



**Internal Audit Foresight in a Transforming world
How can we contribute to organisational success?**

IAS Conference, November 27th, 2019

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**EUROPEAN
COMMISSION**

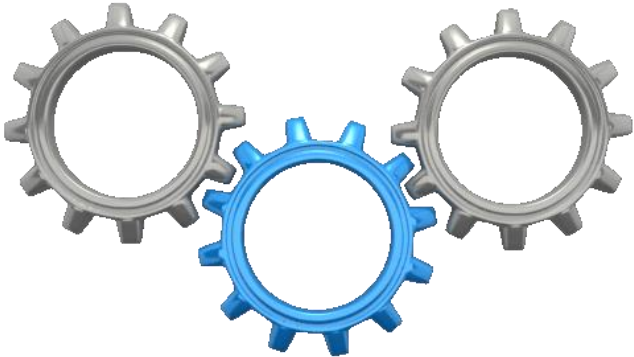
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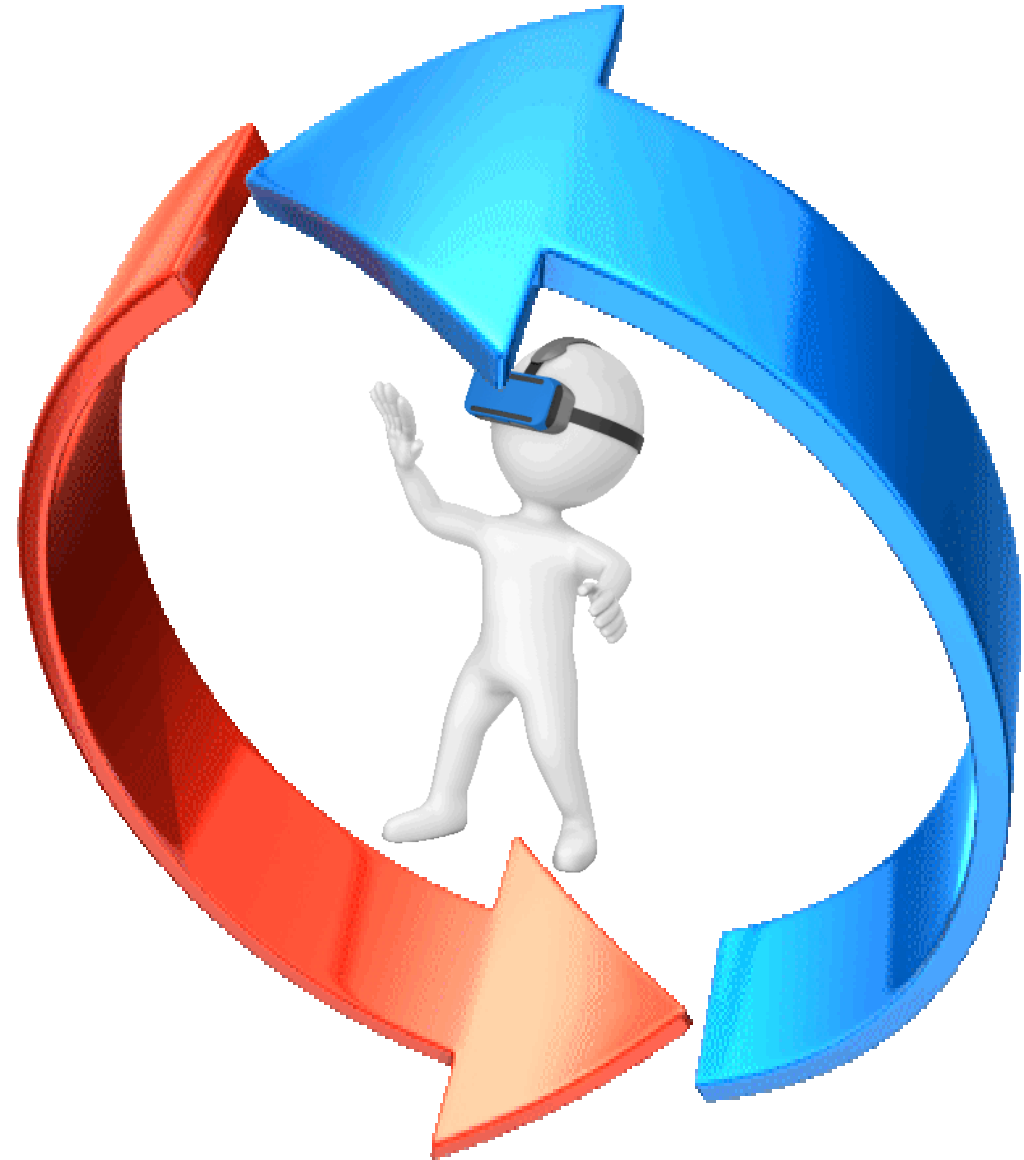


3 LOD & Combined Assurance



Realigning Audit Value

New Realities



Corporate scandals

Business model rethink against technology disruption (VUCA)

The rise of data and the impact of consumer behavior

Changing global economic & political conditions

Cybersecurity threats

Competition for talent and workforce demographics

Increased regulatory burden

Investor activism

Blended value proposition

Public, private partnerships and the role of government

Evolution of inclusive capitalism (profits vs. wages)

Regulatory Dividend - Convergence of workplace disciplines



Finance



Technology & Information



Audit

Corporate Scandals - Global

TECHNOLOGY

Harvard Study Proves Apple Slows Down old iPhones to Sell Millions of New Models

By Mr Robot

Published on September 21, 2017

facebook

Data scandal puts Facebook's business on

Japan: selected corporate scandals

NISSAN



© Bloomberg

Revelations that unqualified technicians at the company had carried out final inspections prompted a recall of about 2m vehicles

KOBE STEEL



© Bloomberg

Executives admitted trust in the steel manufacturer had 'fallen to zero' after admissions over decades of data falsification

TORAY INDUSTRIES



© Bloomberg

Toray disclosed its Hybrid Cord subsidiary's data manipulation after shareholders inquired about chatroom messages on the topic

How Steinhoff burned investors for billions

Within a few days nine top asset managers lost R9bn ...



... the share price dived ...



... and major shareholder Christo Wiese lost billions



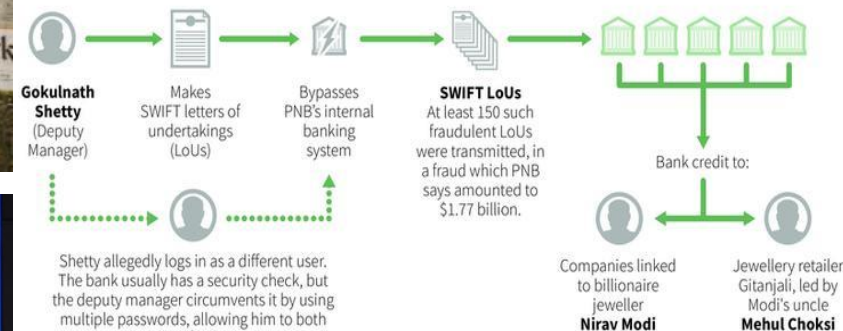
Graphic: JOHN MCCANN
Data sources: BLOOMBERG, ENRICO LIEBENBERG (BIZNEWS), FORBES

India's \$1.77 billion bank fraud

India's second-largest state-run lender Punjab National Bank (PNB) said it has been the victim of a \$1.77 billion fraud, the country's biggest-ever bank fraud, undetected for years.

HOW THE FRAUD WAS ACCOMPLISHED

Gokulnath Shetty at PNB allegedly sent Letters of Undertaking without recording them in the bank's internal software system.



