



The importance of the internal audit function for the CIPS industry

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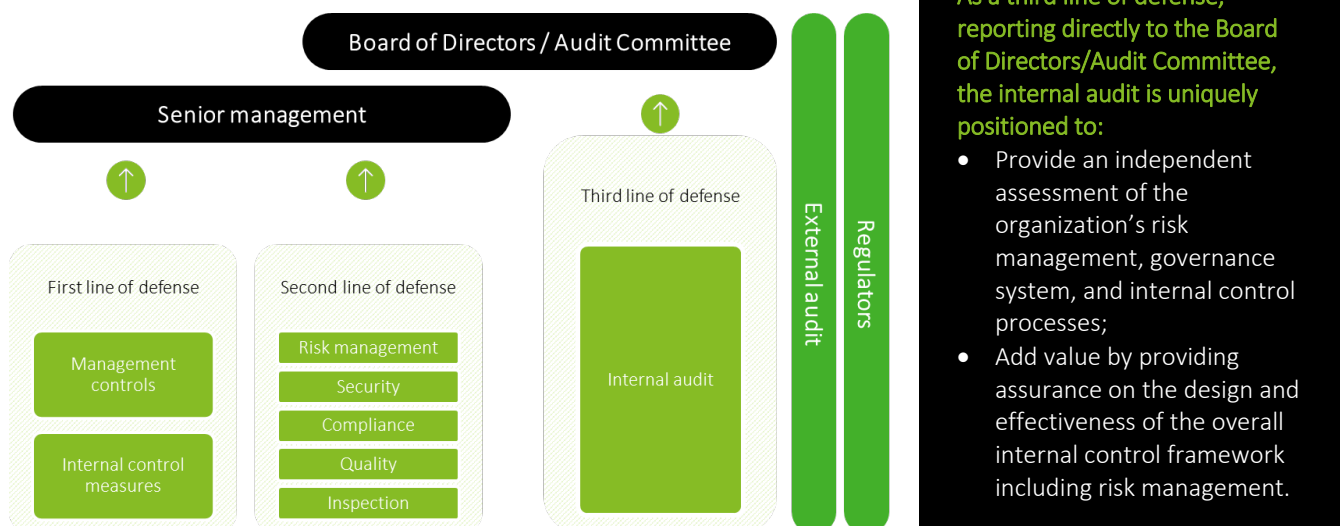
Introduction

Effective internal audit functions help organizations accomplish their business objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. The internal audit function is seen as a business partner adding value to the business and the organization beyond compliance.

The internal audit function has become a pillar of internal control and prudential supervision specifically for the following:

1. Regulated entities such as banks, professionals from the financial sector (PFS), and alternative investment fund managers (AIFM), on which the Commission de Surveillance du Secteur Financier (CSSF) pays particular attention to;
2. Listed companies who are required to follow and implement principles of corporate governance issued by the Luxembourg Stock Exchange. Refer to Appendix 1 for more details.

Establishing a well-proportioned and efficient internal audit function is vital in order to support all of the organization's stakeholders in fulfilling their increasing responsibilities in terms of effective corporate governance and internal control environment. Furthermore, management is increasingly looking to internal audit for advice over control frameworks as an integral part of driving value for their business.



The function's evolution

Originally developed as a means of assisting organizations with safeguarding corporate assets and enforcing corporate policies to preserve value, internal audit is expanding its traditional role with a new focus on value creation activities. Leading organizations are taking a risk-based approach to their role as independent advisors; essentially internal audit can expand its view beyond finance and other aspects of the COSO framework.

Organizations can no longer afford to operate in a static mode and the role of internal audit can no longer act as a distinct and reactive function. The function must be dynamic and capable of anticipating and adapting to changes. However, this must be done within a strict regulatory framework to promote and enable a trusted, safe, sound and resilient organization that meets the expectations of its customers, shareholders, and regulators.

Accelerating change has characterized the business landscape for many years

and this is expected to continue. New competitors, technologies, and financial instruments; changing cost structures and regulations; increasingly integrated global economies; and other developments are creating new risks and opportunities for organizations to consider. As these developments evolve, this will in turn open new doors for internal audit to regain its historic influence as an independent adviser to senior management.

Drawing from several research, analysis, and the experience gleaned from successful internal audit functions, we have identified the key attributes that a leading internal audit function should possess in today's business environment:

Embracing data analytics	<ul style="list-style-type: none"> • In-depth opinions and insights • Aid risk assessment through identification of instant anomalies, red flags and trends • Ability to test complete data sets leading to enhanced assurance quality
Staying ahead of digital threats	<ul style="list-style-type: none"> • Identification of internal vulnerabilities and adoption of proactive measures against attacks • Minimise potential impact and reduce response time
Assurance by design	<ul style="list-style-type: none"> • Reducing assurance fatigue by leveraging automation to satisfy 2nd and 3rd line of defense efforts • Greater visibility to compliance
Dynamic risk assessment	<ul style="list-style-type: none"> • Leveraging data and technology to continuously monitor risks and trends • Enhanced management of INTERNAL AUDIT resources
Agile INTERNAL AUDIT	<ul style="list-style-type: none"> • Shift in mindset to execute audits better, faster and with satisfied teams and stakeholders
Sustainability assurance	<ul style="list-style-type: none"> • Focussing audits on range of business issues linked to governance and social responsibility can provide assurance around brand and reputation
Crisis management	<ul style="list-style-type: none"> • Opportunity to provide assurance prior to crisis, advising during crisis and preparing board reporting post crisis
Extended ERM	<ul style="list-style-type: none"> • Management of third parties continues to be a heightened area of risk for organizations

Key risks and focus areas for 2021

The impact and influence of internal audit functions continues to expand and evolve. With the backdrop of the wider economic and social challenges presented by an unprecedented global pandemic, the expectations of internal audit functions continue to grow. In particular, for internal audit to adapt to a changing risk landscape, agility in audit approach is essential. At times, the audit plan needs to be flexed; the methodology and audit approach must be adapted to remote working environment. Internal audit functions should consider the impact of an organization's business and operational resilience arrangements as well as its ability to operate remotely in the context of an organization's risk profile. The key questions posed to senior management continue to be: "Is the organization aware of the current emerging risks it faces?"

