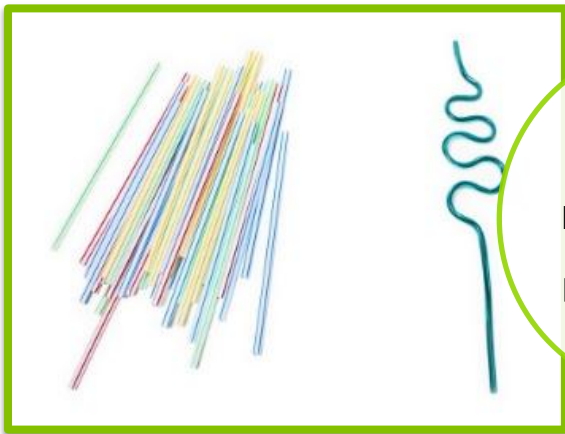




The Changing Role of Internal Audit

Moving away from traditional Internal Audits

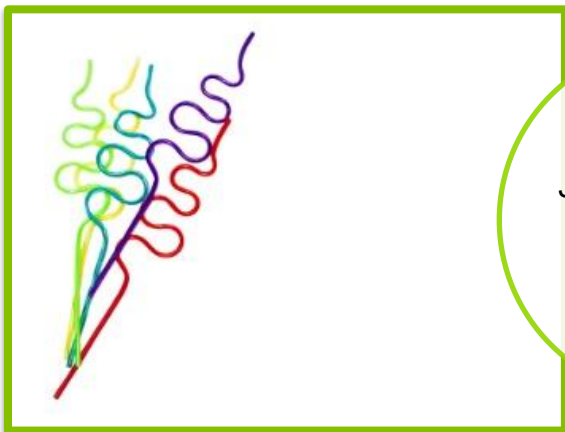
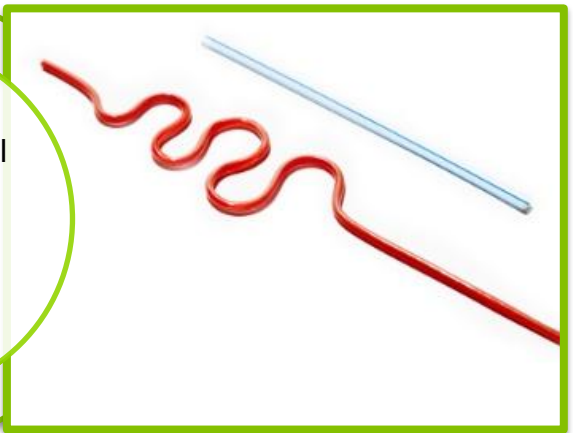




Harnessing the full potential of Internal Audit by enhancing and protecting value



Current Internal Audit trends - Moving away from traditional Internal Audits



Integrated oversight – Journey towards Risk Management, Assurance and Value Creation

1. Harnessing the full potential of Internal Audit by enhancing and protecting value

The key activities of leading-edge internal audit functions should align with the expectations of the audit committee and management, and be flexible enough to meet the changing business strategies and needs of the organisation.

Often, internal audit concentrates only on financial and compliance areas; however, organisations are now adopting more of an enterprise risk focus – one that considers strategic and operational risks as well as financial and regulatory risks, with internal audit serving as a strategic adviser.

To continue to enhance the performance of the internal audit function and its value to the organisation, we believe that audit committees should periodically ask whether internal audit is performing the appropriate activities, has adequate resources, and is proactively identifying risks and monitoring critical controls.

1.1. Aligning and measuring internal audit expectations

An optimised internal audit function can provide the balance between protecting and enhancing enterprise value by taking a holistic approach to risk management across the enterprise and providing independent and objective assurance with value-added advice.

For internal audit to be successful, it is important for Internal Audit to clearly understand the following from the audit committee and management:

- The expectations for internal audit.
- The perception of the value that internal audit adds to the organisation and the audit committee.
- How the success of internal audit activities is measured. An effective relationship between the audit committee and internal audit is fundamental to internal audit's success.

