



Internal Audit

Responding to Heightened Expectations

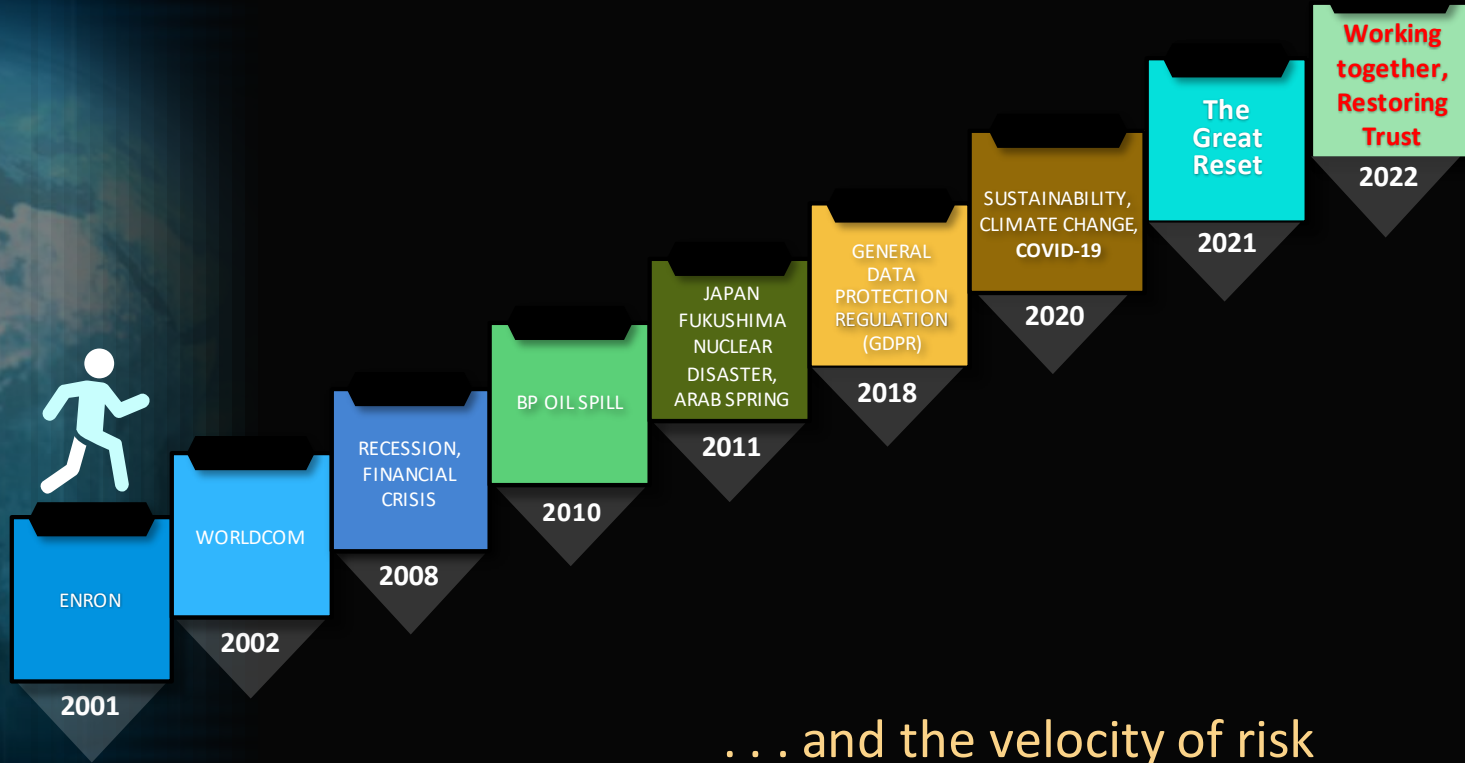
JENITHA JOHN
INDEPENDENT CONSULTANT
2020-2021 CHAIRMAN OF
GLOBAL IIA

AGENDA

- New Realities
- Expectations of Internal Audit
- Embracing the 3 Lines Model
- ESG Landscape the role of Internal Audit

