

ACIIA CAE Leadership Forum

From Conformance to Performance:
Collaboration + Innovation

The IA Transformation Imperative

Speaker: Angela Simatupang

Manila, 17 May 2019

In today's world, disruptions are bigger, coming faster, and require responses that are quicker and more fluid.

In this environment, internal audit is vulnerable — vulnerable to complacency, vulnerable to insignificance, vulnerable to being re-placed.

Transformation of internal audit is the only acceptable solution.

Disruption on the Horizon

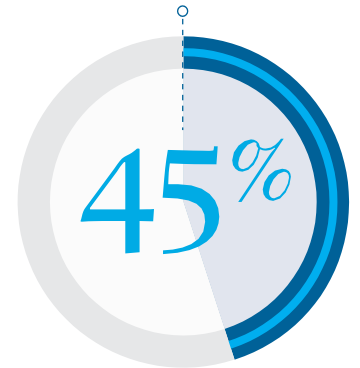
- The NACD 2017-2018 Public Company Governance Survey lists significant industry change, business model disruption, and technology disruption as some of the most likely trends over the next year.
- McKinsey reports that roughly one in three directors indicate their business models will be disrupted in the next five years.
- The rapid speed of disruptive innovations and new technologies is the top-rated risk for 2018, according to a report from North Carolina State University ERM Initiative and Protiviti.

Agility

Agility:

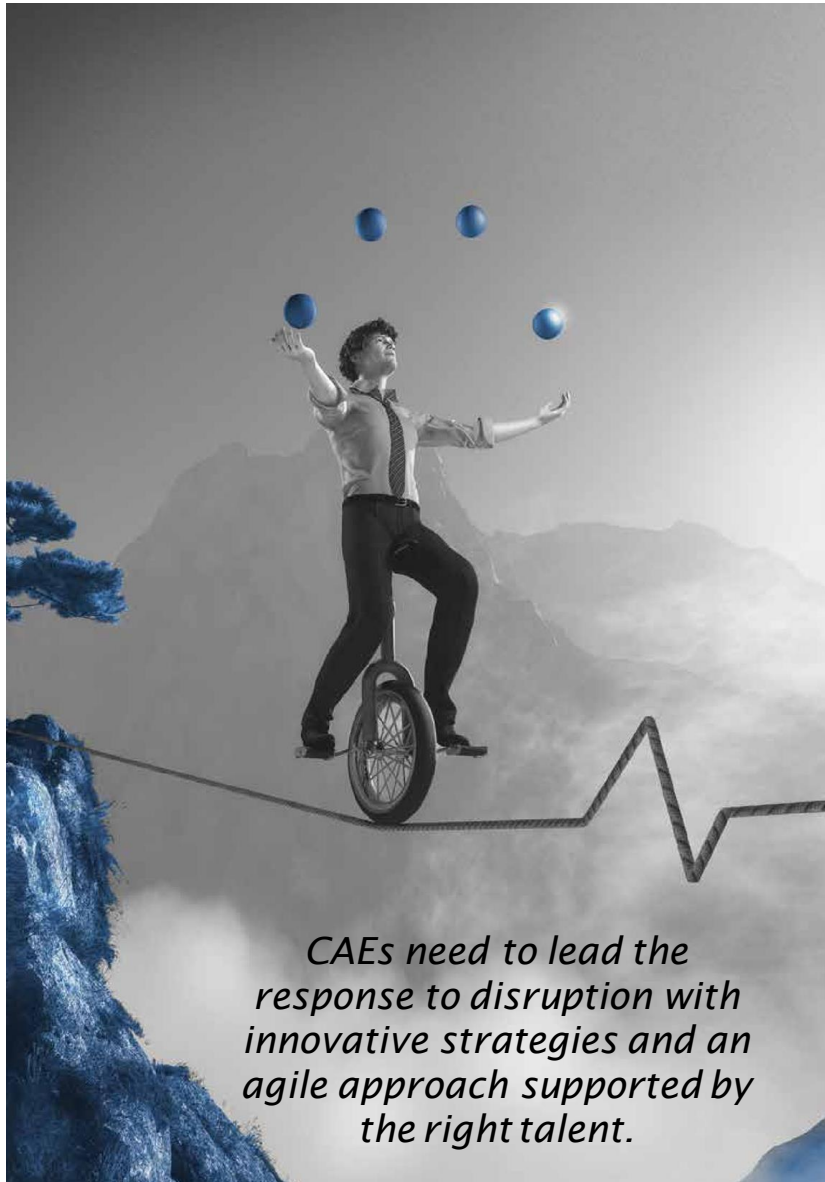
Embrace to Confront Disruption

- Internal audit must quickly change direction when risks change. It is impossible to predict the future with certainty, but changes in risk should be expected.
- Internal auditors focus on risk and the management of risk by their organizations. As such, internal audit needs to not only assess the nature and severity of potential future risks, it also must be prepared to handle the unexpected. Planning ahead is not sufficient. Internal audit must be agile enough to handle whatever disruptions come its way.
- Agile focuses on continuous improvement, scope flexibility, team input, and delivering essential products, whether applied to software development or audits. This involves close collaboration across audits and function members, auditee collaboration (whilst maintaining independence), and responding to changing requirements during audits and the delivery of audit plans.



of **CAEs** consider their internal audit functions to be **very** or **extremely agile**.

