

Thai Banker's Internal Audit Club

Strengthening internal audit in Thailand's Banking sector

PwC Financial Services Advisory

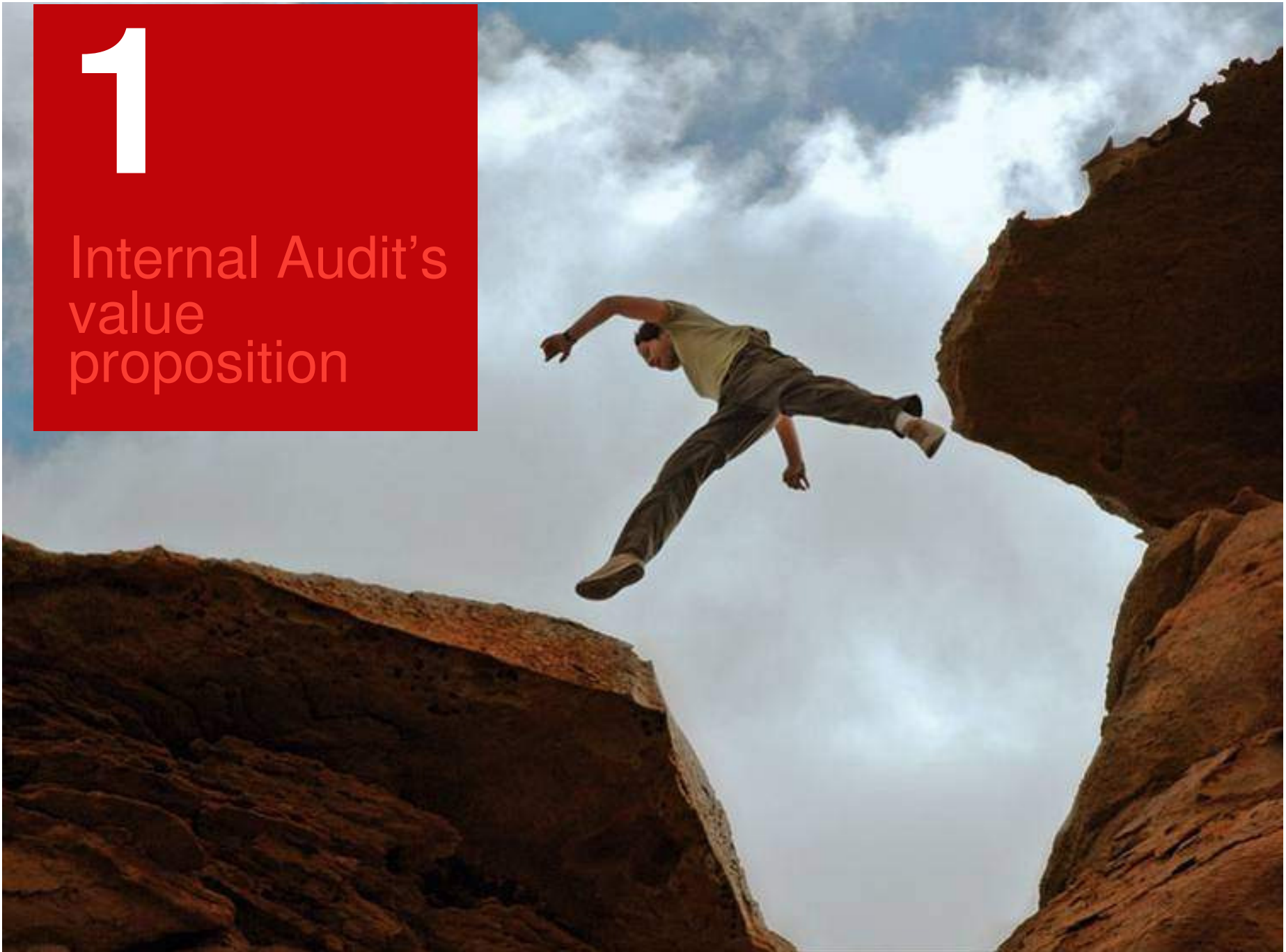
27 November 2009

Agenda

1. Internal Audit's value proposition
2. How to add value
3. How to manage cost
4. How to get there

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Internal Audit's value proposition