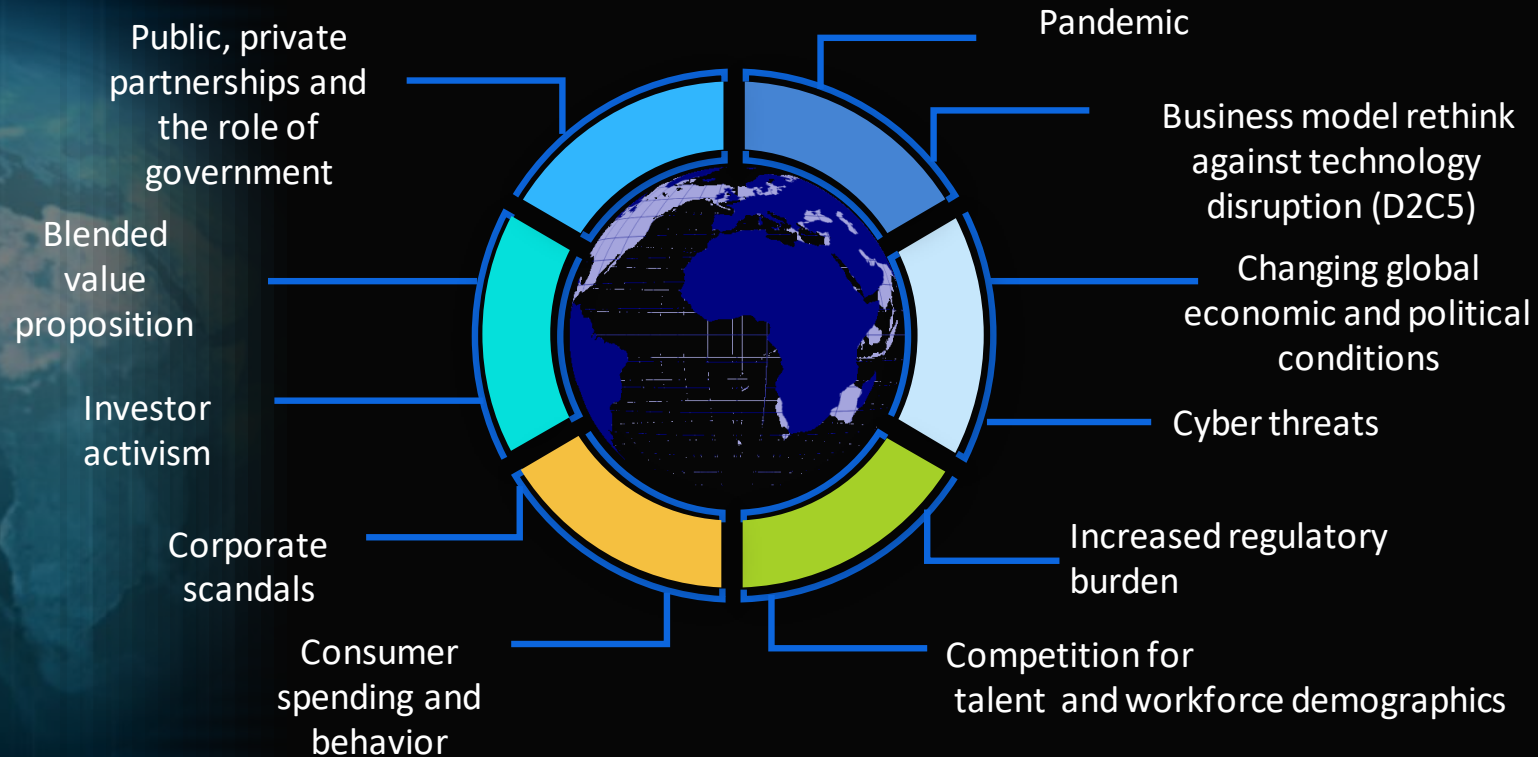


Adapting to New Realities - Change is constant ...