The Path Forward: Agility



Start with a change in mindset

Prepare to quickly refocus on disruptive risks and opportunities

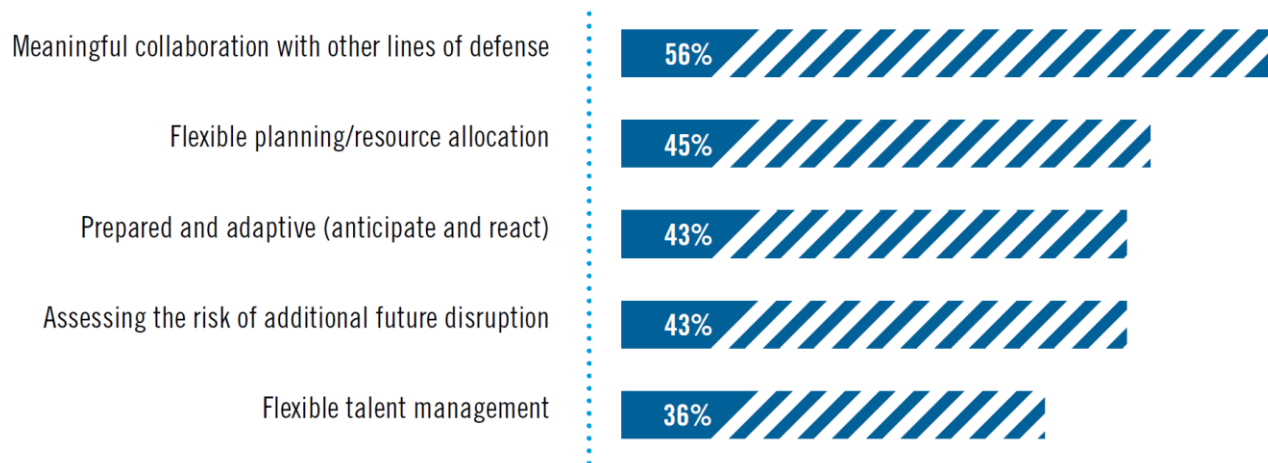
Prioritize work according to what matters most

Coordinate with other resources in the organization

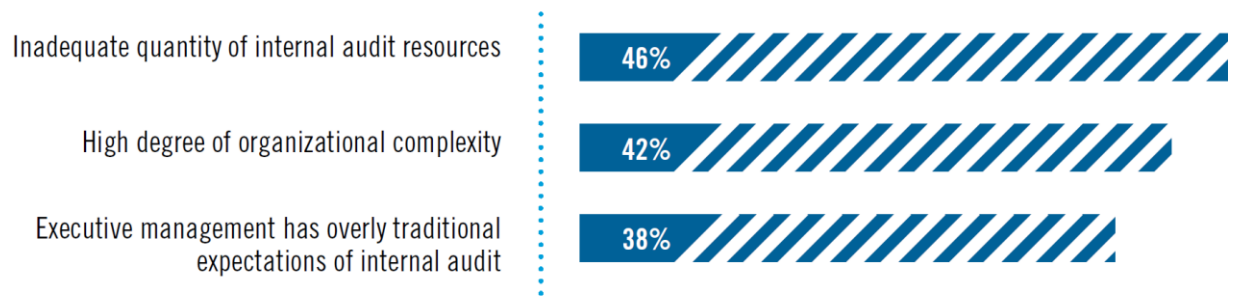
Break the mold and create teams with the right blend of skills

Roadblocks on the path toward agility

Disruption Responses Implemented by Internal Audit



Factors Perceived by CAEs as Roadblocks to Internal Audit Agility



Innovation

Innovation: Pursue Quantum Leaps



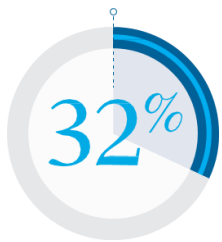
Disruption presents two options for internal audit: Reenvision the function's capabilities to fill an increasingly important role in an organization or presume past practices will carry it into the future. Relying on past practices is a near guarantee of future failure. What internal audit needs now are quantum leaps in innovation. This type of innovation is a relentless, fundamental challenging of what is done, how it is done, and how well objectives are being accomplished.

The mindset needed is not one of merely improving the status quo, but of redefining "acceptable" and transforming internal audit.

Innovation:

Pursue Quantum Leaps

Many CAEs are pursuing continuous improvement related to existing processes, including gathering audit evidence, communicating results, and collaborating with others within their organizations — but that is not enough. CAEs also must challenge themselves and their teams to design and implement new ideas, making innovation a core foundation to their practice of internal auditing. Not only does innovation lead to better and more efficient auditing, but innovation directly supports agility when it enables a faster, smarter, and more focused response to disruption.



.....
of **CAEs strongly agree** their
internal audit functions challenge
their own status quos.
.....

Those who challenge the status quo also evaluate themselves as the most agile. Critically challenging oneself and not letting a “this is how we do things around here” attitude get in the way will lead to greater innovation and agility.

The International Standards for the Professional Practice of Internal Auditing require internal auditors to have a quality assessment and improvement program in place.

The Path Forward: Innovation

Recognize the need for self-assessment and challenge how objectives are being accomplished.

