Audit Never Sleeps

Angela Witzany, CIA, QIAL, CRMA
Chairman of the Global Board
The Institute of Internal Auditors
Today’s Agenda

• Audit Never Sleeps
• Organizations Face Complex Risks
• We Have an Opportunity to Add Value
• How Do We Get There?
• A Mission for Internal Audit
The IIA’s Beginnings

The IIA’s first annual meeting was in New York City – the city that never sleeps.
Audit Never Sleeps

Our work offers round-the-clock assurance that our organizations are well-positioned to meet the challenges of a dynamic and complex business environment.
Organizations Face Complex Risks
Organizations Face Complex Risks

- Cyber risk
- Increased and evolving regulation
- Reputation harm
- Technology advancements and disruptive innovation
- Global economic volatility
Cyber Breaches and Privacy/Information Security Continue to Plague Organizations

“Many executives are declaring cyber as the risk that will define our generation.”

— Dennis Chelsey, Global Risk Consulting Leader, PwC

38% year-over-year increase in detected information security incidents

36% of corporate directors are not satisfied with the quality of information provided by management on cybersecurity and information technology risks

Regulation’s Impact Is Growing

Regulation affects costs, growth, and innovation … and regulation remains complex.

83% say regulation’s impact on organization is more significant compared with five years ago.
80% say regulation impacting their organization is complex.
79% say significant impact on business costs.
66% say significant impact on growth opportunities.
63% say significant impact on innovation opportunities.

Reputation Events Can Have Outsized Impact

87% of executives rate reputation risk as more important than other strategic risks

Companies that experienced a negative reputation event were impacted in these areas:

- 41% Revenue/Earnings
- 41% Loss of Brand Value
- 37% Regulatory Investigation

Source: Deloitte Reputation@Risk Global Risk Survey, 2014.
Changes in Technology May Pose Risks That Are Difficult to Foresee

- Disruptive innovation
- Technological advancements and new technologies
Global Economic Volatility Causes Risks to Emerge at a Faster Pace

- Interconnectedness of economies
- Volatility in global financial markets and currencies
We Have an Opportunity to Add Value
We Have an Opportunity to Add Value

How satisfied are you in the value internal audit provides?

- Satisfied: 40%
- Somewhat satisfied: 38%
- Not satisfied: 9%
- Company does not have an internal audit function: 12%

Source: 2015 Global Audit Committee Survey, KPMG’s Audit Committee Institute.
We Have an Opportunity to Add Value

10%

Agree that internal audit adequately responds to emerging risks

Source: Seeking value through internal audit, KPMG International, 2016.
Areas beyond assurance that should be in scope for internal audit:

- Consult on business process improvements: 73%
- Facilitate and monitor effective risk management: 71%
- Alert management to emerging issues and changing scenarios: 66%
- Identify known and emerging risk areas: 65%
- Identify risk management frameworks and practices: 64%
Help Meet the Challenge

• Know the risks. Audit the risks.
  – Audit beyond traditional areas
  – Align with organizational goals
Our Stakeholders Rely on Us

• They demand:
  – No surprises
  – Assurance and advisory services
  – Value
How Do We Get There?
How Do We Get There?

Fault Finder → Trusted Adviser
Communicate Well
A Trusted Adviser Communicates Well

- Invests in relationships
- Listens actively
- Respects diverse perspectives
- Uses formal and informal channels

98% of CAEs say communication skills are essential.

Source: North American Pulse of Internal Audit, 2016. Q.27. CAEs and Directors only.
Action Points:
Board and Audit Committee Communication

• Provide a quarterly update to the board and the audit committee on internal audit’s work
• Establish good, informal communication with executive and non-executive management
• Produce timely, brief newsletters on points of interest to the board
• Establish an ongoing performance evaluation by management and the board under Quality Assessment and Improvement Programs (QAIPs)
Become an Integrated Auditor
A Trusted Adviser Is an “Integrated Auditor”

• Has a diverse set of competencies and soft skills
  – Invests in new competencies
  – Focuses on problem-solving
  – Is able to compromise
Soft Skills Among Internal Auditors Are Lacking

65% rated their average audit team member as not at all, slightly, or only moderately proficient in accounting for the organization's politics.

58% rated their average audit team member as not at all, slightly, or moderately proficient in balancing diplomacy with assertiveness.

63% rated their average audit team member as not at all, slightly, or only moderately proficient in managing conflict effectively.

Top Skills Being Recruited for Internal Audit Departments

**Analytical/critical thinking** is the most important skill globally and in this region, followed by **communication skills**.