... and the velocity of risk is increasing

Refocus: New Realities



Audit hotspots over time

2015	2016	2017	2018	2019	2020	2021	2022
Information security	Data privacy	Data privacy	Data privacy	Cybersecurity	Cybersecurity	Cyber security in new control environments	Cyber Security & Data Privacy
Strategic change	Cybersecurity	Cybersecurity – external threats	Cloud vulnerabilities	Digitalization and technology (AI, RPA)	Data protection	Information governance (data security & management)	Governance ecosystem resilience
Climate change	Third-party relationships	Pace of innovation	Information Security	Cloud computing	Regulatory change	Regulatory & Compliance Risk	Regulatory environment change
Geopolitical instability	Strategic change management	Sustainability	Corporate culture	Data governance	Business continuity and crisis response	Business & Operational Resilience (Crisis Response)	Embracing new realities into business models (pandemic and 4IR influence)
Data policy	Continuity and disaster recovery	Third-party relationships	Fraud	Third-party risk management	Data and new technology	Digital Transformation, new technology and AI	Innovation & Digital Disruption
Third-party relationships	Competitive environment	Political uncertainty	Geopolitical uncertainty	Fraud risk management	Third-party risk	Supply chains, outsourcing, and ‘nth’ party risk	Supplier and Vendor Management (including Supply chain nuances)
Compliance management	Talent management	Budgeting and forecasting	Tech disruptions – model change	Corporate culture	Talent management	Human capital & talent disruption	Talent Management (the great resignation)
Risk culture	Macro volatility	Strategic decision-making & execution	Changing workforce demographic	Regulatory burden	Operational resilience & Sustainability	Macroeconomic and geopolitical uncertainty	Economic & Political Volatility
Strategic workforce planning	Governance	International tax planning	Changing consumer behavior	Risk management overhaul	Pandemic – novel world	Climate change (ESG & UN SDG)	ESG Sustainability (Environment, social, governance)