IA's value proposition – what PwC is seeing at a global level

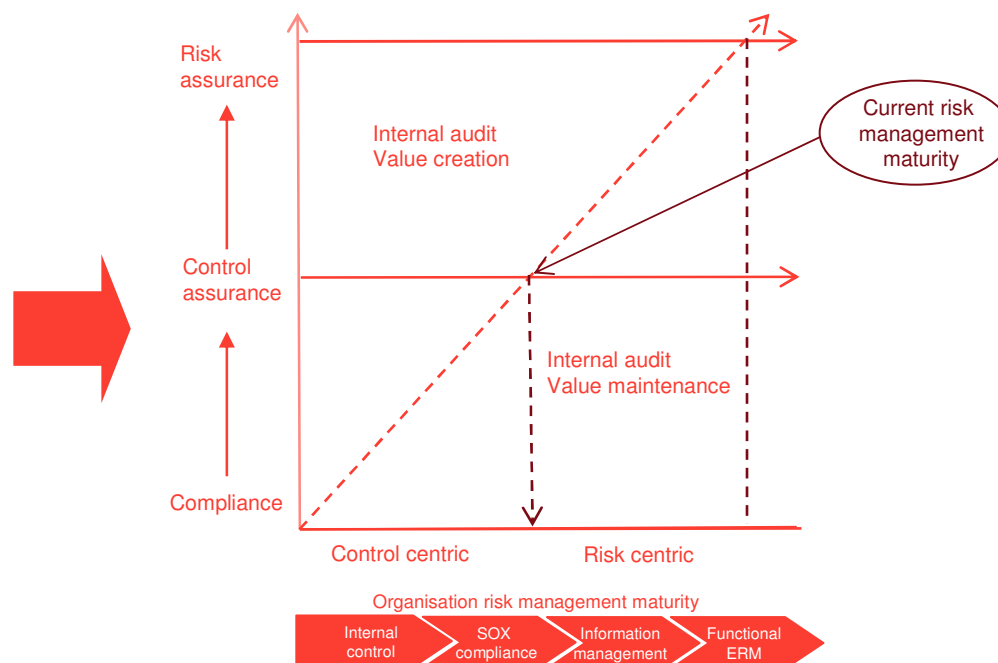
Internal audit is at a crossroads – we see it has two main options

1. **Continue** doing what you are doing today and nothing more
2. **Chose** the path most likely to meet the evolving needs on modern organisations



The value proposition

- Move beyond the fundamentals of risk and controls - create a new value proposition
- Adopt an all-inclusive conceptual approach to risk assessment, and risk management that extends well beyond a narrow focus on controls
- Deliver this at low cost



IA's value proposition – assuming increased responsibility

Factor	Much more Responsibility(%)	Somewhat more responsibility (%)	Combined: Somewhat more to much more responsibility (%)
Continuous auditing or monitoring	37	53	90
Auditing the ERM process	15	62	77
Auditing outsourced or offshored operations	15	60	75
Fraud detection	13	53	66
Fraud risk assessments	8	58	66
Auditing executive compensation and disclosures	11	54	65
Auditing operational efficiency and effectiveness	6	58	64
Auditing IT security	11	44	55
Auditing or evaluation compliance with laws and regulations	6	46	52
Fraud investigations	7	37	44

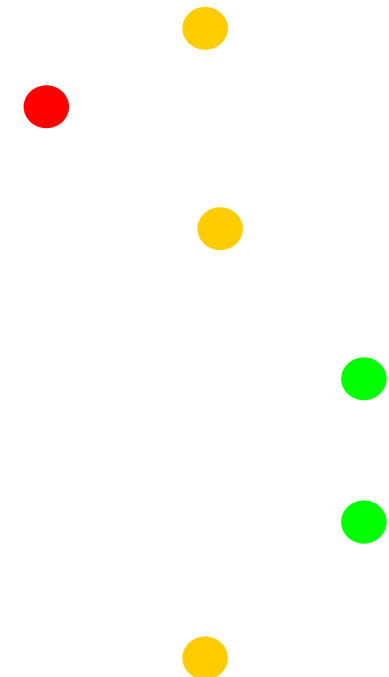


The industry angle – what we are seeing in banking

The challenges for Internal Audit in Banking

1. Effectively managing Internal Audit costs in a downturn
2. Directing Internal Audit's "investment dollars" to the right areas
3. Meeting the expectations of Audit Committees and Non-Executive Directors
4. Anticipating the regulatory "back-lash" on control functions following the crisis
5. Meeting the minimum standards set out in the revised IIA Standards
6. Developing in line with emerging good practice in internationally active banks

Thailand's report card?





