# Governance, Risk, and Control

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Part 3: How Digital Transformation Is Transforming GRC

The Institute of
**Internal Auditors**

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## About the Experts

### Sarah Kuhn, CIA, CCSA, CRMA

Sarah Kuhn is a highly experienced professional in the field of internal audit. With over 20  years of membership in The Institute of Internal Auditors (IIA) and a past presidency of the Tulsa chapter, she has demonstrated her commitment to the industry with experience in department training, reporting, and standards compliance, as well as leading an audit team focused on analytics and automation. Sarah also currently works as an officer in The IIA Houston Chapter.

### Audra Nariunaite, CIA, CISA, CFE, CHC, CHPC

Audra Nariunaite is a compliance and audit professional with multi-industry experience and a proven ability to drive growth and excellence through strategic initiatives and process reengineering. She currently serves on the board of directors for The IIA Northeast Florida Chapter and is a member of IIA–Lithuania.  Audra is presently a director of compliance at global employment platform Oyster HR.

# Introduction

**Arguably, no trend** is affecting the governance, risk, and compliance (GRC) landscape more significantly than the rise of technologies in daily business operations — and it is easy to see why. The benefits of digital transformation cannot be understated, with tools springing from this trend now being used across nearly every major industry to automate and accelerate processes, allowing GRC and security operations to quickly identify and respond to potential risks and issues.

For example, with its ability to analyze unstructured data sources ranging from emails to social media feeds, AI-assisted natural language processing can be combined with the skills and experience of human GRC teams to provide risk and compliance management resources at a level of sophistication and complexity that could not have been fathomed just a generation ago.

While the need to undergo such a radical digital transformation might have once been considered a luxury, today's risk landscape provides organizations little room for delaying adoption. Cyberthreats are intensifying in volume and sophistication by the day; the raw volume of data being produced, collected, and processed continues to grow at a staggering rate, creating ever-increasing data privacy risks; and the regulatory landscape continues to evolve rapidly to match the speed of today's risks. Indeed, without the advantages digital transformation provides, GRC functions in today's world might well be lost.

As Part 3 of The IIA's Global Knowledge Brief series on GRC, this final installment addresses how GRC systems are evolving from the incorporation of new technologies as well as what inherent risks are involved in embracing digital transformation. This brief also addresses where internal audit fits into this conversation and how it might best aid organizations as they continue this critical journey.

# The 2023 Digital Transformation Conversation

Understanding a loaded risk

## The scope of digital transformation

**The digital transformation explosion** seen during the COVID-19 pandemic continues to rage, and in some ways its evolution is gaining speed. This has occurred not only because of a baseline desire to increase profits and efficiencies to gain a competitive edge in the marketplace, but also because of a drive to maintain pace with (or, ideally, get ahead of) the extensive list of emerging risks that have materialized in recent years. Inflation, geopolitical tensions such as the Ukraine conflict, the China-Taiwan dispute, widespread economic uncertainty resulting from events such as the sudden closures of numerous large-scale banking institutions, ongoing discussions pertaining to ESG risks and related changes to the regulatory landscape, supply chain disruptions and shortages — these are just a few of the forms risk has taken in 2023. From the perspective of organizations tasked with maintaining some semblance of assurance against them, a wide-scale embrace of digital transformation is viewed as an effective salve. Indeed, according to a recent report from Gartner, 89% of board directors say that digital business is now embedded in all business growth strategies, even if just 35% say they have achieved or are on track to achieving digital transformation goals.

