



Internal Audit – Innovation and Effectiveness

Internal Auditor as a Business Leader

– Innovation and Effectiveness



Really..... What is an Internal Auditor

Watchdog

- Protecting Assets
- Oversee operations

Business Leader

- Motivate / Lead
- Achieve business Goals

Why Internal Auditors should be a seen as a Business Leader?

- Dynamic economic and organization environment
- Greater scrutiny of and accountability expected from stakeholders
- Top Management has changed their perspective/mindset about Internal auditors – more respect
- Board of Directors need to make decisions based on thorough knowledge of risks
- Responsibility towards customers/ clients assuring them controls in place to avoid/detect frauds by company employees
- Regulatory requirements and strict consequences for auditors about

**But how do I transform myself from
A Watchdog
to
A Business Leader?**

Power Versus Authority



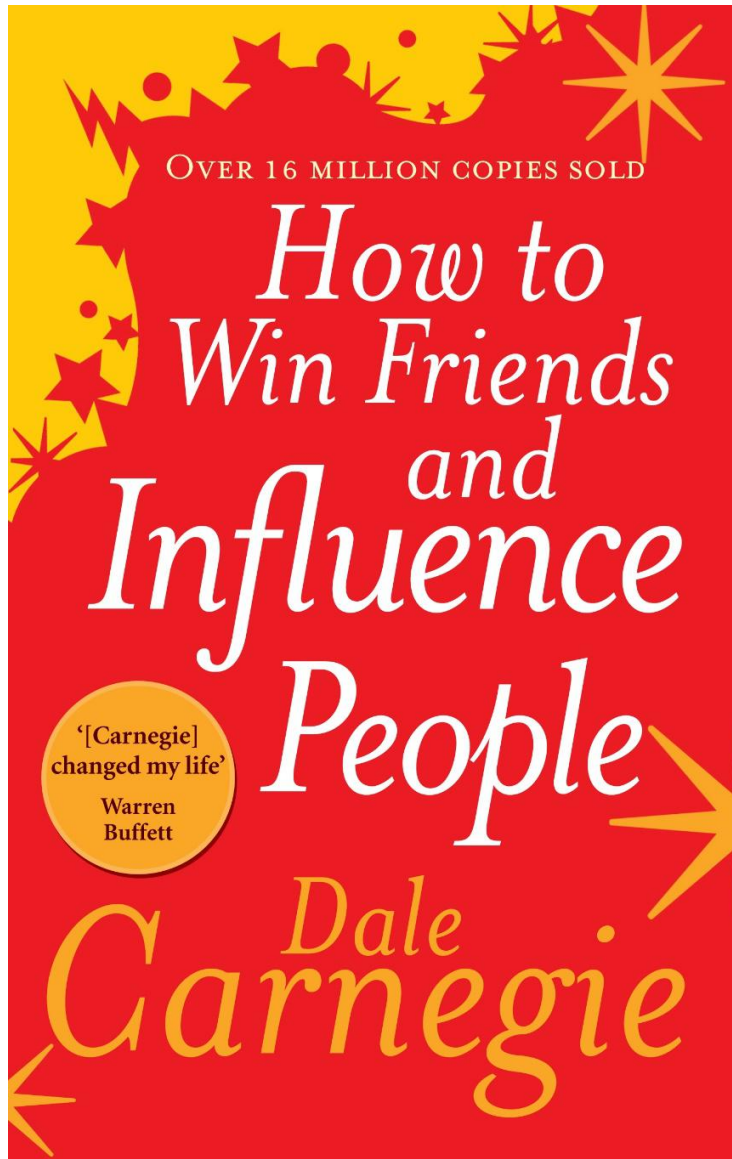
Power

- Ability or potential of an individual to influence others
- **Auditors to build this trait**

Authority

- Legal and formal right to give orders
- **Auditors don't have this as much as needed**

Influence



- Auditors should make friends and not enemies
- Avoid petty fault finding observations that don't add strategic value.
- Influence people with your knowledge
- Participate in discussions / meetings across Departments and Functions
- Socialise and network

Characteristics of effective internal audit leaders

As per the 2016 PwC State of the Internal Audit Profession Study, the following are the characteristics of effective internal audit leaders:

Vision

Position

Talent

Communication

Business Alignment

Characteristics in Detail

Vision

- Possess a strong vision that aligns with strategy and expectations
- Foster innovation within the audit function.

Position

- Facilitate discussions about strategic risks
- Influence others to build an effective culture of controls

Communication

- Excel at communicating with stakeholders
- Draw connections, Effect change, and communicate positive outcomes. Sell yourself.

