



# Bank & Financial Institution Internal Auditors Club

## Chief Audit Executive (CAE) Forum 2022

# Internal Audit Modernization

29 September 2022



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# Topic

1. The future is now
2. Road map to IA modernization
3. Q&A
4. Key take away



The future is now



How fast can  
you change?

# A rapidly changing world

## Economic uncertainty



The global pandemic has created significant macroeconomic uncertainty, with massive disruption to certain sectors in particular. Most organisations are experiencing significant cost pressures

## Digitalisation and move to virtual



Digital transformation is accelerating and data availability increasing. Organisations are moving to remote and hybrid working with consequent impact on property, people, and culture ('Future of Work')

## Globalisation



The trend in the past five to ten years towards globalisation appears to be reversing with events such as Brexit and the approach from the former Trump administration. The pandemic has also created further focus on national issues

## Corporate governance reforms



The BEIS consultation on 'Restoring trust in audit and corporate governance', as well as ongoing UK company law reform, are driving greater formality and maturity in relation to internal controls and governance architecture

## Dynamic and complex business models, underpinned by purpose and values



Many organisations are undertaking a strategy refresh in response to the pandemic. At the same time, the importance of ESG as a driver of strategy is increasing, widening the groups of interested stakeholders



# Technology disruption and beyond

## The 7 competitive technology-driven influencers in financial sector



Fintech driving new business model



Blockchain shaking things up



Regtech and use of tech by regulators



AI and robotics continue to drive innovation



Public cloud will become the dominant infrastructure model



Cyber security and privacy remain the top risks facing the industry



Asia will emerge as a key centre of technology-driven innovation

## Top priorities for technology function in financial sector



IT operating model for the "new normal"



Simplifying legacy systems, taking SaaS beyond the cloud, and adopting robotics/AI



Technology capabilities to get more intelligent about your customers' needs



Tech architecture to connect to anything, anywhere








You can't pay enough attention to cyber-security



Access to the necessary talent and skills to execute and win

# Why do we need to transform

Businesses today face a deluge of rapid change, driving internal audit to be more strategic

-  **Increased transaction volumes**
-  **Groundbreaking emerging technologies**
-  **Business transformation**
-  **Cybersecurity and privacy**
-  **Regulation**

# What is the future of internal audit?

## Proactive Risk Focus

Embed a continuous **Risk Sensing** process that uses external and internal sources of data for identification of risk areas and turns risk into opportunities

## Audit Spectrum, not audit plan

Diversify the scope and nature of audit activities. Issues based reviews, audit insight workshops and more...

## Behavioral Science

Leverage data to identify behavioral trends and root cause – uncover the blind spots and create a competitive advantage!