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

Enabler –enable **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

Expectations of Internal Audit



Seize the Opportunity – Auditing in Complex Times

Participate in crisis management committees

Identify new and changed risks

Eliminate duplications and bottlenecks in new processes

Be agile, including finding ways to work remotely

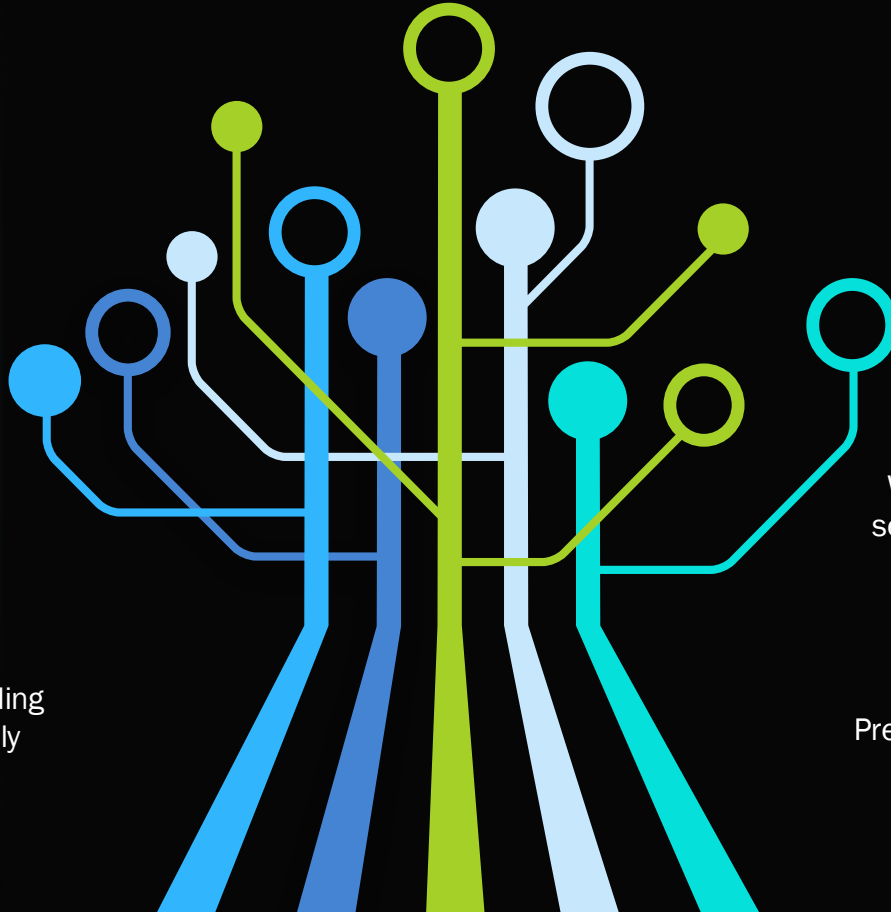
Ramp up data analytics

Provide answers as liaison to the board, audit committee

Be a humble but confident protector and nurturer

Work closely with first and second lines, as well as with external audit, by asking, “How can we help?”

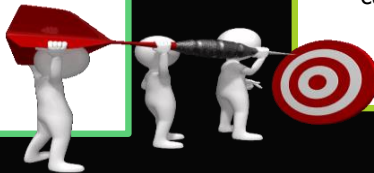
Prepare to deal with pressures to “cross the lines” by assuming management responsibilities



Catalyst for 3 Lines Model

Current Demerits

- ❖ Lack of effective oversight
- ❖ Unnecessary Complexity and Duplication
- ❖ Organizational and Functional silos
- ❖ Disjointed strategy & disconnected KPIs
- ❖ Wasted Resources & Information
- ❖ Fragmentation
- ❖ Lack of awareness of Interdependencies
- ❖ Increased costs



