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Positioned for Success: Shaping the Future of Internal Auditors

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Risk & Business Consulting.
Internal Audit.



Agenda



Back to basics

Key Priorities of Future Auditors

12 Ways the Future Auditor Can Contribute Value

Can we be the Future Auditor

Key Takeaways

How do you define an Internal Auditor?

INTERNAL AUDITOR



what MY MOM thinks I do



what MY FRIENDS thinks I do



what MY BOSS think I do



what MY COLLEAGUES FROM OTHER DEPARTMENTS think I do



what I think I do



what I really do

How do you define an Internal Auditor?



Invest in Yourself

About Protiviti

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit. Through our network of more than 70 offices in over 20 countries, we have served more than 40 percent of FORTUNE 1000® and FORTUNE Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

- **3,300 professionals**
- **Over 20 countries in the Americas, Europe, the Middle East and Asia-Pacific**



- **70+ offices across all major cities**

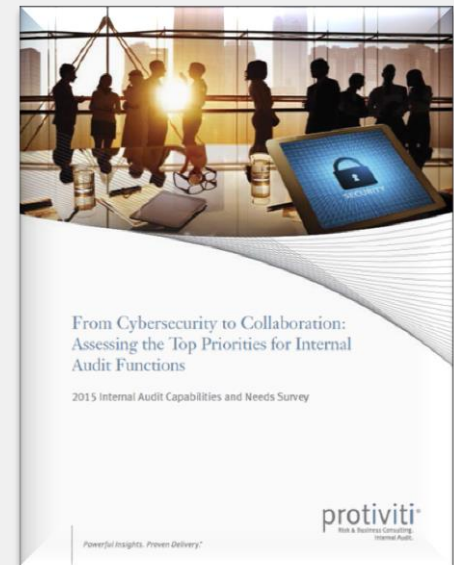
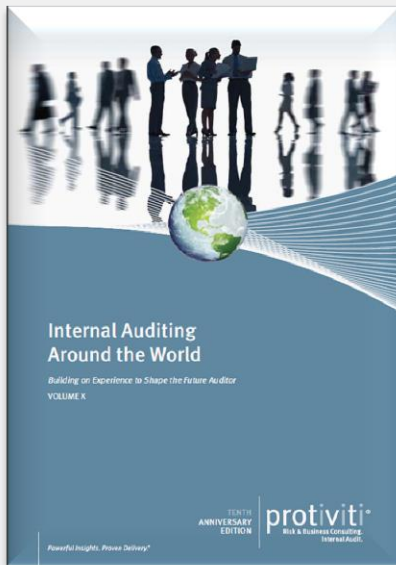
THE AMERICAS				EUROPE/MIDDLE EAST/AFRICA			ASIA-PACIFIC			
UNITED STATES Alexandria, VA Atlanta, GA Baltimore, MD Boston, MA Charlotte, NC Chicago, IL Cincinnati, OH Cleveland, OH Dallas, TX Denver, CO Ft. Lauderdale, FL	Houston, TX Kansas City, KS Los Angeles, CA Milwaukee, WI Minneapolis, MN New York, NY Orlando, FL Philadelphia, PA Phoenix, AZ Pittsburgh, PA Portland, OR	Richmond, VA Sacramento, CA Salt Lake City, UT San Francisco, CA San Jose, CA Seattle, WA Stamford, CT St. Louis, MO Tampa, FL Washington, D.C. Winchester, VA Woodbridge, NJ	ARGENTINA* Buenos Aires BRAZIL* Rio de Janeiro Sao Paulo CANADA Kitchener-Waterloo Toronto CHILE* Santiago	MEXICO* Mexico City MONTERREY PERU* Lima VENEZUELA* Caracas	FRANCE Paris GERMANY Frankfurt Munich ITALY Milan Rome Turin THE NETHERLANDS Amsterdam UNITED KINGDOM London	BAHRAIN* Manama KUWAIT* Kuwait OMAN* Muscat QATAR* Doha UNITED ARAB EMIRATES* Abu Dhabi Dubai	SOUTH AFRICA* Johannesburg	AUSTRALIA Brisbane Canberra Perth Melbourne Sydney CHINA Beijing Hong Kong Shanghai Shenzhen	INDIA Bangalore Mumbai New Delhi INDONESIA** Jakarta	JAPAN Osaka Tokyo SINGAPORE Singapore SOUTH KOREA Seoul

Introduction

The Institute of Internal Auditors (IIA) defines, “internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations.”

