



FORESIGHT - INSIGHT - CLARITY - FOCUS

16 JUNE 2020







Presented by:

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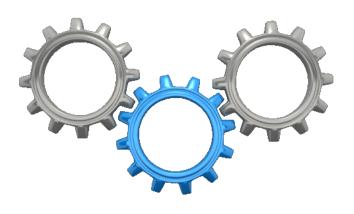
Senior Vice Chairman - IIA Global



# **Contents**







**New Realities** 



3 Lines & Combined Assurance



Realigning Audit Value





### **New Realities**



**Health Pandemic** 

Business model rethink against technology disruption (VUCA)

Changing global economic & political conditions

Cybersecurity threats

Competition for talent and workforce demographics

Increased regulatory burden

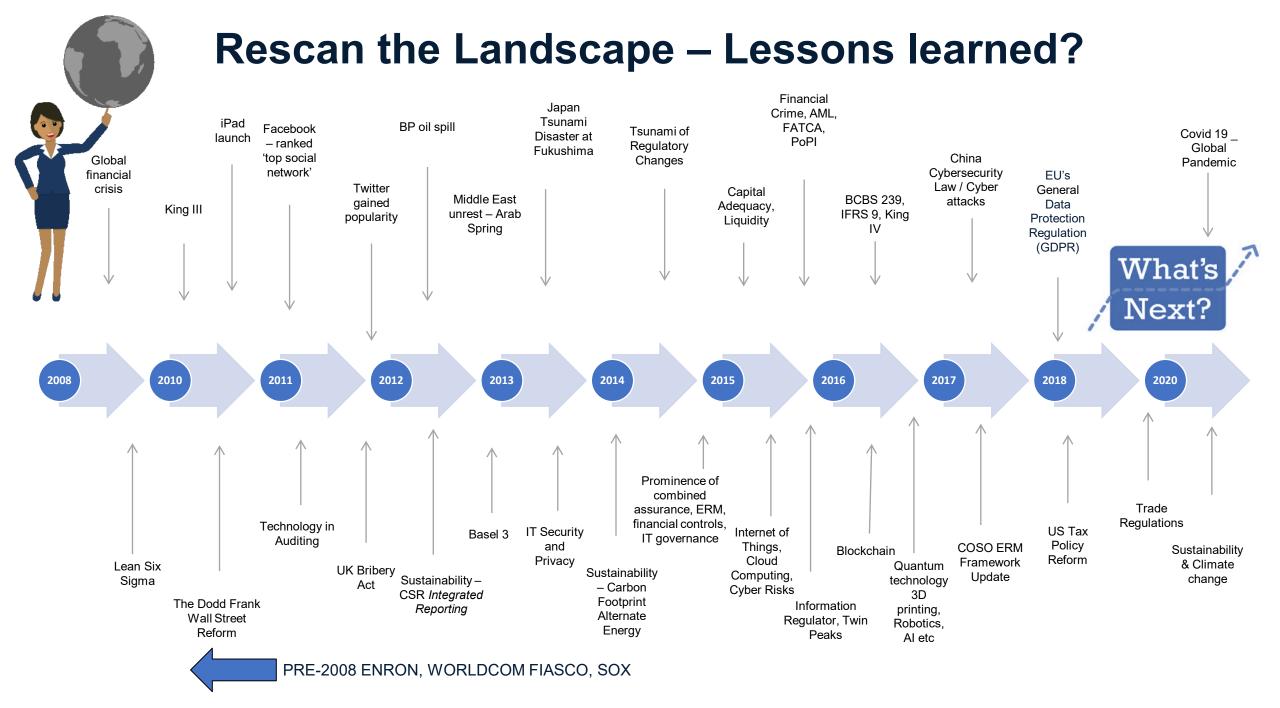
Consumer spending and behavior

Corporate scandals

Investor activism

Blended value proposition

Public, private partnerships and the role of government



# **Audit Plan Hotspots Over Time**

2012

#### Information Security

- •International Operations
- Excess Cash
- •Corporate Culture
- •Regulatory compliance
- •Strategic Change Management
- •Third Party Relationships
- •Cost-Reduction Pressures
- •Human Resources
- Social Media

2013

### Contingency Planning

- Strategy
   Creation and
   Execution
- Corruption and Bribery
- •Tax Management
- •Basic Operating Controls
- Project Management
- •Third Party Relationships
- •Talent Management
- Tone at the Middle
- Reputation Risk

2014

#### •Compliance Management

- •Cybersecurity: Malicious Insiders/ Outsiders
- •Risk Management
- Emerging Markets
- •IT Governance
- •Third Party Relationships
- Project Management
- Intellectual Property
- •Crisis Response Management

2015

#### Information Security

- •Strategic Change Management
- •Climate Change and Extreme Weather
- •Geopolitical Instability
- Data Policy
- •Third Party Relationships
- Compliance Management
- •Risk Culture
- •Strategic Workforce Planning
- Digital Marketing

2016

### Data privacy

- Cybersecurity
- •Third Party Relationships
- •Strategic Change Management
- •Continuity and Disaster Recovery
- •Competitive Environment
- •Talent management
- Macro Volatility
- International Tax Planning
- Governance
- •Compliance Management