Consolidated and real-time reporting of cross-functional risks and issues

Proactive protection, prevention

Optimize economic and social value

Increases accountability for risks, controls

Enhances organizational culture – enforce accountability

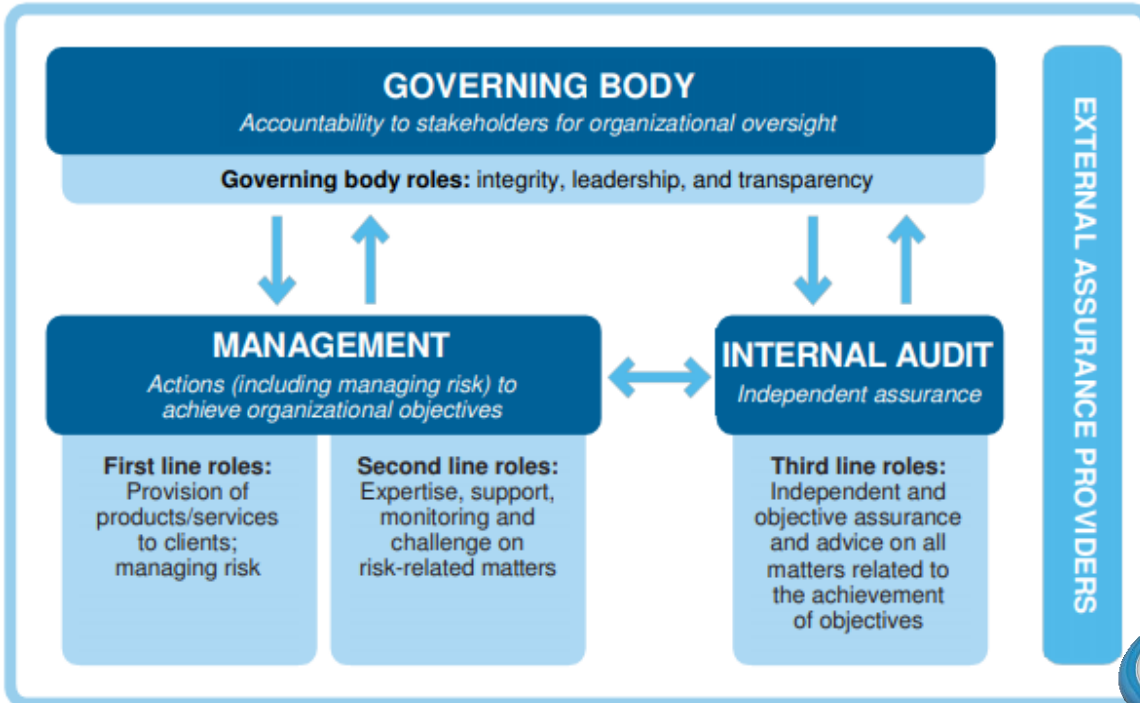
Improve resilience & efficiency

Single view of risk and control health



Refreshed Three Lines Model

The IIA's Three Lines Model



KEY: ↑ Accountability, reporting

↓ Delegation, direction, resources, oversight

↔ Alignment, communication coordination, collaboration

Governing Body

- Integrity
- Leadership
- Oversight

Management

- Strategy
- Execution
- Risk – compliance and support

Internal Audit

- Accountable to governing body
- Independent, objective assurance
Related advisory



Key Innovations – 3 Lines Model



GOVERNANCE ESSENTIALS

- Accountability
- Actions (including managing risk) to achieve goals by management
- Assurance



SIMPLICITY

In the interest of simplicity and in the interests of familiarity - refer to the paper as “The Three Lines Model” - with an emphasis on roles rather than siloed lines
“ 1st line roles,” “2nd line roles,” (not structural)



UNDERPINNING PRINCIPLES

Principle 1: Governance
Principle 2: Governing body roles
Principle 3: Management - 1st & 2nd line roles
Principle 4: Third line roles
Principle 5: Third line independence
Principle 6: Creating and protecting value



COLLABORATION

Importance of alignment (Collaboration, coordination across the different roles in an organization)

Articulates the key roles and relationships



1ST LINE ROLES

Comprises 1st and 2nd roles – this can be configured to suit the organization/ industry’s requirements, whether it is a statutory/regulatory requirement or capacity issues



INTERNAL AUDIT

Internal audit is independent from management and from management responsibilities

May give objective assurance and advice on second line roles

Types of Assurance

Internal Assurance

- 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,

Management Assurance

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

Management Assurance - Ultimate responsibility for managing risks & controls



Internal & External Assurance - Objective and assurance provided by Internal, External audit and professional experts

Combined Assurance - Leads to continuous improvement, operational excellence, minimises duplication of effort between assurance providers

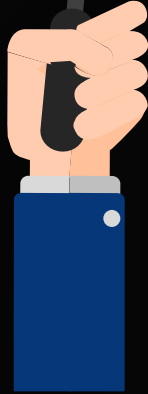


Underpinned by a robust **Risk Management Framework**

Foundational aspects for effective 3LM implementation



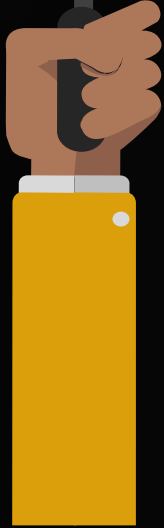
Support from executives and board committees - 'tone at the top'



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



Steps to create an Integrated Assurance Model

Framework

Establish a **combined** assurance framework



Roles & Responsibilities

Agreement between all assurance providers on their respective roles and responsibilities



