Practical integration of robotic process automation within internal audit

Challenge the past, transform the future
Value proposition within IA

The financial services industry is burdened by continued regulatory scrutiny, cost management pressures and an overall talent management shortage. The heightened regulatory agenda has elevated the expectations and visibility of internal audit (IA) departments with regard to communicating internal control adherence; an environment that often is complicated by the interconnectedness of processes and technology, both internally and across vendor relationships. IA departments continue to be perceived as cost centers within many organizations; hence mandates from chief operating officers (COOs) to decrease costs while conversely providing increased coverage and quality. Additionally, IA departments remain challenged to acquire, develop and retain strong resources due to the attractiveness of positions within the business and risk management departments. As a result, IA departments are beginning to consider “how” they can better operationalize and simplify their function by realizing and leveraging the benefits of RPA.

Progressive IA departments within financial services are exploring opportunities to transition the manual, nonjudgmental, repetitive tasks to technology-enabled “robots.” This transformation will allow IA departments to enhance testing (e.g., population versus sample based) to invest increased time with their auditees. IA departments can subsequently foster improved credibility as a “trusted advisor,” focus on the critical risks and develop deeper relationships and competencies to keep pace and connect with the business (e.g., cybersecurity, new product development). In turn, IA departments can develop risk professionals with stronger skills who can rise to the challenge and achieve a do-more-with-less philosophy.

IA departments recognize that a virtual workforce may facilitate these downstream benefits, and it is, therefore, vital to remain aligned with the broader organizational direction, leverage humans for their financial services and technical competencies and maximize the advantages of RPA.

Robotics defined

Shareholder demands and elevated regulatory expectations continue to increase cost management pressures at many organizations. Additionally, financial services organizations continue to experience emerging FinTech-based threats that challenge costly legacy application platforms, the high number of manual processes and the expectation to progress agendas without increasing headcount. Historically, traditional cost-saving programs have not achieved expectations. As a result, organizations have been revisiting their operating models and embedding new and innovative technologies to generate impactful cost savings, which, furthermore, enhance the overall business performance.

Robotic process automation (RPA) is one of the fastest growing technologies within the spectrum of automation, and its pace of adoption is increasing dramatically. Researchers indicate:

- An estimated 30% to 40% of existing business processes are likely to be impacted by RPA.
  - Gartner
- Cost reductions of 35% to 65% for onshore operations and 10% to 30% for offshore operations are expected.
  - Institute for Robotic Process Automation
- RPA is estimated to lead to 30% to 35% reduction in entry-level roles and increase mid-level roles.
  - Everest Group

RPA represents technology to optimize business processes in a repetitive, auditable and controlled manner. RPA enables financial services organizations to automate existing high-volume, deterministic, computer-based tasks as if the business users were doing the work. Software-enabled robots work 24/7, sit alongside existing IT infrastructure and are governed by IT and the operations teams. Robots do the “what,” freeing up humans to focus on the “why.” Cost reductions and productivity efficiencies are the expected outcomes, which create opportunities for organizations to better focus their resources on driving innovation and expanding their business.

### Compatibility
Integration with existing systems and infrastructure

### Accuracy
Correct calculation, result or decision from the onset

### Consistency
Identical processes and tasks, eliminating output variations

### Reliability
No sick days, services are provided 365 days a year

### Auditability
Fully maintained logs essential for compliance

### Productivity
Available human resources for more valuable tasks

### Right shoring
Geographic flexibility promotes enhanced, cost-effective delivery

### Retention
Shifts human effort toward more stimulating tasks

### Scalability
Instant ramp up and down to match demand peaks and troughs
IA applicability

IA departments within financial services are making formal investments to thoughtfully establish their strategy for entertaining the incorporation of RPA. Executive IA support is critical to the sustained success of injecting innovation within IA departments, specifically to empower IA operation teams and professional practices and methodology teams to transform approaches of a department. Similar to process transformation and rationalization exercises historically conducted, this requires IA departments to analyze their daily interactions, critical activities and time commitments to challenge their efficiency and degree of “smart” auditing conducted. IA departments are beginning to capitalize on the life cycle below to benefit from the capabilities of RPA.

1. Process identification
   - What is the composition of the current audit plan?
   - What is the universe of processes and activities within an IA department?
   - Which processes are departmental versus auditable?
   - What are the IA auditable entities and units?
   - Which processes are viewed as the most laborious, nonjudgmental, manually intensive, and centered on validating or processing electronic data?
   - Has process ownership been established to foster open dialogue about RPA opportunities?

2. Process prioritization
   - Does a framework exist to determine RPA feasibility (e.g., technology, risk)?
   - What are the low and moderate risk processes?
   - How are the sequence and the approval of RPA candidates determined?
   - Are processes supported by legacy systems and infrastructure?
   - Has a return-on-investment threshold been defined to assess the candidacy?

3. Development and deployment
   - What are the defined business requirements for the proposed RPA?
   - What level of rigor and control is enforced during the RPA life cycle?
   - What degree of testing is conducted to obtain confidence in the development prior to deployment?
   - How are forward and backward compatibility considered?
   - Can capabilities be created whereby the code developed can be readily reused for other RPA instances?