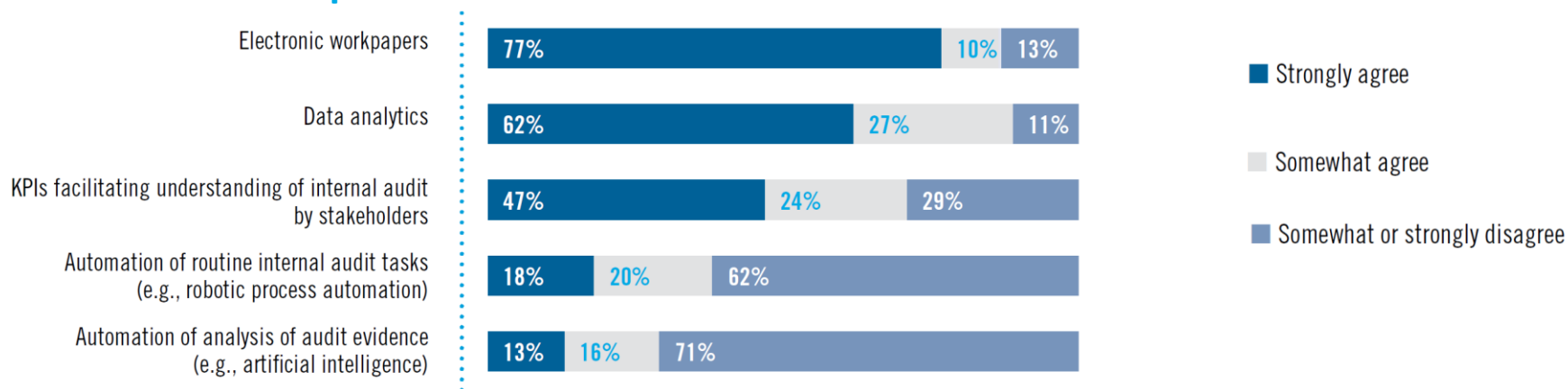
Embrace technological advances.

Do not blame the failure to innovate on the lack of resources.

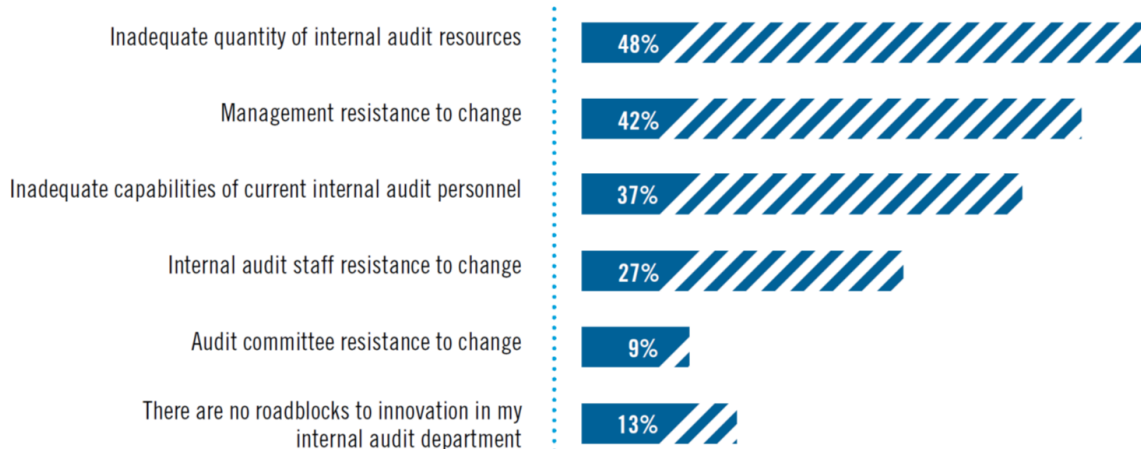
Develop and communicate the case for internal audit to actively pursue innovation.

Innovation Activities in the Internal Audit Function

Internal Audit Implementation of Innovation



Roadblocks to Internal Audit Innovation





Talent



Talent:

Focus on Tomorrow's Risks

CAEs can have all the right intentions and work diligently to increase internal audit's agility and innovation, but without the right talent these efforts cannot succeed. A CAE needs to have sufficient people with the right competencies on hand to swiftly and decisively respond to new or emerging risks.

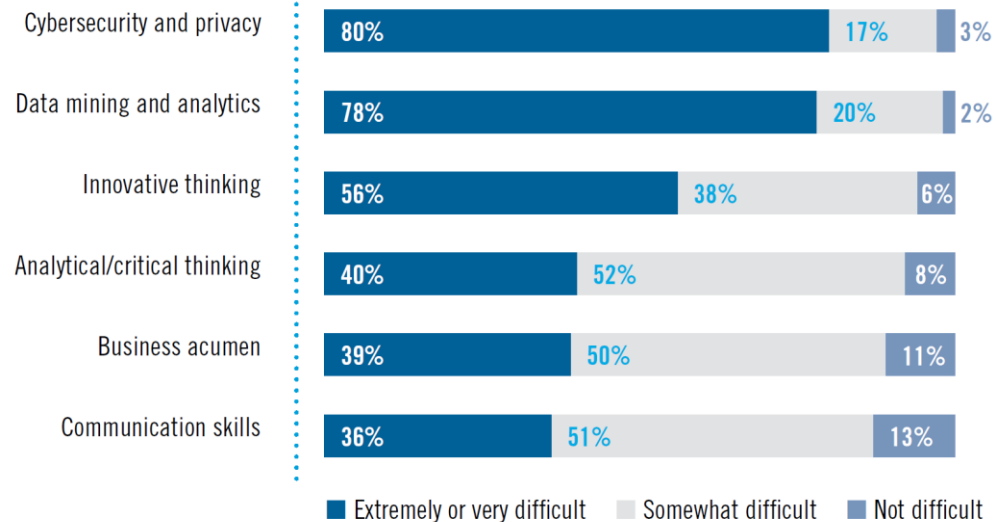
Finding and attracting enough candidates with the right skills continues to be a challenge.