## Flexible Operating Model

More **dynamic teams with leverage models** across the 3 lines

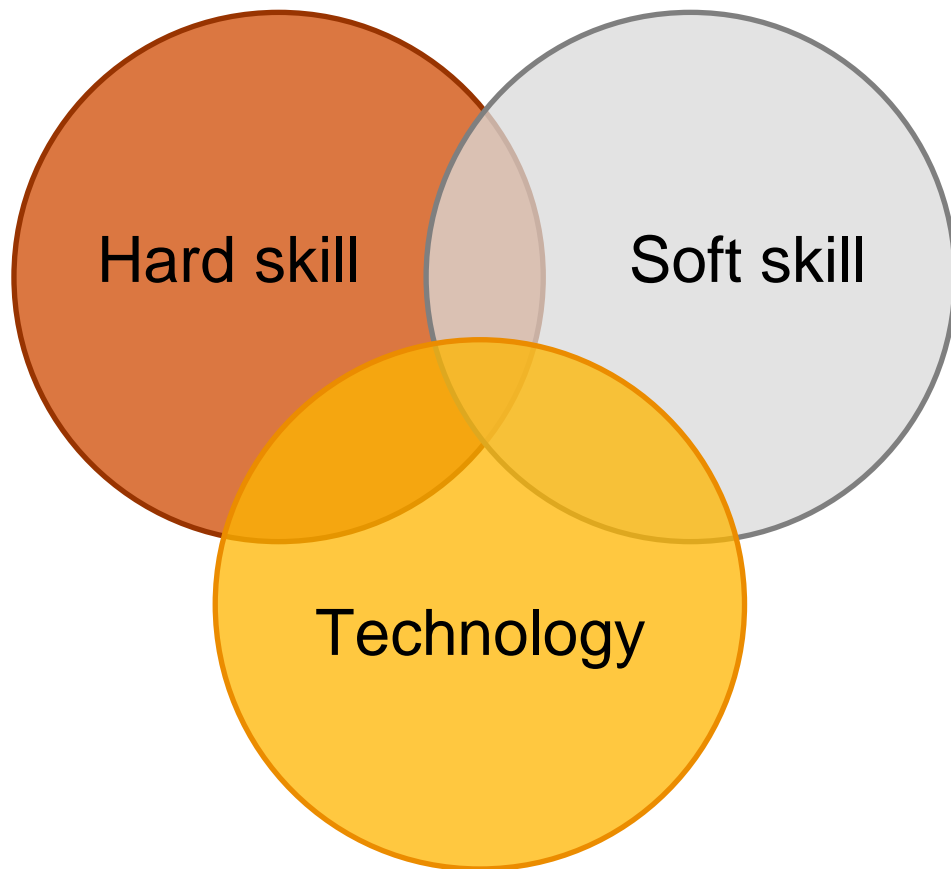
## Higher Precision Audit Activities

Analyze 100% of populations using **neural networks and AI** to scope highly focused audits. Execute in no time!

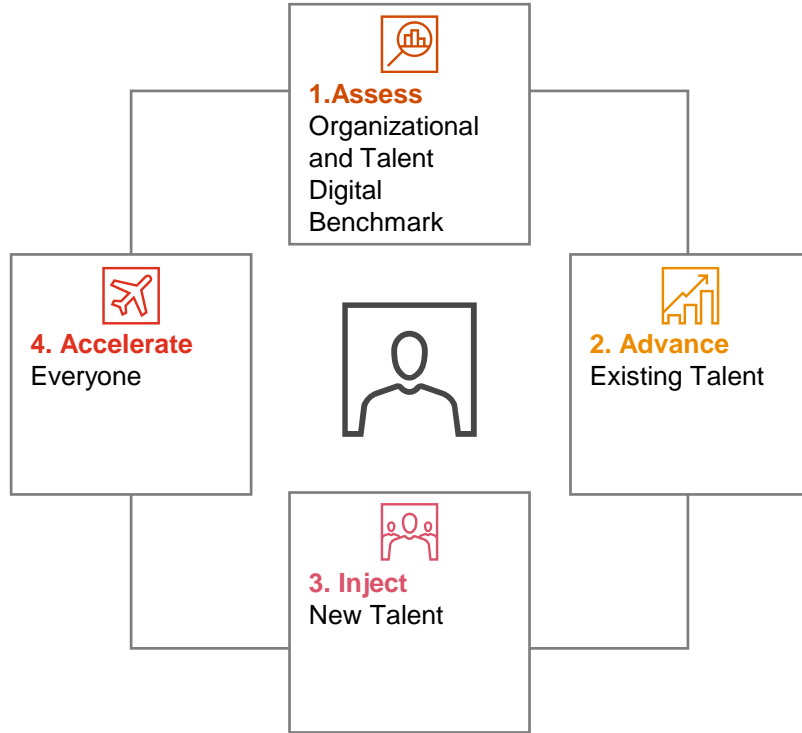
Help the organization re-imagine risk as a competitive edge



# What is the future of internal audit?



# Rethinking the talent strategy



## Key questions to address



What is the impact on the organizational structure?



What is the impact on Learning and Development programs?



Will you be able to digitally upskill everyone?



What is the impact on career progression paths for various specialty skills?



What is the impact on the hiring strategy – Will you need to hire talent from the outside?



How do you leverage the broader company investments in analytics, emerging technology, etc.?

# From traditional risk assessment to Risk sensing

Historically, the Risk Assessment process...