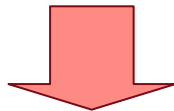
Transforming internal audit – the proposition

Improve the value to cost ratio

Add value

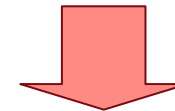
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Manage cost



Develop a new focus on risk:

- **How it promotes or reduces shareholder value?**
- **What IA can do about it?**



Three main areas

- **Streamlining**
- **Reassess goals and activities**
- **Greater use of technology**

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How to add
value





Transforming internal audit – adding value

How value is destroyed – reasons for decreases in shareholder value

Strategic and Business

60%

Operational

20%

Financial

15%

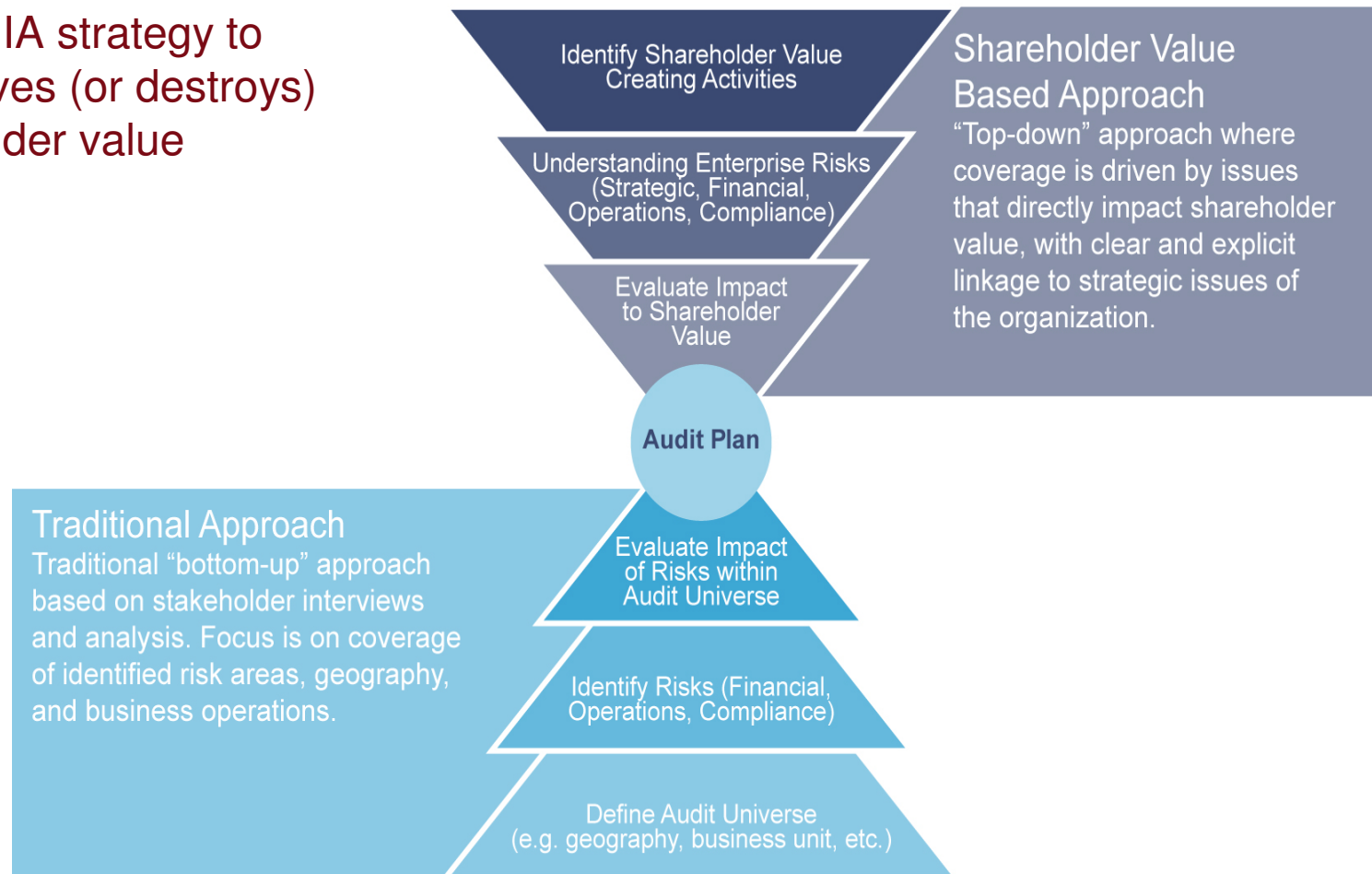
Compliance

5%

But a significant % of IA resources are focused on financial controls/compliance in many organisations...

