal audit functions (e.g., aligned assurance, agile audit approach, dynamic risk assessment, continuous monitoring), reliance on the waterfall approach alone is now outdated. Traditional audit approaches cost internal audit, auditees and management too much valuable time.

Next-generation approach

The next generation of audit is heavily focused on identifying and responding to the organization's needs in a dynamic fashion. To accomplish this, internal audit functions must retool and upskill themselves to leverage data in new ways to help prioritize their focus. Exhibit 2 summarizes the components of governance, methodology and enabling technology that support next-generation internal auditing.

The leaders of this new era will be those who can glean actionable insight from dynamic data. You will need to leverage different enabling technologies such as analytics, automation, and process mining, and continuously monitor a variety of areas. With these tools properly deployed, you can more easily identify actionable insights around compliance, revenue cycle, finance, human resources and payroll, and other functions. The deployed tools also allow you to use the data to dynamically assess the risk to the organization and then direct or redirect audit priorities as necessary.

You must keep an eye on ever-changing external conditions, such as regulatory developments, payer behavior, payment models, customer populations and other risks, and validate

Provide input on unmitigated risks, minor issues that could escalate drastically, or the need for preventive measures.

that the business is responding appropriately. Utilizing analytics and automation, internal audit can maintain vigilance on the overall health of the organization.

You will be able to provide input to management on key risks that appear to be unmitigated, minor issues that could escalate drastically, or situations where preventive measures need to be performed. Internal audit needs to ensure that issues are addressed as expediently as possible and be able to provide input to the organization regarding better ways to operate.

Overall, audit needs to continuously assess an organization's risk environment and let management know which operations are going well and where attention may be needed. Further, internal audit needs to provide insights on what degree of attention is needed and recommend an audit that is a diagnostic high-level check, a comprehensive process review, or something in between.

A next-generation internal audit department includes an agile approach to act quickly on insights gleaned and to measure the success of that action. An agile audit approach is based on iterative and sustainable development, where requirements and solutions evolve through collaboration between cross-functional audit teams focused on quality. Internal audit and its stakeholders are focused on a common goal of risk mitigation through responding to changing and emerging business needs and directions while simultaneously working to meet business and regulatory commitments.

Start with a road map

Quickly turning data into accurate, actionable information is the key to moving forward into the next generation of internal audit. The question is not whether audit should more heavily use data, but rather how audit can use data more effectively and where to start utilizing the vast amount of data available.

Exhibit 1 – Framework of next-generation auditing
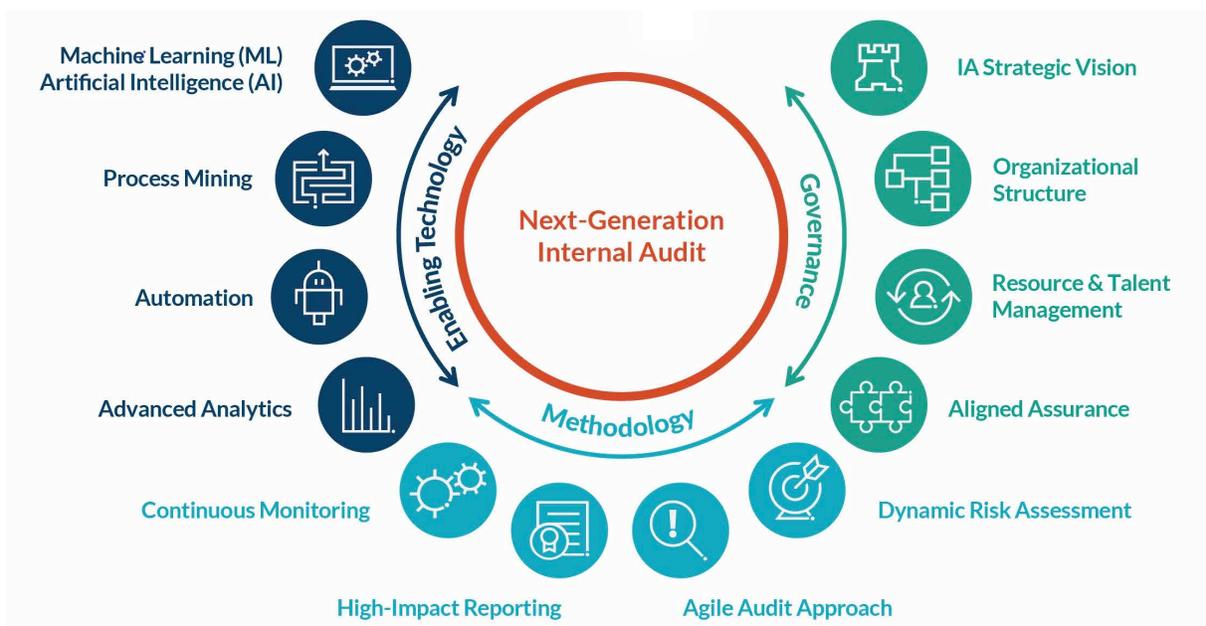
As with any journey, having a road map is generally helpful in ensuring that one gets to where one is going with as few detours as possible. If your internal audit function would benefit from building an analytics program or using analytics in a more meaningful way, consider adopting the following approach.