2017

#### Data Privacy

- •Cybersecurity-External Threats
- Pace of Innovation
- Sustainability
- •Third Party Relationships
- •Political Uncertainty
- Budgeting and Forecasting
- •Strategic Decision Making and Execution
- International Tax planning

2018

#### Data Privacy

- •Cloud Vulnerabilities
- Information Security
- Corporate
   Culture
- Fraud
- Geopolitical Uncertainty
- •Technology Disruptions – business model change
- ChangingWorkforceDemographic
- Change in Consumer Behavior
- •Risk Management Overhaul

2019

### Cybersecurity

- •Digitalization and technology (AI, RPA)
- •Cloud computing
- •Data governance
- •Third-party risk management
- •Fraud risk management
- Corporate culture
- •Regulatory burden

2020

### Cybersecurity

- •Data protection
- •Regulatory change
- •Business continuity and crisis response
- Data and new technology
- Third party
- •Talent management
- Operational Resilience
- Sustainability



The Institute of Internal Auditors
Australia

**Covid-19 Broad Impact** 



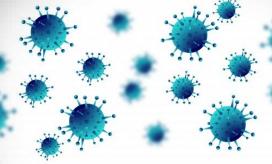
MARKET CHAOS Economies Equities Oil INDUSTRIES
Auto
Retail
Airline
Hospitality





HEALTH
Readiness
Hospitals
Awareness
PPE











SERVICES
Food
Health
Basic Services











# **Organisational Impact**



# **Transforming Internal Audit**

Employee touch base virtual sessions, offer new skills training, accessibility, team motivation

Mobilize Auditors (home office) Leverage business tools, Flexible methodology, GRC platforms Stakeholder
Communication
"trusted advisor"
Join crisis
response teams

Risk Assessment review (veracity of Risk Register/Risk tolerance) – Realign Audit Plan

Reprioritize timing of audits,
Agile/Advisory approach, Quick
Turnaround



**Financial Sustainability** 

Liquidity, Reserves, Cash, Insurance, Tax, Disclosure, Investments, Impairments, Debt covenants, Fraud Risk Relief Mechanisms



### **Business Continuity**

Crisis response Adverse media Continuity Plans New products





Third Party Risk Management

Supply Chain, Contracts, Technology, Cloud Software licensing Cyber Risk



Technology Resilience

Broadband costs
New Platforms
Patching
Zoom, MS Teams
Data/Cyber Security
Social Media



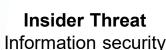


**Human Capital** 

Employee wellbeing
Productivity/Culture
Layoffs, Retrenchments
Leave Authenticity
Broadband access



**AUDIT** 



Assets Safeguard
Digital Signatures
Retention & Archiving





Capital Adequacy & Stress Testing

Regulatory Requirements
Scenario Tests



Key person dependency
Talent/Succession Plan
Cash Flow forecast
Technology resilience
Operational resilience
Customer lapse rates



# Regulatory Dividend - Convergence of workplace disciplines



**Technology &** 

**Information** 



**Lessons from Corporate Scandals** 

Culture & Ethics - Establish and demand the integrity of disclosures — Autocratic executives, rule by fear

Board

Management

Analysts

Banks Investors

Regulators

Consultants

**Employees** 

**Auditors** 

**Sponsor** 

Creditors

Customers

Gap between remuneration and performance – personal enrichment & dysfunctional behaviour



Auditors – both internal and external, – scope influence, fear of loss of incentive, complacency, over reliance



IFRS is subject to management discretion and interpretation – accounting standards cannot stop fraud



≔

Over reliance on single KPIs – like EPS, focus on good news culture, ROIC/EVA to be considered



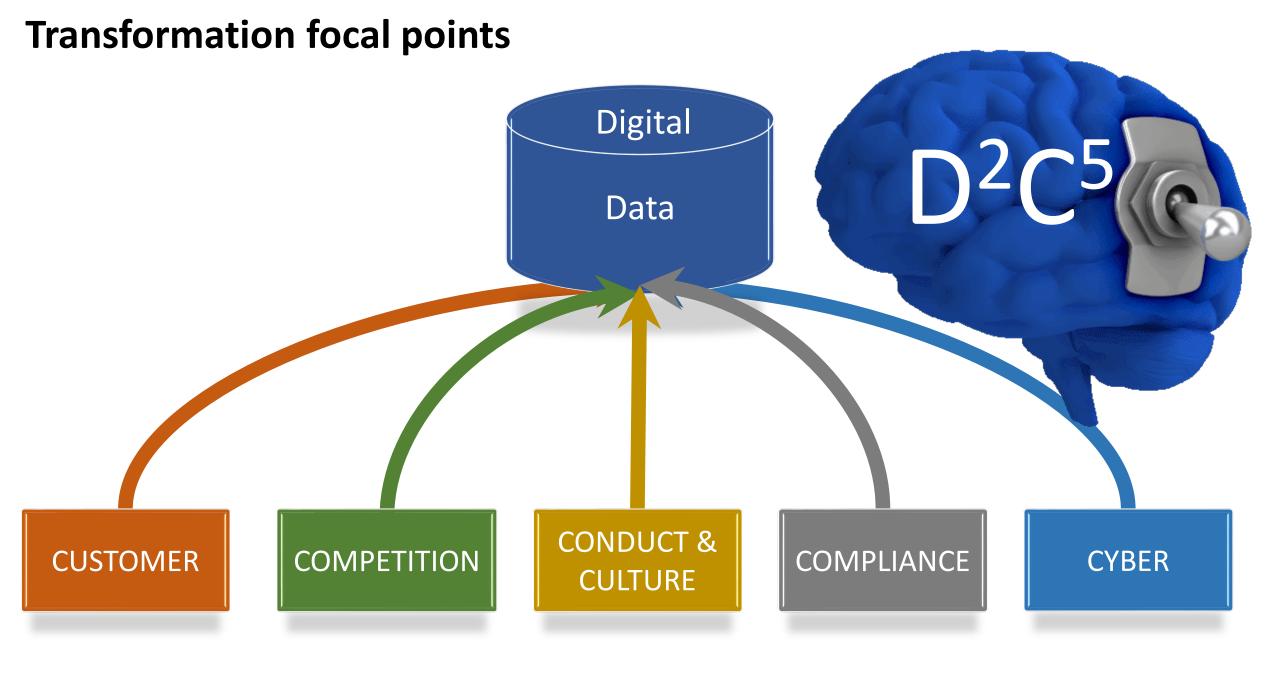
Boards become beholden to management. Weak Board Chairman, understatement test of Board packs