Transforming internal audit – adding value

Aligning IA strategy to what drives (or destroys) shareholder value





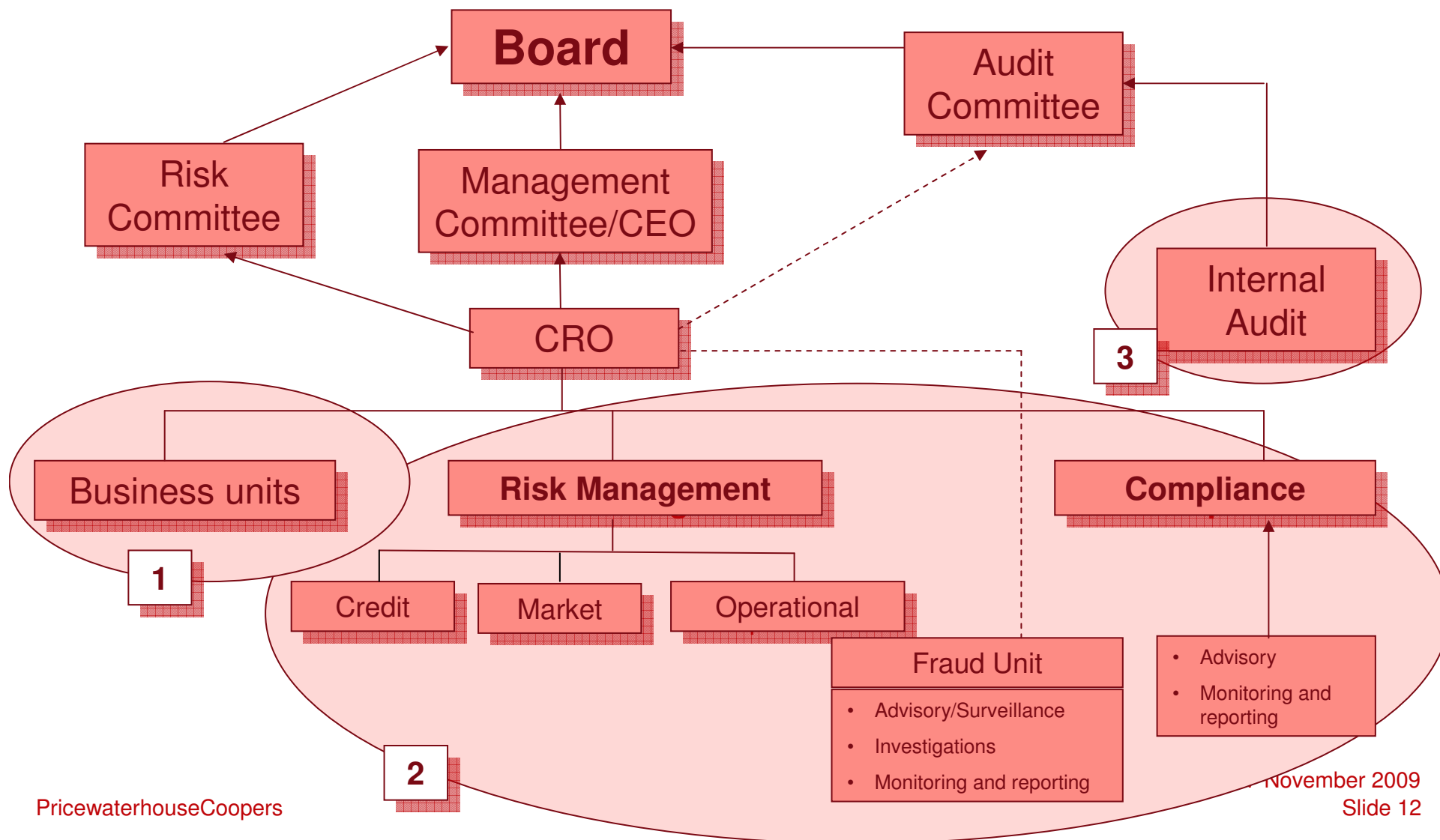
Transforming internal audit – adding value

Value drivers – what can typically destroy shareholder value in a bank?

