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Focussing on what matters to make an impact

Chris Mayo | 6th January 2017

Impact

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Content

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Delivery

The context

Where is IA today?

Evolution or irrelevance, Deloitte's 2016 Global Chief Audit Executive Survey, provides insights on the current and near-term challenges facing the Internal Audit function. With responses from more than 1,200 heads of Internal Audit in 29 countries and a wide range of industries, this is Deloitte's most comprehensive global examination of Internal Audit to date.



CAEs recognise the need for change

- 85% of CAEs expect their organisation to change moderately to significantly over the next three to five years
- Nearly 79% of expect a similar change in Internal Audit



Internal Audit needs more impact and influence

- 28% of CAEs believe their functions have strong impact and influence
- 16% believe they have little to no impact / influence
- Almost 2/3 believe that the strength will be important in the coming years



Gaps in skills must be addressed

- 57% of CAEs are not convinced that their teams have the skills and expertise required to fulfil current expectations



Use of alternative resourcing models will expand

- Many CAEs expect to expand their use of alternative resourcing models due the need for risk, cyber and other specialists
- Expectation that co-sourcing will increase, along with guest auditor and rotation programs



Analytics presents major opportunities

- To increase its efficiency, value and impact, IA needs to expand its use of analytics

The context

Where is IA today?



Dynamic reporting is poised to increase

- Most IA groups communication through static text documents and presentations
- Use of text is expected to decrease as dynamic visualisation tools increase dramatically – allowing IA to deliver insightful observations, interact with stakeholders and deliver great value.



Advisory services will expand

- CAEs expect stakeholders to look to Internal Audit for insights regarding the future and to weigh in earlier on business initiatives



Innovation is important too

- Risk anticipation and data analytics are two innovations most likely to impact IA over the next three to five years
- This links to the desire for IA to shift from reporting on the past to also anticipating the future



Reviews of strategic planning and risk management will increase

- Over half of IA groups expect to evaluate their organisation's strategic planning process in the next three to five years



Stable Internal Audit budgets may present challenges

- Half of CAEs see budgets staying stable, in times of disruption and evolution that may not be enough

The context

Changes in expectations

Audit Committee **expectations** -

- Assess the key risks [symmetrically] to “whole organisation” success;
- Provide insight and guidance on emerging risks in the future;
- Challenge how the organisation does and should work;
- Have a view on everything, everyone – don’t wait for a report;
- Help draw together what I need to know, I need help;
- Work with the whole organisation to make it successful.

FRC Corporate Reporting Review – relevant points of focus:

- Business model. Business model assessments have required meaningful identification of principal risks to an enterprise.
- *Is Internal Audit oriented at least in part on what the Board believes to be principal risks – upside and downside?*
- Culture. Boards should request access to relevant information regarding culture; interrogate that information; ask pertinent questions (including challenge where appropriate); take action if not satisfied with the results.
- *Where using internal audit to provide assurance on culture, it is fundamental to ensure the credibility of the function so that they get appropriate buy-in and engagement, and also to recognise that there will not be hard data to underpin cultural observations as there are for financial or controls based observations.*

Considerations:

- Be bold – no one is asking you to rein it in;
- Consider how you align IA to confidence in success of the whole organisation – existence-, risk-, strategy- or outcome-based plans?
- Sufficient coverage of key topics – culture, customer outcomes, strategy, MI, decision making, competence...
- Honest assessment of capability to deliver it?
- Alignment of assurance across the organisation – duplication and gaps, who draws it together, joins the dots?
- How impactful is the reporting, interpretation, focus on what matters?

“How do I increase the punch of Internal Audit?”

3i's

What are we trying to achieve



- You have limited resource and capacity – **focus on what matters** to achieving organisational success.
- Have a **voice and opinion** on everything that matters – people, products, processes...
- Provide confidence in **achieving strategy**, helping the organisation to make great decisions.
- The form of that confidence is an **opinion on what matters** (not everything) – 3i's.
- Consider **who** the stakeholders are, **what** they need to know, and **when** they need to know it in a format that is easily consumed. Make it relevant and articulate. Actionable.
- **Cumulative process**. Cannot have influence without information, developed into insight...