Economic Distress Deliberate mis-management

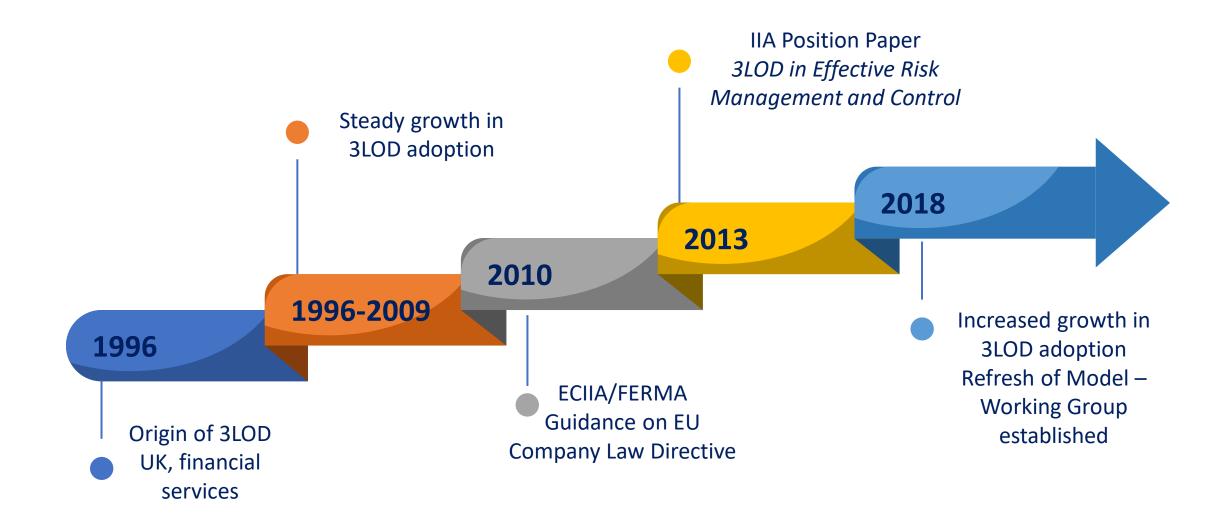
Technology Lag Working Capital Problems Corporate
Culture Ethics

Poorly structured governing bodies

Corporate Activity beyond core Disjointed key performance indicators



# 3 LOD - History



# **Refresh Project Imperatives**



The Three Lines of Defense Model



from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41





**Consultation Outcomes – Sept 2019** 

Largest volume of respondents were received from those working in Finance and Insurance (34.5%) followed by Public Administration (11.8%). Other sectors represented by at least 5% of the total comprised Health Care (5.0%), Manufacturing (7.7%), Other Services (6.3%), and Professional Services (6.2%).

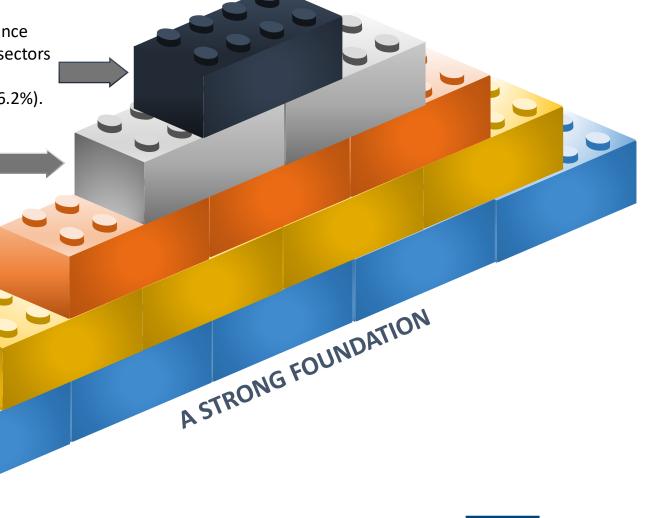
Majority of respondents (82.6%) were IIA members. Other Regulatory responses received from FERMA, IIRC, IFACI, ICAEW

Largest volume of respondents were received from those in internal audit ("the third line") (68.5%) followed by risk, compliance, and control ("the second line") (13.2%)

32.6% of respondents were from North America. Representation from South America6 (23.4%), Europe (17.3%), and Asia (16.6%).