- Is a point in time assessment, driven mainly by inquiry procedures
- Is hypothesis based and lacks data to support risk assertions
- Provides similar results year to year
- Creates challenges in mapping to audit activities planned and related scope

Transformation

Risk Sensing

Risk Sensing Profiles

Data Management

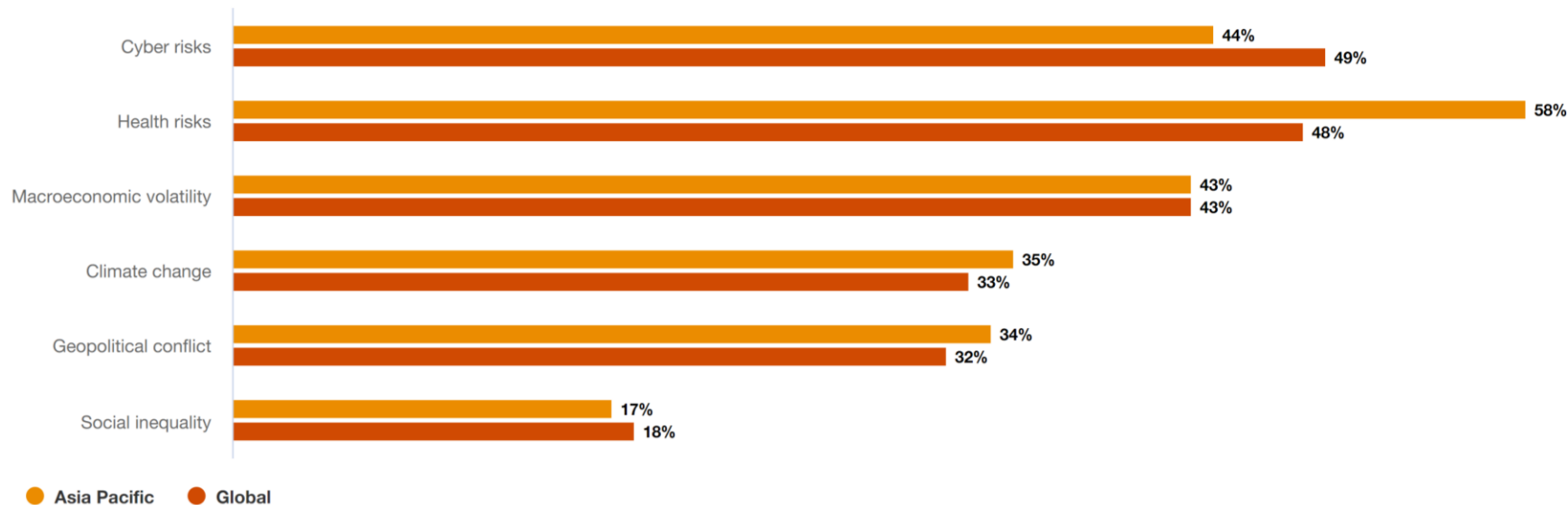
Internal audit departments can now augment risk assessment process with “Risk Sensing” tools that analyze and monitor data associated with specific risks, and create risk profiles to leverage in Risk Assessment discussions.



What should you do  
if uncertain is certain?

# Asia Pacific CEOs rank health risks as their top priority to address while global CEOs list cyber as their most pressing concern

Q. How concerned are you about the following global threats negatively impacting your company over the next 12 months? (Showing only 'very concerned' and 'extremely concerned' responses)

