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Australian Financial Services Industry  
2018 Internal Audit Planning Priorities



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# Introduction



# Executive Summary

In an era of continued disruption from issues ranging in diversity from big data to conduct, businesses, boards and regulators are broadening their insight and preparing themselves to act. Internal Audit plays a key role in both providing insight and preparing organisations for the changes that are required to manage these issues.

This leaves a critical question for Internal Audit functions to address – how does their work provide confidence in the conduct and behaviour of firms, and ultimately help build trust with customers and clients? Are they focussed on the priorities that matter? In addition we should expect market disruption, innovation and changing business models to put pressure on Internal Audit functions. The expectations on Internal Audit to cover the basics while adding more insight and value – being a genuine partner – continue to grow. This adds pressure on Internal Audit to have a credible point of view on topics which in some cases didn't exist a year ago. Making an impact is becoming more challenging.

In this document we provide insights on how Australia's financial services industry sectors can respond to this challenge. In particular, our point of view is focused on the following six areas.



Business Leadership



Risk Management



Regulatory Matters



Propositions



IT



Finance

The following pages summarise the key risk and control areas we believe **Banks, Insurers and Wealth Managers** should be focussing on within their internal audit plans during 2018. Similar to our client's IA planning processes these themes have emerged from an analysis of the strategic forces affecting the industry, changes in risk profile, performance of controls and priorities of Board Audit Committees during 2018.

# Industry Sector Planning Priorities



# Priorities

## Insurance Priorities

 Business Leadership	 Risk Management	 Regulatory Matters	 Propositions	 IT	 Finance
<i>Culture</i>	<i>Risk Management Framework</i>	<i>Conduct</i>	<i>Product Management</i>	<i>Cyber</i>	<i>Fraud &amp; Financial Crime</i>
<i>Governance</i>	<i>Project Risk Management</i>	<i>Compliance Framework</i>	<i>Agency Distribution</i>	<i>Data Governance &amp; Privacy</i>	<i>ICAAP</i>
<i>Mergers &amp; Acquisitions</i>	<i>Scenario Analysis &amp; Stress Testing</i>	<i>Supervisor Engagement</i>	<i>Insurance within Superannuation</i>	<i>Third Parties &amp; Outsourcing</i>	<i>Treasury Management</i>

## Banking Priorities

 Business Leadership	 Risk Management	 Regulatory Matters	 Propositions	 IT	 Finance
<i>Culture</i>	<i>Risk Management Framework</i>	<i>Conduct</i>	<i>Product Management</i>	<i>Cyber</i>	<i>Cost Control</i>
<i>Governance</i>	<i>Project Risk Management</i>	<i>Compliance Framework</i>	<i>New Payment Platform</i>	<i>Data Governance &amp; Privacy</i>	<i>Regulatory &amp; Financial Reporting</i>
<i>Business Partnerships (Fintech)</i>	<i>Recovery &amp; Resolution Plans</i>	<i>Data Aggregation &amp; Reporting</i>	<i>Customer Relationship Management</i>	<i>Third Parties &amp; Outsourcing</i>	<i>Fraud &amp; Financial Crime</i>

## Wealth Priorities

 Business Leadership	 Risk Management	 Regulatory Matters	 Propositions	 IT	 Finance
<i>Culture</i>	<i>Risk Management Framework</i>	<i>Conduct</i>	<i>Product Management</i>	<i>Digital</i>	<i>Treasury Management</i>
<i>Board Governance</i>	<i>Project Risk Management</i>	<i>Compliance Framework</i>	<i>Insurance within Superannuation</i>	<i>Data Governance &amp; Privacy</i>	<i>Investment Governance</i>
<i>Mergers &amp; Acquisitions</i>	<i>Fraud &amp; Financial Crime</i>	<i>Conflicts of Interest</i>	<i>Advice</i>	<i>Data Migrations</i>	<i>Regulatory Reporting</i>