"Boards of directors have reached a point where digital business strategy and overall business strategy are one and the same," said Jorge Lopez, VP and distinguished analyst at Gartner, in the report. "While CIOs have made significant progress leveraging technology for operational excellence, this is not enough to realize the strategic business benefits that [boards of directors] are looking for from digital investments."[1]

What digital transformation looks like varies from location to location, industry to industry, and organization to organization. What is effective, or even achievable, by one organization may not be ideal for another. Despite this, there are some fundamental similarities among organizations embracing some form of digital transformation. "[Digital transformation] is about more than just technology," said Chintan Shah, CEO and founder of Brainvire, writing for *Forbes*. "[I]t's about the shift in mindset that enables organizations to reimagine their business models and processes to take advantage of the opportunities created by emerging technologies."[2]

Lopez expressed a similar sentiment. "As enterprises increasingly operate in a world of constant disruption, the most future-savvy boards are considering how upheavals and risks can serve as a source of opportunity. CEOs and CIOs will need to adopt this mindset as technology plays an ever-expanding role in driving business success."

Such reimagining can take many forms, including, but not limited to:

- Artificial intelligence (AI), machine learning, and natural language processing adoption.

- Robotic process automation (RPA).

- Cybersecurity and data privacy focus.

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[1.] "Gartner Says 89% of Board Directors Say Digital Is Embedded in All Business Growth Strategies," press release, Gartner, Oct. 29, 2022, https://www.gartner.com/en/newsroom/press-releases/2022-10-19-gartner-says-89-percent-of-board-directors-say-digital-is-embedded-in-all-business-growth-strategies.

[2.] Chintan Shah, "Businesses Need to Watch these Digital Transformation Trends in 2023," Forbes, Jan. 27, 2023, https://www.forbes.com/sites/forbestechcouncil/2023/01/27/businesses-need-to-watch-these-digital-transformation-trends-in-2023/?sh=7147b04a185d.

- Cloud migration.

- Data analytics.

- 5G adoption and digital optimization.

- Blockchain.

- Virtual business collaboration.

- Consumer data platforms.

## Digital transformation's effect on GRC

Clearly, with so many connotations and applications, digital transformation has had a profound effect on GRC functions, and in many cases, organizations have struggled to maintain adequate levels of GRC coverage as changes in the technology landscape continue apace. A recent survey from Risk.net in collaboration with IBM of GRC professionals in the financial services sector revealed some alarming trends, including:

- 62% believe their digital transformation has exposed gaps in existing GRC processes, and nearly half of respondents (45%) think their organizations are now "playing catch up." Only 37% said they had invested time and resources toward their digital transformation before the shift.

- 77% believe their firms' risks have increased as they have become more reliant on digital channels.[3]

Additionally, in the same study, when asked what risks assumed greater prominence in their organization as a result of digital transformation trends, 56% identified information/data security, 48% said cybersecurity breaches, 32% said third-party/supply chain risk, and 31% said compliance risk.

To remain effective, GRC functions have had to modernize by taking definitive steps to embrace digital transformation or risk subjecting their organizations to significant risk. Such steps include:

- Allocating or recruiting new resources.

- Adopting some form of hybrid cloud data storage model for enhanced data analytics uses.

- Upgrading current GRC tools and capabilities.

- Deploying advanced technology, including AI-related tools and automation systems.

While some of these actions may seem somewhat obvious, the speed at which the current risk landscape is evolving makes them anything but. For example, historically, organizations relied on conformance to particular guidance or a framework of standards, certifications, and/or regulations to establish a foundation of proven controls and processes that set a GRC function up for success.

Today, however, such an approach can become complex quickly. This can be due to:

- The swift development of new or updated frameworks that require rapid conformance. Examples include the rapid creation of a variety of proposed regulatory initiatives in the EU related to digital strategy, including the Data Conformance Act, Digital Markets Act, Digital Services Act, Data Act, and AI Act, all of which anticipate approval by the end of 2023; or

- A lack of clarity or guidance from current frameworks, which leaves organizations — at least for a time — to fend for themselves.

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[3.] "Digital Transformation and the Future of GRC," Risk.net, IBM, Feb. 2022, https://www.ibm.com/downloads/cas/WWQXRPLG.

"With systems such as ChatGPT and Bing Chat coming out and CoPilot currently preparing for release, many organizations are needing to act quickly because employee are already using some of these technologies to complete tasks," said Sarah Kuhn, a noted internal audit leader with over two decades of experience and service in the profession. "There are some organizations that will block them entirely, while others, with teams more equipped to understand the technologies, will create internal guidelines on how it should be used and when it should be used."