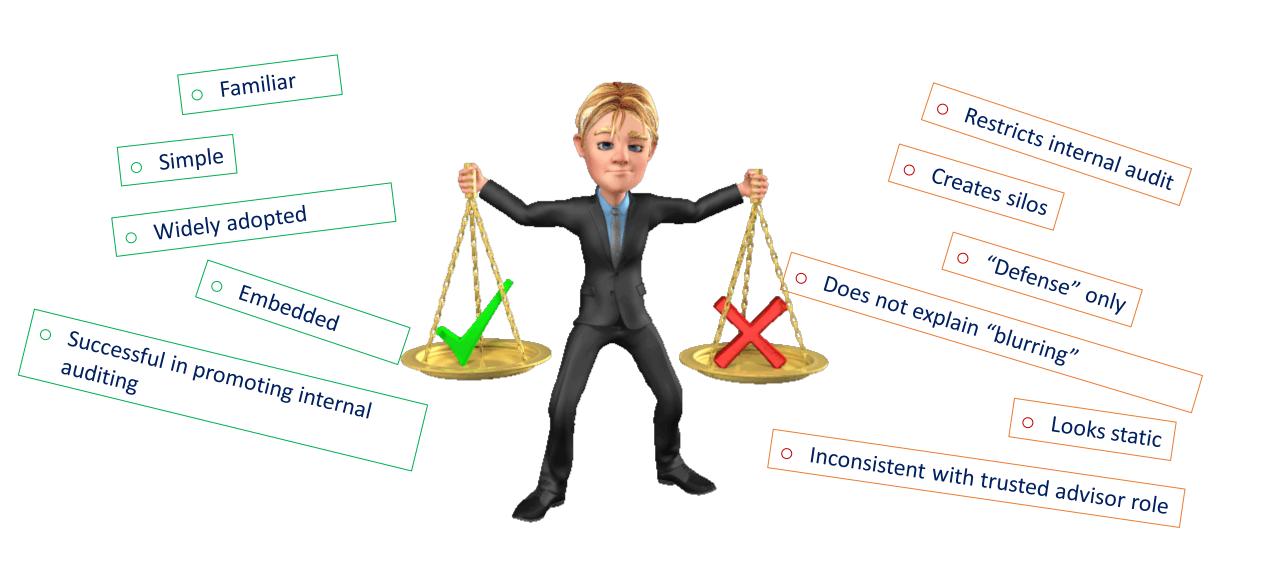
2,004 completed survey responses were received. And received emailed returns from 28 individuals and organizations, including 9 IIA affiliates.







# **Pros and cons from Initial Consultation**



### **General Comments from Initial Consultation**

The Three Lines of Defense model is recognized, understood, and adopted by a wide range of organizations and stakeholders.

The model has been a very successful tool for advancing awareness and understanding of internal audit.

The current model can be improved by building on the same principles.

The IIA is the organization most closely associated with the model and has the position and stature to influence its future iterations.

The analysis and assessment of the model in the exposure document are valid.

Reframe towards a more proactive role for internal auditing as being a contributor to both value protection and value creation, a strategic partner and trusted advisor, indispensable to governance and organizational success.

The model and the graphic need to be kept simple, easy to understand, and familiar.

# The main areas requiring improvement are:

- The naming of the model to reflect something more than "defense."
- Encouragement for communication, coordination, and collaboration across the lines to avoid silos.
- Emphasis that the first line remains responsible for risk management and must be held to account for this.
- Emphasis that internal audit must review the effectiveness of the first and second lines.
- Allowance for maturity and scalability.
- Relevance for the not-for-profit sectors.





# **Exposure Draft Outcomes – Feb 2020**



Over 100 respondents
69 affiliates
Advisory Group members
Public & Private sector
Non profit
Private consultants



# **Comments from Exposure Draft**



Connection with governance

Role and positioning of the second line

Language, clarity, accuracy, consistency

Blurring & internal audit independence

Conflation of different sources of assurance

Rationalize Principles Align Graphic to depict Principles

# Roles and responsibilities - 3 Lines

- Ethical culture, and setting the "tone at the top"
- Stakeholder Engagement
- · Setting strategic direction
- Delegation to governance committees and authority to 3 lines
- · Setting KPI's and KRIs and monitoring performance.
- Approving governance frameworks designed by 3 lines
- Opining and challenging reports and assurance from all functions.
- Reporting decisions, actions & outcomes to stakeholders/ authorities.
- Performance evaluation
- Providing independent assurance, opinions, insight, and advice
- On the adequacy and effectiveness of governance, risk management, and internal control.
- On the efficiency and effectiveness of operations, including the safeguarding of assets, and on the reliability and integrity of reporting processes.
- Assessing the influence of organizational culture and behaviour.
- Contributing to the adequacy and effectiveness of policies.
- Unbiased reporting to the audit committee, governing body and management.