# Planning Priorities Insights



# Supporting Insights

## Business Leadership



Theme	Thematic Drivers	IA Plan Considerations
Culture	<ul style="list-style-type: none"> <li>Post the Global Financial Crisis and more recent misconduct scandals, FSI culture has moved to the top of the agenda for regulators, investors and consumers.</li> <li>The Financial Stability Board's guidance on risk culture provides clarity on expectations around the value of assessing, managing and monitoring risk culture. These concepts have been reinforced in APRA's Prudential Standard CPS 220 which requires Boards to identify their desired risk culture and mechanisms to measure, monitor and influence risk culture.</li> <li>CPS 220 requires regulated entities to perform an independent and comprehensive review of their RMF. This incorporates the design and operation of the framework for managing risk culture and ensures the framework provides visibility to Directors of the organisation's risk culture.</li> </ul>	<ol style="list-style-type: none"> <li>Extend internal audit methodology to include a specific focus on culture 'in every audit', with an explicit emphasis on identifying vulnerabilities, rather than attempting to measure or rate culture.</li> <li>Review the risk culture framework including governance, objectives, roles and responsibilities and management of risk culture as a result of application of the framework.</li> <li>Review whether risk culture management information is objective, drawn from a range of sources, and contains evidence-based analysis and recommendations.</li> </ol>
Mergers & Acquisitions	<ul style="list-style-type: none"> <li>Foreign exchange fluctuation, increased bank divestments, FinTech disruption and geopolitical uncertainty are driving an above-average number of deals in FSI.</li> <li>While volatile currency valuations and a low Australian dollar are attracting direct foreign investment into Australia's FSI, FinTech disruption may drive increased M&amp;A activity.</li> <li>Australia's large banks are using divestments to raise capital and increase focus on their banking franchises whilst smaller institutions are considering M&amp;A to increase their competitive positions and improve capital and liquidity structures.</li> </ul>	<ol style="list-style-type: none"> <li>Review pre-acquisition processes, including target identification, qualification, due diligence and bidding.</li> <li>Review post-acquisition process, including program governance and delivery.</li> <li>Review the organisations' preparedness to deliver divestments in order to manage its risk and capital profile.</li> </ol>
Governance	<ul style="list-style-type: none"> <li>Globally, the Board's expectations of regulated and listed institutions continue to deepen and evolve.</li> <li>APRA's Prudential Standard CPS 510 sets out baseline Governance requirements for regulated entities, while additional Prudential Standards, ASX listing rules and industry codes of practice set out further roles and responsibilities for the Board of Directors and senior management.</li> <li>Defining and documenting the role of the Board has become increasingly stringent, setting out a clear structure of accountabilities, allocation of responsibilities, delegations of authority, and enhancements to reporting to fulfil these roles and responsibilities.</li> </ul>	<ol style="list-style-type: none"> <li>Per APRA's Prudential Standards, ASX listing rules, and industry codes of practice, review the design of Board and operational governance arrangements.</li> <li>Review the operating effectiveness of the governance arrangements by assessing governance over key decisions, the appropriate involvement of stakeholders and documentation of the rationale and circumstances of decisions.</li> <li>Assess the existence and execution of an effective delegation/escalation of authority from the Board down to Board Committees, subsidiary Boards and operational areas.</li> </ol>
Business Partnerships	<ul style="list-style-type: none"> <li>The entrance of non-conventional FSI players and start-ups disrupting the traditional ecosystem of the Banking Sector is causing Banks to adapt and extend partnerships to improve their products and distribution channels to enhance their overall customer experience.</li> <li>Increased pressure generated by technology advancement has encouraged Banks to diversify customer offerings and engage small businesses with competitive and innovative products such as reward programs.</li> <li>Regulatory bodies are focused on frameworks to cover new FSI players and automation and enhancements in the Banking Sector that will impact how Banks manage their relationships with new FSI entrants.</li> </ul>	<ol style="list-style-type: none"> <li>Assess the process for entering into business partnerships, including accountabilities, service-level agreements, performance targets and governance around management of the partnership lifecycle.</li> <li>Review procedures around: <ul style="list-style-type: none"> <li>Management, storage and exchange of information</li> <li>System and written controls for customer information collected through an extended distribution network</li> <li>Conflict management and issue escalation and resolution processes.</li> </ul> </li> <li>Review compliance of evolving regulatory standards by APRA and other legislative requirements applicable to business partnerships.</li> </ol>