Taxonomy

Creating common risk, control, process and root cause language



Coverage Map

Creating a risk coverage map, linking risks to processes and controls



Assurance Owners

Linking assurance maps to control owners – create awareness through training



AC Reporting

Providing the audit committee with a combined assurance report



Integrated Audit Planning

Using combined risk assessments/maps to inform the annual internal audit plan



Allow agility and flexibility in the shaping of the 3LM

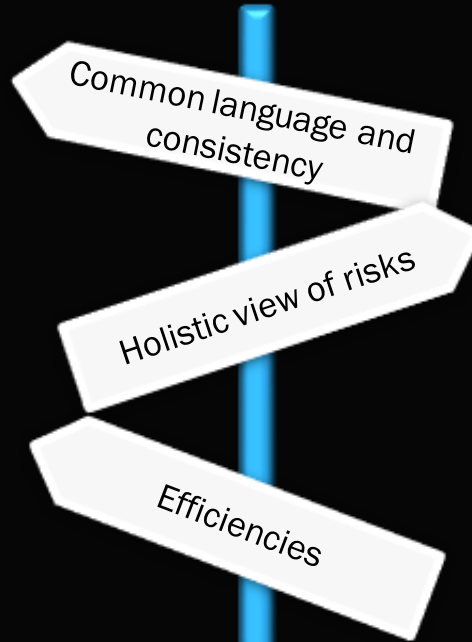
Benefits of 3LM

Collaboration

- Leverage common risk assessments
- Deliver unified, consistent message

Efficiencies

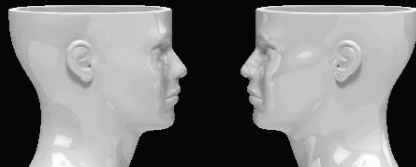
- Eradication of Assurance Fatigue
- Cost savings and greater coverage
- Sharing of lessons learned



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



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

GOVERNING BODY
Leadership & Oversight

MANAGEMENT FUNCTIONS
Strategy Execution

- 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.

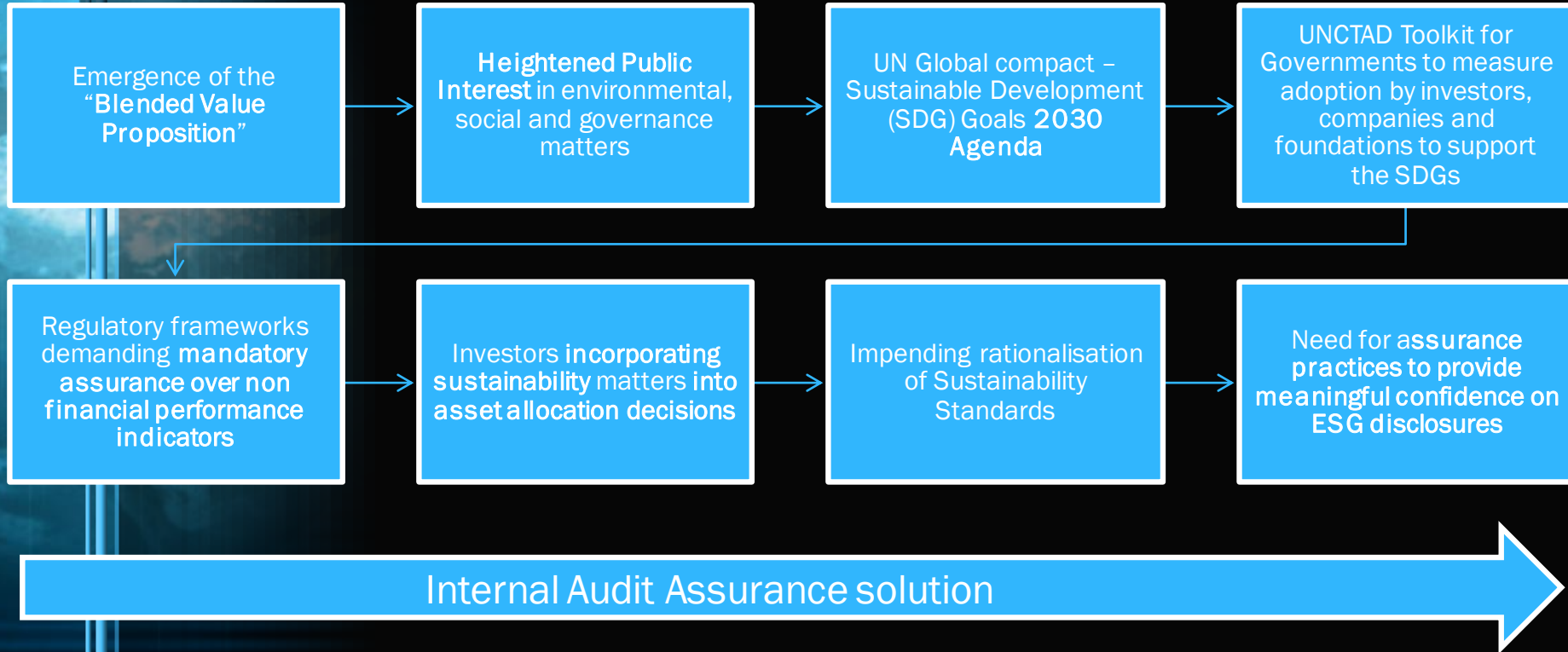
- Providing independent assurance, opinions, insight, and advice on the adequacy and effectiveness of governance, risk management, and internal control and on the efficiency and effectiveness of operations, including the safeguarding of assets, and on the reliability and integrity of reporting processes.
- 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.

