



Keeping sight of your business
Hot topics facing Financial Services
organisations in IT Internal Audit



Welcome to our third annual review of the IT hot topics facing Internal Audit functions within the Financial Services industry.

Introduction

IT Internal Audit within the Financial Services industry continues to reshuffle its priorities. The IT risks previously faced are now swiftly evolving and with growing confidence over the economic environment, there has been a noticeable impact on the ordering of the industry's top ten 'hot topics' since our last review.

This year we're seeing a consistent focus on Large Scale Change and IT Governance & Risk Management (a new entrant in the top ten). This reflects the ever increasing importance of investing in and deriving value from IT, whilst managing the associated risks in supporting business change. Internal Audit functions are also maintaining their attention on the high-impact areas which are complex to address, with Logical Access Security; Data Governance and Quality; and Third-Party Management all remaining in the top five.

Cyber Security is still an area of focus for many organisations, particularly following an increased interest from regulators and the UK Government, similarly the climb in Digital Risk reflects the need to manage a burgeoning digital estate. Disaster Recovery & Resilience has cooled off as a 'hot topic', having received significant attention in 2013 following regulatory pressure on businesses to consider resilience when changing or designing IT systems and processes (including a "Dear Chairman" letter from the FSA).

Being able to deliver an effective IT service to the business, whilst managing costs, is an additional focus for IT Internal Audit, paving the way for a new entrant in the top ten: Service Management.

The following pages set out the top ten themes for IT Internal Audit in the Financial Services industry. Ranked in order of priority, we hope this proves to be a useful resource for your 2014 IT Internal Audit planning activity.

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IT Internal Audit Hot Topics 2014



1. Large Scale Change (▲3)*

Over the past few years, many organisations have been faced with the challenge of tightening their belts, often only undertaking mandatory programmes to address regulatory requirements (such as FATCA, Dodd-Frank and Solvency II) or customer redress programmes. In many banks, the heightened focus on improving control culture means managing large-scale change programmes is now top of the IT Internal Audit agenda. The once cautious approach towards investment appears to be waning, with many organisations starting to reignite their investment programmes. The challenge to provide proactive advice has meant Internal Audit is seen as a central component to these major change programmes to provide assurance over the required outcomes. As a result, Internal Audit functions are engaging multi-disciplinary teams of regulatory specialists, change specialists, subject-matter experts and, of course, the IT Internal Audit function to help deliver this assurance.



2. IT Governance & IT Risk Management (NEW)

A key focus for organisations is how the IT function is controlled. This includes risk appetites, IT risks and how to embed an effective controls culture. This reflects the pivotal role IT functions increasingly have in delivering major business change, managing the risks associated with delivering this change and running effective IT. IT Internal Audit is actively involved in assessing the governance of IT, including alignment with business strategy, reporting and managing risk, reporting to executive management and measuring performance of the IT function. Crucially, these assessments require engagement with senior stakeholders across the business to understand how effectively the IT function delivers its strategy.



3. Identity & Access Management (▼1)

The Financial Services industry is all too aware that the cost and reputational impact of ineffective Access Management controls can be significant, inviting unwelcome publicity, regulatory censure and having significant ramifications for customer relationships. However, few organisations are demonstrating effective 'Segregation of Duties' controls across all key systems, including a robust process for managing and reporting on changes to access rights. Access Management is a continued area of focus, with many organisations in the process of implementing Access Management programmes. Whilst IT Internal Audit is focussed on assessing these programmes and reviewing access provisioning and recertification processes, we are also seeing the use of data analytics and toolsets to identify 'Segregation of Duties' issues and support these assurance activities.

4. Data Governance & Quality (▼1)

Continuing from previous years, data quality remains high on the regulatory agenda. This year saw the publication of the Basel Committee on Banking Supervision's (BCBS) paper 'Principles for Effective Risk Data Aggregation and Risk Reporting' requiring firms to assess the controls over data which underpin the calculation and reporting of capital, liquidity and risk. As businesses increase their focus on the customer, digital channels and explicit regulatory requirements, the need to audit the overall governance of data is vital. Many organisations are now planning data governance audits, focusing on the ownership of data and reviewing organisations' data quality programmes. In support of these reviews, we are aware of Heads of Internal Audit investing in relevant skillsets and tools to help deliver such reviews, either in-house or through flexible resourcing models.