1.2. Securing the appropriate resources for internal audit to meet expectations

In many organisations, the audit committee is responsible for approving the internal audit budget, and this approval is typically based on management's recommendation. The audit committee should assess whether internal audit:

- Is effectively using available resources
- Is appropriately funded and staffed to meet expectations
- Has the appropriate mix of skills to achieve its strategic objectives and proactively identify and address current and emerging risks

1.3. Understanding internal audit's role in the organization

In assessing the effectiveness of internal audit, it is critical that the audit committee understands how internal audit relates to, and interacts with, other risk or assurance-related functions, such as enterprise risk management, legal, security, health and safety, loss prevention, and compliance.

This includes evaluating who is doing what and whether there are any gaps or duplications between internal audit and these groups regarding the assurance being provided.

It is also important that the audit committee understands how internal audit interacts with the external audit provider. Greater efficiencies and effectiveness can be achieved if the two work together. In addition, the external auditor's perception of an organisation's internal audit function can be an important indicator to the audit committee.

1.4. Fostering a mutually beneficial relationship with internal audit

Communication is an important component in maintaining an effective relationship between the audit committee and internal audit. Internal audit's communications should be timely, actionable, and relevant, with a priority on the implementation of recommendations and resolution of issues. Audit committees may consider the following objectives for internal audit communications in helping the function spur positive change in the organisation:

- Be informative
- Be objective and accurate
- Serve as a catalyst for action
- Educate
- Provide clarity on important and complex issues
- Gain respect
- Be persuasive
- Avoid surprises
- Provide value



2. Current Internal Audit trends -Moving away from traditional Internal Audits

2.1. Strategic vs. Back to Basic Internal Audit

Organisations innovate and grow, meaning there is constant change and new ventures on the horizon. Whilst dealing with “new thinking” required for Internal Audit relating to strategic and innovative new ventures, we know that it is important not to shift focus from basic, hygienic risk and control management. We also know that it is important to keep up with the risk and control of the business as it evolves into a business of tomorrow. Therefore, organisations are investing more on specialised audits.

Internal audit has advanced significantly in the last decade. Below are some recent Internal Audit trends and the types of reviews that we are performing at our clients.

Data analytics	Global IA fraud prevention controls	Cyber Crime
<p>By leveraging the power of analytics, internal audit can address current and emerging risks quickly, and draw conclusions that help company decision-makers take action more quickly, more confidently, and with deeper insights, thereby delivering enhanced value. More specifically, internal audit analytics can help drive a more effective, risk-based planning process by: determining which entities have greater risk and should receive more attention; and improving the efficiency, coverage, and value of discrete audit reviews.</p>	<p>A number of internal audit clients are increasingly interested in fraud and bribery prevention and detection controls. In Deloitte's experience, fraud and anti-corruption risks often do not receive proper attention from management which may lead to significant financial, compliance and reputational consequences should unfortunate incidents occur. More and more, internal audit is expected to assess key fraud and anti-corruption risks and determine whether risk exposures exist.</p>	<p>The rise of the sophisticated cyber-criminal has become one of the fastest growing security threats to organizations. The cyber-crime landscape features malware exploits that can routinely evade traditional security controls. The reactive attack and penetration approaches of the past may no longer be sufficient to deal effectively with this level of ingenuity and are being replaced with new forms of cyber intelligence capable of enhancing traditional security programs. Internal audit has a significant role to play in identifying exposures and helping management address cyber vulnerabilities.</p>

Auditing the risk management function

The IIA Standard 2120 requires “the internal audit activity to evaluate the effectiveness and contribute to the improvement of risk management processes. Although these processes are assessed through on-going audit activities, internal audit should also conduct regular and formal audits of an organization’s risk management function and program, given the critical role that risk management plays within the organization. Auditing a company’s risk management function encompasses an assessment of the quality and effectiveness of risk management efforts, including the overall approach to risk issues, risk identification, risk reporting, the role of risk owners, methodologies, and supporting tools.

Ethical and regulatory compliance

New regulations—and enhanced measures aimed at enforcing them—together with increased focus on ethical standards have created a multi-faceted and complex compliance challenge for many companies. As a result, ethical and regulatory risks are a major discussion point within the C-suite and internal audit has a key role to play. Internal audit departments should consider structuring an assurance framework and build a range of program activities designed to evaluate ethical and regulatory compliance and promote a greater level of understanding, efficiency, and effectiveness in the organization’s compliance practices and operations.