THE COST OF CARILLION

£2bn losses for big banks including Barclays, Santander, HSBC and Lloyds

£80m hit taken by builder Galliford Try

£17m wiped off Speedy Hire shares

£579m share losses suffered by top ten investors in Carillion

£40m bill rival Balfour Beatty could be left with

£1.2bn owed to around 30,000 small firms

REUTERS



THOMAS COOK

Thomas Cook has ceased trading and all flights are cancelled. Visit thomascook.caa.co.uk or call 0300 303 2800

YOUR LONDON AIRPORT

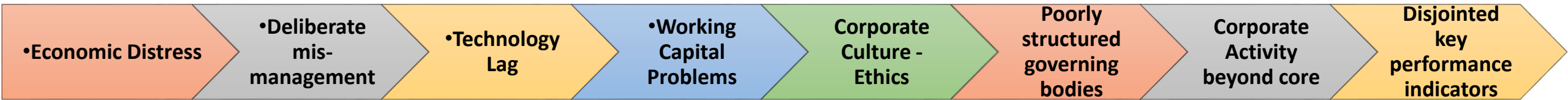
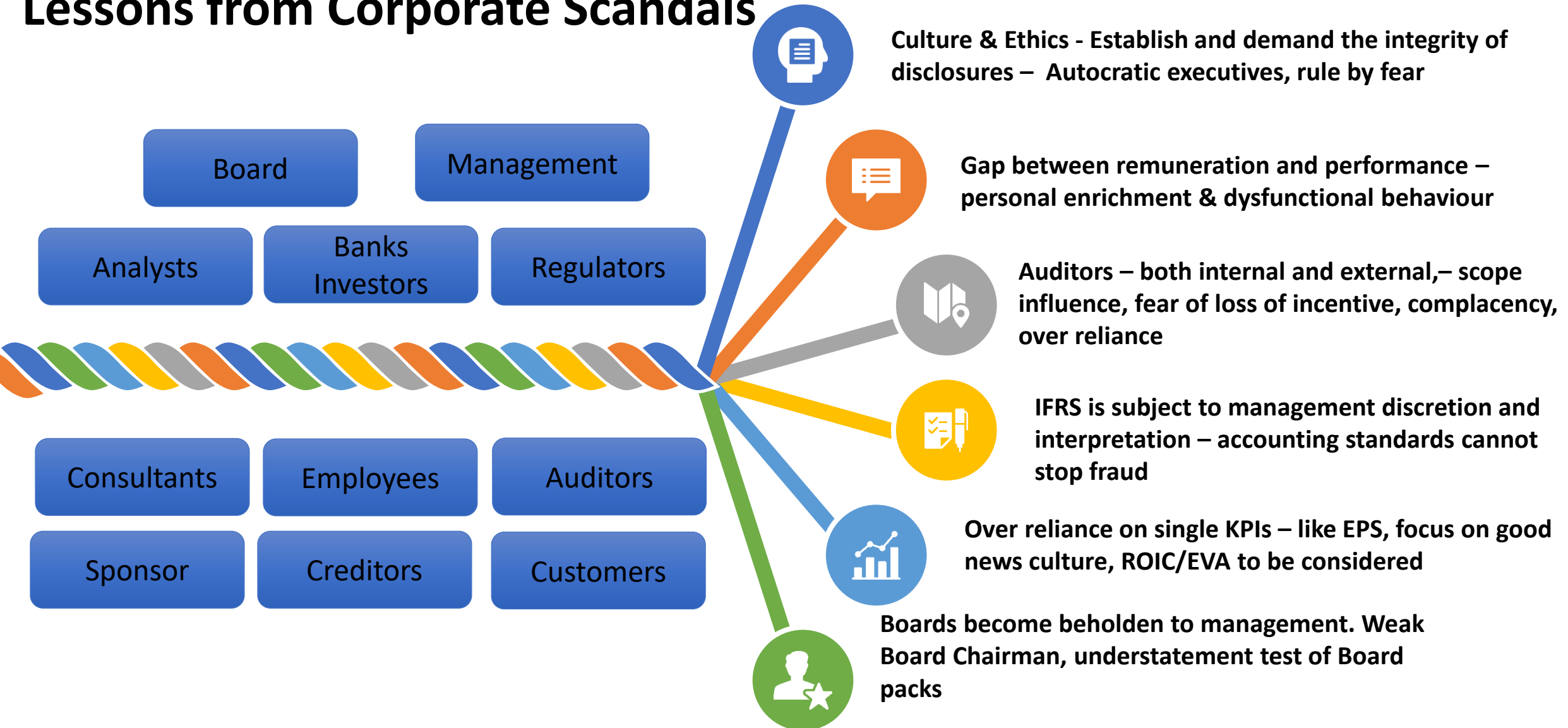
FROM 2011 TO MID-2016...
WELLS FARGO
FRAUD FARGO

1.5 MILLION UNAUTHORIZED DEPOSIT ACCOUNTS

500,000 UNAUTHORIZED CREDIT CARD APPLICATIONS

= \$2.6M IN FEES FOR WELLS FARGO

Lessons from Corporate Scandals



Audit Fraternity

WHY AUDITORS FAIL

- Failure to assess the reasonableness of assumptions made during audits
- Over reliance on management reports or failure to sufficiently test the accuracy of the data
- Accounting firms failing to maintain their independence due to financial relationships with clients

Views of court-appointed Committee of Experts

- Open up professional services to competition
- Audit firms should be allowed to advertise with some restrictions
- Allow firms to offer a bouquet of high-quality professional services on a par with international standards
- The Advocates Act, 1961, needs to be rationalised to facilitate development of Indian law firms as well as Indian audit firms into multi-disciplinary practices

Some measures other countries are considering

- Separate audit services from consultancy
- Introduce mandatory joint audit where one of the auditor is a Big Four firm
- Greater accountability and scrutiny of audit committees by the regulator
- The government becomes the provider of statutory audit services for the financial sector

- Principal auditors only did part of the accounts
- Relied on opinion of subsidiaries' auditors for rest
- Auditors have given qualifications where they don't agree with management



Helping you fulfil your responsibilities as an Audit and Compliance Committee

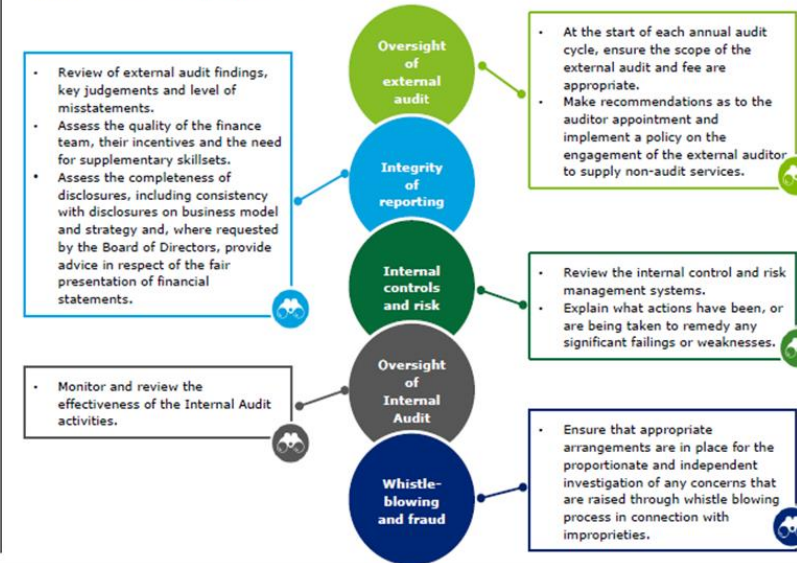
The primary purpose of the Auditor's interaction with the Audit and Compliance Committee:

Clearly communicate the planned scope of the financial statements audit.

Provide timely observations arising from the audit that are significant and relevant to the Committee's responsibility to oversee the financial reporting process.

In addition, we seek to provide the Audit and Compliance Committee with additional information to help them fulfil their broader responsibilities.

We set out here a summary of the core areas of your responsibilities to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit and Compliance Committee in fulfilling its duties.