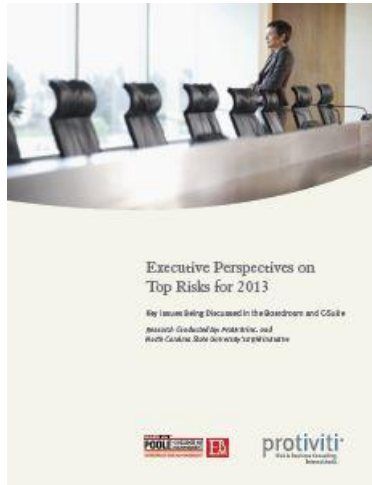
While operating the internal audit function in accordance with the profession's standards (IPPF) is important, the Future Auditor’s primary focus is on value contributed in the eyes of shareholders, stakeholders, board and executive management.

Key publications by Protiviti on practices, featured profiles and capabilities of Future Auditors:



Protiviti's Executives Perspective on Top Risk for 2015

What is Keeping Management Awake at Night?



Protiviti partnered North Carolina State University's ERM (Enterprise Risk Management) Initiative to conduct their 3rd annual survey of board members and C-level executives, seeking their views about the most pressing risks for their organizations in 2015.

TOP RISKS:*		2015	2014	2013
	Regulatory change and heightened regulatory scrutiny	6.4	6.4	6.8
	Economic conditions	5.7	5.7	6.5
	Cyberthreats	5.7	5.3	5.4
	Succession challenges and ability to attract and retain top talent	5.7	5.5	5.5
	Organization's culture	5.5	NA	NA
	Organizational resistance to change	5.4	5.3	5.2
	Privacy/identity management and information security	5.4	5.2	5.4
	Crisis management	5.3	4.8	4.8
	Sustaining customer loyalty and retention	5.2	NA	NA
	Meeting performance expectations	5.2	4.9	4.9

The full survey report, Executive Perspectives on Top Risks for 2015, may be accessed at erm.ncsu.edu or protiviti.com/toprisks. It includes detailed break-downs of the results by respondent role, organization size, industry and other categories.

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Protiviti's 2015 Internal Audit Capabilities and Needs Survey

Not surprisingly, cybersecurity represents a major focus for internal audit programs, but is far from the only pressing issue on IA's plate.

Key Findings:

- There is significant need for cybersecurity risk management improvement, with less than one in three organizations judging themselves to be "very effective" at managing cybersecurity risk to an acceptable level.
- "Top performers" are organisations that address cybersecurity risk in their audit plan and those whose board of directors is highly engaged with cybersecurity risk.
- Security of company information, brand and reputation damage, regulatory compliance, and loss of employees' personal information represent the greatest cybersecurity risks.

Will 2015 be a repeat of 2014 and become the year of the data breach?

Organizations are experiencing a troubling number of cybersecurity challenges and breakdowns. Internal auditors play a vital role in securing the organization by helping companies ensure that cybersecurity is incorporated into common business processes.

Organizations that rate themselves "very effective" at identifying/assessing/mitigating cybersecurity risk



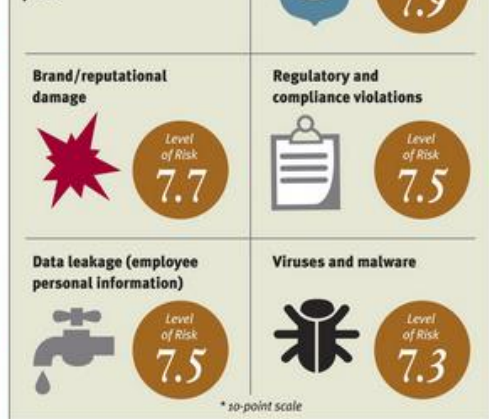
Organizations that have a cybersecurity risk strategy and policy in place



Board engagement and the audit plan represent keys to effective cybersecurity



Most significant cybersecurity risks that organizations face*



The full report on the results of the 2015 Internal Audit Capabilities and Needs Survey may be accessed at protiviti.com/IASurvey. It also includes breakdowns of the results for CAEs and organization size.