# Supporting Insights

## Risk Management



Theme	Thematic Drivers	IA Plan Considerations
Risk Management Framework	<ul style="list-style-type: none"> <li>The global FSI is facing requirements to expand and embed RMF's.</li> <li>The Australian FSI is faced with the requirements to comply with APRA's Prudential Standard CPS 220.</li> <li>CPS 220 requires both annual reviews of 'parts' of the RMF, and a tri-annual independent comprehensive review of the RMF by the end of 2017. This tri-annual review requires the evaluation of design and operating effectiveness of the RMF, ensuring it is fit for purpose considering the size, nature and complexity of the institution.</li> </ul>	<ol style="list-style-type: none"> <li>Perform the tri-annual independent comprehensive review of the design and operating effectiveness of the RMF.</li> <li>Perform the annual independent review of key elements of the RMF. The annual reviews may be a rolling cycle of reviews which cover the entire RMF over several years.</li> <li>Perform scenario testing and emerging risk identification and management to assess your firms' awareness and readiness.</li> </ol>
Project Risk Management	<ul style="list-style-type: none"> <li>Constant change is the new reality with strategic transformation projects being a critical element of maintaining a sustainable business. Such initiatives place increasing demands on technology, necessitating large-scale projects to upgrade and replace ageing legacy systems.</li> <li>Australia's larger FSI's are actively delivering large portfolios of projects which are dependent upon each other for success.</li> <li>Given the rising complexity of project portfolio risk management, FSI's are increasing project governance and assurance activities across the portfolio of projects.</li> </ul>	<ol style="list-style-type: none"> <li>Assess the capability to deliver against a portfolio of strategic initiatives.</li> <li>Perform an independent review on how project assurance is achieved to ensure the greatest likelihood of success.</li> <li>Consider not just adherence to project management frameworks, but also whether the project remains viable, compliant and aligned to the firm's strategy.</li> </ol>
Scenario Analysis and Stress Testing	<ul style="list-style-type: none"> <li>In recent years, and in light of the Global Financial Crisis, APRA has set out requirements for institutions to embed scenario analysis and stress testing into key decision making processes such as business planning, capital management, product pricing, etc. to assess the vulnerability of financial institutions.</li> </ul>	<ol style="list-style-type: none"> <li>Perform a review of the design of the scenario analysis and stress testing policy and supporting procedures.</li> <li>Perform a review of embedding scenario analysis and stress testing into business planning, with the aim of verifying how business decisions were influenced by the outcomes of the scenario analysis and stress testing.</li> <li>Perform a review of compliance with APRA's liquidity risk scenario analysis and stress testing requirements.</li> </ol>
Recovery and Resolution plans	<ul style="list-style-type: none"> <li>Since 2009, the Financial Stability Board and jurisdictional regulators have published lists of systemically important institutions. Regulators have placed greater regulatory burdens on these organisations, including higher capital and risk management requirements.</li> <li>APRA has identified systemically important Banks within Australia. A similar list for insurers and other institutions is likely to be communicated in the future, and systemically important institutions as identified by APRA will be required to develop and submit Recovery and Resolution plans for approval.</li> <li>These plans are an extension of existing activities performed within the RMF and ICAAP and include a recovery plan which will guide the institution through recovery in a range of adverse conditions, whilst the resolution plan guides the closure of the institution if it is deemed no longer financially sound.</li> </ul>	<ol style="list-style-type: none"> <li>Review the recovery and resolution plans against APRA guidance, including ensuring that these plans are timely, comprehensive and credible.</li> <li>When performing reviews ensure these plans incorporate appropriate linkage to the ICAAP and RMF, including identified risks and scenarios.</li> </ol>