Talent

- Excel at the development and mentorship of people
- Build talent to be future ready.

Business Alignment

- Establish close partnerships with Business
- Align with transformational changes and assess emerging risks

Means of Acquiring Power

Alignment with
Business

Knowledgeable
Team

Automation

Audit
Effectiveness

More friends
Less enemies

Key considerations of Deloitte 2018

Global CAE research survey

- Adoption of advanced analytics

Adopt analytics tools to slice and dice data and audit planning

- Automate core assurance

Do more with Less. Automate the audit process.

- Apply Agile Internal Audit principles

Generate more collaborative interactions with stakeholders, faster audits, streamlined documentation, and greater value.

- ▲ Innovate to “future proof” the function

Identify key issues and risks and develop capabilities needed for them

- ▲ Consider next-gen resourcing models

Use Co-sourcing, staff augmentation to achieve results.

- ▲ Advise and anticipate

Advise management around the three lines of defense

Automation and Innovation

Automation

What is the single biggest benefit of
Automation in Internal Audit

The Right Answer

Increased Audit Assurance

While automation saves money, saves time... what you really want to achieve from automation is increased audit assurance.

The only reason you perform audit in the first place.

**Achieve 100%
Testing**

**Time saved can be
used to focus on High
risk areas**

**Real Time Issue
Handling**

**Truly Continuous
Auditing**

Now Lets look at Automation Tools



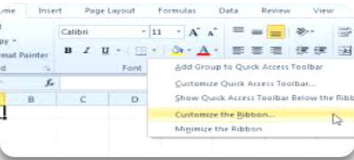
Data Analytics Software



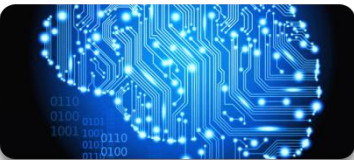
RPA - Robotics Process Automation



Internal Audit / GRC Software

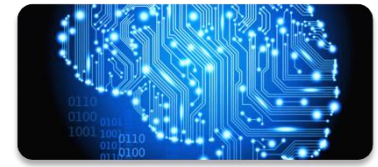


Excel / Macros



Artificial Intelligence / Cognitive Computing

Artificial Intelligence |



Text Analytics

- Automate audit procedures using unstructured data

vi

Sentiment Analysis

- Analyse large datasets of Customer Complaints

Predictive Analytics

- Detect patterns and predict frauds, losses, lapses

Videos : If technology supports The future of Internal Audit

- <https://www.youtube.com/watch?v=M-au8SleEcs>

What Makes a Great Internal Audit Leader?

- <https://www.youtube.com/watch?v=hqtRT30AYFY>

Audit Effectiveness

Example of Business Partnership : Information Request

- 80%+ of your audit related information requests are reports and dumps from SAP, and other IT systems.
- Auditees take forever to give you these reports which delays audit procedures. You send a list of 20 items and they get overwhelmed.
- Why not make it easy or invisible for them to share this info with you.
- What if you got this information yourself as and when you wanted it.

Information Requests phase is often the most time consuming

**Data Analytics
Tool**

**ACL
IDEA
Watson
Power BI etc**

RPA

**Robotic Process
Automation**

**Macros and
Rules**

Information Request: New Mantra

**Don't Ask
Auditees**

Get It... Yourself

Audit Effectiveness : Scenario

Audit Observation

- The Company does not have adequate internal controls to manage risks relating to Insider Trading.
- Rating: **High**

Recommendation

- To have an internal control mechanism to comply with SEBI Insider Trading regulations



Speed and Timeliness will make Auditors Effectiveness and true Business Leaders.

- Critical observations don't have to wait till the next Audit Committee Meeting.
- Escalate immediately and resolve.
Agile Methodology

Internal Audit Plan

Predictable / Irrelevant versus Evolving

- Does your sales department get audited every month versus Data Privacy Framework never getting audited.

Why

- You don't understand new domains (AI/ML / blockchain/RPA)
- You made the plan at the beginning of the year and these functions were not in place then.
- Any other reasons



Don't Hesitate to realign the audit Plan

- Business budgets change mid year. Why not audit plans
- Talk to Audit Committee to audit emerging areas**

Audit Efficiency through Audit Software

- More than 77% of companies archive workpapers / audit evidences done electronically
- Many internal audit software are available that help with the following.

Attach workpapers electronically for each audit test procedures.