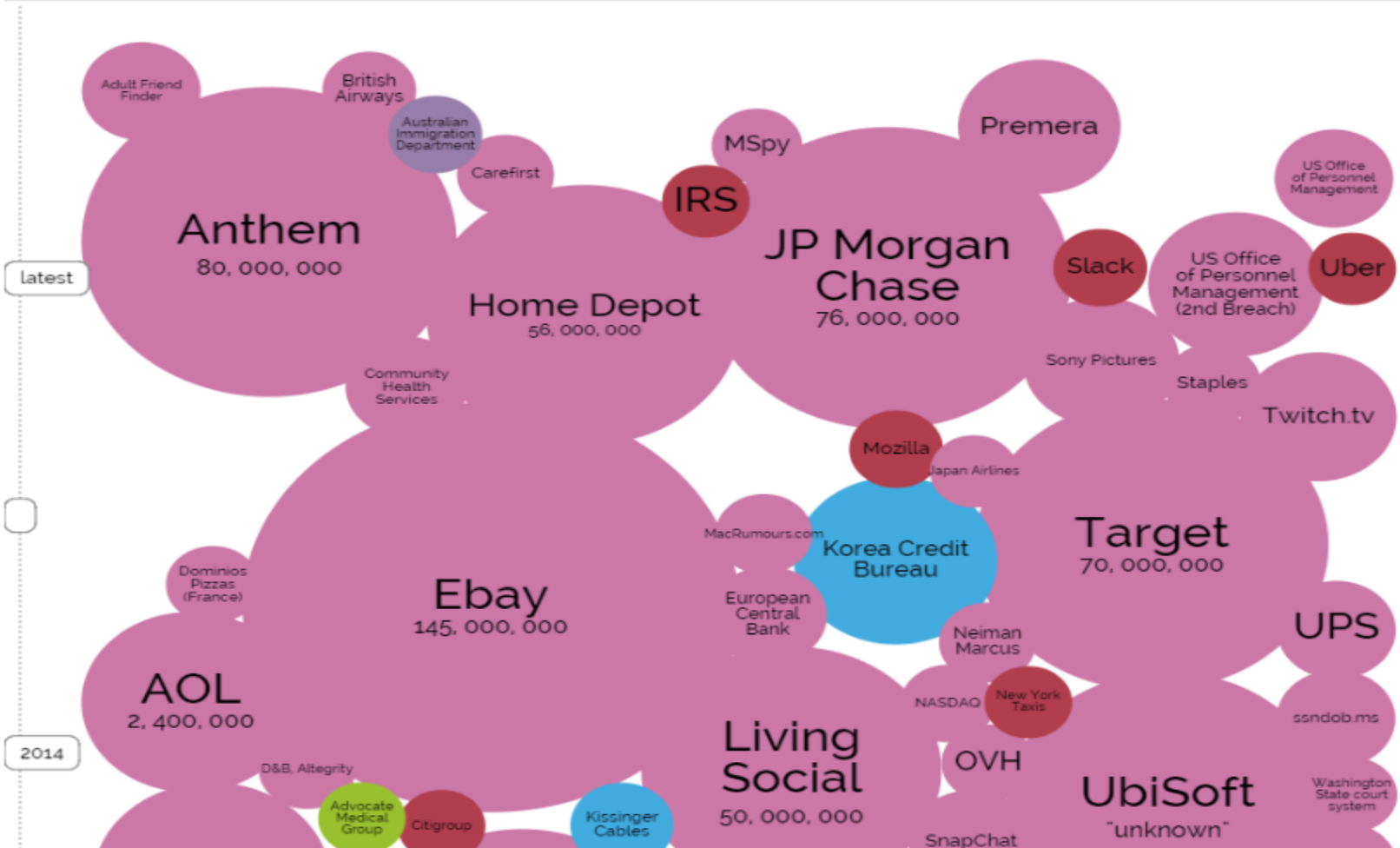
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Cyber Breach Statistics