More than 90% of CAEs report difficulty in recruiting experienced personnel, and 60% express difficulty recruiting entry-level staff. Getting any talent, but especially experienced talent, is difficult.



Regarding adequate competent, objective professionals to carry out the audit plan, 72% of CAEs say they have gaps to fill.

Internal Audit Competency Recruiting Difficulty



The Path Forward: Talent

Make sure the risks that drive internal audit's scope drive staff competencies and not the reverse.

Develop a talent strategy to ensure the right pipeline of qualified personnel.

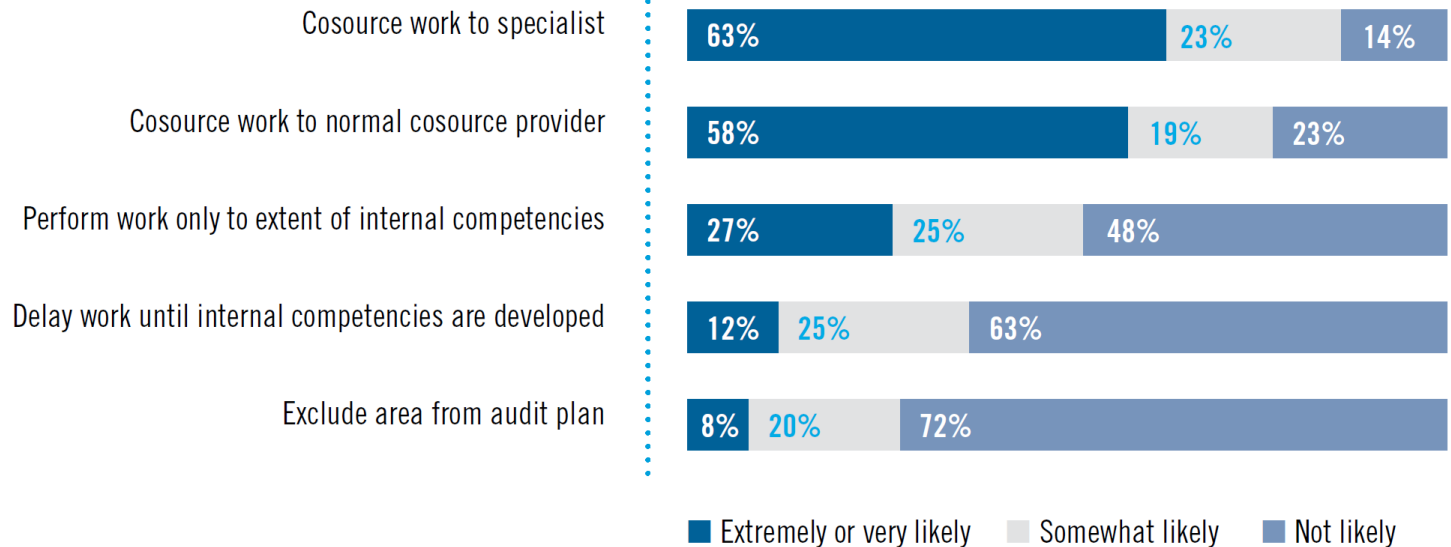
Engage stakeholders and obtain their support for internal audit's talent management strategy.

Start looking for candidates with different backgrounds.

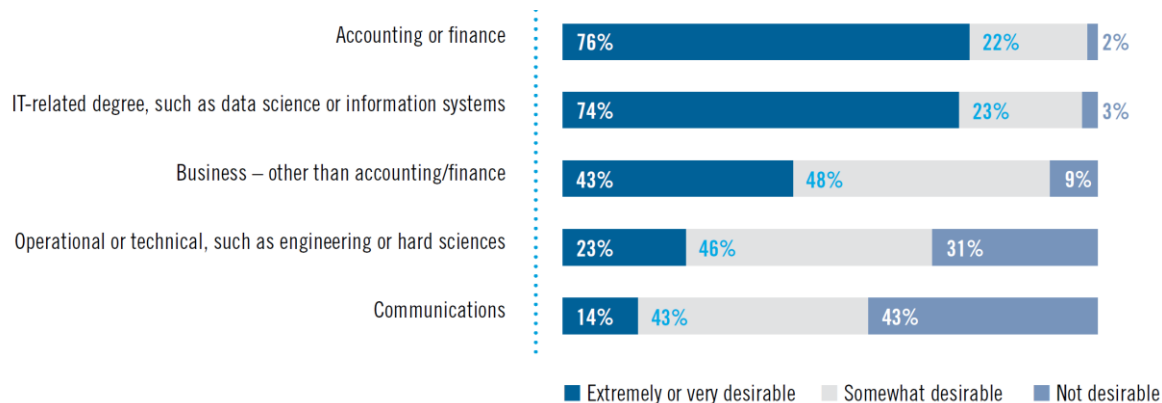
Reconsider which skills are most essential for success.