Easy to retrieve in the future. Find audit workpapers across many years of audits

Perform audit tests PAN India in a single audit workbench

Continuous Auditing – 24 / 7



- Continuous auditing helps auditor to act like a Business Leaders. Facilitates incidents / crisis incidents as they occur
- No more stale Audit reports.
- No more auditing departments once a year
- Don't give audit reports containing errors or issues that have been fixed long ago.

Achieving Continuous Auditing

Analytics Tools - Power BI

- Set up filtered reports, exception reports on analytics tools.
- Trigger emails as and when thresholds are breached

Schedule Reports

- Almost all application allow scheduling and emailing reports.
- Don't sit on the sidelines. Ask for a userid on every application in the company.
- Setup reports that you want and get them scheduled

SAP Connectors

- API, Connectors are a good way to pull the required data from applications.
- Create a list of 20-30 audit checks that you will do weekly. Then perform those checks in an automated fashion
- Query data on the go. Detect errors on real time basis

Achieving Continuous Auditing

Develop Summary Tables within Databases

- Create summary views/tables within database or your own datasets
- Example – High value cash deposits. Query cash deposits tables and extract all with high values.
 - Build this dataset over time and you have your own high value cash deposits tables and easy to manage

Use online drives (One Drive / Google drive)

- Excel sheets are everywhere and they are not going away.
- Build excel sheets in the form of database tables with properly structured data
- Request Business Dept to host these excels on a shared internal File Server, onedrive etc.
- Access these files or query these files as needed. No more asking Business Unit to provide you data.

Audit Effectiveness: KPI

Business Audit Rating versus Internal Audit Rating

- Auditors get feedback and IA rating. Have you aggregated these and monitored Audit Efficiency rating over years / month

Audit Execution is tracked for delays against plans / budgets

- Do you measure the delays and aggregate them to arrive at composite index.

Composite Audit Rating

4.5 (PY 4.23)

Average Delay in Audit Completion

35 days (PY 23 days)

% new audit procedures across all audits

And so on.

Key challenges faced by the Internal



Emerging Risks and Trends





Did RBI blame Internal Auditors for the mess?



Internationally.. Auditors are blamed.

- BEIS committee to investigate Thomas Cook auditors



Thomas Cook

Time has come to ask Questions out of the audit plan

Where do you get money to buy fancy gadgets

By the way, is this vendor anyway connected with you

Mr CEO, any reason I am not part of the XXX meetings.

I would like to audit all inter company / subsidiary transaction



S O C I A L
M E D I A

Social Media Risk... Rising up the ladder

- Alongside risks such as cyber threats, model risk, social media is highlighted as a leading issue that operational risk managers need to consider.
- Social media's growing power and influence allows bad news to spread with unprecedented speed and reach, and the interaction between social media activity and the link structure of the internet means that search engine results too can quickly become dominated by a viral news items

Reputation
Impact

Wider Reach

Difficult to
restrict

Lack of
Employee
Training

Imagine..



- An employee of a Bank ABC makes a Facebook post that the Bank is offering 15% interest on Fixed Deposits made during the festive season and done online through Net banking.
- The above post, if it goes viral can result in large scale enquiries, actual online transactions followed by significant complaints.



- ▲ An employee notices that his company has been negatively talked about on social media. He agrees to the argument, and decides to support the conversation.
- ▲ Followers decide to make the conversation more aggressive because an employee agrees with the fact and as a result, a news that was otherwise harmless, escalates into unwanted negative publicity.



Need of the hour for internal auditors

As per the “The Next Generation of Internal Auditing by Protiviti, internal auditors need to:

- Rethink how they perform their work in a more agile manner
- Know how they can leverage the proliferation of data and technology to deliver on their objective to provide effective risk management more efficiently
- Balance new internal audit models with the right technology, resources and methodologies, as well as governance and infrastructure, to **CREATE VALUE**
- Ensure innovation is effective while also delivering on the promise of increased efficiency
- Acknowledge that the most influential drivers today are data and technology

Key Success Factors

Establish an agile mindset

See the forest

Empower your people to innovate

Seek quick wins

Recognize two sets of ripple effects

Integrate adaptability into the design

Make the Change : Be a Business Leader First

- It is you and everyone around you who is responsible to manage enterprise risks.



- YOU need to be an effective Business Leader



Questions

How can innovation transform internal

- What is Innovation? audit?
- Why discuss innovation in the context of internal audit?
- What is the innovation spectrum?
- What is the innovation process?
- What are the benefits of innovation?
- How can you set yourself up for success with innovation?
- Are you ready for innovation?