GOVERNING BODY

Integrity, Leadership & Oversight EXECUTIVE MANAGEMENT FUNCTIONS

Strategy Execution

INTERNAL AUDIT

Objective assurance & related advisory

RISK,
COMPLIANCE &
SUPPORT

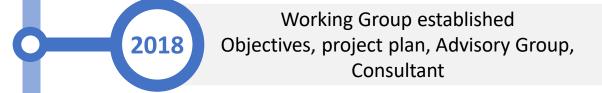
Guidance, Challenge, Support

- Delivering outcomes aligned with stakeholders expectations
- Assessing internal and external factors that may impact decisions and outcomes.
- Establishing systems/ procedures that deliver on performance
- Affecting remediation when decisions, actions, behaviors, and outcomes are seen to be wanting
- Own, develop, implement and monitor policies
- Delegating responsibilities ito DOA
- Setting tactics, performance and risk indicators.
- Monitoring and analyzing activity.
  - Reporting performance, forecasts and outlook to the governing body.

Analyze known and identifying emerging issues that may impact decisions & outcomes.

- Identifying changes in the organization's variances and tolerances in performance.
- Assisting management in developing risk frameworks, processes, and controls to align performance with strategic goals.
- Providing guidance and training on governance, risk management, and control processes.
- Facilitating and monitoring the implementation of effective risk management practices by management.
- Monitoring the adequacy and effectiveness of internal control and timely remediation of deficiencies.







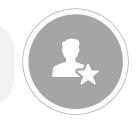


Global Assembly - Tokyo — Roundtable discussion June — Sep 2019 : Public consultation Exposure of analysis and proposals





October 2019 - Evaluation of exposure feedback December 2019 - Working Group reports to Global Board with draft recommendations





Feb 2020 – Draft exposed

March 2020 – Board update on outcomes

July 2020 – Launch Revised Position Paper

Latter 2020 – Marketing and Awareness campaigns

Release of supplementary papers



### **Combined Assurance – A South African Case Study**

Pre-2009

Pre-King III - assurance providers working in silos

Disaggregated and suboptimal risk management and governance

**Duplication of effort** 



**Combined** 

**Assurance** 

Integrating, coordinating, and aligning the risk management and assurance processes to optimise and maximise the level of risk, governance, and control oversight over the organisation's risk landscape." Assurance providers working more closely together to ensure:

- the right amount of assurance
- in the right areas
- from people with the best and most relevant skills
- as cost effectively as possible



Recommends that the <u>audit committee establish and oversee</u> the implementation of the model as informed by material risks and opportunities

The primary objective is to assist the Board in assessing the adequacy and effectiveness of the internal control environment and assessing the integrity of the information used for reporting and decision-making

The refined model aims to align the internal risk and control components with greater emphasis on external stakeholder reporting









# **Old Regime Vs Aspirations**

Operating in Silos
Assurance Fatigue
Management Focuses on
Single Issue

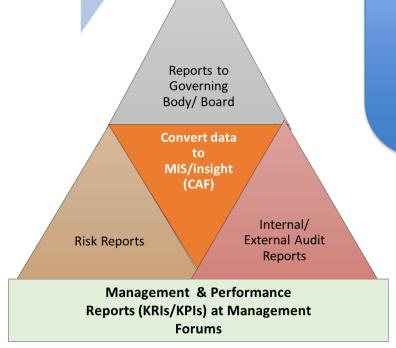
Disaggregated
and
suboptimal
risk
management
and
governance

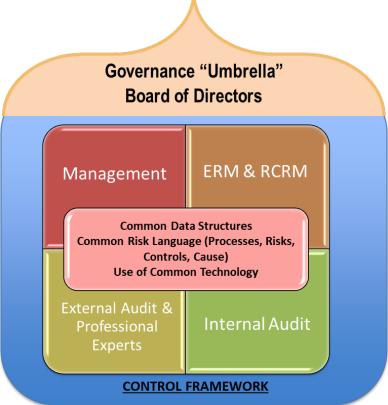
No enterprise view of Risk & Control Health No Common Language

Different Risk Assessment

Methodologies









# **Types of Assurance**

- Management Assurance Ultimate responsibility for managing risks & controls
- Internal & External Assurance Objective and independent
   (dependent on organisational
   positioning & stature) assurance
   provided by Internal, External audit
   and professional experts
- combined Assurance Leads to continuous improvement, operational excellence, minimises duplication of effort between assurance providers

Underpinned by a robust

**Risk Management Framework** 



- Risk management
- Regulatory Compliance
- Internal Audit (independent)
- Legal, Company secretary
- Health and Safety
- Fraud Teams etc.

