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# Internal audit insights
# High impact areas of focus

2014

To be truly effective, internal audit departments should ensure that their efforts are targeted at the key risks and issues facing their business – a task made more difficult in an environment of increasing complexity, uncertainty and change. The following pages set out the ten high-impact areas of focus that we believe internal audit professionals should look to incorporate in their audit plans.

### Internal Audit Analytics

With large amounts of data available, it is becoming more important than ever for organisations to use analytics to address current and emerging risks quickly, drawing conclusions that can help decision-makers take action more confidently and with deeper insight. The predictive capability of analytics can also help drive a more effective, risk-based audit by: determining which entities have greater risk and should receive more attention; improving efficiency and coverage; delivering more robust and effective analysis of key issues; providing more meaningful and actionable insights, and driving change within the organisation.

### Risk and Control Culture

Companies, regulators and government bodies are realising the crucial role that risk and control culture plays in the way risks are managed. In the people, process and technology trinity of risk management infrastructure, it is the people who ultimately make process and technology work. How people manage risks largely depends on the culture prevailing within the organisation.

Increasingly, boards and senior management are considering actions to foster a stronger risk and control culture within their organisation. Internal audit has a key role to play and should consider building a culture assessment framework and implementing internal audit activities to assess whether the prevailing risk and control culture and related processes, actions and 'tone from the top' align with the organisation's values, ethics, risk strategy, appetite, tolerance and approach.

### Cyber Crime and Security

Today’s cyber criminals are increasingly adept at gaining undetected access and maintaining a persistent, low-profile, long-term presence within information technology environments. Meanwhile, many organisations may be leaving themselves vulnerable to cyber crime based on a false sense of security, perhaps even complacency, driven by non-agile security tools and processes. Threats posed by cyber crime have increased at a faster rate than many organisations can cope with. Whilst the reputational and financial impacts would be significant if a breach were to occur, industry regulators are increasingly citing cyber security as one of their top priorities, meaning organisations are also faced with regulatory risks.

Internal audit must take a leading role to ensure a systematic and disciplined approach exists to evaluate and improve the effectiveness of cyber risk management and to ensure that appropriate cyber security capabilities are in place to protect against emerging cyber threats.

### Assurance Mapping

A key role of the internal audit function is to provide comprehensive assurance over the key risks and mitigating activities throughout the organisation whilst minimising duplication from other ‘assurance’ providers. This means having an understanding of the relevant ‘second line’ risk management controls and assurance processes as well as the ‘third line of defence’ assurance activity in place. To help drive a coordinated approach across the organisation, many internal audit departments view the preparation of an ‘Assurance Map’ as an essential mechanism to communicate the layers of assurance to the organisation’s governing bodies. This process involves mapping all assurance activities against identified key risks so that gaps and overlaps may be avoided; reducing the assurance burden on business processes and improving efficiency and focus across ‘third line’ activities.

### Crisis Management

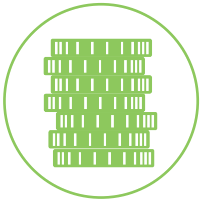
A crisis is a catastrophic event that can jeopardise the critical assets, reputation and/or financial standing of an organisation; it can be highly complex, unforeseen (but not always) and unpredictable. The ability of an organisation to manage a crisis can be attributed as much to the skills, knowledge and experience of its crisis team as it can to the adequacy of its crisis management plans. This can only come from regular practice, whether through scenario-based simulations or real events. Crisis readiness can directly help mitigate many key organisational risks such as business continuity, reputational risk and financial risk. As such, internal audit should evaluate their organisation's crisis readiness, including assessing whether the crisis team has the plans, tools and capabilities necessary to respond to an event that may threaten the future viability of the organisation.

### Anti-Bribery and Anti-Corruption

Beyond the significant regulatory, legal and financial consequences of non-compliance with anti-corruption legislation, the reputational impact can also have severe and long-lasting effects. The Foreign Corrupt Practices Act (FCPA) and the UK Bribery Act of 2010 are two such examples of regulations with an impact on a global scale. It is crucial that organisations have anti-corruption programmes in place which include:

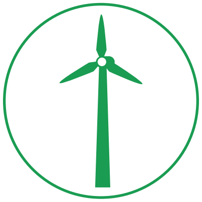
- board oversight;
- written standards and policies;
- risk assessments;
- communications and training;
- monitoring and auditing;
- incident reporting; and
- corrective actions and discipline.

Internal audit departments should review the design and effectiveness of their organisation's anti-corruption programme, providing independent assurance to management and the audit committee that key anti-corruption risks are managed to an acceptable level.



### Capital Project Reviews

Many organisations continue to face challenges with capital projects running behind schedule and over budget. The importance of strong capital project governance and management is particularly evident in unstable economies, where costs and schedules are heavily scrutinised. Despite substantial sums of money being spent through various contractual agreements, the contracts underpinning these arrangements are often vague, misinterpreted, or inadequately monitored. To identify opportunities for cost recovery and to provide valuable insights and recommendations to improve processes and controls, internal audit functions should consider incorporating contract risk and compliance procedures into their activities. The most successful internal audit departments are using advanced tools and analytics across the end-to-end capital project life cycle to provide deeper insights and real-time monitoring of key risks.



### Sustainability

As organisations strive to bring non-financial measures to the forefront of their sustainability decision-making processes, internal audit functions should also be aligning their focus with the overall enterprise environmental, social and governance activities. Those internal audit departments leading the way play a key role in evaluating their organisation’s sustainability risks and opportunities within areas such as facility efficiency, supply chain management, employee motivation and retention, and risk management. To take advantage of these opportunities, internal audit departments should consider developing a measurable and defined internal audit programme which includes:

- measuring industry-specific environmental, social and governance key performance indicators;
- performing sustainability-related risk assessments, including process and control design, framework development and policy analysis;
- analysing current sustainability reporting within the industry, conducting gap analyses and recommending material topics for reporting; and
- performing internal audits of environmental and social data.

**Joint Venture Governance**

When new Joint Venture (JV) entities are established, internal audit can play an important role in ensuring that management appropriately identifies and addresses the key risks. Key JV governance elements, such as strategy development and monitoring, risk governance, policy governance, capital planning and delegation of authority are just a few of the areas that require agreement between shareowners, each of whom may have different interests and perspectives. Internal audit should also consider JVs as part of their ongoing audit universe making sure the parent company has the appropriate monitoring controls in place to effectively govern the investment. The effectiveness of key risk management practices should also be evaluated, either through direct internal audits or meeting with the JV internal auditors. The impact of these findings should be considered in the context of its parent company and communicated, alongside any recommendations, at the parent company level.

**Data Privacy**

With the proposed EU regulation aiming to overhaul Europe's Data Protection legislation, organisations need to demonstrate that they are handling personal data appropriately. As regulations are set to become increasingly burdensome, with significant reputational damage and increased financial penalties for non-compliance, internal audit departments are acting to help their organisations avoid these risks. This may be through high-level privacy governance internal audit reviews, looking at how privacy is managed across the organisation, or deep-dive compliance audits, reviewing key business processes against the specific requirements of the Data Protection Act. In addition, internal audit teams may choose to carry out early reviews in this area to provide an initial indication of how prepared an organisation is for when the new legislation comes into force.

Many of these issues are relevant across all industries; however, for a specific view on the hot topics facing internal audit functions within Financial Services, please visit **www.deloitte.co.uk/FSInternalAudit2014**

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