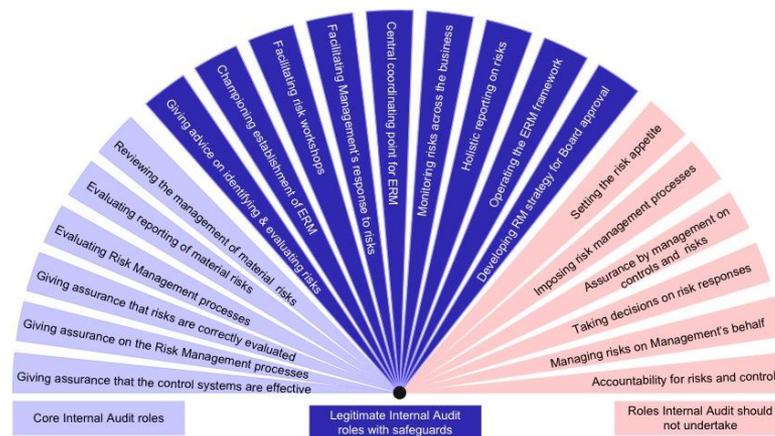
3a's

Levers for building impact



There are a variety of ways IA can work towards delivering IMPACT.

- Assurance – focus ruthlessly on topics that matter to the success of the organisation. Stop auditing the past and focus on organisational success: the future. Convert the pieces of the jigsaw into insight that matters to the organisation.
- Advice – facilitate change, coach the organisation to better outcomes. Consider safeguards. Without skin in the game and being sought-out by the organisation, its difficult to consistently be influential.
- Assistance – are there topics for which IA is best placed to deliver the right answer for the organisation? Safeguards and transparency are key. Key differentiator is likely taking the decisions...



IIA 2017 International Professional Practices Framework

1112 – Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

“The best firefighters spend the most time on prevention, education and proactive outreach.”

- Anon

But, but, but...

The independence conundrum

Don't confuse independence with objectivity

"...his assertion that internal auditors are not independent is not provocative at all.

The International Standards for the Professional Practice of Internal Auditing (Standards) does not assert that the internal auditor is independent. Often people confuse the organisational attribute of "independence" with the individual attribute of "objectivity".

...Clearly as employees of their enterprise, neither the chief audit executive nor any of his or her staff can technically be independent from that very enterprise."

...In the end we agreed that "independence" is an organisational attribute."

Richard F Chambers, CIA, QIAL, CGAP, CCSA, CRMA – President and CEO of the IIA.

IPPF Standard 1100 – Independence and Objectivity:

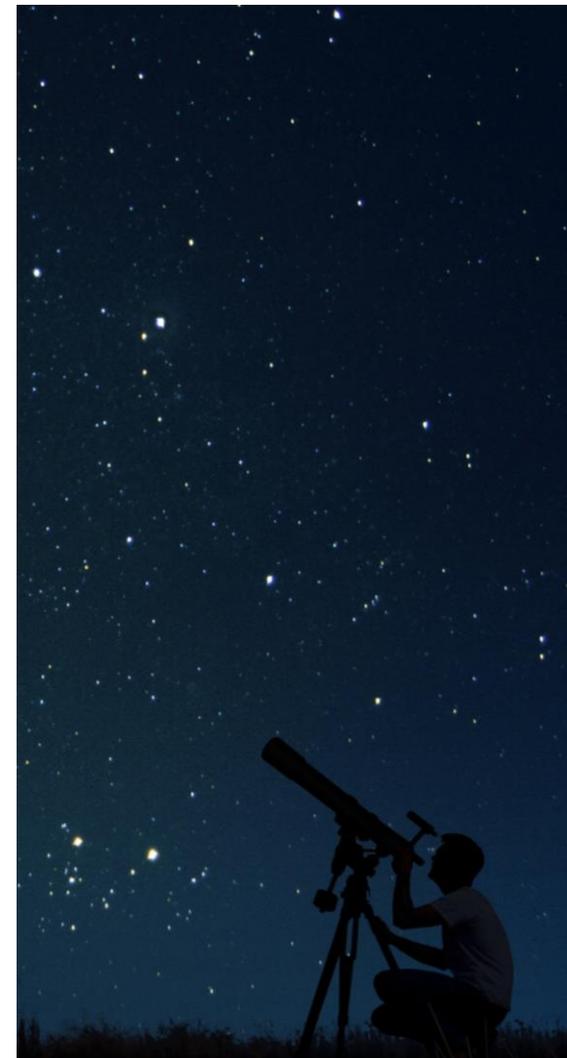
- Independence is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit executive to carry out the internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.
- The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.
- Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

“Articulate what matters and how IA are going to get involved. Then they must focus ruthlessly on stuff that matters, behave like a business, prioritise.”

Where do I deliver impact?

High-impact areas of focus

-  Strategic planning
-  Third-party management
-  Internal audit analytics
-  Integrated/combined risk assurance
-  Cyber
-  Digital
-  Risk culture
-  Strategic and emerging risks
-  Sustainability assurance
-  Media audits
-  New reporting methods
-  The year ahead





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