To support internal audit functions, we have identified and compiled key thematic areas, hot topics, and related risks that should be considered in developing an internal audit plan.

1. **Staff well-being and talent management:** The forced introduction of wide-scale remote working as a result of the pandemic has driven changes in the ways of working, with a growing trend towards flexible working arrangements and greater autonomy for staff. All businesses should have some degree of skill in mapping and forecasting capabilities to understand and anticipate the organization's human capital requirements.
2. **Business resilience:** Crisis management and planning needs to be updated for the potential for further waves of COVID-19, not to mention other possible pandemics that follow a similarly rapid contagion path.
3. **Risk management:** As companies need to adapt quickly to a new environment, they face new kind of risks that need to be identified and addressed.
4. **Fraud and the exploitation of operational disruption:** The risk profile will change and fraud risk, in particular, will change significantly after the COVID-19 pandemic. The control framework and monitoring of potential criminal activity may have become weakened due to reduced headcount and remote working, leaving gaps in fraud detection and thus creating opportunities for malicious customers and staff. The pandemic has also presented short-term liquidity challenges, leading to cost reduction initiatives which may impact the control environment and monitoring activities.
5. **Third party risk management:** This remains important as organizations choose to outsource their business functions to third party vendors, emphasizing an existing need for contract management. As the pandemic is disrupting the supply chain and business service set up of many companies, relationships with third parties are changing.
6. **Cyber security and data privacy:** The wide-scale shift to homeworking arrangements rapidly increased the vulnerability of organizations to cyber attacks as work laptops are now forced to share home WiFi networks. Advances in technology also increase the sophistication and frequency of cyber security attacks and frauds.
7. **Digitalization and intelligent automation:** Artificial intelligence, algorithms, cognitive computing, and Robotic Process Automation (RPA) are among the top technologies that will continue to have a significant impact on the way we conduct business in the future. As digitalization continues to disrupt operations, business processes, and business models, the digital age ultimately brings new risks and challenges.
8. **Regulatory changes:** Organizations, regardless of industry, are being inundated with new regulatory requirements. These new regulations place growing pressure on executive management, and add complexity to the organizational governance and control structure.
9. **Data management and analytics:** Increased digitization of data and technological advances, provide businesses with the opportunity to leverage the value in data to support decision-making. The adoption of data analytic tools is becoming more common place. It is therefore essential that organizations not only identify the opportunities these tools present, but also the risks associated and the capabilities their operations and decision-making processes.

How Deloitte can help

Deloitte is recognized as a leader in internal audit services in Luxembourg. Through years of experience, we have developed extensive expertise in a wide range of regulated and non-regulated industries such as transportation, public entities, healthcare, real estate, technology, research centers, and manufacturing.

Deloitte helps organizations to establish and improve their internal audit functions by supporting companies in:

- **Creation:** We help build value-adding and leading functions adaptable to our client's environment;
- **Co-sourcing:** We offer a flexible solution to supplement your internal audit team with external resources of specialized skills;
- **Outsourcing:** We can fully adopt the role and serve as the organization's internal audit department;
- **Strategic audit plan development:** We analyze risk-driven plans to reach specific management or Board objectives using a prioritized risk universe;
- **Function review and enhancement:** We can measure the internal audit quality, benchmark, and transformation;
- **Training, methodology, and tools:** As our team stays abreast of the latest trends and guidelines, we are able to offer tuition for both staff and management.

Our approach and methodology

We tailor internal audits to the specific needs of our client. The strengths and benefits of our practices, including those geared specially to your needs, include:

- A collaborative and transparent relationship and working style;
- Recognized expertise and leadership;
- Internal audit experts with strong experience in auditing financial institutions;
- An in-depth knowledge of the Luxembourg CIPS industry;
- A wide and thorough internal audit experience in the Luxembourg CIPS industry;
- An access to professionals with specialized CIPS industry expertise seamlessly incorporated in our internal audit engagement teams to deliver value-added internal audit services to our clients;

Comprehensive internal audit work program directs the delivery of our related services. The program is a dynamic instrument that we constantly update to improve the internal audit services we provide. After carefully reviewing with you your understanding of critical business, service, financial, and operational risks, we draw on various specialists within our firm to provide you with the most effective services.

Contact us



Jérôme Sosnowski
Partner
Risk Advisory
Deloitte Luxembourg
jsosnowski@deloitte.lu
+352 45145 4353



Laurent Berliner
Partner
EMEA FSI Risk Advisory Leader
Deloitte Luxembourg
lberliner@deloitte.lu
+352 45145 2328



Bert Glorieux
Director
Risk Advisory
Deloitte Luxembourg
bglorieux@deloitte.lu
+352 45145 2267



Mathieu Brizard
Director
Risk Advisory
Deloitte Luxembourg
mbrizard@deloitte.lu
+352 45145 3821



Odile Copin
Senior Manager
Risk Advisory
Deloitte Luxembourg
ocopin@deloitte.lu
+352 45145 2140

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