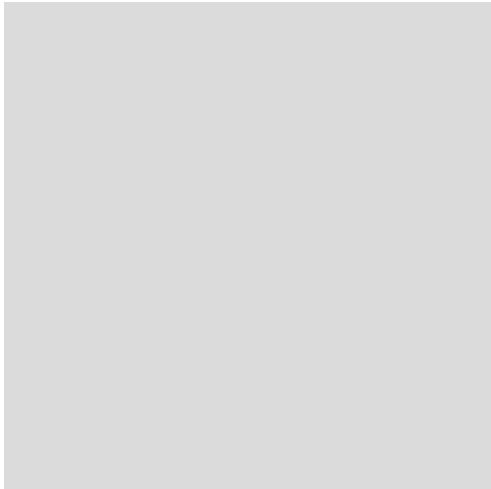
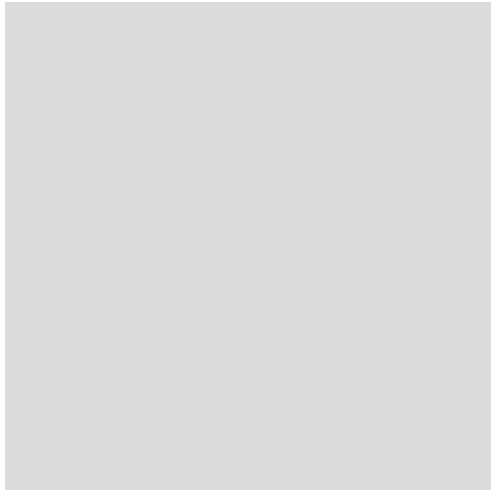
Include future-focused training and development programs geared toward specific levels of staff.