# Supporting Insights

## Regulatory Matters



Theme	Thematic Drivers	IA Plan Considerations
Conduct	<ul style="list-style-type: none"> <li>Global regulators are enhancing their focus on conduct risk management through increased regulation, supervision and enforcement.</li> <li>Recent developments in Australia have included a heightened media, industry body and regulatory focus on the insurance sector, retail banking and advisor licence holders.</li> <li>ASIC's funding to regulate conduct risk continues to increase and is reflected in ASIC's Corporate Plan.</li> </ul>	<ol style="list-style-type: none"> <li>Review the change in inherent risk rating of conduct risk within related value chain areas assessed within the IA Plan.</li> <li>Incorporate a strong focus on the management of conduct risks within risk management framework reviews.</li> <li>Assess customer conduct principles as part of IA's relating to product governance, sales and distribution, advice and claims management.</li> </ol>
Compliance Framework	<ul style="list-style-type: none"> <li>International expansion of FSI's has increased the challenge of complying with regulatory requirements of multiple jurisdictions.</li> <li>Regulators are emphasising the importance of integrating the Compliance Framework and roles of senior Compliance Officers with FSI's strategic planning process.</li> </ul>	<ol style="list-style-type: none"> <li>Review effectiveness of a compliance framework within an IA Plan, including compliance assurance activities and completeness of policies &amp; processes.</li> <li>Incorporate evolving regulatory expectations through processes included within the IA Plan.</li> <li>Assess governance of material compliance risks, including ownership of risks &amp; management attention within the IA Plan.</li> </ol>
Data Aggregation and Reporting	<ul style="list-style-type: none"> <li>Banks are required to demonstrate sufficient progress to comply with principles of Risk Data Aggregation and Reporting (BCBS239) and have a strong governance framework, risk data architecture and IT infrastructure in place.</li> <li>Since January 2016, APRA has included principles of BCBS239 in its regular reviews of Banks' processes to evaluate progress towards compliance. The focus will remain on the subject during 2017-18.</li> <li>BCBS publication D348 puts emphasis on an independent evaluation of compliance, either by internal or external audit teams.</li> </ul>	<ol style="list-style-type: none"> <li>Audit the business' programme to assess the speed and quality of the improvement in implementation, architecture and processes.</li> <li>Consider scenarios and limitations leading to non-compliance at the implementation deadline and the extent that remedial plans are robust and agreeable to the Bank's Supervisor.</li> <li>Assess the suitability of the bank's Independent Validation framework design and operating model with a focus on broader requirements of Risk Data Aggregation and Reporting.</li> </ol>
Conflicts of Interest	<ul style="list-style-type: none"> <li>Globally, regulators within the FSI are setting requirements for the identification and management of conflicts of interest.</li> <li>ASIC sets rules for, and governs implementation by AFSL holders, whilst APRA has established a Prudential Standard SPS 521 guiding superannuation entities on conflict management.</li> </ul>	<ol style="list-style-type: none"> <li>Review the design and operation of the conflict management framework, including the establishment of the conflict management policy, roles and responsibilities and establishment of a register.</li> <li>Review key decisions where conflicts may have been present and ensure the application of the conflict policy was appropriate.</li> </ol>
Supervisor Engagement	<ul style="list-style-type: none"> <li>The regulatory landscape is changing; Australia's FSI regulators, particularly ASIC, have significantly expanded in role and budget towards regulatory supervision. This has challenged FSI's to effectively manage their relationships with these regulators.</li> <li>Regulatory relationships are becoming the subject of increasing media scrutiny and are having an impact on organisations reputation.</li> </ul>	<ol style="list-style-type: none"> <li>Review the design and operation of roles and responsibilities in place for the management of relationships with key regulatory bodies.</li> <li>Review compliance with the reporting and notification requirements for each of the key regulators.</li> </ol>