#### **External Independent Assurance**

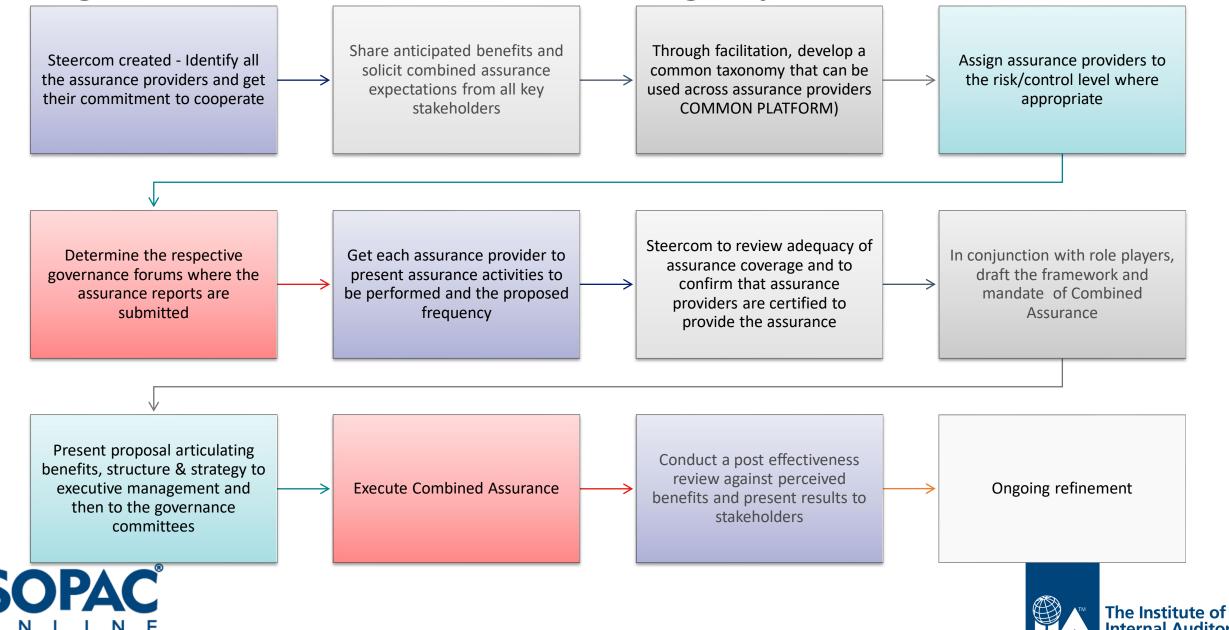
- External auditor
- Sustainability, Actuarial
- Project management
- Process improvement
- External forensic fraud examiners /Auditors
- Regulatory inspectors, etc.

#### **Management Assurance**

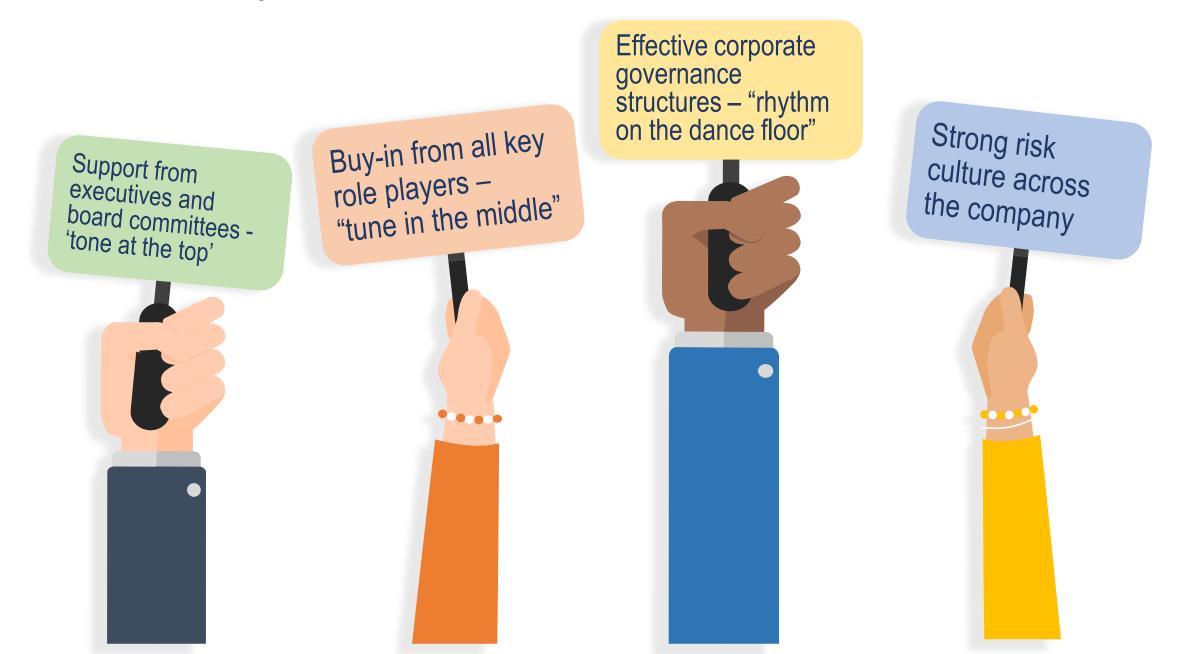
- Strategy, Operations
- Finance & Treasury
- IT, HR, Product development, Sales
- Supply chain / Distribution/Production
- Oversight etc.