INTERNAL AUDIT
Objective assurance & related advisory

RISK, COMPLIANCE & SUPPORT
Guidance, Challenge, Support

- 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.

Assurance requirements over ESG reporting



Key ESG Assurance Components



Risk Assessment

- Adequacy of materiality assessment for ESG information reported, considering intended users
- Adequacy of process, risk assessments and controls on ESG matters



Control Environment

- Tone at the top on ESG matters
- Control activities in place for developing, preparing key information for reporting
- Consistency in measuring methodology and data comparability



ESG Metrics

- Adequacy of process to select core indicators (relevancy) and data gathering & monitoring mechanisms (completeness, accuracy, reliability of data)
- Creation and adoption of common taxonomy on ESG indicators



Governance

- Management oversight mechanism, adequacy of role and responsibility assignment with regards to ESG information
- Performance metrics on scorecards of accountable employees



Reporting

- Consistency in non-financial & financial data reporting (No conflicting information)
- Adherence to ESG reporting standards (GRI, SASB, TCFD, SDGs, IIRC)
- Assess integrity of source systems used to collate ESG data and data aggregation

Generic Assurance Framework Considerations

Environment

- Climate change opportunities and risk
- Green House Gas Emissions
- Environmental Policy
- Energy consumption
- Natural Capital use (Land & Water)
- Environmental Management Systems



Social

- Financial Viability and Inclusion
- Stakeholder Engagement
- Health and Safety
- Workforce Training & Development
- Diversity, Equity & Inclusion
- Enterprise Development
- Supply Chain Practices
- Wealth Creation



Governance

- Remuneration policy
- Gender Equality
- ESG Reporting Standards
- Board Level Oversight - ESG
- Governance Policy
- Governance Risk Assessment



ILLUSTRATIVE EXAMPLE: ASSURANCE PROVIDERS BUILDING TO COMBINED ASSURANCE

VALUE FOR SOCIETY

KEY PERFORMANCE INDICATORS (2016)

FINANCIAL CAPITAL

- Diversity of funds
- Accessing and disbursing medium to long term finance
- Access to funds with sovereign guarantee
- Strong capital

- Increase in funds secured
- Increasing loan volume
- Financial sustainability
- Increased investor interest

EXTERNAL & INTERNAL AUDIT

- Contribution to sustainable development
- Reliable solution provider in the mind-sets of stakeholders
- Providing clients with structured products that meet the needs
- Strong share performance

- 75% loan portfolio comprising of investment and APEX loans
- Cost to income ratio of 15%
- 17.6% return on equity