People Risk

Talent plays a most critical role in driving and sustaining business performance and Human Resources plays a key role in building the talent pool and creating the talent experience. An audit of the HR function and talent management practices may validate whether an effective talent strategy is in place.

Software Asset Management

Software Asset Management (SAM) provides a single, integrated view of installed software in order to allow a one-to-one reconciliation between usage and purchase/license records. It thereby also helps to deliver on the IT aspects of requirement that Internal Audit “ascertains the extent of compliance with established ...contracts” and “recommends improvements in procedures and systems to prevent waste...”.

SAM helps organizations understand what software they have licensed, deployed, in use, and the deltas between those figures. Further, SAM empowers an organization to better understand the hierarchical ranking of software products from a vendor management perspective.

Sustainability and Integrated Reporting

Internal assurance must play a key role in integrated reporting. One of the King III requirements relates to the preparation of an Integrated Report and the required disclosures to be included.

A good Integrated Report should demonstrate in plain language how the organisation plans to sustain long term competitiveness without unduly compromising short term profitability.

In today’s business environment, where organisations are beginning to understand the importance of finding the right balance between financial, social, and environmental priorities, a carefully orchestrated Sustainability and Climate Change strategy is vital to the success of the organisation.

Tax Reviews

Tax departments’ view of risk historically focuses around tax return reporting and compliance requirements. But businesses need a much broader view of tax risk, one that encompasses strategic, operational, and financial exposures that might otherwise be overlooked. Internal audit’s entitywide perception of risk can help the tax function identify and mitigate a much wider range of exposures. The two functions can learn from each other’s skill sets, and teaming may help reduce some of the pressure on overloaded and under-resourced tax departments. The collaboration between tax and internal audit is varying along a continuum from review and validation to competitive advantage.

Social Media

No longer confined to areas of entertainment and life management, social media and social software have become an integral part of the postdigital business landscape. With more and more users linking, liking, friending and following, how can Internal Audit (IA) help assess and mitigate risks associated with social business?

These are the proactive steps IA can take to help address such growing challenges as:

- Brand and reputation damage
- Regulatory compliance
- Information leakage
- Third-party risk
- Governance risk

In each of these categories, IA can play a critical role in understanding the potential risks of engaging in social business. IA can also help to monitor and manage threats and strike a balance between risks and opportunities.

Technology Assurance

The ICT world is becoming increasingly interconnected and complex and understanding the associated risks and formulating a comprehensive ICT assurance strategy is key.

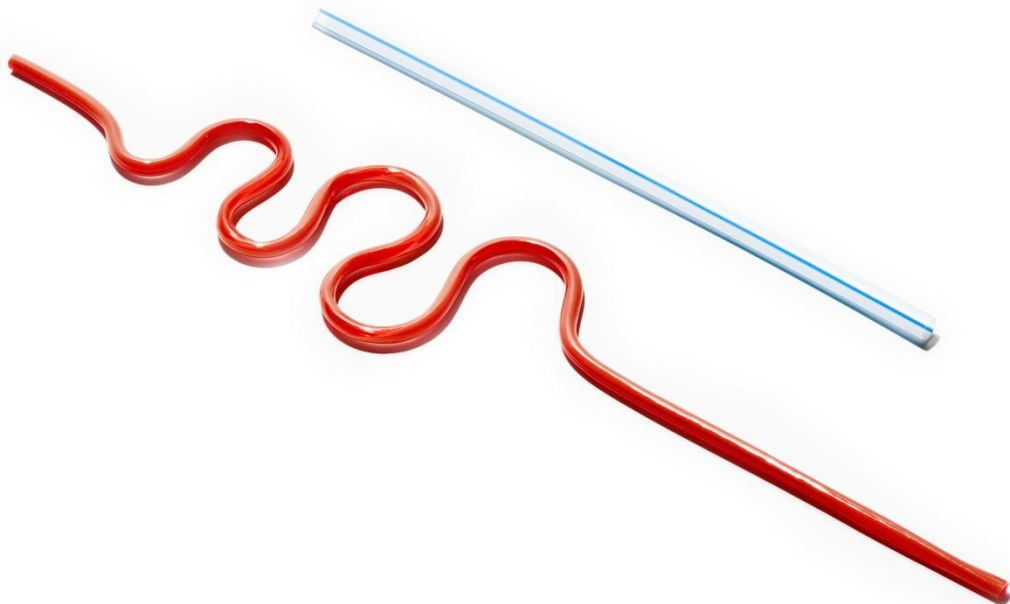
Technology assurance aims to provide management with the assurance that the IT processes, systems and applications have been implemented according to management's intention, that the use of Information Technology is supporting management's vision and direction and that the necessary controls have been implemented so that management and users can place reliance on the information generated by the applications.