Such teams tasked with developing strategies to create such guidelines will vary in makeup based on the organization, but they could include parties such as the chief digital and information officer, IT and risk management teams, legal, and finance groups. Once created, however, strategies to communicate and enforce the guidelines are equally critical. "Companies can operate on an honor system to some extent," said Kuhn, "but more formal measures to communicate evolving guidelines are needed, as well. For example, when an employee types in a certain web address (like for a generative AI site), organizations may redirect to a  banner in their browser reminding them of the company guidelines."

To accomplish such a feat so seamlessly, Kuhn noted an agile, adaptable GRC function would need to be in place before emerging technologies such as ChatGPT enter the organization's risk landscape. Not every organization is going to have the blessing of such foresight, whether it is due to restricted resources, limited or poor-quality available data, prioritization of other issues, or simple negligence. Regardless of the reasons why, however, to rapidly get GRC functions in a suitable position to succeed in this new era, internal audit needs to be prepared to take initiatives in more ways than one.

# Internal Audit in the GRC Discussion

Improving GRC in the context of digital transformation

## Keeping a seat at the table

**Internal audit can support effective GRC in several key ways,** especially in organizations that are considered behind on their goals of updating GRC functions.

First, few changes worth pursuing can be accomplished without a degree of investment. Such investments, however, can be difficult without buy-in from every level — from the top of the organization to each individual stakeholder in the GRC function. If there is no buy-in regarding digital transformation, there is a good chance its benefits are not being communicated properly. In this regard, internal audit is in a unique position to relay such information by simply maintaining a seat at the table.

"From our seat at the table, we can ensure through each emerging trend, management and the board are making informed decisions," said Kuhn.

Indeed, a seat at the table should always be critical for an internal auditor to perform their duties in accordance with their mandate. Through regular and informed communication with stakeholders, internal audit plays an invaluable role in promoting a strong organizational culture around risk assurance and compliance. When internal audit communication channels are leveraged to their full potential, GRC should never be far from top of mind.

## The risk of GRC tool proliferation

Not all controls available to implement will be conducive to a successful GRC-focused culture. For example, with the digitalization of organizational processes, there are now many data analytics tools available that feature GRC modules as add-ons. Internal audit could find itself significantly hindered in communicating a comprehensive view of GRC to stakeholders if individual GRC functions all commit to the use of separate tools to assist them.

"I love data analytics tools and the 100% testing abilities they provide, but now there are so many other tools that add GRC to them as a value offering," says Audra Nariunaite, director of compliance at automated employment platform provider Oyster. "One tool I was recently looking at aggregates other SaaS tools to highlight which contracts are close to renewal and potential savings on taxes, but it also provides a version of a risk dashboard based on the information that SaaS tools process. If the intent of purchasing such a tool was for something different than GRC, I wouldn't even know about it."

"Suddenly, I could be in a situation where I would have a dozen random SaaS tools with components, all of them representing a high-level risk because vendors are processing our private information," Nariunaite continued. "Currently, there are over 100 SaaS tools in our ecosystem. Even if a small percentage of those tools offer a version of GRC for very specific processes, it becomes hard to manage. It creates individual pockets where people think they are doing risk assessments, but they are not doing them in a manner that's integrated in a holistic and reportable way."

To counter such a risk, one strategy is for GRC stakeholders to assign individual process owners to streamline the GRC approach and create a clear communication trail for internal audit. "Everyone wants to do the right thing," said Nariunaite.

"There's a push for managing overall risk now, and that is great. However, there need to be discussions about division of duties, and how they should occur to align priorities and scopes."