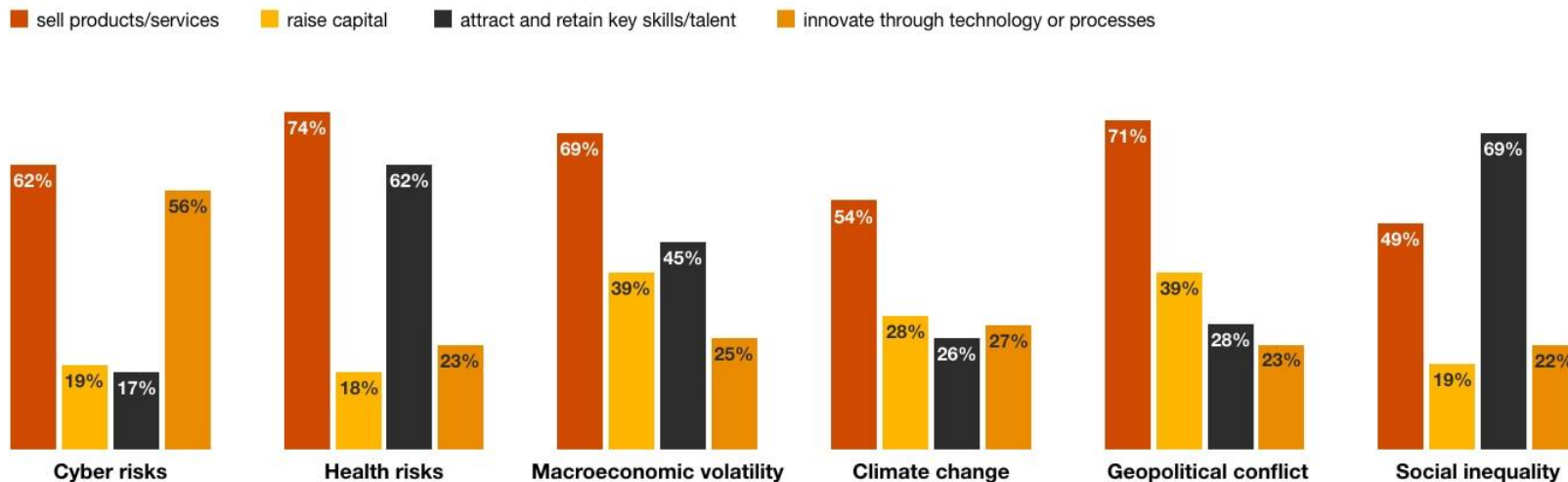


# No matter the threat, CEOs are most concerned about near-term impact to the top line

"It could inhibit our ability to..."

**Question:** How do you anticipate your company could be impacted by these threats over the next 12 months?

(Showing only responses from CEOs who were 'very concerned' or 'extremely concerned' about each threat)





## Banking and capital markets concerned about the negative impact of policy and regulatory developments

Extremely concerned   Very concerned

Mandates regarding responses to health emergencies



Regulation of prices



Data protection laws, including regulation of cross-border data flows



National or state cybersecurity regulation, including incident notification laws



Privacy rights and/or protection



Environmental protection regulation



Industry-specific regulations



Q15: How concerned are you about the negative impact of the following policy and regulatory developments on your business in 2022?

Base: Banking and capital markets (270)

Anti-bribery and corruption laws



Antitrust regulation



Cryptocurrency and other digital payments regulation



Regulation of artificial intelligence



Regulation of user-generated content on various platforms



Regulation of fintech



# Road map to IA modernization



# Strategic Approach for Internal Audit

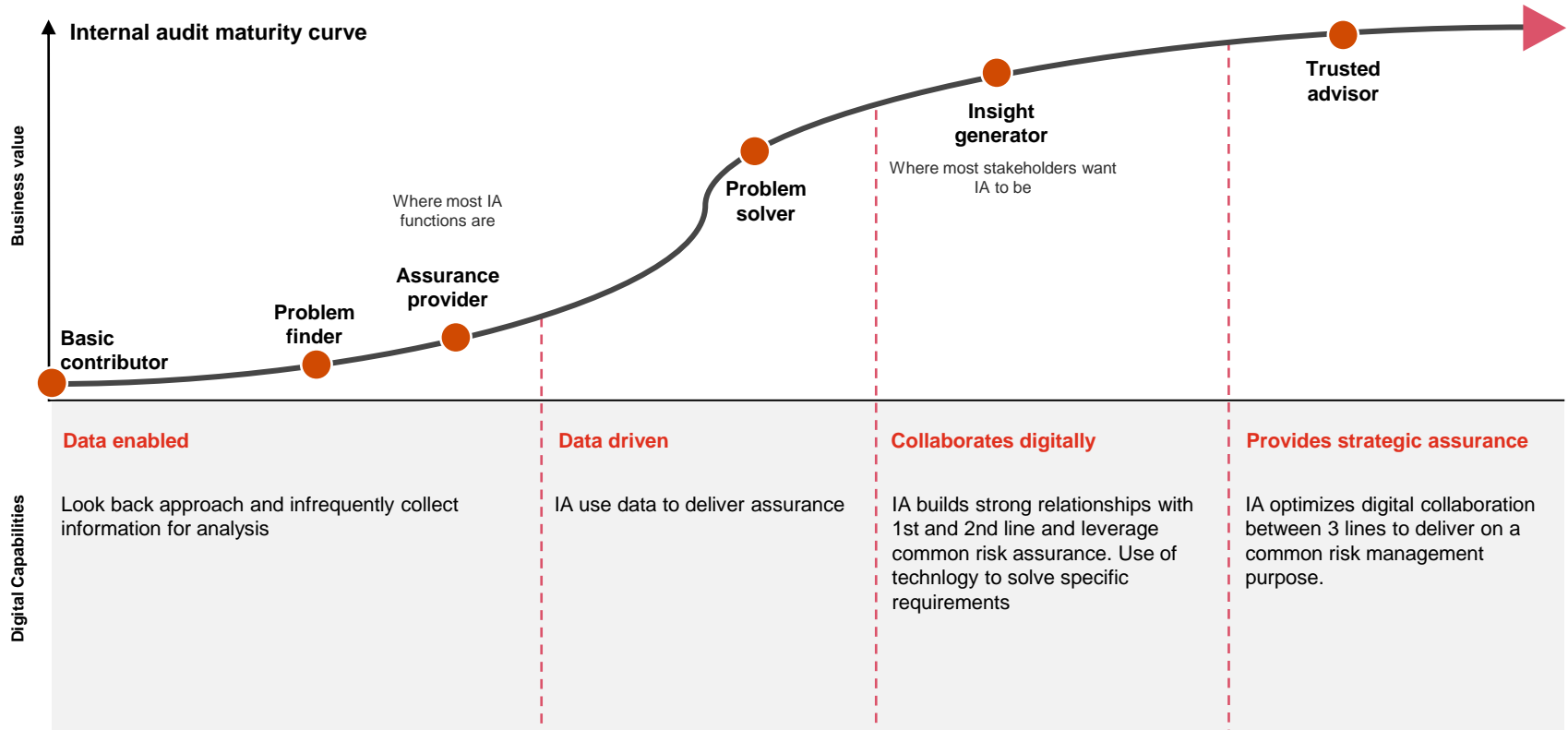
Developing and hiring auditors of the future