1. Excessive risk (known/unknown)
2. Inappropriate or poorly integrated acquisitions
3. Weak regulatory relationships
4. Poor compliance culture
5. Poor data quality and management
6. Lack of innovative products/wrong markets
7. Out of date systems/lack of integration
8. Ineffective cost containment/reduction programs

How much of this do you currently cover?

Transforming internal audit – clear roles and responsibilities



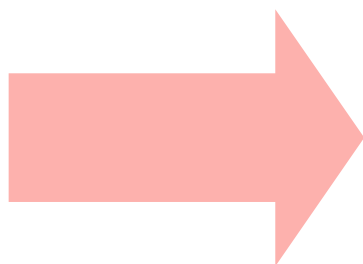
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How to manage costs



Transforming internal audit – managing costs

Internal Audit can reduce operating costs by focusing on transformation in 4 key areas:



Standardisation

Reporting

Technology

Talent Management



Transforming internal audit – managing costs

Standardisation

Reporting

Technology

Talent Management

- Programs guiding work performance should be standardised
- Wording for common reportable conditions can be standardised
- Processes to capture and store risk assessments, detailed planning and process mapping activities should be performed in a structured manner as part of audits
- Opportunities to reduce audit cycle time by conducting more targeted audits



Transforming internal audit – managing costs

Standardisation

Reporting

Technology

Talent Management

- Increase value derived from focus on higher-risk areas
- Limited integration between various levels of reporting (project, management, audit committees)
- Significant time spent negotiating ratings and wordings
- Reports lack clarity and context; don't clearly convey areas for management attention.
Improve communication to stakeholders through concise, impactful reports



Transforming internal audit – managing costs

Standardisation

Reporting

Technology

Talent Management

- Opportunities to automate reporting
- Focus and reduce fieldwork through better risk assessment and more focused transactional testing
- Limited/ inefficient use of data management/ mining
- Test entire data populations electronically
- Reduce the labour content of audits by increasing the effectiveness of lower-risk audits
- Provide real time monitoring of significant risks
- Explore areas where technology can streamline or standardise a process



Transforming internal audit – managing costs

- The use of (workflow-based) information technology can assist in the management of IA in several key areas, such as:
 - Providing a database of the audit entities within the ‘audit universe’;
 - Providing a module to support a formal risk assessment in support of a risk-based IA plan;
 - Enabling the use of electronic working papers (which facilitates real-time, off-site reviews of audit work performed);
 - Providing a database to track audit observations, and the resolution of the action items thereon;
 - Providing a time-management module; and
 - Providing a database to store important documents, such as corporate policies and standard audit programs.



Transforming internal audit – managing costs

Standardisation

Reporting

Technology

Talent Management

- Staffing models don't adequately leverage skill-sets and alternative staffing methods, resulting in higher costs and under-challenged staff
- Significant non-value added activities including time spent on internal meetings and presentations, use of overly complex templates and processes

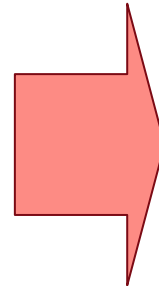
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How to get there