# Supporting Insights

## Propositions



Theme	Thematic Drivers	IA Plan Considerations
Product Management	<ul style="list-style-type: none"> <li>Globally, FSI products and services continue to evolve in response to industry pressures, regulatory expectations, innovation, technological advancements and changes to customer expectations.</li> <li>Product management frameworks need to evolve to ensure changes benefit shareholders and customers' needs.</li> <li>A changing technological landscape is enabling usage of higher quality data in product design and pricing and management decisions, leading to products and services being increasingly tailored.</li> </ul>	<ol style="list-style-type: none"> <li>Review the design of the product management framework, focusing on its integration with the risk and compliance framework.</li> <li>Perform a risk-based review on non-performing or higher risk products with a focus on conduct risk management.</li> <li>Assess governance over products which rely upon external vendors and suppliers, including governance over service level agreements/contracts.</li> </ol>
Agency Distribution	<ul style="list-style-type: none"> <li>The Australian market has seen an increased reliance on underwriting agencies who have responsibility for many aspects of the insurance value chain, including sales, distribution, claims, policy admin and customer.</li> <li>The change in operating model has resulted in an increased dependence on the management of risks by third party agencies who do not have comparable risk management frameworks in place.</li> <li>Recent events, including poor sales practices and fraud by agencies, has highlighted the importance of establishing a sound internal governance and risk management system.</li> </ul>	<ol style="list-style-type: none"> <li>Review of underwriting agency governance and risk management arrangements including the establishment of contracts, KPIs, bordereau reporting, escalation of issues outside of delegations of authority, etc.</li> <li>Review of agency performance against contracts, including contract KPIs and implementation of risk and control frameworks.</li> </ol>
Payments Platform	<ul style="list-style-type: none"> <li>The New Payments Platform, in "build and test" stage is scheduled for completion in early-mid 2017, and is on track to being operational in the second half of 2017.</li> <li>All ADIs will connect to the NPP, either directly or indirectly through another member, so they can process a wide variety of fast data-rich payments for their account holders. ADIs can choose to join the NPP at any point in its development and operations.</li> </ul>	<ol style="list-style-type: none"> <li>Review of Bank's system(s) integration with the New Payments Platform.</li> <li>Assess revised procedures and documentation (customer information etc.) to ensure consistency with Bank practices.</li> <li>Review the Bank's compliance with applicable regulatory and legislative requirements around payments and settlements.</li> <li>Assessment of process for managing payments on a real-time basis.</li> </ol>
Customer Relationship Management	<ul style="list-style-type: none"> <li>Globally, FSI customers are experiencing increased competition for their business which is driving innovation in customer relationship management strategies, including increased use of mobile technology and more complicated customer data management solutions.</li> <li>The availability of new technologies and comparative analysis across banking services is enabling customers to make more informed decisions in selecting banking products. FSI players are investing in the collection and efficient usage of big data to sustain market advantage.</li> <li>APRA Prudential Standards APS112, APS310 and the BIS's Basel III for banks on policies and procedures to manage risks related with CRM techniques will continue to also influence how banks manage customer data.</li> </ul>	<ol style="list-style-type: none"> <li>Review the design and implementation of policies and procedures focusing on customer relationship management.</li> <li>Assessment of process for identification, selection and implementation of automated solutions to support CRM activities.</li> <li>Review compliance with APRA's / Basel standards affecting credit risk management and CRM.</li> </ol>
Insurance within Super	<ul style="list-style-type: none"> <li>Australian superannuation funds have increasingly been purchasing insurance products, such as death and TPD cover, for their members and deducting the cost of these from superannuation contributions.</li> <li>Premiums for these insurance products have had growth rates above the direct insurance rates and there is a low level of awareness in the general public about this activity occurring on their behalf.</li> <li>Funds are typically reacting by cutting insurance coverage, increasing limitations to coverage and increasing premiums.</li> <li>In combination with delays to payouts and non-binding nominations, this has caused spikes in Ombudsmen complaints and is adversely impacting customer satisfaction.</li> </ul>	<ol style="list-style-type: none"> <li>Review the insurance claims operating model to ensure there is an effective governance structure in place to ensure appropriate service standards are met by claims processes and risks such as fraud are appropriately managed.</li> <li>Review the claims system for design and operation to ensure that claims can be effectively administered, with appropriate system access and authority levels granted to relevant staff.</li> <li>Review product design frameworks to ensure insurance products being provided are in line with customer needs and expectations.</li> </ol>
Advice	<ul style="list-style-type: none"> <li>Advice models and financial planning within superannuation is changing rapidly. Different advice models are being trialled by the industry as they try to meet the needs of their customer base. Each advice model brings different challenges and risks to the organisation.</li> <li>Australia's banking, wealth and superannuation fund market will be the next frontier for automated advice of various types. Given the large number of Australians who do not seek financial advice, there's clearly an opportunity for the local robo advisory market to develop in a similar manner to other countries which have experienced explosive growth in the last five years.</li> </ul>	<ol style="list-style-type: none"> <li>Review the design of financial advice framework, ensuring it contains appropriate governance and has been maintained to reflect recent changes in regulatory requirements.</li> <li>Review the operation of the financial advice framework, ensuring its implementation results in: advisors acting professionally and treating consumers fairly; good quality products and services being developed which serve customers well; and customers being fully compensated when losses result from poor conduct.</li> </ol>