Responses to Gaps in Competencies



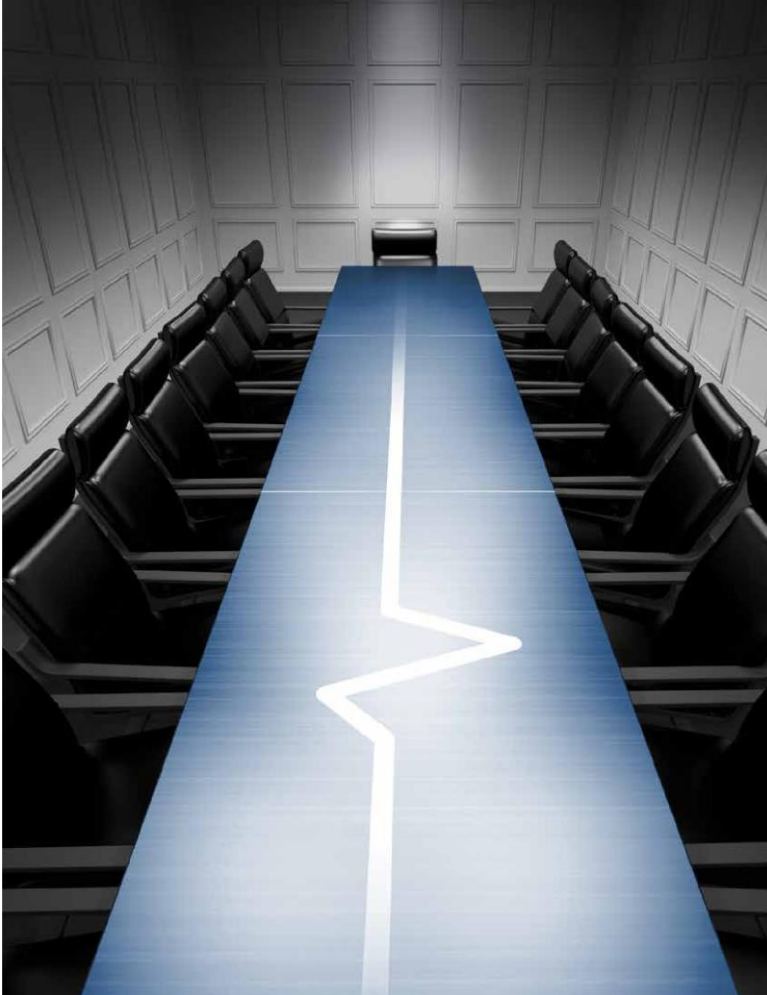
Most Recruited Academic Degrees





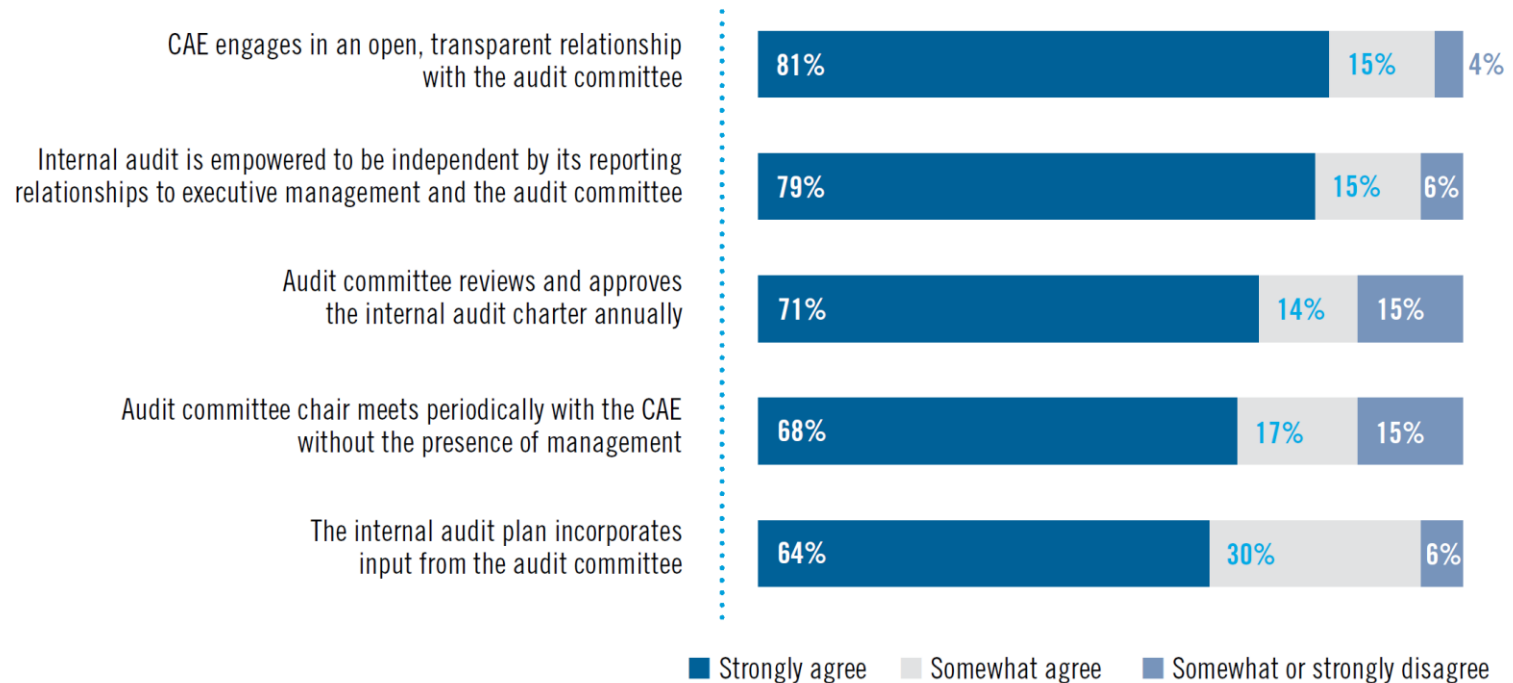
Board:

Move From Oversight to Engagement



- Internal audit is dedicated to the organization's success. Organizations have multiple stakeholders, and internal audit engages with many of them in pursuing its role. With advances in technology and recent governance failures, stakeholder expectations of internal audit are changing quickly and have never been higher.
- CAEs must constantly align with organization needs and stakeholder expectations.
- If internal audit ever becomes complacent and solely focuses on delivery, it will quickly find itself drifting into irrelevance.

Strongest Areas of Support by the Audit Committee



Oversight of internal audit includes consideration of internal audit's focus, plans, conclusions, resources, and interactions with management. Internal audit's point of view might not always align with management. The best practice is for CAEs to have their own relationship with audit committee members, separate from management.

The Path Forward: Board Engagement

Increase the audit committee's involvement with internal audit's resources and performance

Improve the audit committee's understanding of the risks the organization faces

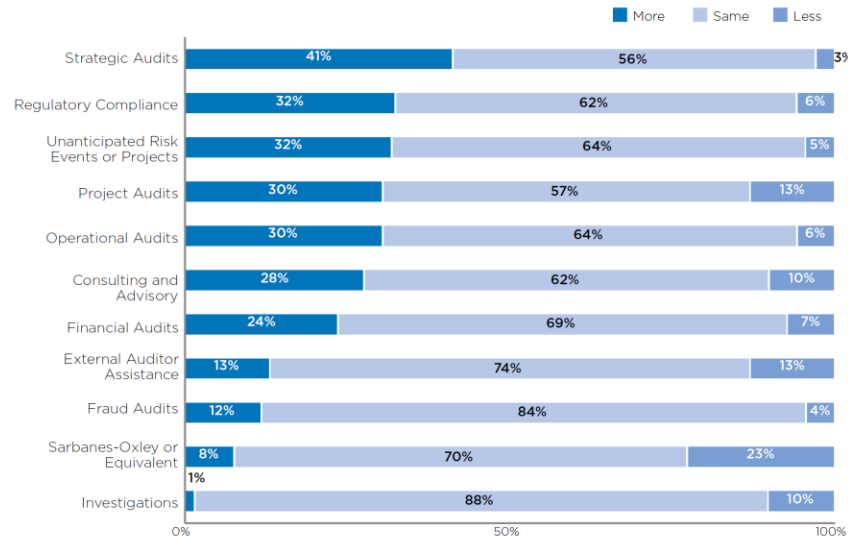
Discuss with the audit committee those situations where the CAE disagrees with management

Roadblocks:

Different perception on expectation

CAE PERCEPTION OF THE AUDIT COMMITTEE'S PREFERENCE FOR INTERNAL AUDIT'S TIME SPEND

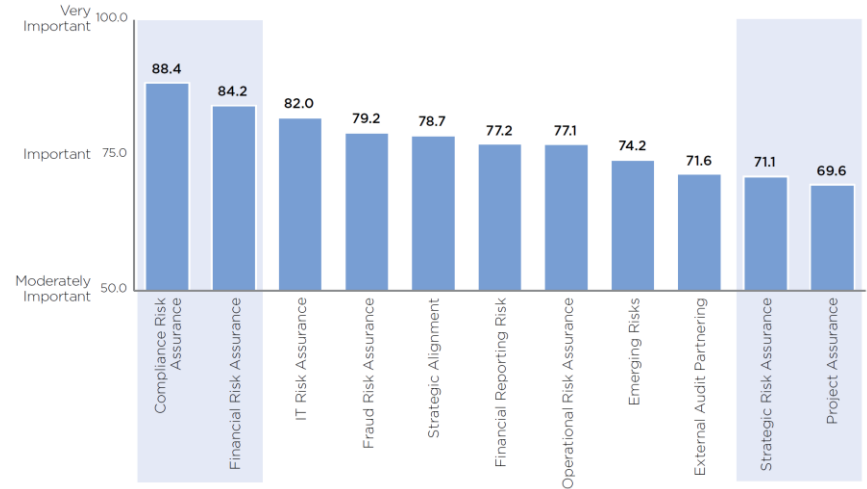
Preferred Future Time Spend Requested by the Audit Committee for 2016
Percentage of Respondents



n = 68-69.
Source: CEB 2016 Audit Committee Communications Survey.