HUMAN CAPITAL

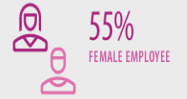
- Investment in employees
- Equal opportunity
- Social benefits
- Employee clubs

- Qualified human resource
- Competitive strength
- Employee satisfaction and loyalty
- Grand TSKB family

INTERNAL AUDIT

- Realizing projects that create value for the society
- Contribution to social equality
- Highly competent human resource
- Contribution to employment

- Management: 56% female, 44% male
- 55.9 average hours of training per employee
- 95% participation in employee satisfaction survey



NATURAL CAPITAL

- Integration of environmental and social due diligence to lending process
- Zero-carbon banking
- Concentration in sustainability theme loans

- Responsible banking understanding that meets the expectations of fund providers and stakeholders
- Increased reputation among stakeholders
- Management and mitigation of environmental and social risks

EXTERNAL EXPERTS

- Supporting low-carbon and environment friendly economic growth
- Raising awareness in the business world
- Supporting renewable energy, energy efficiency and resource efficiency practices in Turkey

- 57% of loan portfolio consists of sustainability themed-funds
- Contribution to the reduction of 13 million tons CO₂e emissions
- Offsetting 15,000 tons carbon footprints of stakeholders in the past 3 years
- 100% green energy use and carbon neutral bank
- Quoted on BIST Sustainability Index since 2015



INTELLECTUAL CAPITAL

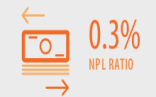
- 3 discipline appraisal and analysis strength (Engineering, Financial Analysis, Economic Research)
- Sectoral Expertise
- Ability to develop themes and products based on need
- Strength of subsidiaries with diversified expertise

- Innovative products and services
- Low level of non-performing loans
- Income differentiation

INTERNAL AUDIT

- Solution oriented banking services
- Supplying clients with integrated solutions through subsidiaries
- Sector studies with wide perspective

- First green bond issue in Turkey and CEEEMEA region
- Published 192 sectoral studies/analysis in 2016
- First bank to integrate and model environmental and social due diligence to lending process



MANUFACTURED CAPITAL

- Compact compound in harmony with the corporate culture
- Information technology infrastructure

- Improving productivity in work processes
- Institutionalization of knowledge

INTERNAL AUDIT

- Answering client needs in a timely and speedy manner
- Increasing customer satisfaction

- Efficiency in the processes
- Service building integrated with the subsidiaries
- Healthy, efficient and ergonomic working environment



SOCIAL CAPITAL

- Long lasting and effective dialogue with stakeholders
- Social Responsibility projects
- Sharing of experience
- Membership to and cooperation with initiatives

- Increased reputation among stakeholders
- Increasing domestic and international recognition
- Ability to attract qualified human resources
- Increasing internal capacity

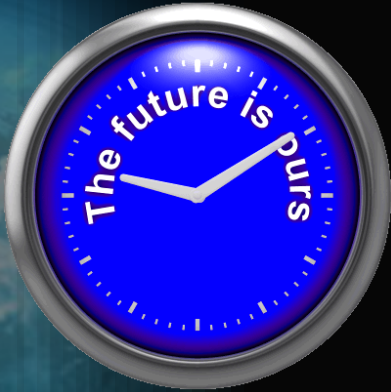
INTERNAL AUDIT with 1st & 2nd Line

- Contribution to highly competent human resources
- Increasing awareness on climate change and sustainability among stakeholders
- Supporting equal opportunity and gender equality in the society
- Sharing opinion and views with the public authorities on preparation of regulations

- Increasing awareness on sustainability through cevreciyiz.com
- Supporting art through IKSV Zero Carbon concerts
- Supporting culture through excavations at antique Patara city



Questions?



Change is the only constant.
Heraclitus



JENITHA JOHN

CA(SA), CD(SA) CIA, QIAL, SEP (Harvard)

Independent Consultant

Former Chairman of the IIA Global Board

johnjenitha@gmail.com

+27823763871