Business Continuity and Disaster Recovery Programmes

There are regulatory requirements, fiduciary responsibilities and contractual issues requiring stricter control over information and supporting technology. Business Continuity Management and Planning includes:

- Is the organisation's operational environment impact-tolerant?
- Have points of failure been identified and mitigated?
- Is the organisation prepared for business and ICT system interruptions?
- Is the organisation's contingency plan documented and approved?
- Has the plan been reviewed with employees, suppliers and other relevant stakeholders?
- Is the plan current and regularly tested?
- Does the plan ensure resumption of critical business functions within timeframes acceptable to the organisation?

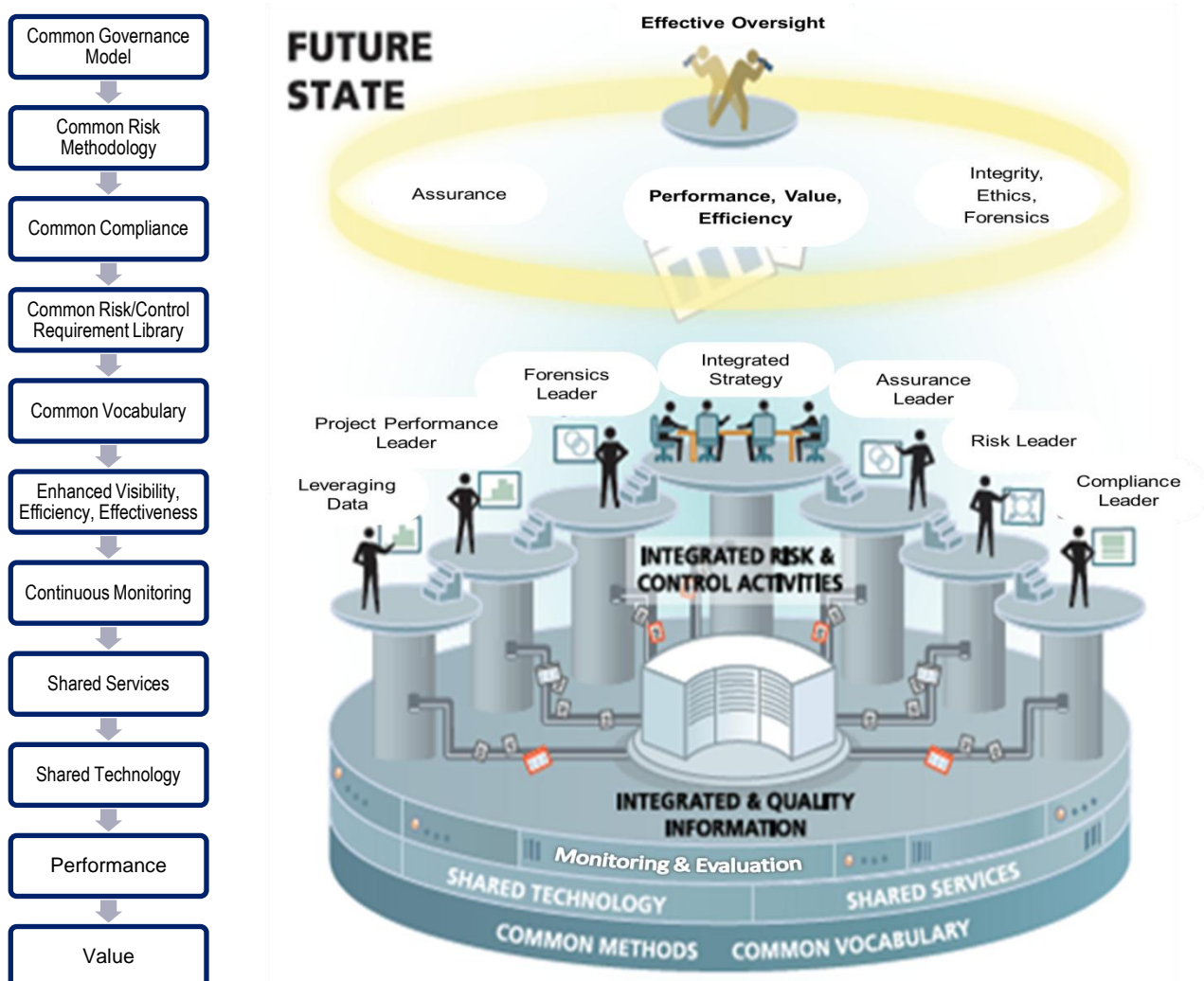
Is awareness of the BCM Programme regularly refined and maintained?