AUDIT COMMITTEE'S PRIORITIZATION OF INTERNAL AUDIT'S TIME SPEND

Audit Committee's Importance Rating for Internal Audit Activities^a
Average Importance Score on a Scale of 1-100



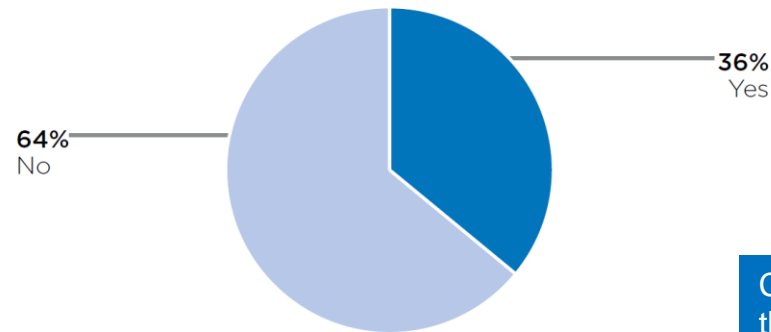
n = 14.
Source: CEB 2016 Audit Committee Communications Survey.

41% of CAE report that their Audit Committees would like Internal Audit to spend more time on strategic risks.

Counter to CAE survey results, Audit Committees continue to prioritize IA's involvement in more traditional assurance activities, i.e. compliance & financial risk.

Providing an overall opinion on the state of risk and control

Only 36% of audit departments provide the Audit Committee with an annual opinion on the overall state of risk management and control.



n = 74.

Source: CEB 2016 Audit Committee Communications Survey.

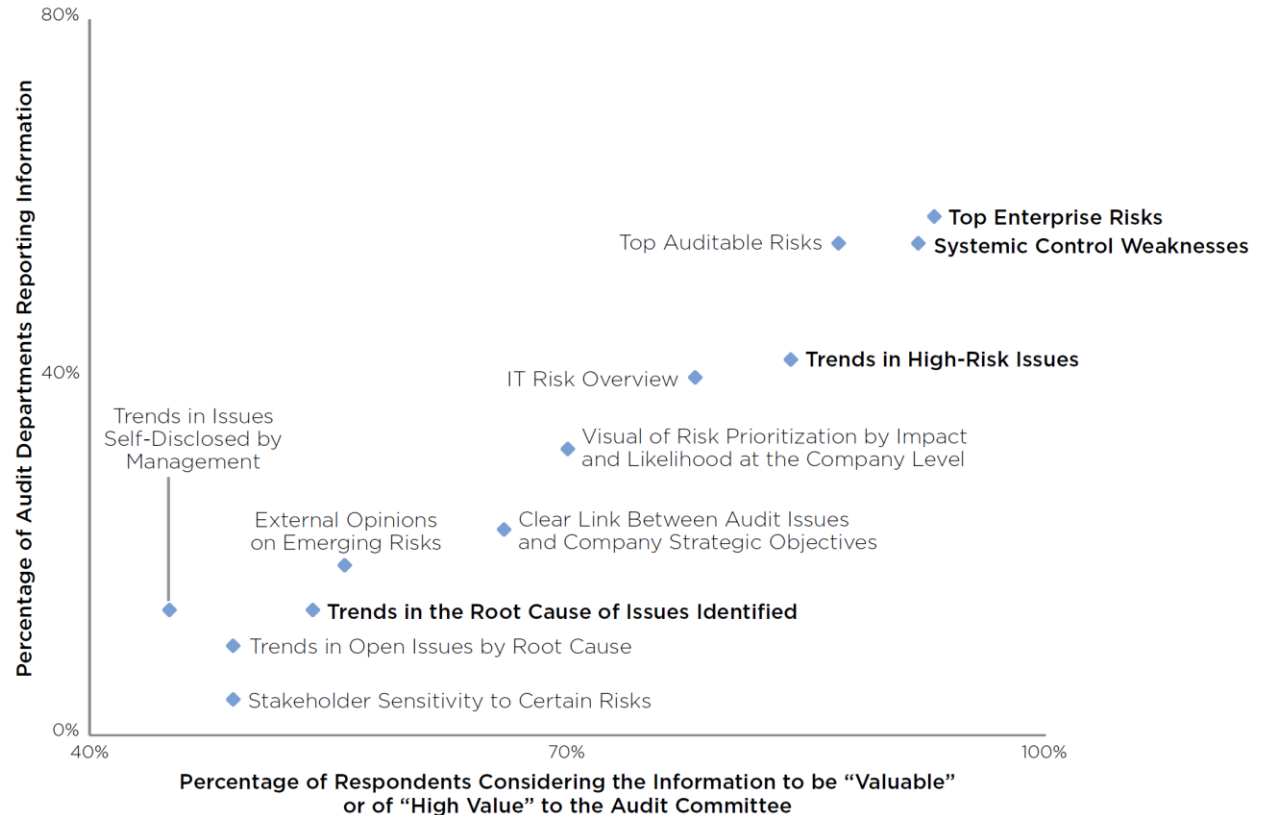
Common Scales Used to Report the Annual Opinion

- Effective Versus Ineffective
- Efficient Versus Inefficient
- Satisfactory, Needs Improvement, and Unsatisfactory
- Same Scale Used for Audit Ratings
- Overall Control Environment Analysis, Noted as Positive or Negative

Valuable, yet not always reported

Over 40% of audit departments do not report top enterprise risks or systemic control weaknesses, yet over 90% find the information to be valuable.