Assess your current state – Evaluate your use of data analytics and audit capabilities:

1. Determine the key skill sets/qualities (e.g., agile, technical, analytical) needed within a next-generation internal audit function.

Exhibit 2 – Next-generation framework

Governance	Methodology	Enabling technology
Audit strategic vision	Dynamic risk assessment	Machine learning (ML) and artificial intelligence (AI)
Next generation internal audit defines a clear and concise strategy to establish the function's purpose, enable achievement of objectives within the established vision and mission, and facilitate an innovative culture that helps achieve organizational goals.	Dynamic risk assessment generates timely and relevant information regarding risk factors to support risk-informed decisions, scenario planning and forecasting. This approach effectively considers emerging risks and proactively adapts.	ML and AI are advanced concepts that involve studying data to detect patterns or predict outcomes and leverage computer systems able to perform tasks that normally require human intelligence.
Organizational structure	Continuous monitoring	Process mining
Audit functions are evolving due to a constantly changing regulatory and digital transformation landscape. Organizational structures must be developed to allow for sufficient and flexible coverage across entities, geographies and applicable risks.	Continuous monitoring is the practice of reviewing business processes on a real-time basis to determine whether these processes are performing at the desired level of effectiveness and/or efficiency.	Process mining uses data from a company's internal information technology systems to visually reconstruct how processes perform and to identify process deviations, weaknesses and workflow delays.
Resource and talent management	Agile audit approach	Automation
Next-generation departments are sourcing talent creatively through partnerships and retaining talent through innovative work environments, challenging existing norms. Flexible resource models will be employed to gain access to skillsets and capacity.	An agile audit approach uses a framework based on iterative and sustainable development where requirements and solutions evolve through collaboration between cross-functional audit teams focused on quality. Audit is focused on risk mitigation through responding to changing and emerging business needs.	Automation is a digital transformation technology that enables users to build and configure bots to emulate the labor-intensive, routine or repetitive actions of a human interacting with a computer.
Aligned assurance	High impact reporting	Advanced analytics
Aligned assurance is the correlation of risk, controls and a broad view of the control environment across the three lines of defense. Aligned assurance seeks to maximize operating efficiency and provide clear visibility of results to stakeholders.	Effective communication is essential to demonstrating the value that internal audit delivers. Optimizing many aspects of internal audit's approach—such as risk assessment, audit execution, methodology and the use of data—provides a solid foundation for effective communication that is relevant, risk informed, timely and insightful.	With the proliferation of data coupled with the advancement of automation and data science technologies, organizations have started focusing on where analytics can be incorporated to deliver proactive, efficient, effective assurance.

2. Understand the key skill sets that exist outside of internal audit that can be leveraged through shared resources with second-line management roles in managing risk in your organization.

3. Identify the data sources, reports, and tools (e.g., Alteryx, PowerBI, Tableau, Celonis, UiPath) available within your organization.

4. Capture analytics and other enabling technologies that have already been developed as part of an internal audit project or built by management.

5. When finalizing the overall audit plan and during initial project planning, brainstorm analytics that could be used on each project. Identify projects that can leverage existing analytics, projects that will need to have new analytics built, and recurring projects that would benefit from developing a more robust tool to streamline repeatable audits.

Determine your future state – Define, design and quantify a multi-year future state of the analytics program within your internal audit function, including tools, skills, and other resources that will be needed.

Conduct a gap analysis – Compare your status between the current state and desired future state and develop a prioritized list of gap-closing initiatives.

Develop a prioritized roadmap – Map potential analytics, automated processes, and/or continuous monitoring applications that could be used to monitor the largest risks within the organization. Determine whether the road map is building toward the desired future state of the analytics program.

Gather management input – Solicit input from management as to which areas they see as the highest risks and which areas need more visibility.

Continually improve – Improve your analytics program each year, building on what was developed and implemented during previous years.