DETERMINING CAMs

Matter communicated or required to be communicated

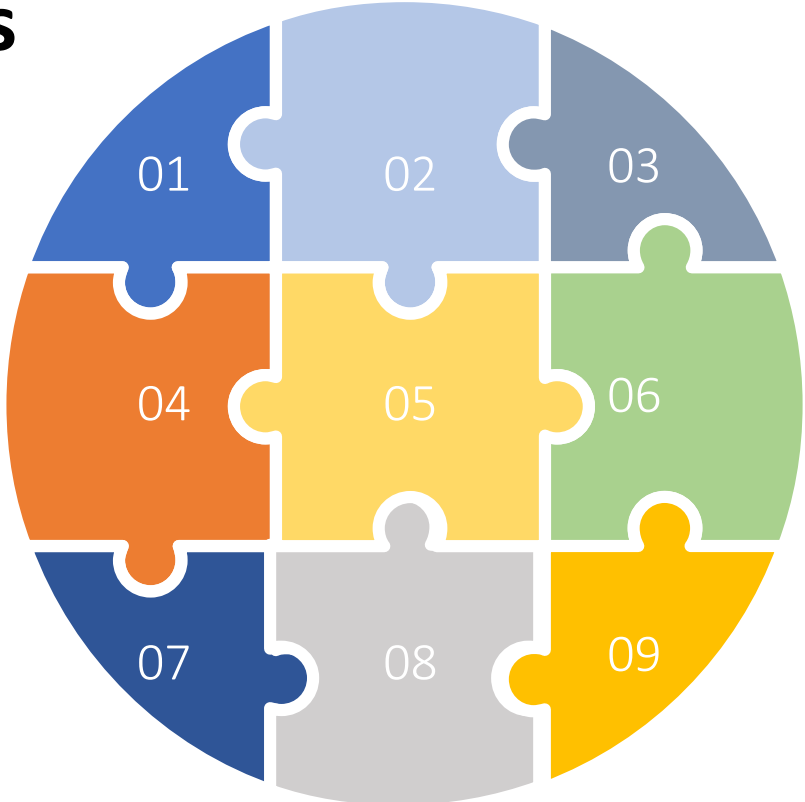
Relates to accounts or disclosures that are material

Involves especially challenging, subjective or complex auditor judgment


CRITICAL AUDIT MATTERS





Public Sector Realities




- Macro/Micro economics
- Social & Transformation
- Business
- Outcomes of Six Capitals
 - Financial
 - Intellectual
 - Social
 - Human
 - Manufactured
 - Natural