# **Inaugural Combined Assurance Meeting Imperatives**



# Foundational aspects for combined assurance



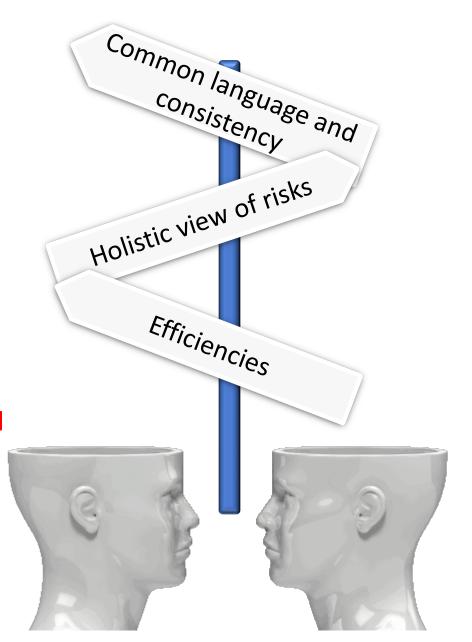
### **Benefits of Combined Assurance**

### Collaboration

- Leverage common risk assessments
- Deliver unified, consistent message

### **Efficiencies**

- Eradication of Assurance
   Fatigue
- Cost savings and greater coverage
- Sharing of lessons learned



### **Effective control environment**

- Reporting is more precise and insightful
- Valuable, relevant data based on collaboration and not silos
   facilitates better decision making
- Facilitates the annual assurance statements
- Fewer surprises

Underpinned by a mature Risk Management framework and function

# **Current Demerits**

V

Lack of Effective Oversight



**Unnecessary Complexity and Duplication** 



Organisational and Functional silos



Disjointed strategy & disconnected KPIs



Wasted Resources & Information



Fragmentation

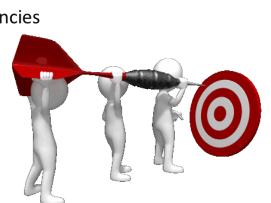


Lack of awareness of Interdependencies

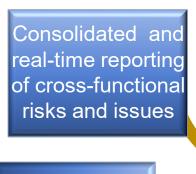


Increased costs





# **GRC Merits**



Proactive protection, prevention

Optimize economic and social value

GRC

Merits

Increases accountability for risks, controls

Enhances organizational culture – enforce accountability

Improve resilience & efficiency

Single view of risk and control health



# **Challenges to Combined Assurance**

### **Company Dynamics**

- Culture
- Operating model
- Fragmented platforms
- Local vs Global footprint

# Reliance on Assurance Providers

- Perceived objectivity
- Qualifications,
   Competencies
   and Experience
- Conflicts & Profile
- Methodology -Standards
- Affiliation to professional body

### Governance Frameworks

- No distinction between lines of assurance
- Misaligned definition of risk, controls & assurance
- Size of company













# **Stakeholder Expectations of Internal Audit**

Prognosticator – use foresight identify trends and bring attention to emerging challenges Provide **insight** on effectiveness and efficiency of key internal controls to management and Board

informed decision
making towards
organizational
success & value
creation

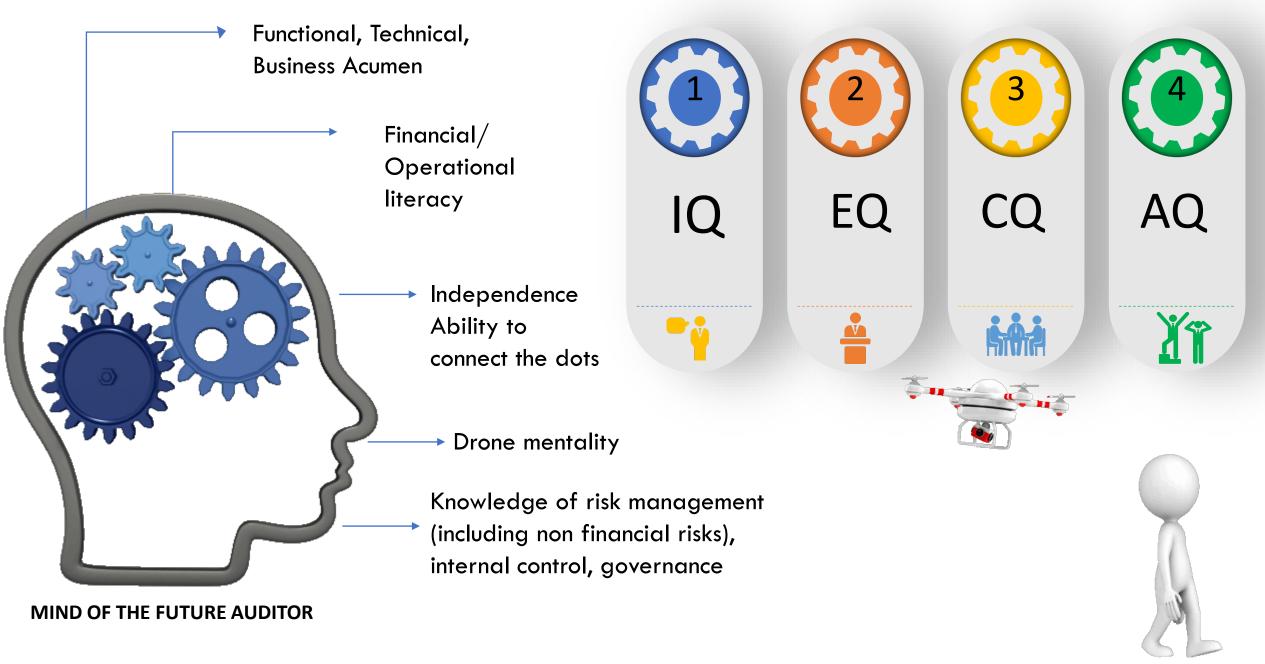
Assurance – informed and unbiased critique of governance processes, risk management and internal control