<table>
<thead>
<tr>
<th>Skill</th>
<th>Global</th>
<th>North America</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analytical/critical thinking</td>
<td>64%</td>
<td>74%</td>
</tr>
<tr>
<td>Communication</td>
<td>51%</td>
<td>56%</td>
</tr>
<tr>
<td>Accounting</td>
<td>43%</td>
<td>32%</td>
</tr>
<tr>
<td>Risk management assurance</td>
<td>42%</td>
<td>28%</td>
</tr>
<tr>
<td>Information technology (general)</td>
<td>38%</td>
<td>43%</td>
</tr>
<tr>
<td>Industry-specific knowledge</td>
<td>35%</td>
<td>43%</td>
</tr>
<tr>
<td>Data mining and analytics</td>
<td>31%</td>
<td>48%</td>
</tr>
<tr>
<td>Business acumen</td>
<td>27%</td>
<td>39%</td>
</tr>
</tbody>
</table>
Action Points: Developing Skills and Teams

• Consider the biggest risks to the organization and match your skills and knowledge with the risks

• To attract the people and skills for the future, CAEs should adapt their strategies related to:
  – Recruitment
  – Motivation
  – Retention

• Invest in developing individual and team core skills and knowledge:
  – Analytical/critical thinking, other soft skills
  – Knowledge of the business
  – Skills in risk management assurance
Do the Right Thing
A Trusted Adviser Is Transparent

• The audit process:
  – Approved by management, board, audit committee
  – Clearly defined judgment and assessment
  – Clear and precise
  – Well-documented with traceable evidence
  – Tells the truth
A Trusted Adviser Acts With Integrity

- Ethical
- Honest
- Diligent
- Responsible
- Respectful
- Trustworthy
- Objective
- Role model

Note: Q77: During your internal audit career, have you experienced a situation where you were directed to suppress, or significantly modify, a valid internal audit finding or report?
Source: 2015 Common Body of Knowledge Study

Pressure Felt to Change an Audit Finding or Report (CAEs Only)

25% of CAEs in North America report they have been asked to change their audit findings at least once.
Be Strategic and Future-focused
A Trusted Adviser Is Future-Focused

- Keeps informed
- Adapts audit team’s skill set
- Anticipates future needs
A Trusted Adviser Thinks Strategically

- Understands key business risks
- Aligns audit plan with organization’s strategic path
- Is proactive in advising stakeholders
- Collaborates inside, outside organization
- Benchmarks to peers

43% say audit plan is not well-aligned with organization’s strategy

Source: 2015 Common Body of Knowledge Study, Q.57
Resources Used to Establish an Audit Plan

<table>
<thead>
<tr>
<th>Action Points</th>
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<tbody>
<tr>
<td>• Use a risk-based methodology</td>
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<tr>
<td>• Interact with management and the business units to determine risks</td>
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<table>
<thead>
<tr>
<th>Resource Used</th>
<th>Global (%)</th>
<th>North America (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A risk-based methodology</td>
<td>85%</td>
<td>92%</td>
</tr>
<tr>
<td>Requests from management</td>
<td>72%</td>
<td>86%</td>
</tr>
<tr>
<td>Analysis of the organization’s strategy or business objectives</td>
<td>64%</td>
<td>76%</td>
</tr>
<tr>
<td>Consultations with division or business heads</td>
<td>62%</td>
<td>80%</td>
</tr>
<tr>
<td>Compliance/regulatory requirements</td>
<td>62%</td>
<td>75%</td>
</tr>
<tr>
<td>The previous year’s audit plan</td>
<td>61%</td>
<td>38%</td>
</tr>
<tr>
<td>Requests from the audit committee</td>
<td>56%</td>
<td>74%</td>
</tr>
<tr>
<td>Consultations with external auditors</td>
<td>26%</td>
<td>41%</td>
</tr>
<tr>
<td>Requests from external auditors</td>
<td>19%</td>
<td>29%</td>
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Note: Q48: What resources do you use to establish your audit plan? (Choose all that apply.) CAEs only. Source: 2015 Common Body of Knowledge Study
Action Points for Aligning With Strategy

• Informal Methods
  – Communicate with senior management as much as possible. Understand their interests, especially in achieving strategic objectives and the risks that threaten those goals.
  – Think from the perspective of the CEO and other senior management when you are planning and carrying out audit work to keep what is important to them in the forefront.
  – Think strategically — even when addressing daily issues — and share your point of view with colleagues.

54% of CAEs in North America report they have been asked to change their audit findings at least once.

Source: 2015 Common Body of Knowledge Study. Note: Q57: To what extent do you believe your internal audit department is aligned with the strategic plan of your organization? CAEs only.
Action Points for Aligning With Strategy

• Formal Methods
  – Conduct periodic (at least annual) strategic risk assessment and prioritization of strategic risks confirmed in conjunction with management and the board
  – Have a scalable audit plan flexible enough to accommodate or adjust to the changing risk profile during the year
  – Align internal audit's risk assessment with the organization's risk management assessment
A Mission for Internal Audit
A Mission for Internal Audit

“To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.”