Investing in training, technology, and skills

Bringing it all together by creating emerging technology internal assurance programs



# Road to IA modernization



# Has internal audit been keeping up?

## While IA has made incremental strides...

- Periodic risk assessment
- Rolling audit plan
- Workflow tools
- Basic analytics
- Leverage subject matter resources
- Guest auditors
- Agile execution approach
- Better dashboards



## ...challenges remain!

- Qualitative risk assessment discussions seem too high level
- Technology adoption rate is increasing
- Duplicative control testing activities across the 3 lines
- Sample approach for audit work seems antiquated
- Stakeholder expectations continue to increase, while budget pressures remain
- **How do we upskill, attract and retain NextGen talent?**
- **How do we audit differently?**



While IA has made incremental strides over the past few decades, it is now time for Internal Audit to evolve. Let's transform IA...



Source: Global Risk Study and Next Generation Internal Audit

A woman with short dark hair, wearing a dark blazer over a light-colored striped shirt, is seated in the driver's seat of a car. She is looking out the window with a slight smile. The window is covered in raindrops, and outside, a blurred red light, likely a traffic light, is visible. The scene is dimly lit, suggesting it might be dusk or dawn.

# Key take away



# Benefits - Why does Internal Audit need to transform?

## When Internal Audit...



Assess its brand and buy into shared vision of risk with a focused on business value **(Strategy)**



Invest in partnership across risk functions **(Structure)**



Upskill and inject new talent **(People)**



Embrace the use of data and digital tools **(Technology)**



Redefine Internal Audit agility, speed, and scalability **(Process)**



## The organization gains a...

**Strategic business partner;** identify strategic insights and enhanced value through actionable cost savings recommendations

**Risk Resiliency Leader;** remove possible redundancies in risk management and drive consistent messaging to business

**Leadership talent incubator;** Creates future leaders with emerging technologies proficiency coupled with functional business acumen.

**Risk Tools Catalyst;** Create common tools and transferable assets for cross functional risk identification

**Trusted Advisor;** Obtain wider risk coverage across the organization and a more targeted scope for cost optimization.



A group of people are gathered around a wooden table in an outdoor setting with lush green plants in the background. A woman with dark hair is pointing her finger while speaking to a woman with short blonde hair. Other people are partially visible around the table. On the table are several papers with charts, two blue patterned cups, a smartphone, and a pair of glasses.

# Q&A

# Thank you

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