 01 | Global Economic & Political Reform

 02 | Climate Change/Demand on natural resources


 03 | Face and needs of the consumer


 04 | Harnessing Technology and Innovation

 05 | Bloated Public sector spending

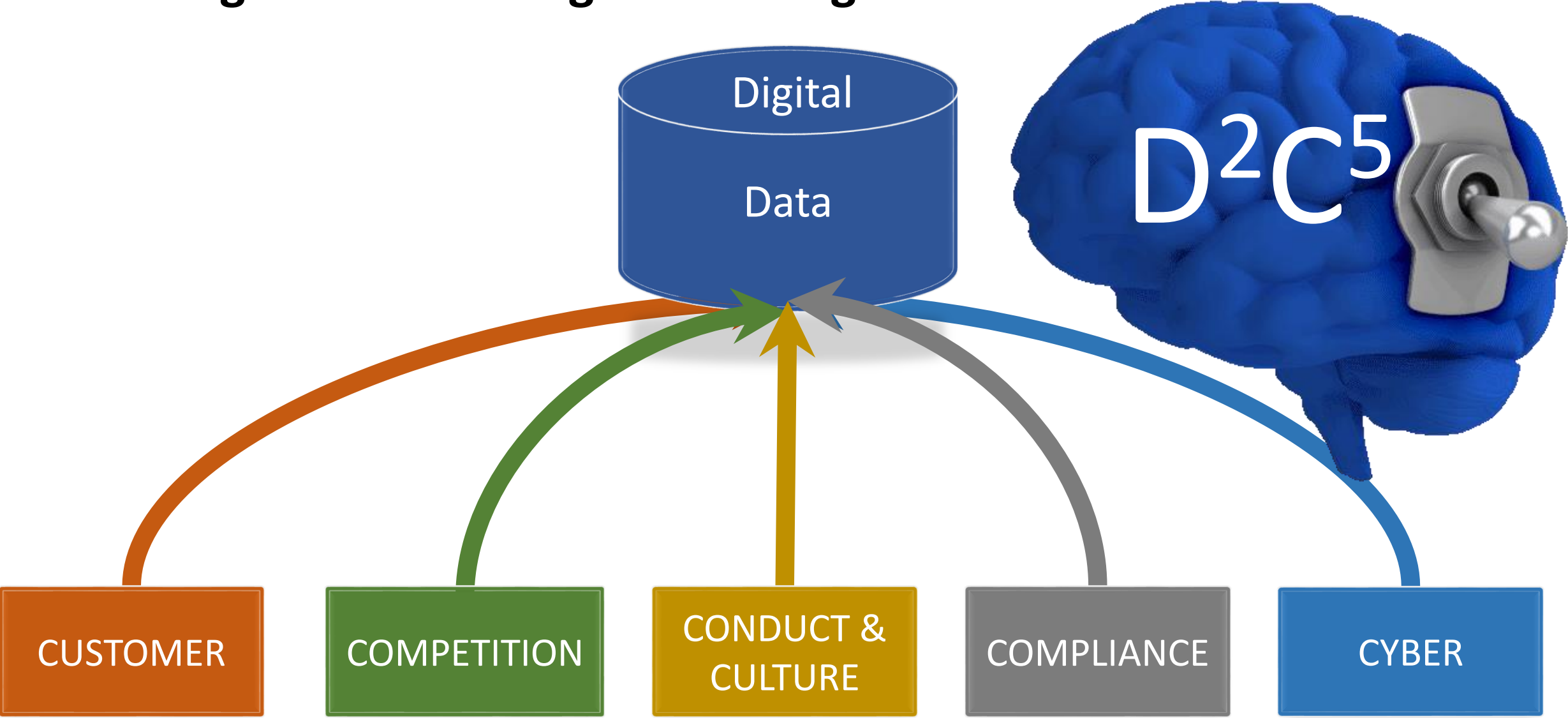
 06 | People mobility

 07 | Inclusive capitalism – social welfare vs equity

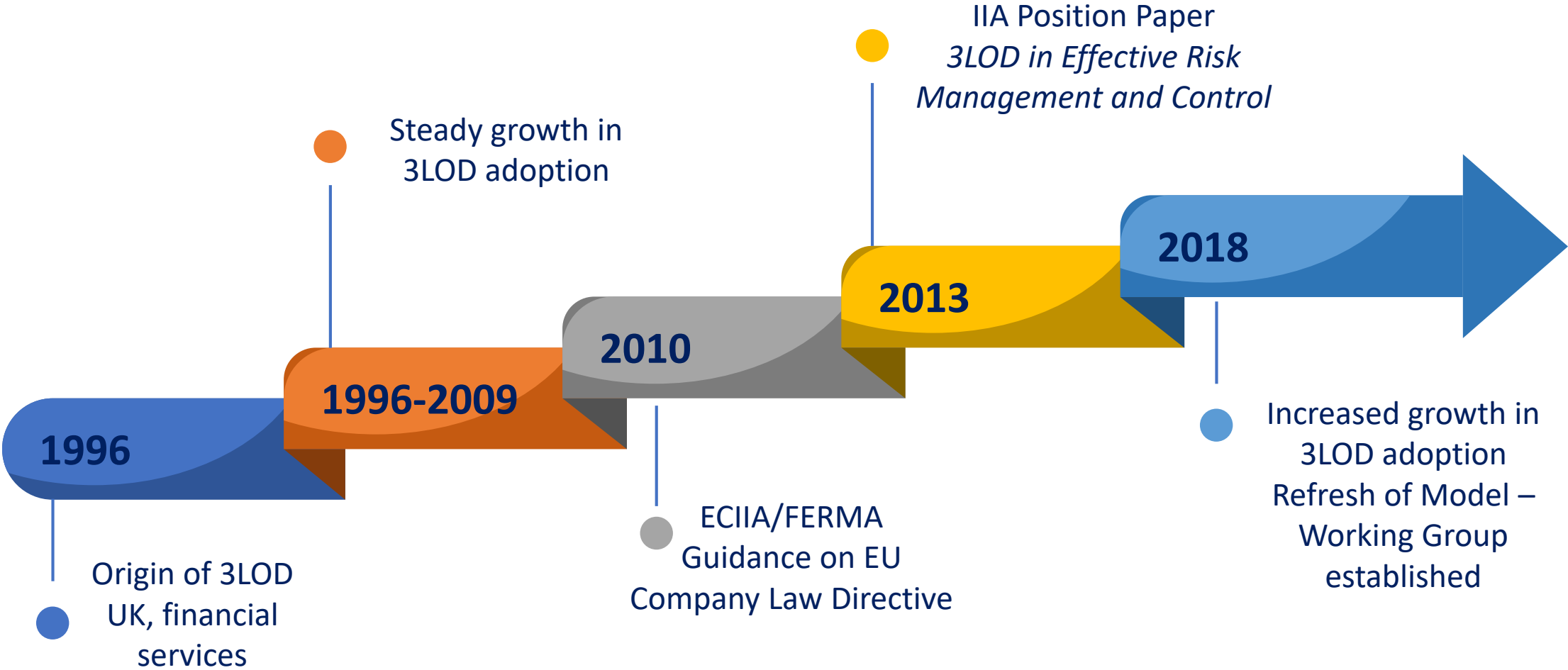
 08 | Emergence of Shadow states

 09 | From Provider to Facilitator

JJ's Foresight from Hindsight and Insight



3 LOD - History



Pros and cons

○ Familiar

○ Simple

○ Widely adopted

○ Embedded

○ Successful in promoting internal auditing



○ Restricts internal audit

○ Creates silos

○ "Defense" only

○ Does not explain "blurring"

○ Looks static

○ Inconsistent with trusted advisor role

Consultation Outcomes

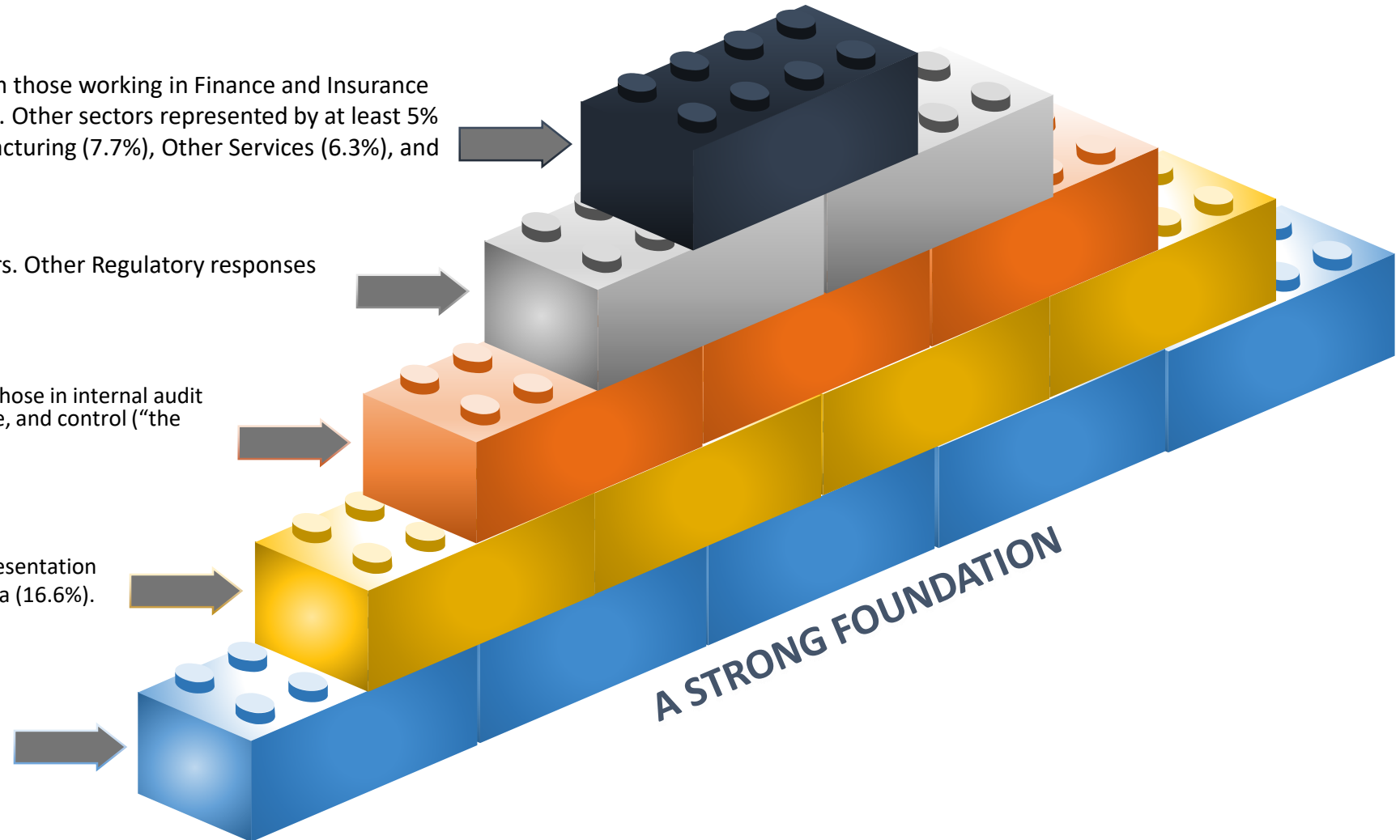
Largest volume of respondents were received from those working in Finance and Insurance (34.5%) followed by Public Administration (11.8%). Other sectors represented by at least 5% of the total comprised Health Care (5.0%), Manufacturing (7.7%), Other Services (6.3%), and Professional Services (6.2%).

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.



General Comments

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.

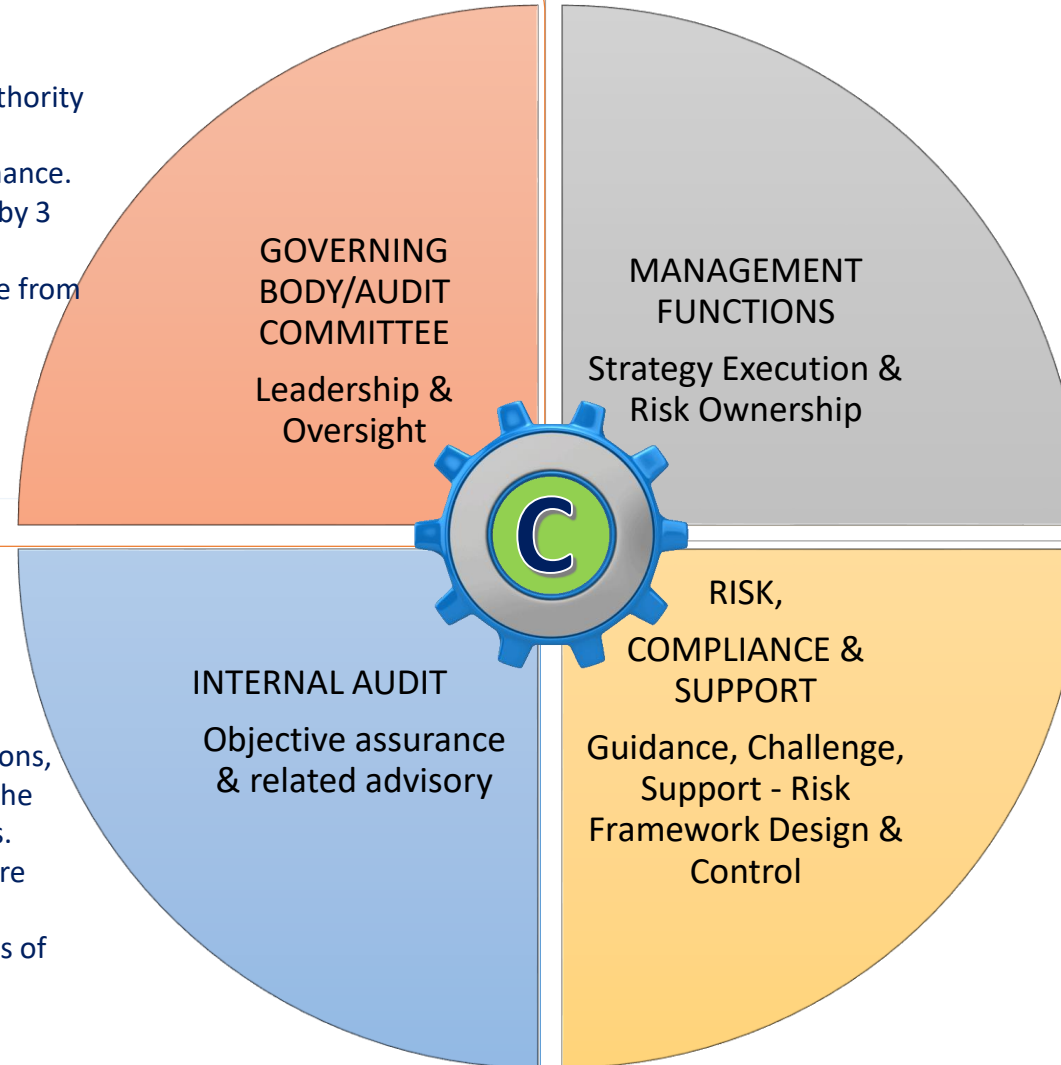
3 LOD NEXT STEPS



Roles and responsibilities - 3 Lines in the Public Sector

- 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.