Videos - I asked Murtuza. We can

The future of Internal Audit videos

- <https://www.youtube.com/watch?v=M-au8SleEcs>

7 Deadly Internal Audit Sins

- <https://www.youtube.com/watch?v=WbPx6jMgbYA>

Future of Audit - Technologies that will change the future of the Audit

- <https://www.youtube.com/watch?v=ulcSfDdyQGc>

What Makes a Great Internal Audit Leader?

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How to lead an effective internal audit function?

- **Create and follow through on a vision.** The most effective internal audit leaders have a vision that aligns with the organisation's strategic direction and informs their strategic plans, investing in capabilities to support that vision.
- **Source and retain the right talent.** Mentorship, talent development, and the ability to source the right talent are keys for effective internal audit leaders. Almost three-quarters (73%) of very effective internal audit leaders include co-sourcing as one of their talent strategies.
- **Empower the internal audit function.** Almost four out of five very effective internal audit leaders are vice presidents or hold senior positions in their organisations. Stakeholders acknowledged in the survey that they have a responsibility to empower the chief audit executive by creating a culture that supports a strong control environment.
- **Demonstrate executive presence.** The most effective internal audit leaders bring bold perspectives and think broadly about the company.
- **Partner with the business in meaningful ways.** To be effective leaders, internal auditors must develop relationships built on trust, build partnerships across the lines of defence to co-ordinate risk management across functions, and use those connections to develop an integrated assurance strategy across the organisation.

<https://www.fm-magazine.com/news/2016/mar/internal-audit-leaders-201614011.html>

Effective Internal Audit Functions



<https://www.pw.com/us/en/services/risk-assurance/library/effective-internal-audit-functions.htm>

Effective Leaders being innovative

- 87% of very effective leaders are innovative and encourage their internal audit teams to pursue continuous improvement.
- Recognizing that the profession is evolving, very effective leaders are innovating processes by investing in data analytics and technological tools more often than their less-effective peers.
- The objective of analytics is not simply to automate isolated audit procedures but to transform the way internal audit functions.
- Analytics are embedded in risk assessment and integrated throughout audit planning, fieldwork, and reporting.

Effective Leaders being influencers

- 90% of very effective leaders use influence to strengthen the overall control environment.
 - 78% of very effective leaders have exceptional business acumen and clearly articulate insights on strategic risks.
 - Board members and executive leadership acknowledged their responsibility to **empower the CAE** by setting a culture that supports the importance of a strong control environment.
- ▲ With the right culture in place, the internal audit leader is more often seen as an **influential contributor** to those important objectives.
 - ▲ **Business acumen** is also a key contributor to positioning for which the leader can take responsibility.
 - ▲ With the right positioning, very effective leaders will be able to leverage their influence to **strengthen the overall control environment**.

Key findings of Deloitte 2018 Global CAE research survey

- Internal Audit's impact and influence are stronger— but awareness and views of the function across the organization still need to improve.
- Internal Audit innovation is linked to stronger impact and influence
- Advanced analytics is seeing greater adoption.
- Key challenges facing Internal Audit include a shortage of new skills, while analytics is the highest priority.
- Resourcing models are evolving—but must evolve faster.
- Agile practices are gaining momentum.

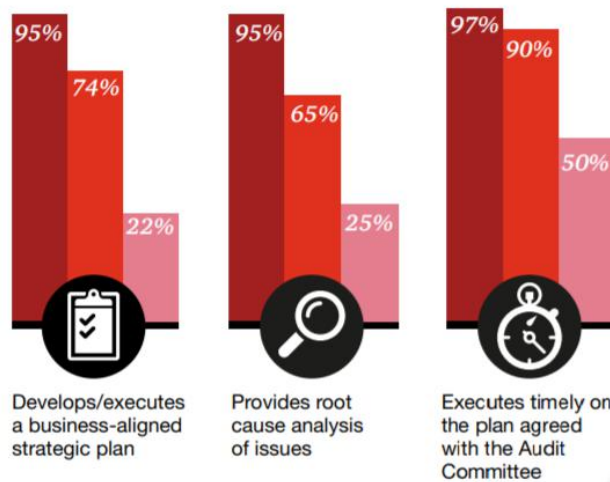
Key findings of Deloitte 2018 Global CAE research survey

- ▲ Robotic Process Automation is making inroads
- ▲ Organizational culture audits are conducted by less than 30 percent.
- ▲ Reporting is poised to become more agile and dynamic.
- ▲ Cyber risk assessments are conducted by only about half of Internal Audit groups.
- ▲ KPIs are used by most groups but need updating.
- ▲ Internal Audit innovation typically entails a change in mindset, one that is more forward-looking, engaged with stakeholders, and focused on delivering business value.