Kuhn expressed a similar sentiment by stressing the balance organizations should have between shared responsibility and top-down control. "Internal audit should try to let stakeholders drive GRC objectives and processes as much as possible, and then approach it from a context of promoting collaboration and transparency. Internal audit must be a part of that conversation, so we can be there to raise a red flag when we see something. Most people understand risk and control as it relates to their own roles. They don't really need us to interfere, but we need to understand the broader objectives and where responsibilities lie to perform adequate oversight."

## Strategies to lead and promote discussion

Where possible, internal audit should lead by example by projecting and promoting the benefits of digital transformation through the effectiveness of its function. While some aspects of digital transformation within internal audit obviously require significant budgetary leeway, other aspects, such as basic automation, can be done through programs such as Excel, Power BI, and other Microsoft productivity tools likely already in-house, or at least purchasable at minimal cost.

Leading by example applies to the sharing of knowledge as well, including highlighting where critical competencies are lacking GRC functions. Both within the internal audit function and in other departments, internal audit can play a constructive role in highlighting gaps in workforce knowledge, training, or experience related to working with emerging technologies, while also promoting appropriate corrective measures. Such measures could include communal training at conferences, hiring external parties for training and upskilling, or simply incorporating skills-based training into job roles through free or reasonably priced online resources.

In some cases, organizations can work to promote upskilling in-house through interactions and collaborations with other departments. "One strategy I have seen is building a website where everybody in the organization can input their own innovation ideas, and then they can vote or comment on what they would like to see in the company," said Kuhn. "That would be a way to share knowledge and ideas in a controlled manner, so everyone isn't just going out and doing a thousand different things to build competencies."

Such discussion does not always have to be formal; even something as simple as a communal chat can produce a similar result. "In our organization, there are multiple Slack channels anyone can participate in," said Nariunaite. "Lately, for example, I've been hanging out in the engineering humor channel. They understand that I am the head of compliance, but they treat me as a partner. I love that we all can have informal connections with teams that are actually at the forefront of the digital transformation movement."

To be a contributing part of the discussion, however, there should be an added impetus on internal audit to become knowledgeable about these technologies.

Indeed, the acquisition of such knowledge can be a valuable opportunity for internal audit to add to the organizational value it provides. "I don't think we can meaningfully be involved in discussion with stakeholders when we ask to meet with them about, say, AI or data analytics, if we do not have a significant degree of knowledge in our own right," said Nariunaite. "So many aspects of digital transformation in GRC are still up for grabs regarding who is going to take ownership of them. Why not internal audit? We are curious; we have an open mind; and we are always learning alongside our clients so we can have a place in discussions. What if we were the ones that provided consultation for something like AI implementation in compliance?"

# Conclusion

## Be an active part of the internal audit community

**There is no going back** from a digital transformation, and the choices for an organization are simple: embrace or be left behind. Such a sentiment indeed flows through every element of the organization, from C-suite and boardroom down to GRC, operations, and internal audit.

Additionally, especially in an increasingly interconnected, globalized world, it should flow across industries and geographical boundaries. This means not just performing tasks within the boundaries of an organization, but also going beyond to be an active participant in global audit discussions. Participating in local IIA chapters can be a great place to forge such connections, as can regular attendance at IIA webinars and conferences.

"The best internal audit learning you can have is hearing first-hand the experiences of other functions," said Nariunaite. "I learn so much just 'nerding' out on current audit topics and tech trends with other professionals on Twitter. The profession has changed so much from when I started; it's so important to maintain those industry connections and keep a pulse of how others are successfully meeting the challenges you face."

Though technology has advanced so much — and will continue to advance — there is a degree of comfort in knowing that when it comes to learning and growing in a professional role, there is still no substitute for genuine human connection. In the face of unrelenting change, that will be important to remember.

## About The IIA

The Institute of Internal Auditors (IIA) is a nonprofit international professional association that serves more than 235,000 global members and has awarded more than 190,000 Certified Internal Auditor (CIA) certifications worldwide. Established in 1941, The IIA is recognized throughout the world as the internal audit profession's leader in standards, certifications, education, research, and technical guidance. For more information, visit theiia.org.

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