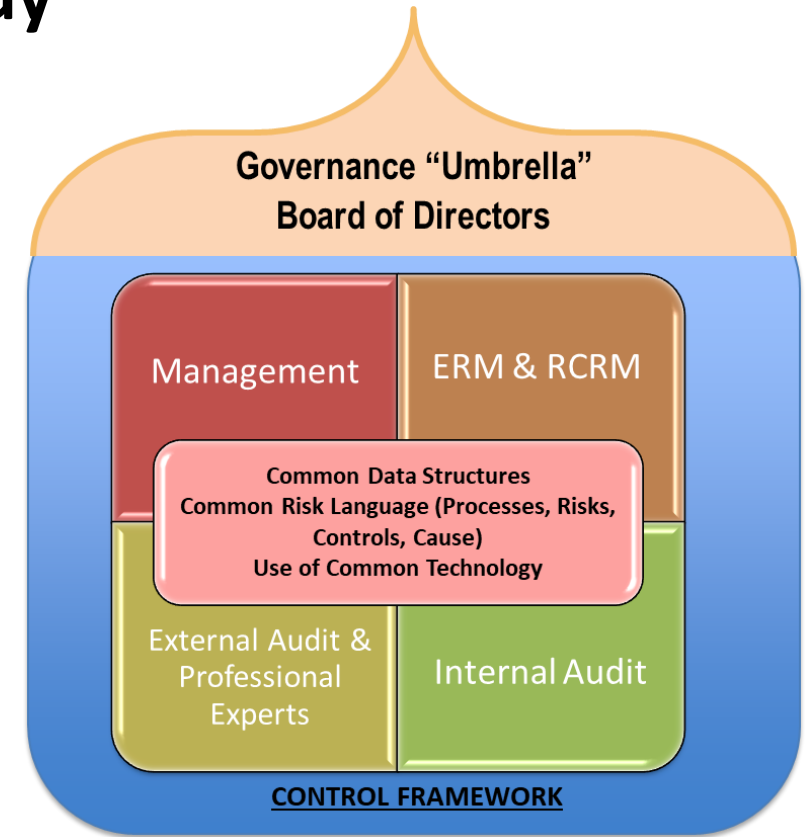
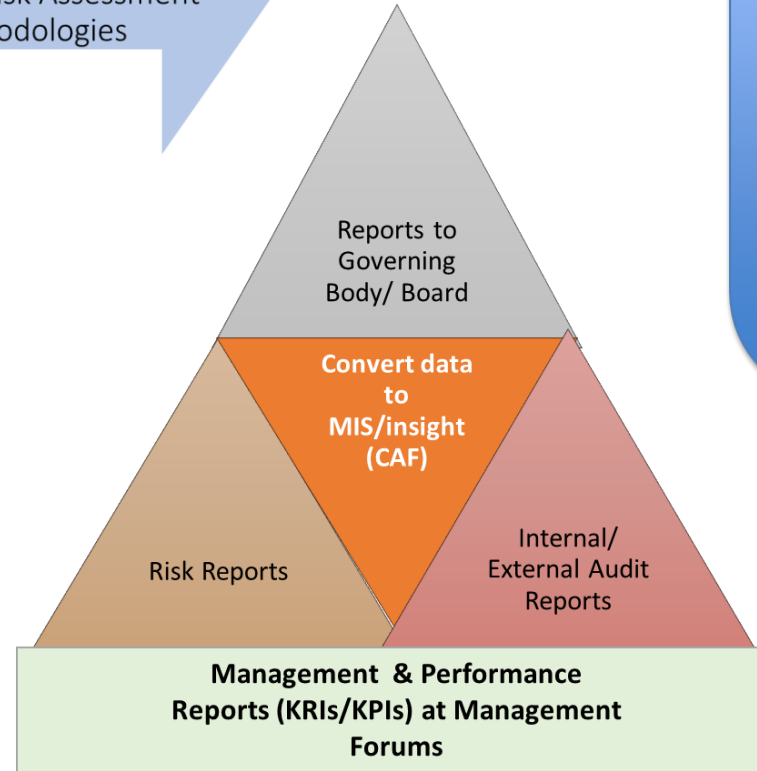
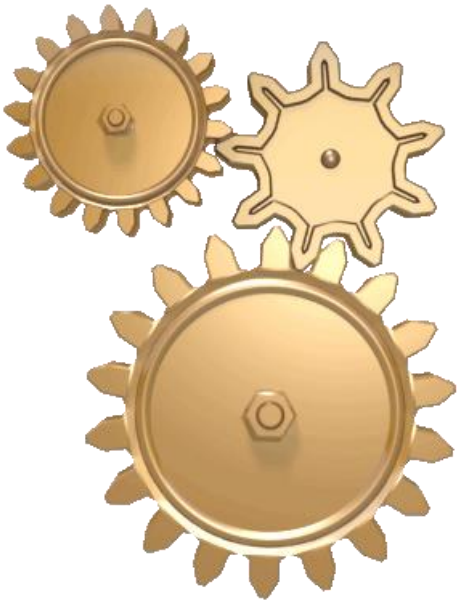
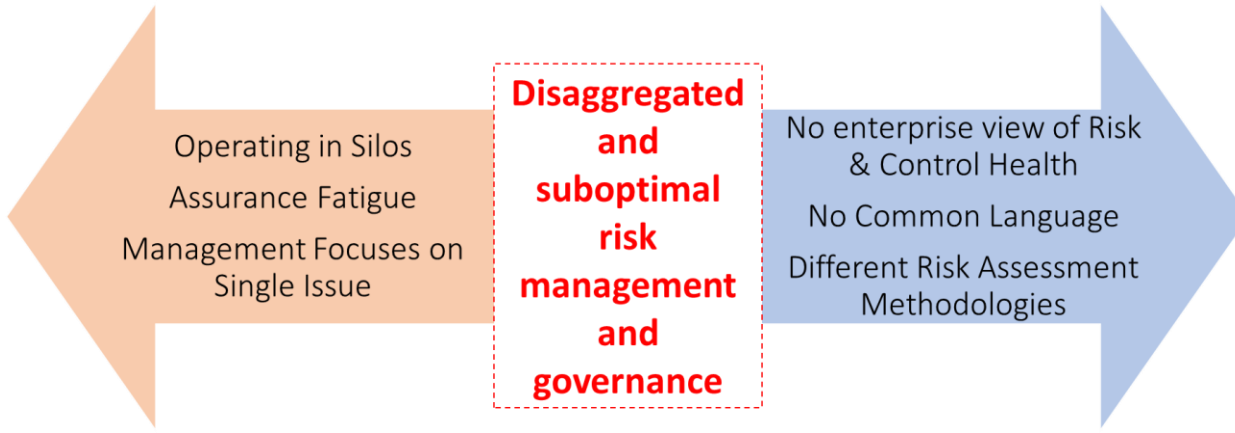