4. Ongoing operations and performance management
   - How is exception handling addressed?
   - How does the introduction of RPA impact the current job responsibilities and headcount?
   - What degree of maintenance is required?
   - How are immediate and long-term cost savings of RPA realized and reported?
   - How is information quality affected?

5. RPA life cycle governance
   - Does an enterprise center of excellence (CoE) exist to consistently manage risks and controls from creation through to retirement (including IA department alignment)?
   - Are formalized policies, procedures and standards established?
   - What are the standards regarding usage of one or many RPA vendors?
   - How are additional capabilities of RPA (e.g., optical character recognition (OCR), machine learning) consistently governed?
   - How does the IA strategy for RPA align with the broader business strategy and analytics approach?

Representative use cases
Specifically within IA, the results of these opportunity scans may be classified into two categories of use cases:

Operational, departmental-specific processes
- Reporting packages (e.g., audit committee, regulators)
- Issue reconciliation
- Budgeting and forecasting
- Key risk indicator (KRI) and key performance indicator (KPI) dashboards
- Quality assurance adherence
- Document request list management
- Template creation (e.g., announcement memos, risk and control matrices (RCMs), test sheets)
- Learning and development (e.g., continuing professional education (CPE) compliance, performance management)
- Data manipulation and formatting

Audit-specific processes
- Reconciliations to source systems
- Bank Secrecy Act (BSA) and anti-money laundering (AML) (e.g., Office of Foreign Assets Control (OFAC) testing, transaction monitoring, know your customer (KYC))
- Ticket-based testing (e.g., access management, change management)
- Data quality and integrity checks
- Trade and loan capture
- Trade breaks
- Confirmations
Lessons learned

While RPA drives long-term cost savings, quality improvements, increases in speed and resource availability, IA departments should recognize the lessons learned from similar initiatives across the business departments. Although RPA alone cannot overcome poor data and insufficient business processes, when used correctly, it remains a powerful enabler.

As a result, IA departments should:

- **Define an automation strategy** — determine the mission and objective for consistent introduction and deployment of RPA.
- **Use an agile, process-focused approach** — adopt an agile approach to maximize rapid benefit delivery, incremental improvement and rapid response to change.
- **Act now, go fast and stay nimble** — establish metrics but solve for the obvious first, breaking up larger issues into manageable pieces.
- **Focus on scale and frequency, not just end to end** — consider RPA only for selected parts of a process and then move onto the next activity.

However, IA departments should not:

- **Drive decisions solely on cost** — focus on downstream benefits rather than up-front investments.
- **Overthink where to start automating** — avoid resolving irrelevant problems and select an enhancement that will generate excitement following deployment.
- **Overdocument the existing process** — challenge the degree of thorough requirements defined and documented at the onset.
- **Forget to start preparing for long-term success** — recognize that pilots support a business case but may not foster the long-term vision and sustainability.

Top-five predictions

As the expectations of IA departments continue to evolve to satisfy the heightened regulatory scrutiny, we believe:

- The future composition of IA departments within financial services will drastically differ from today.
  - The forecasted breakdown includes 15% executives, 25% FTEs, 15% co-source support, 25% automation, and 20% offshore and onshore.
- Automation will help enable continuous control monitoring (CCM) and continuous control auditing (CCA) within IA departments to facilitate the elusiveness of this “aspirational” goal.
  - KRIs and KPIs will be readily available for real-time consumption to challenge audit plans, coverage and testing approaches.
- Sample-based testing for low and moderate inherent risks audited will be a distant memory.
- Automated testing of complete populations will be the norm and enable IA departments and their FTEs to focus on higher-value initiatives.
- Audit committees will be seeking consumable, metric-driven dashboards that measure the quantifiable “value” of IA departments to truly challenge the focus areas and the degree of testing conducted compared with the risk mitigated.
- IA departments will hire productivity and efficiency professionals to help establish, govern and operationalize CoEs to consistently deploy RPA in a controlled manner.

Next steps

IA departments continue to focus on their agility to address the “risks that matter” timely. To achieve these objectives, we recommend embarking upon the following actions:

- Strategize the approach based upon the key IA business drivers.
- FTEs and RPA represent a complementary workforce meant to coexist in harmony and jointly drive the overall productivity and return on investment of the IA department.
- Prioritize the relevant tasks within IA that are most suitable for RPA and immediate value recognition.
- Deconstruct three to five audit-specific or operational, departmental-specific processes to determine “how” and “where” RPA can be introduced.
  - If RPA is not a feasible option, process streamlining, re-engineering and simplification may still create efficiencies.
- Collaborate with business departments to determine the relevant systems to leverage and access to minimize the burden on auditees to provide requested documents.
- Proactively consider both the cultural (e.g., anxiety, resistance, job description modifications) and auditability impacts of introducing RPA into the IA department.
- Foster education and training early and often, particularly to create an environment in which the IA department is knowledgeable about how and where to openly suggest innovation.

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