# Supporting Insights

## Information Technology



Theme	Thematic Drivers	IA Plan Considerations
Cyber	<ul style="list-style-type: none"> <li>Globally, the FSI is experiencing significant growth in the number and severity of cyber-attacks affecting the delivery of financial services products and interrupting core business processes.</li> <li>Regulatory and legislative requirements have now been set by ASD, ASIC, APRA for FSI entities ensuring improving norms of cyber risk management.</li> <li>Implementation of regulator requirements is increasingly complex as FSI reliance on third parties increases and operating models become more complex.</li> </ul>	<ol style="list-style-type: none"> <li>Check embedding of cyber security risk strategy and objectives into an annual business strategy.</li> <li>Review of comprehensive cyber security policies, standards and processes including roles and responsibilities.</li> <li>Arrangement and capability of cyber security in relation to third party service providers, including security, monitoring and governance of the third party security risks.</li> </ol>
Data Governance and Privacy	<ul style="list-style-type: none"> <li>FSI entities are holding increasing amounts of data related to their customers and their own organisation. This data is also increasingly private and potentially sensitive data for these customers, and while it provides possible competitive advantage, must be appropriately managed.</li> <li>Globally, regulators have established requirements and guidance for the management of data risk. APRA has published PPG 235 to guide the data management lifecycle.</li> <li>Increasingly global FSIs are performing large data discovery, classification and governance projects aimed at increasing data risk management capabilities.</li> </ul>	<ol style="list-style-type: none"> <li>Assessing organisational standards, policies, procedures for data acquisition, classification, storage and dissemination along with responsibilities of data owners to ensure regulatory compliance and effective decision making.</li> <li>Assessing data governance frameworks across the organisation, embedding of data governance requirements into BAU processes against requirements of PPG 235.</li> </ol>
Third Parties and Outsourcing	<ul style="list-style-type: none"> <li>Organisations are increasingly looking to outsource their IT and create an 'IT as a utility' model. Global focus on consistency of controls around all third parties including intra-entity third parties has gained momentum.</li> <li>APRA's CPS 231 puts great emphasis on the classification and management of material outsourced providers, which requires organisations to have strong data and vendor management knowledge to complement traditional technical and process skills.</li> <li>Risk needs to be managed throughout the third party lifecycle, not only during on-boarding.</li> </ul>	<ol style="list-style-type: none"> <li>Perform a diagnostic maturity assessment of the organisation's approach to third party risk management against good practice and regulatory requirements.</li> <li>Assess compliance with existing third party risk management policies and procedures and contractual performance obligations.</li> <li>A third party management review should cover across all types of vendors. It also requires a consistent global approach by assessing global strategy, governance, policies and procedures in place to direct the management of risk in these areas.</li> </ol>
Digital	<ul style="list-style-type: none"> <li>There has been industry-wide focus on the enhancement of digital capabilities and presence, and capitalising on competitive advantage these capabilities can provide.</li> <li>This investment has grown in parallel to the growing usage of social media and mobile platforms. FSI entities are therefore creating engaging experiences through digital channels to increase customer acquisition and retention.</li> </ul>	<ol style="list-style-type: none"> <li>Perform an IA over the ongoing change programmes in place surrounding digital transformation and looking at the controls around customer interactions via digital portals.</li> <li>Review the compliance framework's identification and compliance with regulatory requirements and guidance on use of digital technologies to sell financial services.</li> </ol>
Data Migration	<ul style="list-style-type: none"> <li>There is an industry-wide focus towards digitisation and automation amid an environment of increasing competitive disruption.</li> <li>This is causing industry consolidation, data migration between entities, product innovation to enhance offerings for customers, migration internally between systems, and enhancement of legacy IT systems.</li> <li>New projects around maintenance of customer Master Data in various FSI sectors, in particular Wealth Management, caught momentum in 2016, and that will continue in coming years.</li> </ul>	<ol style="list-style-type: none"> <li>Review and assess each procedure within project management, including the process for data migration, ownership and accountability of data, and approving authorities for data migration to ensure consistency in the design of data migration processes.</li> <li>Review security controls (System and Manual) relating to material data transfer activities.</li> </ol>