- Delivering outcomes aligned with stakeholders expectations
- Assessing internal and external factors that may impact decisions and outcomes.
- Establishing systems/ procedures that deliver on performance
- Affecting remediation when decisions, actions, behaviors, and outcomes are seen to be wanting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

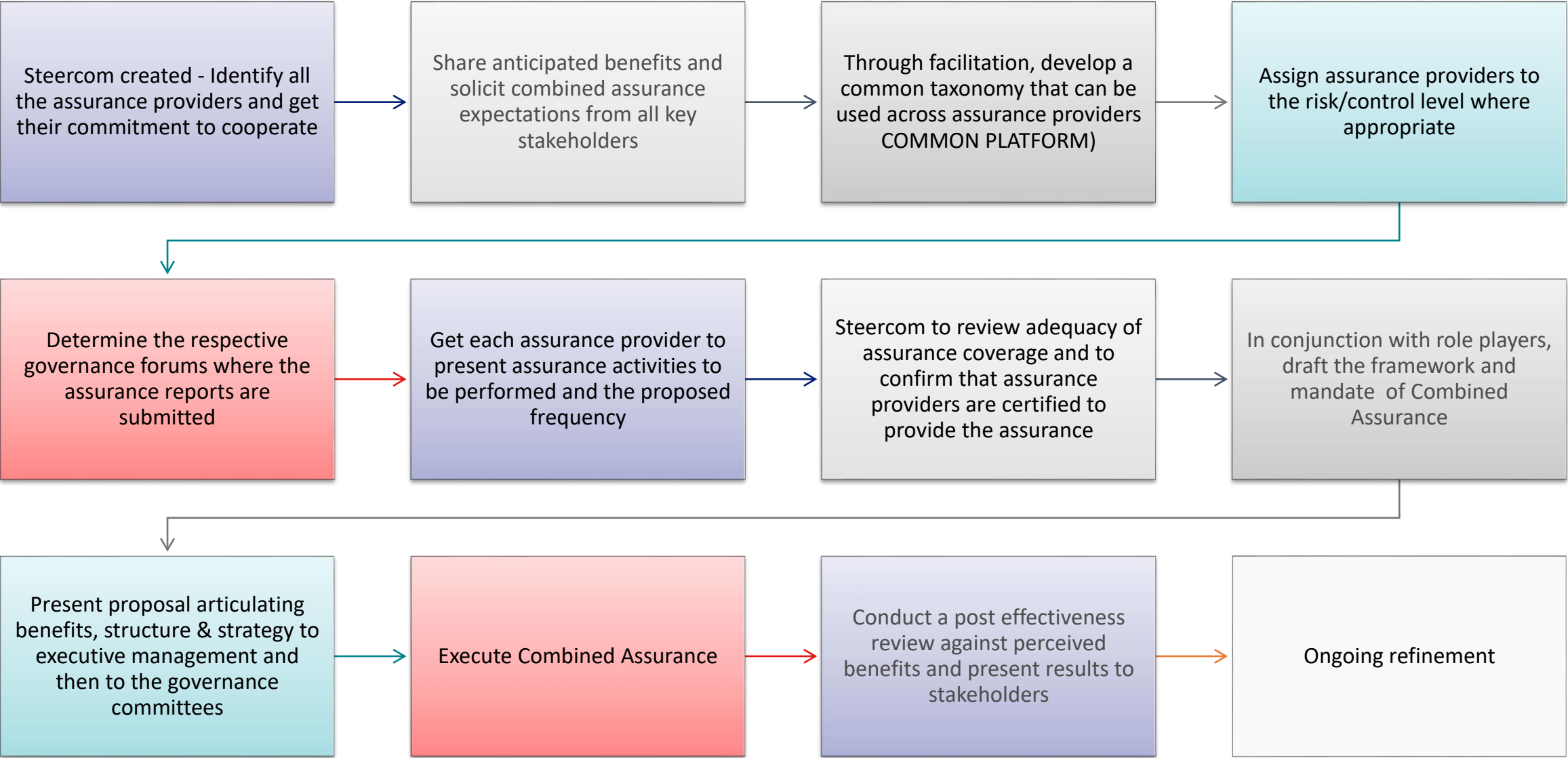
- Analyze known and identifying emerging issues that may impact decisions & outcomes.
- Identifying changes in the organization’s variances and tolerances in performance.
- Assisting management in developing risk frameworks, processes, and controls to align performance with strategic goals.
- Providing 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.

Combined Assurance – A South African Case Study

Old Regime Vs Aspirations

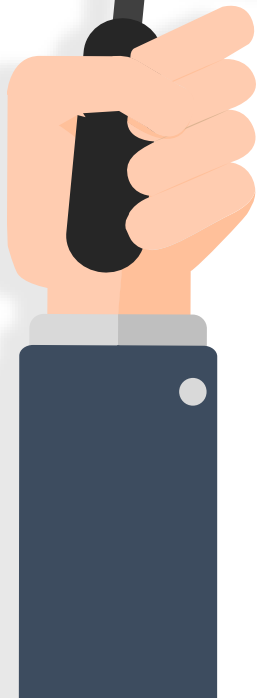


Inaugural Combined Assurance Meeting Imperatives

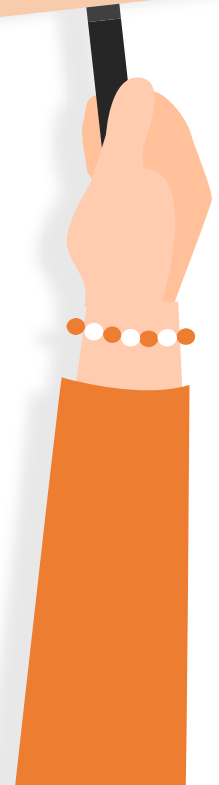


Foundational aspects for combined assurance

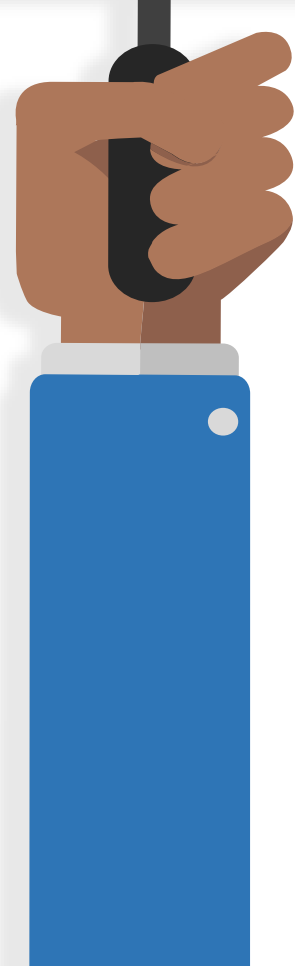
Support from executives and board committees - 'tone at the top'



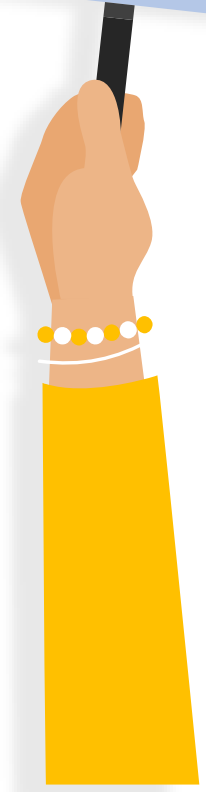
Buy-in from all key role players - "tune in the middle"



Effective corporate governance structures - "rhythm on the dance floor"



