



Financial Services Internal Audit Planning Priorities 2020 – Internal Audit Strategies

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Key Industry Icons



Banking and Capital
Markets



Insurance



Investment and Private
Equity

7.1 Internal Audit 3.0

Why is it important?



The business environment has changed in material ways and this demands innovation. Without applying new approaches, an Internal Audit function will not be well placed to cope with strategic and technological developments, unable to meet evolving stakeholder needs and ill-equipped to deal with emerging risks.

IA3.0 embraces innovative approaches that helps keep the function ahead of developments. Innovation positions Internal Audit to anticipate and then respond effectively to stakeholder needs, and equips the internal auditors to address emerging risks in a helpful and impactful manner.

The Triangle of Value

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Through numerous external quality assessments (EQAs) conducted for Internal Audit functions across financial services, along with interviews and research surveys, Deloitte has identified three key areas of stakeholder value – Assure, Advise, Anticipate. These are the cornerstones of IA3.0.



Area of focus	Description
Assure	<ul style="list-style-type: none"> Remains the core role of Internal Audit. Assurance over core processes is essential, but so is assurance around decision governance, the appropriateness of behaviours within the organisation, the effectiveness of the three lines of defence and oversight of digital technologies. Assurance is central to Internal Audit's role but must not be the limit.
Advise	<ul style="list-style-type: none"> Advise on control effectiveness and change initiatives. Advise on business effectiveness and efficiency. Stakeholders have indicated that a strong advisory role is key to maximising the value of Internal Audit.
Anticipate	<ul style="list-style-type: none"> Anticipate risks and assist the business in understanding these. Anticipation transforms Internal Audit from being a predominantly backward-looking function, that reports on what went wrong, to a forward-looking function that prompts awareness of what could go wrong, and what to do about it. Internal Audit becomes more proactive and, through its assurance and advisory roles, helps management intervene before risks materialise.



7.1 Internal Audit 3.0

A blueprint for the function of the future

As part of IA3.0, Deloitte have developed a blueprint for the future of Internal Audit which outlines the role and remit that we believe functions should aspire to, the skills and capabilities they will need, and the tools and technology which will be required to future proof assurance. This IA 3.0 blueprint is outlined below:



Find out more

- <https://www2.deloitte.com/global/en/pages/audit/articles/internal-audit-3-0.html>



7.1 Internal Audit 3.0

Are there any potential challenges?



Challenge	Description
Skills and capabilities	<ul style="list-style-type: none"> The internal audit function of the future needs a vastly different set of skills and capabilities to those of yesterday. Consider recruiting from non-traditional routes; such as making hires directly from the business where individuals have specialist skills or open a direct recruitment channel to give greater control over recruitment decisions.
Cost	<ul style="list-style-type: none"> Automating core processes, using a combination of analytics and robotics in order to provide ongoing assurance, may be expensive. Where possible, Internal Audit can consider leveraging existing automation projects within the business.
Adopting Agile	<ul style="list-style-type: none"> One of the principal barriers to adopting Agile internal audit is buy-in from the business. There is no "one-size-fits-all" approach to Agile and Internal Audit should be flexible in its adoption. Go small to start with, limit work in progress, and listen to feedback.
Impact & Influence	<ul style="list-style-type: none"> A function fit for the future can communicate in a dynamic way, however, this might require both Executive and NED 'buy in'. Internal Audit should communicate clearly with its stakeholders to make sure they understand planned changes – for example use of more visual reporting – to make sure their feedback is captured.
Shift in mind-set	<ul style="list-style-type: none"> Change does not come naturally to many. Ensuring teams begin with a clear strategy is key and then use this to engage the whole internal audit function to engender 'buy in'.

What's next?



Key steps involved in bringing IA3.0 to life:

- Automate core assurance
- Adoption of advanced analytics and automation
- Apply 'Agile' principles
- Innovate to "future proof" the function
- Consider resourcing needed to secure talent and skills
- Advise and anticipate – don't just assure!



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7.2 Auditing Strategic Change

Why is it important?



A number of financial services firms are undertaking large scale transformational change, in particular digital transformation. Transaction activity in the market is also prevalent, including through disruption to the traditional financial services firms by fintech acquisitions. Internal Audit can help an organisation to achieve its objectives during organisational change by providing independent and objective assurance that risks are identified, assessed and managed. Internal Audit activity evaluates risk exposures relating to the organisation's governance, operations and information systems.

What's new?



- A significant number of large scale transformation programmes are prevalent across the financial services sector.
- Senior management are increasingly looking for Internal Audit to have a "seat at the table" during transformational change and provide early visibility of risks to enable a proactive response before issues materialise.
- The introduction of agile auditing techniques across many Internal Audit functions creates a culture which enables a faster feedback loop to the business.
- Adoption of agile by the business in many transformation programmes also necessitates Internal Audit keeping pace with change, and means traditional audit techniques are often incompatible.

What should Internal Audit be doing?



Area of focus	Description
Real time assurance	Upfront involvement and ongoing challenge of the programme to support audit planning and track progress. Attend key programme and workstream meetings.
Audit focus areas	Review and challenge of: strategic plans, effectiveness and efficiency of the programme set-up, management information, RAID logs, achievement of milestones, management of conflicts of interest, resource capacity and capability, IT technical assurance, level of first and second line oversight and programme governance.
Assurance framework	The organisation change assurance framework should consider: <ul style="list-style-type: none"> • The viability of the organisational change and ability to deliver value. • The ability of the programme to deliver to the agreed timeframes and outcomes, following compliant project management disciplines. • Whether the programme appropriately manages and mitigates operational, regulatory and financial risk. • Whether the programme provides a suitable solution for the needs of impacted stakeholders.



7.2 Auditing Strategic Change

Are there any potential challenges?



Challenge	Description
"False assurance"	Attendance at key programme meetings can lead to "false assurance" – i.e. Internal Audit's presence at meetings where decisions are taken could be viewed as internal audit "sign-off". IA's role should be clearly articulated to the business at the outset to avoid false assurance.
Non adherence to audit methodology	Audit methodology can be adapted for organisational change assurance, but assurance fundamentals should not be compromised.
Real time assurance	Providing forward-looking assurance and presenting a view can be a challenge in particular in the absence of the evidence which may exist in a traditional backward-looking audit.
Operational and strategic risks	There are many potential risks in large scale transformational change, including: <ul style="list-style-type: none"> • Risk that strategic objectives are not met/undefined as a result of poor decision-making. • Heightened operational risk due to process and personnel changes. • Risk of cost overruns and non-delivery. • Risk that normal change management protocols are circumvented.

What Internal Audit skills are required?



- Change assurance expertise.
- IT expertise where transformation requires large scale technology change.
- Agile auditing techniques are often compatible with organisational change assurance.
- Strategic and commercial awareness.

What's next?



Regulators will continue to focus in this area in particular where they see operational failures arising from change which has been poorly managed. Increasingly, internal audit will also face scrutiny in terms of their role in the provision of assurance over change programmes, alongside other providers of assurance.



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