# Supporting Insights

## Finance



Theme	Thematic Drivers	IA Plan Considerations
Fraud and Financial Crime	<ul style="list-style-type: none"> <li>The 2016 Global Fraud Study conducted by the Association of Certified Fraud Examiners, raised awareness that survey participants in the Banking and Financial Services sector experienced the greatest number of fraud incidents.</li> <li>The nature of products and services offered by FSI leaves them more vulnerable to reputation loss and growth caused by fraud. FSI entities have established fraud and financial crime frameworks to identify, assess, manage and report these risks.</li> <li>Prevalent fraud risks in the Australian FSI include identify theft, claims fraud, mortgage fraud, insider trading and kick-backs.</li> </ul>	<ol style="list-style-type: none"> <li>Review of Fraud and Financial Crime Policy and Framework.</li> <li>Review of whistleblowing policy and operations of the whistleblowing hotline.</li> <li>Consideration of fraud risks and controls into other internal audit reviews.</li> </ol>
ICAAP	<ul style="list-style-type: none"> <li>Globally, standards for the performance of the capital requirements assessment process within insurers has been evolving. Whilst Europe pursues a more complex Solvency II set of minimum standards, Australia has adopted the LAGIC framework requiring insurers to perform an Individual Capital Adequacy Assessment Process and report on its findings.</li> <li>APRA's GPS 110 and LPS 110 require insurers to perform an independent comprehensive review of its ICAAP at least every three years to determine if the ICAAP is adequate and effective.</li> </ul>	<ol style="list-style-type: none"> <li>Review the compliance of the ICAAP with APRA's prudential standards.</li> <li>Review the integration of the ICAAP with the RMF and of capital management within key decisions made by the financial services entity.</li> </ol>
Treasury Management	<ul style="list-style-type: none"> <li>The importance of liquidity and capital management has increased in importance as a result of FSI expansion into new markets, increased complexity and connectivity of markets, and expansion of products and services being offered.</li> <li>Increasingly treasury functions are expanding beyond traditional activities to include trading in bonds, currencies, financial derivatives and other financial risk management procedures.</li> <li>The global financial crisis highlighted the risks of poorly governed treasury policies, and increased political uncertainty is placing greater importance over these policies again. Industry-specific issues such as increasing superannuation funds outflows and an extended soft cycle in the insurance industry has increased firms' reliance on these capabilities.</li> <li>The importance of liquidity management has been a focus of APRA, and ensuring regulated entities have a policy and framework.</li> </ul>	<ol style="list-style-type: none"> <li>Review the design of liquidity policies and strategy against APRA's prudential standard requirements.</li> <li>Review the definition of roles and responsibilities, delegations of authority, and alignment with the operation of liquidity management processes.</li> <li>Review the establishment of appropriate risk appetite and limits, reporting of liquidity risk events, and ongoing performance of liquidity scenario analysis and stress testing.</li> </ol>
Cost Control	<ul style="list-style-type: none"> <li>Organisations operating in this environment are managing the impacts of an industry-wide 'digital' disruption which is providing greater opportunity to identify and remove the performance of low value / high cost activities.</li> <li>Resulting margin pressure is necessitating the industry to drive down cost in order to remain competitive and meet shareholder expectations.</li> <li>New analytical capabilities are enabling banks to prepare strategies to optimise their client relationships through their branch networks, and drive the cost to service down by exploiting their big data capabilities.</li> </ul>	<ol style="list-style-type: none"> <li>Review of cost optimisation programme implementation including the achievement of benefits defined by the program.</li> <li>Review the performance of budget setting and monitoring policies and processes.</li> </ol>
Regulatory and Financial Reporting	<ul style="list-style-type: none"> <li>AASB B9 is effective from 1 January 2018 (replacing ASSB 139), leading to significantly more demanding disclosure regimes. Banks are expected to be challenged by weakening capital positions and tighter operating margins. Systems and processes, including data requirements and internal controls, will subsequently require change.</li> <li>AASB 15 for the purpose of annual reporting of period starting from 1st January 2018 will mandatorily replace AASB 11, AASB 118 and AASB 1004. The standards will require banks to assess their processes and information systems for their ability to capture increasing data requirements.</li> <li>ASIC and APRA continue to focus on enhancements to regulatory reporting processes and control frameworks.</li> </ul>	<ol style="list-style-type: none"> <li>Carry out assessment of progress against AASB 9 programme milestones and periodic reviews of model validation.</li> <li>Assess the adequacy of resources, required systems and process impacted by the move to AASB 15.</li> <li>Assess adequate coverage of end-to-end data quality and data mapping processes.</li> </ol>
Investment Governance	<ul style="list-style-type: none"> <li>Superannuation funds investment governance is increasingly coming under scrutiny by regulators as investment funds grow.</li> <li>Factors affecting performance include investing in a wider variety of asset classes as well as increasingly wider geographic spread of assets.</li> <li>Regulators are therefore establishing minimum requirements for the performance of investment governance, including APRA who have set these requirements out within Prudential Standard SPS 530 for the superannuation industry.</li> </ul>	<ol style="list-style-type: none"> <li>Review the governance over the approval and implementation and the investment objectives and strategy.</li> <li>Review the management of conflicts of interest for stakeholders with responsibility for investment decisions.</li> </ol>

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