Strong risk culture across the company



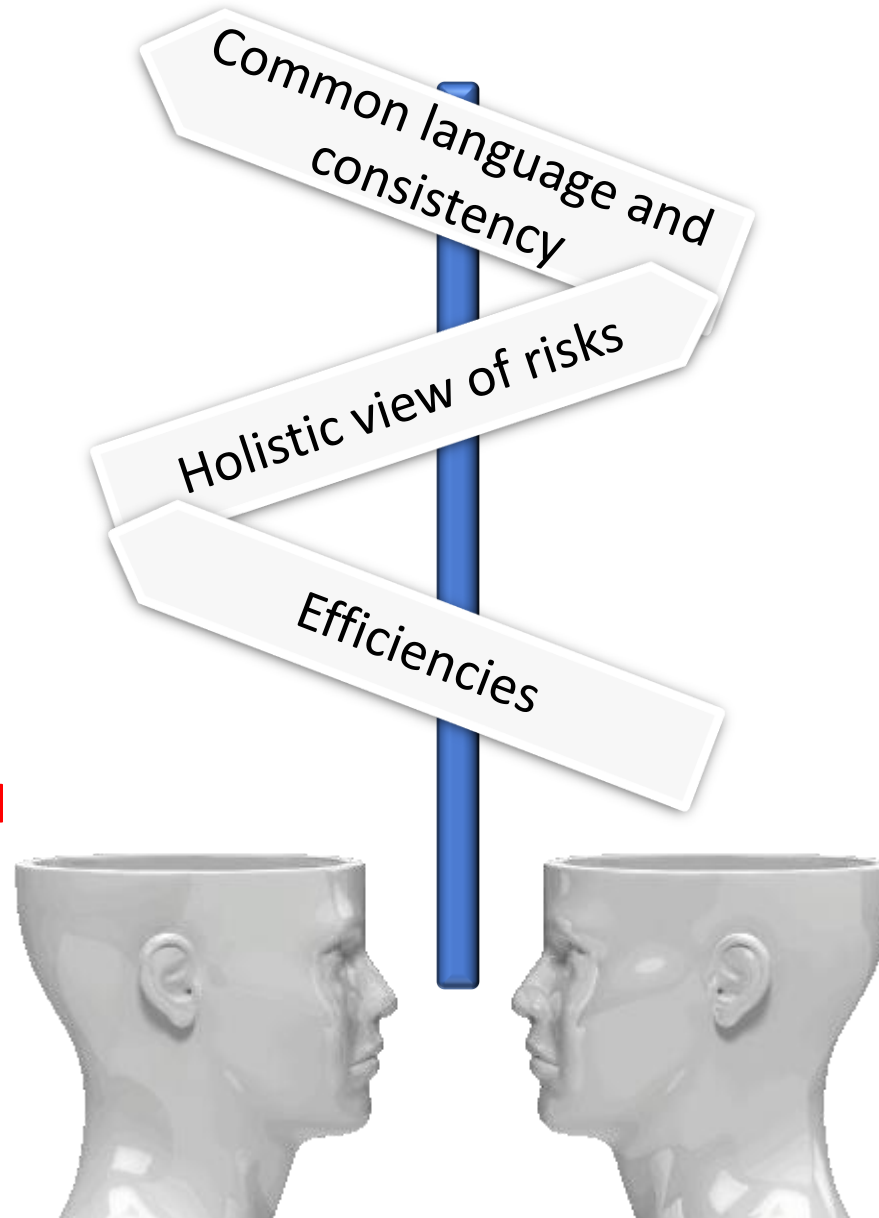
Benefits of Combined Assurance

Collaboration

- Leverage **common risk assessments**
- Deliver unified, **consistent message**

Efficiencies

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

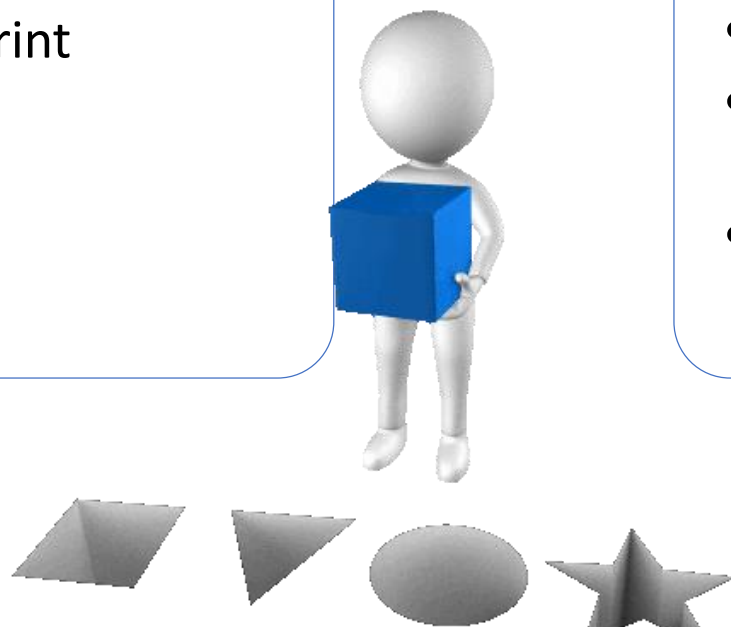
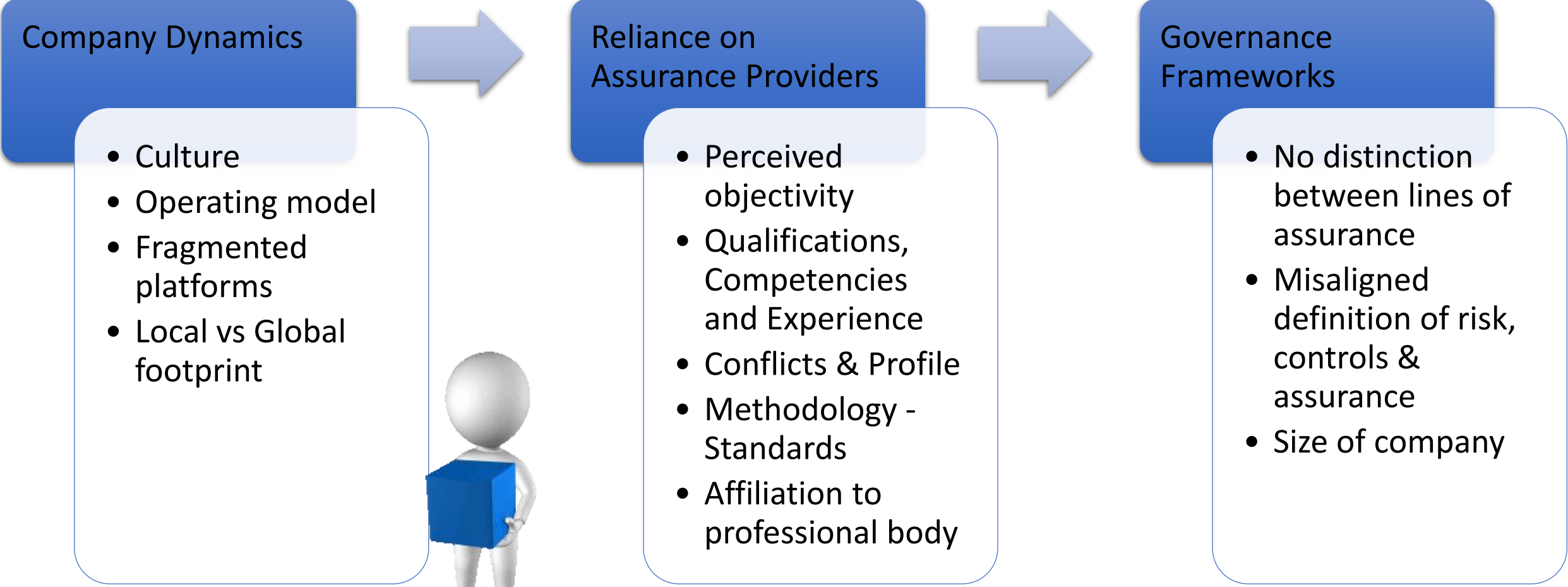


Effective control environment

- 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**

Challenges to Combined Assurance



One Size Does Not Fit *All*

Why GRC?



