Where Are We Now, Where Are We Going, and How Will We Get There?

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Agenda

• How Are We Viewed?
• Moving Forward
• How Can We Be Successful?
CBOK Study

The purpose of the Common Body of Knowledge (CBOK) 2015 stakeholder study is to gain a better understanding of global stakeholders’ expectations with regard to Internal Audit’s purpose, function and performance.
CBOK Study Participants

- Board members 34%
- CEO 15%
- CFO 18%
- Other C Suite 33%

Foundational Elements

- Assess areas or topics that are significant
- Keep up to date with changes in the business
- Sufficiently communicate audit plans

More than 80%...
Criteria to Evaluate Internal Audit

- Quality of audit work/reliable results
- Usefulness of recommendations made
- Timely communication of risks

More than 70%...

Should Be More Active Role in Connection With Assessing Strategic Risk?

- Yes: 58%
- No: 24%
- Unsure: 18%
Focusing on strategic risks during audit projects

Evaluating and communicating key risks

Evaluating execution of strategic initiatives

Assessing reliability of metrics used to monitor strategic initiatives

How

Beyond Assurance, What Should Be in Scope

Identify known and emerging risk areas

Facilitate and monitor effective risk management practices by operational management

Identify appropriate risk management frameworks, practices and processes

Consult on business process improvements

Alert operational management to emerging issues and changing regulatory and risk scenarios

Assurance on compliance with legal and regulatory requirements
Assurance vs. Advisory

“Prime responsibility is around providing assurance on the risks and controls… Business requests are accepted, however, only if these do not compromise the plan or the independence of IA”

Balance varies due to
• Maturity and location
• Competence of internal audit
Many assume “both”

Board Member from France

“The organization must be able to call upon internal audit and benefit from its expertise without denaturing its ‘soul.’

In certain consulting engagements, there is a risk of internal audit becoming a ‘low cost’ subcontractor. Just because you are dealing with a reliable and trustworthy person, it doesn’t mean that his expertise should be diverted and exploited at will.”
“Culture is the self-sustaining pattern of behavior that determines how things are done.”

Katzenbach, Oelschlegel, and Thomas
Culture Is Increasingly the Culprit in Organizational Debacles

Rules vs Character

“Corporate scandals of recent years have clearly shown that the plethora of laws of the past century have not eliminated the less savory side of human behavior. Rules cannot substitute for character.”

Alan Greenspan
U.S. Federal Reserve Chairman
Chicago Tribune, 17 April 2004
What Are We Doing?

- More than half of CAEs see organizational culture as high risk
- But, 58 percent say organizational culture is not audited

Sources: IIA Financial Services Audit Center poll; IIA Audit Executive Center poll; North American Pulse of Internal Audit, 2016

Is Internal Audit Equipped?

- IA is able to identify & assess measures of culture:
  - Strongly Disagree: 2%
  - Disagree: 12%
  - Neither: 26%
  - Agree: 50%
  - Strongly Agree: 9%

- IA is able to identify & assess measures of culture:
  - Do Not Audit Culture: 45%
  - Audit Culture: 80%
To Address a Toxic Culture, CAEs Recommend:

- Coordinate efforts with other governance functions
- Raise as separate topic with board
- Raise as separate topic with management
- Focus on culture in audit reports

Culture

- Develop an approach to assess the critical elements
- Gather objective and subjective information about the organization’s culture
  - Use professional judgment to evaluate information that cannot be easily measured
- Build and use relationships
Big Data

Using Data

Risks of Using Data:
• Accuracy of data
• Ethical or barely legal?
• Responsive or convenient?
• Complete or available?
• Causation or correlation?
• Comprehensive or cherry-picked?

Internal Audit Involvement in Evaluating Data Quality

17% Very or Extreme
36% Moderate
47% Slight or Not at All
CAE Confidence in Strategic Decisions Made Using Data

Slight or Not at All - 23%
Moderate - 48%
Very or Extreme - 29%

Use of Data

- Know what is collected, how it is analyzed, and which decisions it supports
- Assess the risks
- Consider these risks in audit planning
- Make sure you have requisite skills
Risk Management

Theory or Reality?

Risk

The possibility that events will occur and affect the achievement of strategy and business objectives

Enterprise Risk Management

The culture, capabilities, and practices, integrated with strategy and execution, that organizations rely on to manage risk in creating, preserving, and realizing value
COSO ERM

Mission, Vision and Core Value
Form the initial expression of risk acceptable in strategy

Strategy and Business Objectives
Possibility of strategy not aligning
Implications from the strategy change
Risk to executing the strategy

Enhanced Performance

ISO 31000

a) Create value
b) Integral part of organisational processes
c) Part of decision making
d) Explicitly addresses uncertainty
e) Systematic, structured and timely
f) Based on the best available information
g) Tailored
h) Takes human and cultural factors into account
i) Transparent and inclusive
j) Dynamic, iterative and responsive to change
k) Facilitates continual improvement and enhancement of the organisation

Principles (Clause 3)

Framework (Clause 4)

Mandate and commitment (4.2)
Design of framework for managing risk (4.5)
Continuous improvement of the framework (4.6)
Implementing risk management (4.4)
Monitoring and review of the framework (4.5)

Establishing the context (5.3)
Risk assessment (5.4)
Risk identification (5.4.2)
Risk analysis (5.4.3)
Risk evaluation (5.4.4)
Risk treatment (5.5)
Process (Clause 5)
Measuring Risk

• Amount: Impact and Likelihood

• Prioritization
  – Adaptability
  – Complexity
  – Velocity
  – Persistence
  – Recovery

Risk

• Risk is an inherent aspect of internal audit
• Digest the revisions to COSO ERM and ISO 31000
• Become a “master” of risk theory and practical application
Non-Financial Reporting

- Non-GAAP measures
- Sustainability/integrated reporting
- Executive pay
- MD&A – CEO’s letter
- ??
Internal Audit Structure

THREE LINES OF DEFENSE MODEL

Senior Management

1st Line of Defense
Management Controls
Internal Control Measures

2nd Line of Defense
Risk Management
Security
Compliance
Quality
Inspection

3rd Line of Defense
Internal Audit

Governing Body / Audit Committee

Regulators
External Audit

The Modern Internal Auditor
No one wants to be the cop

Closing Thoughts

• We have a critical role to fill in an organizational
• Focus on what your stakeholders needs from you
• It’s all about risk
• The right attributes and attitudes are critical