Fully leverage analytics

Analytics can and should be used across all stages of internal auditing. In a true next-generation internal audit model, analytics are continually leveraged to help establish the initial overall plan, determine audit scopes, assist with testing, perform root-cause analysis for identified findings, and provide high-impact reporting to key stakeholders. Examples include the following.

Project identification – Continuous monitoring, follow-up dashboards, and other data feeds can help determine what should be on the audit plan for the coming year or quarter or if a special project is needed in one area. Examples include operational transactions (e.g., denials, cash handling, hospital technical fee coding and billing), and departments (e.g., compliance, accounting, revenue integrity).

Scope identification – Project analytics can help determine the locations or facilities, payers, coders, or processes that require focus. Also, analytics can narrow down a population of transactions to a targeted sample for further review.

Testing – Project analytics can replace some sample-based testing and can help sift through an entire population to identify and target specific anomalies and instances of interest.

Root-cause analysis – Project analytics can also help determine the root cause of an overarching issue. For example, denials may be an overarching issue and the front-end revenue cycle processes are where the issue is originating. Analytics can potentially point to a specific registration desk employee who is incorrectly entering the patient's insurance information into the system.

High-impact reporting – Analytics can be used to produce audit reports that are more visually appealing and carry more weight when issues are reported to executive management.

Improve audit processes

Next-generation concepts for improvement exist with your internal audit processes. Two important areas where you can leverage the concepts and tools to improve reporting accuracy and timeliness are the risk assessment and follow-up processes.

Risk assessment – Risk assessment provides an excellent opportunity to incorporate automation to systematically download completed surveys from a survey tool (e.g., SurveyMonkey, Microsoft Forms). The compiled survey results can be sent to stakeholder(s) before interviews to preview and focus the discussion.

Automation can also be used to pull data out of the survey tool at a set frequency and perform initial analysis to identify trends and outliers. You can use analytics and data visualization tools to parse out the survey responses to identify the key risks to the organization at any location, function or responsibility level. For example, the sort could

Leading internal audit functions are successfully utilizing automation and advanced analytics.

Effective communication is essential to demonstrating the value that internal audit delivers.

be based on facility, department, region, state, type of facility, and management level.

A similar approach can be used to capture and analyze post-audit survey feedback. Data visualization and other interactive collaboration feedback tools (e.g., Mentimeter, Mural) allow you to be more interactive and innovative. The tools can allow you to present the top risks to the organization in more compelling formats and capture management's feedback on the top risks.

Follow-up – Following up on the resolution by management of audit findings is a time-sensitive activity. You can improve the process without relying on a major third-party software tool. Once an audit report is finalized, each finding, recommendation, management action plan response, due date and key process owner should be captured in a database.

Data visualization tools can then be used to analyze the follow-up data based on multiple fields maintained within the database, such as risk ranking, due dates and responsible key process owners. The tools facilitate compelling reporting to, and direct interaction with, designated process owners for their assigned findings. The reports will allow the process owners to check up on resolution status with subordinates to ensure that accountability is being maintained.

Continuous monitoring

To be an effective business partner with management, internal audit must keep a real-time pulse on the health of the organization. Effective monitoring can be accomplished by implementing a continuous monitoring dashboard—driven by automation and analytics—that alerts the audit team to potential problem areas for further review. For example, a revenue analytics dashboard could monitor day-to-day claim adjustments by reason code and generate an alert

when a specific daily adjustment exceeds an established threshold (e.g., two standard deviations from the monthly average daily adjustment).

During the pandemic, a continuous monitoring effort of the Covid-19 patient population proved beneficial. Other powerful uses of continuous monitoring include identifying excessive outpatient opioid prescribing patterns, irregular controlled substance dispensing based on automated dispensing machine logs, duplicate payments in accounts payable, excessive overtime hours, and unusual user access changes.

An action-plan matrix should be established that outlines the protocols to follow for each type of alert, who to contact, and who is responsible for carrying out any investigation or remediation. Alerts should be reviewed on a scheduled cadence, and any necessary additional steps should be defined and followed through to completion. Define standard reporting formats that summarize continuous monitoring activities and protocols to make reporting to management and the audit committee more effective.

Conclusion

The transition to the next generation of internal auditing has begun, but optimal processes have yet to be implemented by most internal audit functions. However, the move to an innovative and dynamic audit model heavily informed by high-quality data sources is well within reach. A key takeaway from Protiviti's 2021 Next-Generation Internal Audit Survey is that progress toward adoption of next-generation concepts remains slow and digital maturity remains a rarity. But progress is evident with digital leaders who stand out for the benefits they are reaping. **NP**

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