Lack of Effective Oversight



Unnecessary Complexity and Duplication



Organisational and Functional silos



Disjointed strategy & disconnected KPIs



Wasted Resources & Information



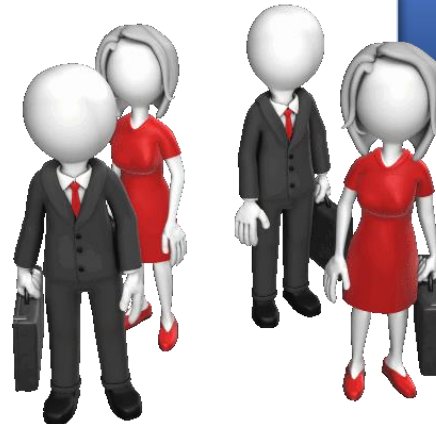
Fragmented Platforms



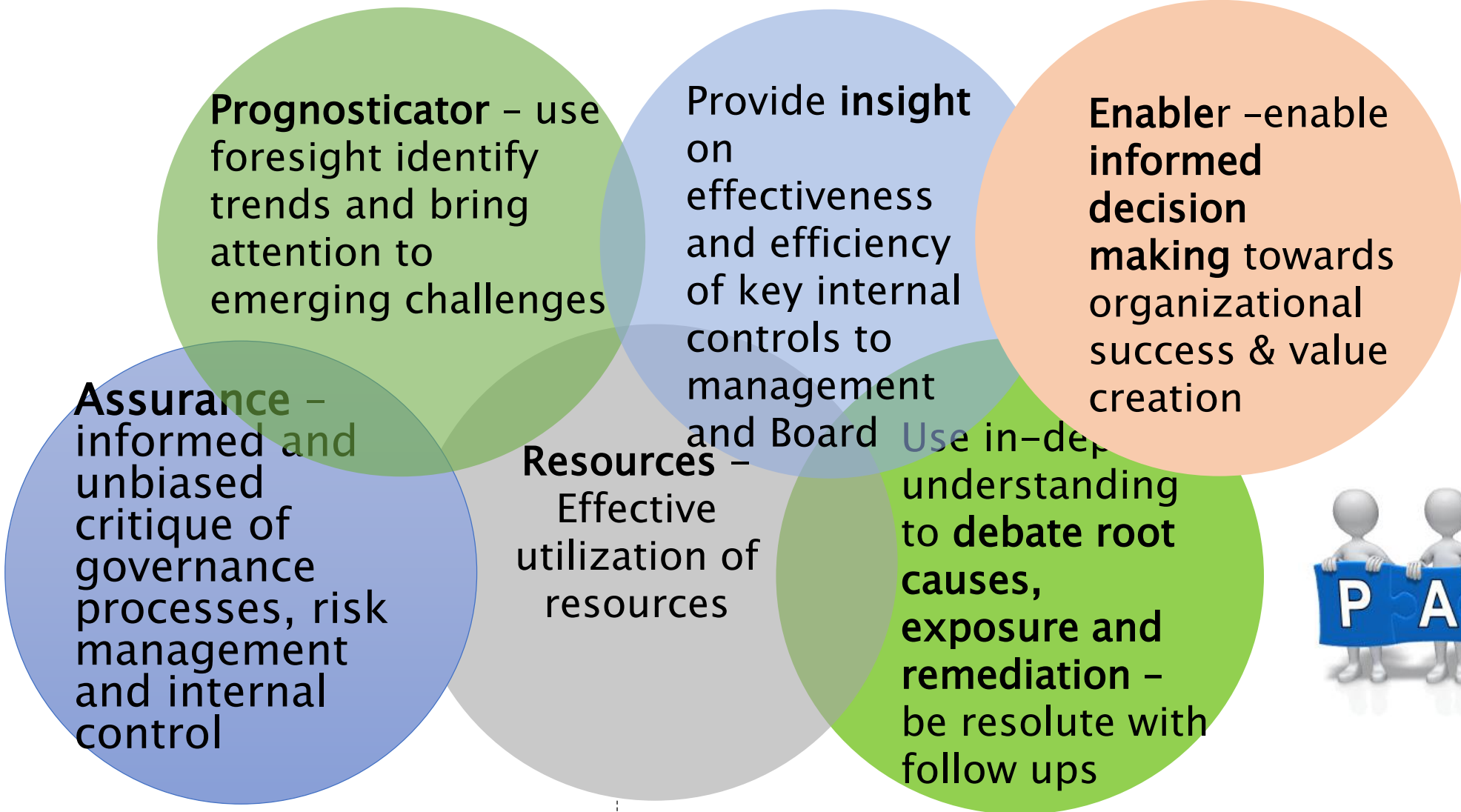
Lack of awareness of Interdependencies



Increased costs

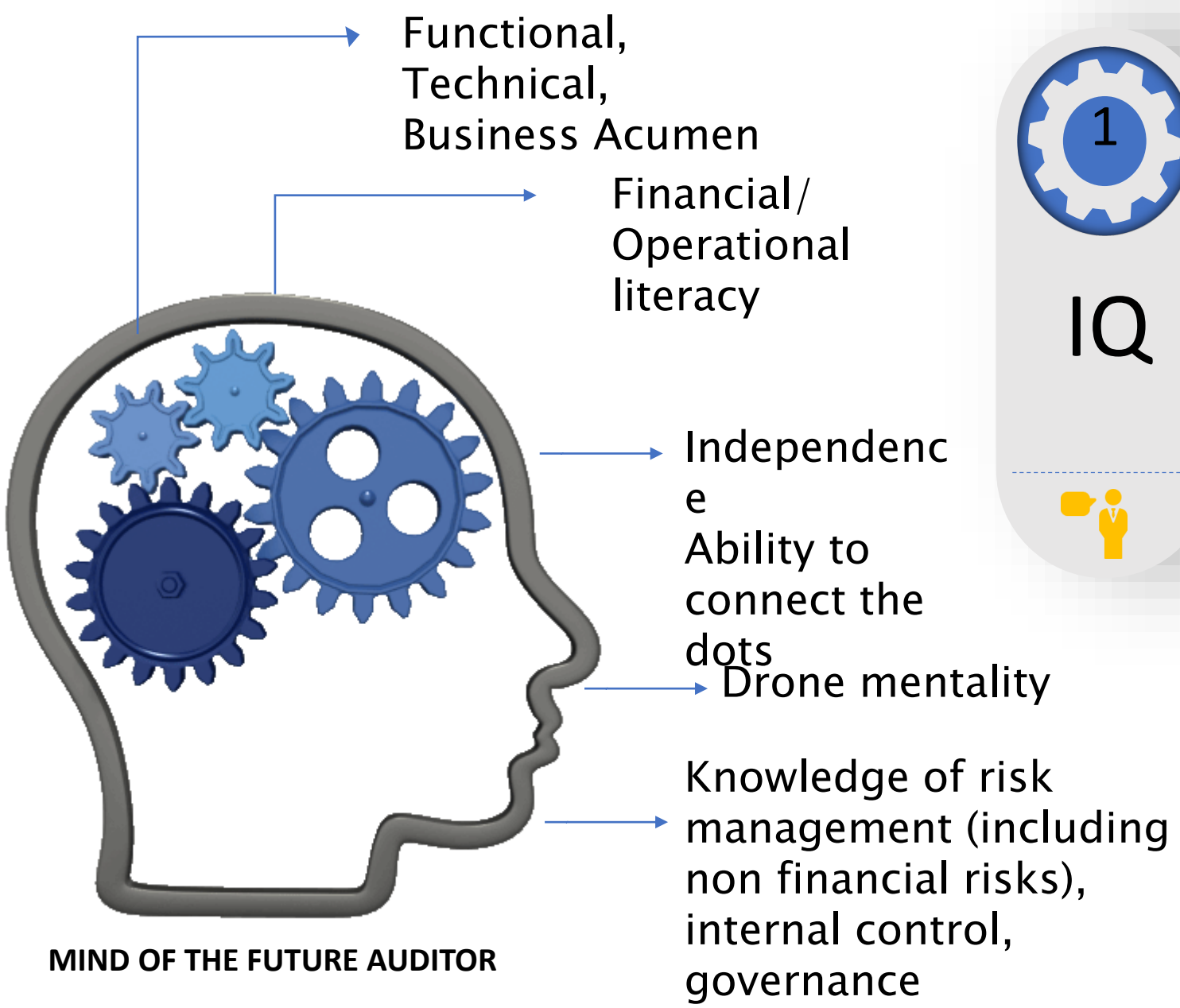


Stakeholder Expectations of Internal Audit



Role of Internal Audit

Future Internal Auditor



Realigning Audit Value





Change is the only constant.
Heraclitus