3. Integrated oversight – the Journey towards Risk Management, Assurance and Performance/Value Creation

The key pillars for an oversight function usually consist of Risk Management, Internal Audit, Compliance, and Forensics. While these functions sometimes exist in organisations, they are often not integrated which compromises effectiveness. Emerging oversight functions that exist in some organisations include Performance Audit units and Monitoring and Evaluation functions. Organisations requires forward looking assurance, business insights and advice that will practically anchor continuous monitoring and combined assurance, whilst supporting strategic objectives and long term sustainability.

The Deloitte Integrated Oversight model is depicted in the graphic below and provides a list of advantages of such a function.



By adopting an integrated oversight approach, the credibility and relevance of outputs increase, which serves as a greater opportunity to be seen as an essential participant in major projects from the outset.

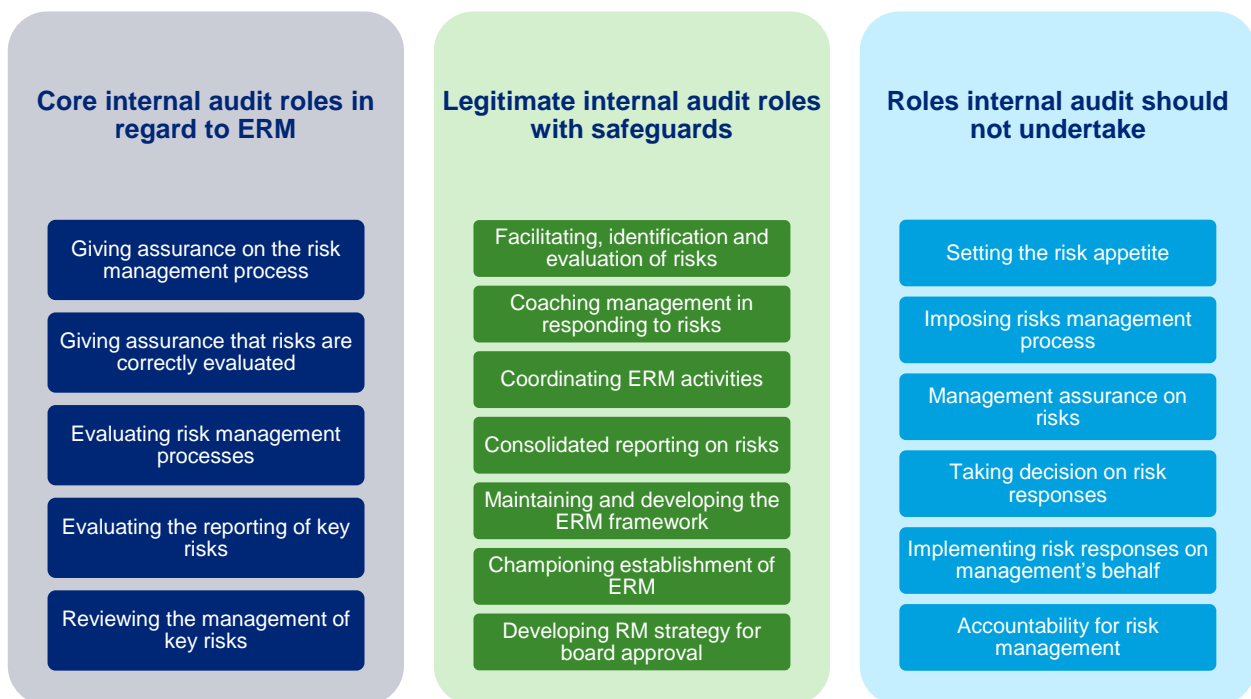
3.1. Integrated Oversight: Securing Value Protection and Value Creation?