Facts on highly effective internal audit leaders

Figure 5: Very effectively-led internal audit functions deliver better outcomes

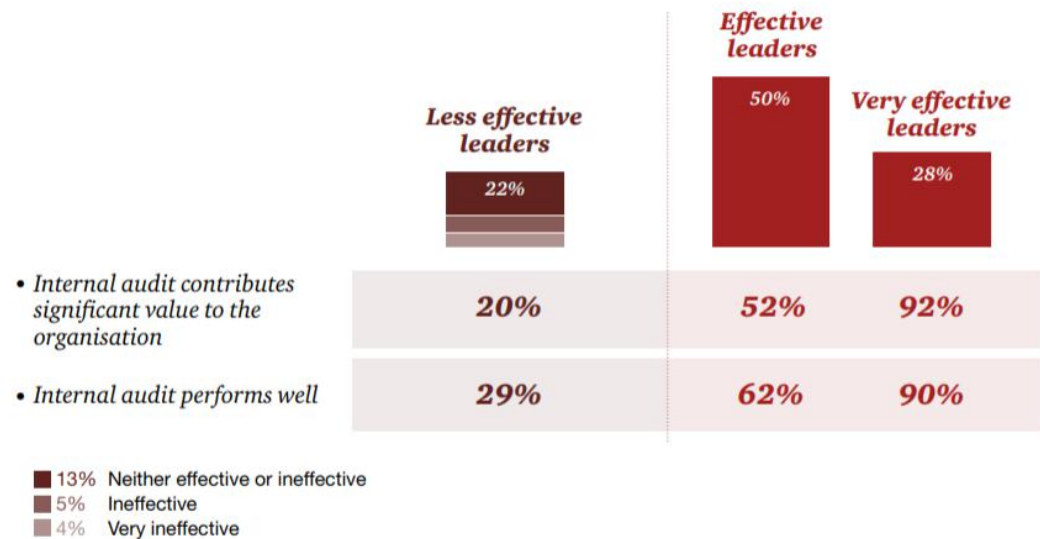
% of internal audit leaders who do this well



■ Very effectively led internal audit functions
■ Effectively led internal audit functions
■ Less effectively led internal audit functions

Source: 2016 PwC State of the Internal Audit Profession Study

Figure 3: The close correlation between value and leadership: A stakeholder perspective



Source: 2016 PwC State of the Internal Audit Profession Study

https://www.pwc.com.au/pdf/127035755_sotp_global_v2.pdf

How internal auditors can be innovative

Risk Assessments

- Use numerical scales for risk rating
- Consider impacts on reputational damages, employee demotivation, etc.

Audit Plan

- Audit non-traditional but essential areas like corporate culture, social media.
- Allocate resource time based on the organization's evolving risk maturity.

Planning

- Brainstorm risks on the program, process or unit being audited.

Fieldwork

- Concentrate on testing key risks and controls after evaluating business dynamics.
- Include fraud detection procedures with every audit.

<https://misti.com/internal-audit-insights/how-to-get-innovative-in-internal-audit>

- Promote the use of audit tools to improve efficiency

How internal auditors can be innovative

Reportin
g

Performanc
e
Monitoring

Empl
oye
e
Develop
ment

- Change/update the layout or frequency of reporting
- Increase the use of charts, graphs and other visual elements in audit reports
- Develop KPIs that focus on outcomes, not only output
- Consider hiring non-auditors or use a co-sourcing model for audits
- Develop and sustain a mentoring program

IIA's critical principles

<https://misti.com/internal-audit-insights/how-to-get-innovative-in-internal-audit>

- The Institute of Internal Auditors' IIA Practice Guide, *Reliance by Internal Audit on Other Assurance Providers*, describes five critical principles that should exist to achieve reliance:

Purpose

Competence

Elements of practice

Independence and objectivity

Communication of results and impactful remediation

Assurance or guidance or BOTH?

Assurance perspective

The organization's growing reliance on data, new technology, as well as new technology partners (e.g., cloud computing vendors) gives rise to new risks.

Consultative perspective

As many processes undergo continual changes resulting from digital transformation, organizations need more guidance from the internal audit function on:

- ▲ potential business process improvements
- ▲ emerging technologies and risks

Both Perspectives

Internal audit must perform evaluations and provide guidance related to an organization's capabilities and activities (or lack thereof) in order to be successful in the broader digital transformation journey