Most CAEs also believe trends in high-risk issues and the root cause of issues identified would be valuable insight to the Audit Committee, yet a minority of CAEs report this information.



n = 73.

Source: CEB 2016 Audit Committee Communications Survey.

Provide the committee with key insights up front

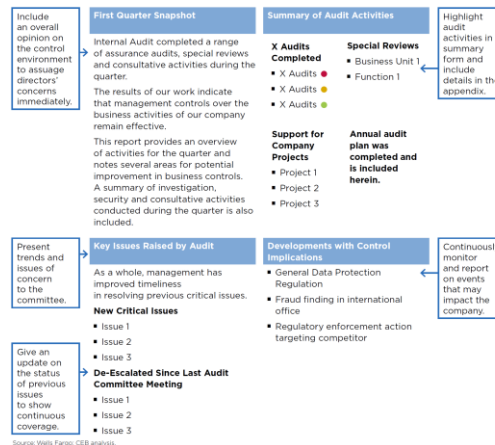
Focus your conversation with the committee on the current status and relative strength of Audit's main operational areas

Presentation elements

- Audit alignment with ERM & Corporate Strategy
- Audit department resource allocation
- Audit performance
- Internal control testing & results
- Dynamic visualization

Appendix can include: overview of the audit planning process, overview of the risk assessment process, audit plan methodology in detail, integrated assurance, risk universe.

EXECUTIVE SUMMARY: VERSION 1



Current Status	Audit Operations	Summary	Prior Quarter Status
	Assessment of Risk and Control Environment		
	Quality of Governance Framework		
	Audit Plan Progress and Summary of Audit Results		
	Control Deficiency Resolution		
	Investigations		
	Managing the Group Audit Function		

= Critical items requiring Audit Committee attention
 = Important issues that warrant discussion
 = Operating as expected

Presenting to the Board: Do's and Don'ts

Few common mistakes

- Underestimating the power of the executive summary
- Failing to provide important context for data, such as the reason behind an increase or decrease
- Including issues without stating when or how they will be resolved or why they are important
- Obscuring challenge areas and missing out on valuable input from the committee that could inform solutions
- Shying away from asserting your professional judgment
- Avoiding definitive statements

Audit Committee views on effective reporting

- **Keep it simple and concise.** Don't include unnecessary detail, but focus on the metrics that matter. Put granular and additional information in the appendix and refer to it if it is relevant to the discussion.
- **Focus on trends rather than point-in-time assessments.** The Audit Committee wants to understand how the organization's risk profile and Audit's work are evolving over time.
- **Focus on the content,** not the delivery platform (e.g., PowerPoint, Word, Tableau). Directors do not care how a report delivers content as long as it does so concisely.
- **Provide the full context.** If possible, include data from other assurance functions to provide the board with full understanding of the organization's risk and assurance profiles.
- **Use visuals when appropriate.** When data can be better expressed in a visual form, use that to lead the discussion where you want it to go.



Embrace agility, adopting a new mindset and putting in place actions that may be uncomfortable.



Challenge themselves as to why internal audit is not known for innovation.



Acquire or develop talent for tomorrow's risks.



Help boards mature beyond oversight to engagement.

Internal audit is vulnerable as organizations press through multiple sources of disruption. CAEs have a decision to make. They can confront head-on the forces of disruption and propel internal audit forward, or sit back and degenerate into irrelevance. While the future is never fully predictable, one thing is clear — what has worked in the past will not work in the future.

Your speaker



- Senior Partner and Head of Consulting practice at RSM in Indonesia.
- Member of the Global Board of Directors of RSM International.
- Appointed as member of The Institute of Internal Auditors' ("The IIA") International Internal Audit Standards Board.
- Member of the RSM Asia Pacific Risk Consulting Committee.
- Vice President at Institute of Internal Auditors Indonesia
- Member of Audit Committee, Risk Monitoring Committee, and Integrated Corporate Governance Committee at one of the 10 largest bank in Indonesia.
- Appointed to represent Indonesia by Indonesia Financial Services Authority (OJK) as Corporate Governance Expert that represent Indonesia in the ASEAN CGS.
- Bachelor of Economy from Trisakti University, and holds a Master of Commerce in International Business and Management of Technology from The University of Sydney, Australia.
- Hold several professional certifications which among others include Certified Internal Auditor (CIA) and Certification in Risk Management Assurance (CRMA) issued by The Institute of Internal Auditors , Certified in Risk & Information Systems Control (CRISC) issued by ISACA (Information Systems Audit and Control Association), Certified GRC Professional (GRCP) and Certified GRC Auditor (CGRA) issued by OCEG.
- Member team that develop the Indonesia Code of Good Corporate Governance, the Indonesia Code of Good Public Governance, and the Indonesia Whistleblowing System Guidance. Was an Internal Audit lecturer at Master Program in the University of Indonesia and source person on governance section for the Indonesia CPA Exams.

Angela Simatupang (angela.simatupang@rsm.id)



Thank you!
Maraming Salamat po!