Resources Effective
utilization of
resources

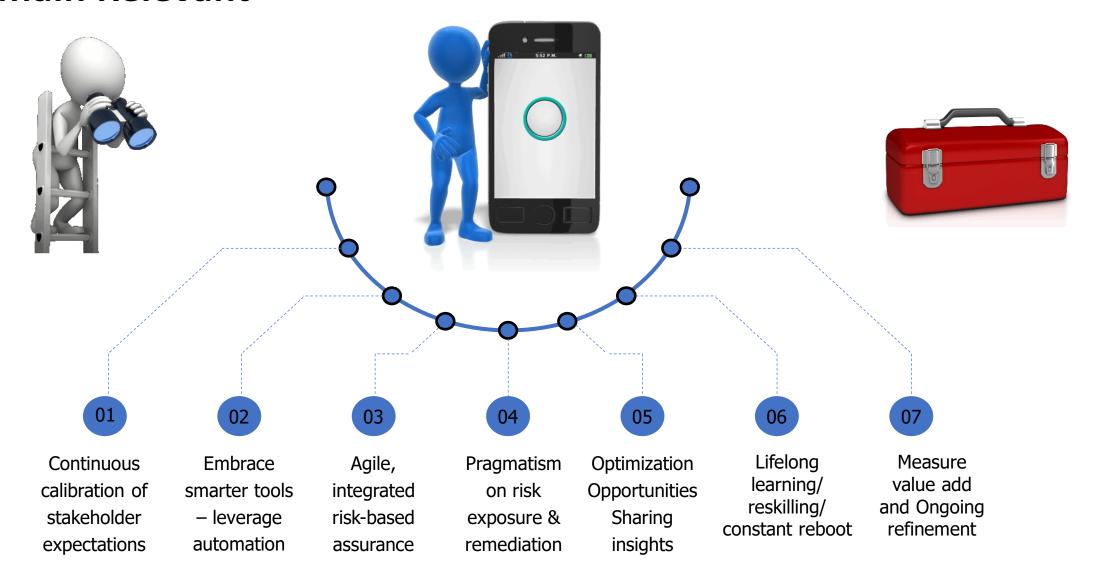
Use in-depth
understanding to
debate root causes,
exposure and
remediation – be
resolute with follow
ups



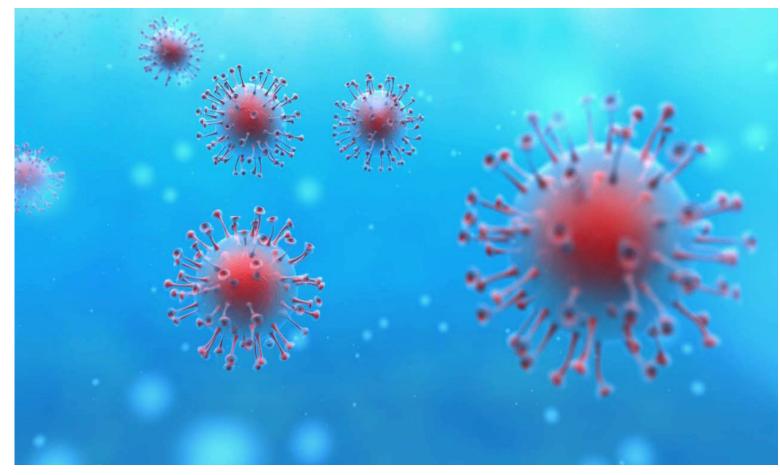
### **Future Internal Auditor**



## **Remain Relevant**



## Adapting to the "Novel" Tomorrow - nTom





Visionary
Use hindsight,
probe changes

Understanding
Challenge
perspectives,
learn

Clarity
Focus,
cultivate
opportunities

Agility
Nimble,
harness
innovation

Global economies will take time to recover – depression and recession on the cards

Healthcare becomes an imperative

Insurance becomes a key priority – risk management and contingency planning is enhanced

Courage will take time – travel & tourism

Work, play, shop online & remote learning a reality

Supply chains come closer to home

Digital divide becomes greater

Culture of preparedness is inculcated

Platform based ecosystems – technologies

Cleaner climate - less carbon emissions





Change is the only constant.

Heraclitus



Courage

Insight

Collaboration

Attitude

Agile

**Innovative**