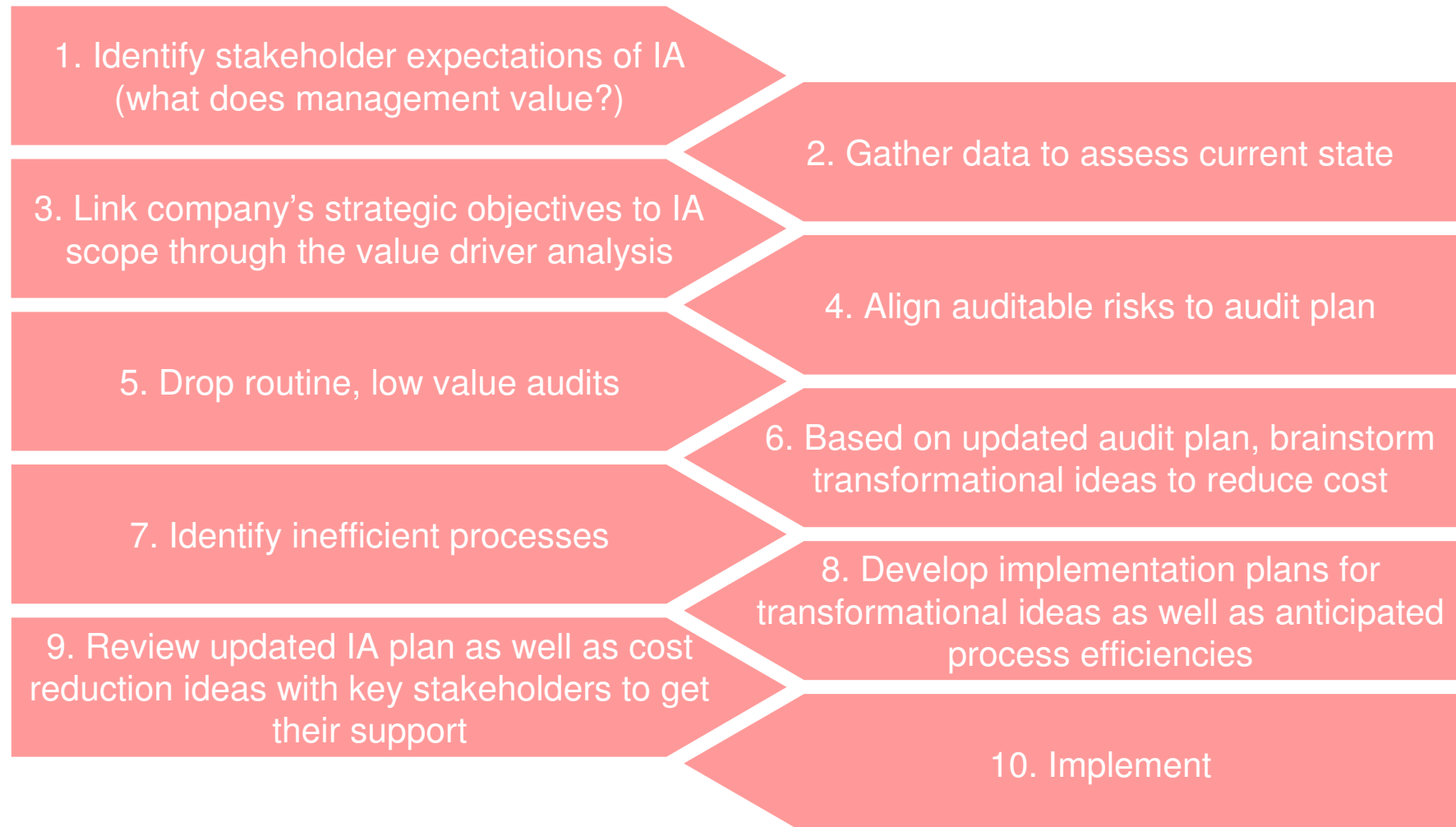
Transforming internal audit – imperatives

- **Deliver** significantly more value from current IA investment dollars
- **Transition** from financial/compliance focus to a more balanced approach addressing operational, strategic, and fraud risks
- **Effectively** leverage technology to reduce auditing costs and expand view beyond financial to enterprise wide and emerging risk factors
- **Improve** internal audit professional resource management for career planning, training, rotational staffing, succession planning and rewards metrics



**Follow a
10 step
plan**

Transforming internal audit – a 10 step plan





Transforming internal audit – some challenges

- **Resistance** – there may be some of this from certain stakeholders so consider a phased approach
- **Support** – you may need additional internal and external support to help build capacity and deliver results in the short to medium term
- **Measure performance** – you should design indicators to measure and monitor performance. For example, focus on:
 - Customer service
 - Efficiency
 - Staff development
- **Integration** – ensure risk and assurance stakeholders such as Risk Management, Compliance, Fraud, etc are engaged in your plans to help ensure clarity over scope, roles and responsibilities



Transforming internal audit – closing thoughts

- IA plays a key role as the ‘last line of defence’ in the management of risks
- IA is frequently challenged to achieve more with less resources. This challenge is pronounced in an economic downturn
- IA must evolve from a traditional approach to one that places greater emphasis on matters of greatest value to shareholders
- IA’s performance must be monitored across a balanced performance dashboard to demonstrate its value to its stakeholders