5. Third-Party Management (▼4)

The management of third parties remains a high priority for a large number of organisations, despite falling from the top spot in 2013. Whilst we're observing a less cautious approach towards business change and IT investment, this is being balanced with a continued emphasis on cost reduction and efficiency. The use of third-party suppliers to provide some, or all of organisations' IT requirements, continues to be widespread, and the relationship between both third party and organisation continues to evolve. IT Internal Audit is keeping this high on its list of priorities to ensure that, in their quest for efficiency, organisations are balancing value for money appropriately with the need to manage risk effectively.



6. Cyber Security (▼1)

The ability of Financial Services institutions to deal with a cyber attack without impacting the stability of the financial system is a continued focus for UK regulators. Specifically, the Prudential Regulation Authority (PRA) issued a detailed Cyber Risk Assessment questionnaire to the banks, requiring input from Internal Audit functions. We're seeing organisations continue to work on their cyber intelligence and monitoring capabilities alongside establishing processes to detect, prevent and, most importantly, manage the impact of cyber attacks. These 'defence-in-depth' approaches provide a challenge for IT Internal Audit functions to ensure they are able to assure the various components of the approach. This includes areas which are not traditionally 'technology-related' such as social engineering, the means by which intelligence can be gathered to identify weaknesses in an organisation's defence for a later cyber attack.





7. Digital Risk (▲1)

The continued uptake in digital channels, particularly social media and mobile apps for customer engagement, raises the importance of having an adequate governance framework to manage the organisation's digital assets. The dramatic drop in the New York Stock Exchange in 2013 caused by a hacked Associated Press Twitter account emphasises the need for effective control and speedy response plans. In the UK, the FCA's on-going review into the use of mobile apps for banking services will have implications for the way customers are served. In response, IT Internal Audit is challenging how digital risks are managed, with early indications showing digital risk could be a blind spot that needs to be urgently addressed.



8. Service Management (NEW)

Despite an increase in the number of large-scale projects and programmes being undertaken (see Topic 1), there is on-going pressure for organisations to keep business-as-usual costs down so budgets can be freed up to support the business changes. These pressures have permeated through to the IT department, which often holds a significant proportion of overall organisational expenditure. There is an extra focus on achieving value for money as IT departments balance this drive for efficiency with ensuring that the organisation's core IT services are operating effectively and are adequately supported. This has increased IT Internal Audit's focus on ensuring the service management risks are appropriately mitigated.



9. Disaster Recovery & Resilience (▼3)

A number of high-profile resilience issues suffered by major financial institutions, combined with the natural disasters in 2012, led to a considerable focus on disaster recovery in 2013. IT Internal Audit was tasked with assessing the resilience of 'mission critical' systems as well as recovery capabilities and crisis management processes. As a result of the significant attention in 2013, various IT Internal Audit functions are opting to focus on other areas for 2014, reflected in the relative lowering in priority for this area. Nonetheless, financial institutions are finding that Business Continuity Testing remains a difficult task to undertake, ensuring effort is appropriately aligned to the risks faced and tests are relevant to the business service being supported. In addition, organisations are still making the link between Disaster Recovery & Resilience and other IT priorities such as Cyber Security, Service Management and Cloud Computing, proving that it continues to be an important area for Internal Audit.

10. Cloud Computing (▼3)

Whilst the use of cloud computing continues to grow, the solutions being adopted are dedicated services, often Private Clouds, which remain a minority of the overall enterprise IT estate. As such, there appears to be a greater recognition amongst organisations that the risks relating to Cloud are not significantly different from operating other outsourced relationships or managed services solutions. This is reflected in the reduction of priority which organisations assigned to Cloud as an audit topic. Control over cloud computing is vitally important, and Internal Audit functions should deploy specialist skills as necessary, including: contract risk, third-party management, information security and business continuity to assess cloud solutions effectively.



* The number in brackets indicates the movement since the 2013 survey.

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