- Achieving complex scope
- Intensive and extensive depth and breadth of coverage
- Audits will take a more global approach that looks at several aspects including, but not limited to, financial, operational, IT, regulatory, compliance, environmental, performance and fraud
- Using multiple audit techniques and disciplines to accomplish the desired outcome, e.g. continuous auditing, sampling, surveys, and data analysis
- Increased use of external resources or increased knowledge of staff and additional skill sets
- Enhanced project management skills to ensure coordination and effective completion of the audit
- Increased oversight and creativity to think outside the box by the auditor, and communication among all parties involved in the engagement
- A balanced approach to risk identification and rating, especially with unfamiliar areas that have not been traditionally reviewed

A focused leadership effort continuously focused on bringing together oversight disciplines balanced to protect and enhance value.

3.2. The changing role of Internal Audit in Enterprise Risk Management

There is much debate about the opportunity that ERM presents to raise the profile and effectiveness of internal audit, and the extent that internal audit could be involved without compromising its independence. The diagram below provides guidance in terms of what internal audit should and should not do, and it also includes a middle ground.

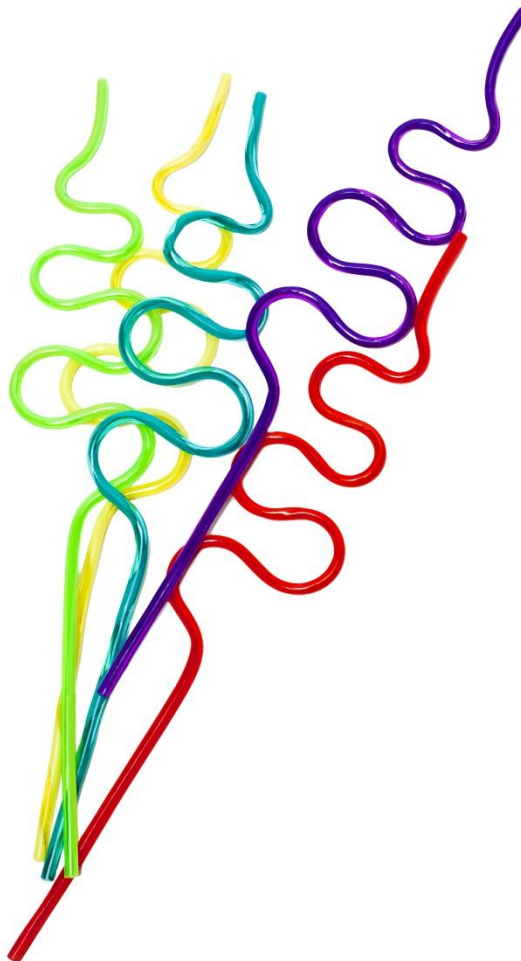


Boards, audit committees and management are starting to have a growing awareness of what ERM can be and how it can deliver value. Many organisations planning to implement ERM are still looking to internal auditors for help, because they are seen as the people who understand risk assessment and control. But these organisations increasingly want management to own ERM as soon as possible, for the following key reasons:

- They want internal audit to providing independent assurance of the ERM function
- They question the perceived lack of objectivity where a common leader is accountable for both Risk Management and Internal Audit

Legitimate areas do exist where internal audit and risk management functions can overlap, but care needs to be taken to manage these situations. The key factors to take into account when determining internal audits role are:

- Whether the activity raises any threats to internal audits independence and objectivity; and
- Whether it is likely to improve the organisation's risk management, control, and governance processes.





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