World's Biggest Data Breaches

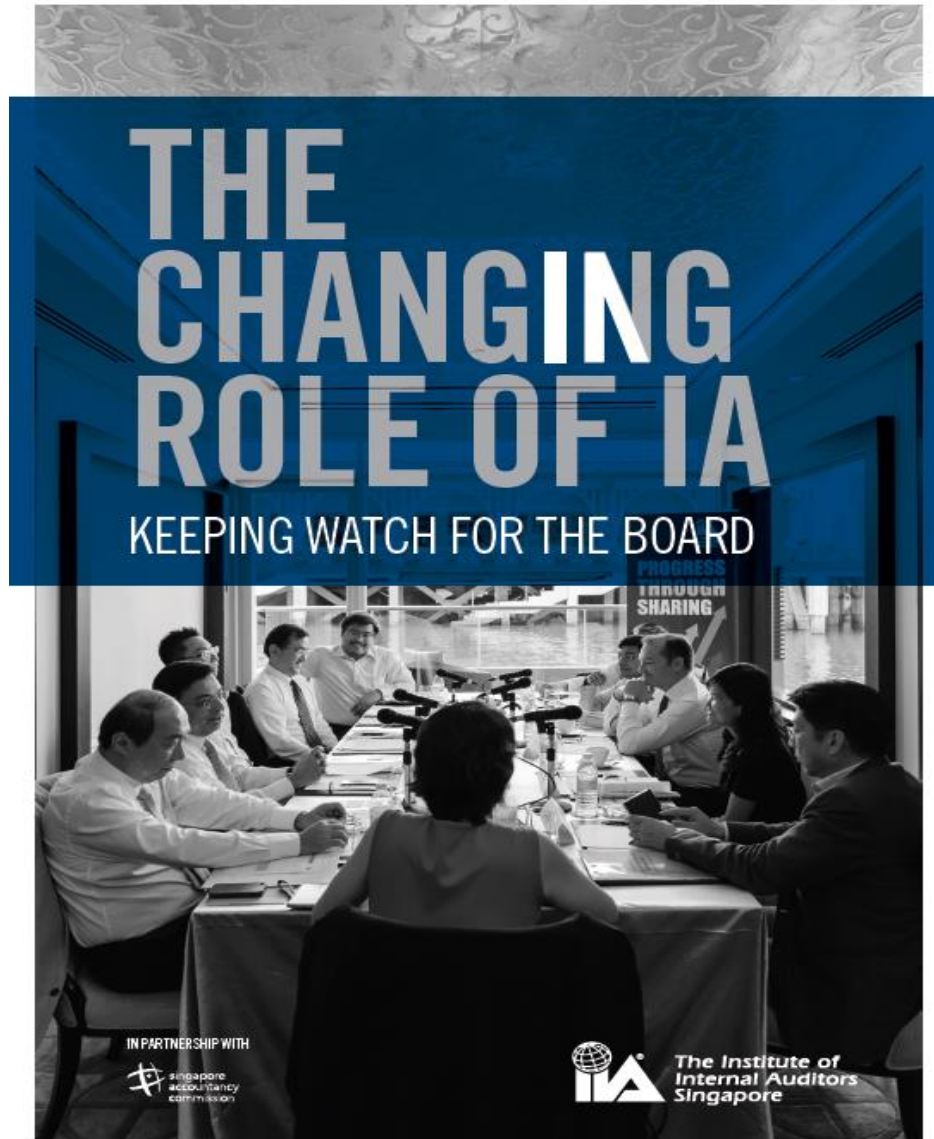
Selected losses greater than 30,000 records
(updated 13th June 2015)

YEAR



World's Biggest Data Breaches: <http://www.informationisbeautiful.net/visualizations/worlds-biggest-data-breaches-hacks/>

The Changing Role of IA



IIA Singapore and Singapore Accountancy Commission released the Roundtable Report entitled: The Changing Role of IA – Keeping Watch for the Board





The Future Auditor

Key Priorities of Future Auditors

Positioned to be independent and objective, the future auditor:

Establish Relevance: Understanding the organization's business objectives, strategy, industry and technological trends

Evaluate and Challenge Policies and Controls: Continuously perform stress test to challenge design and operating effectiveness of the organization's governance, risk management and internal control process.

Leverage on Line of Defense: Use various line of defense to ensure risk management and internal control are functioning effectively

Articulate the value of risk-based audit plan: Communicate effectively how the audit plan contributes to the organization, providing an assurance perspective that the board and executive management can understand

Maximize the use of technology: Employ technology to achieve efficiencies in assessing risks, expanding audit coverage, tracking issues and risks indicators

Possesses escalation authority: Proactively exercises authority to bring important matters to executive management and the board for resolution on a timely basis.

12 Ways the Future Auditor Can Contribute Value

- 1 Think more strategically when analyzing risk and framing audit plans
- 2 Provide early warning on emerging risks
- 3 Broaden the focus on operations, compliance and non-financial reporting issues
- 4 Strengthen the lines of defense that make risk management work
- 5 Improve information for decision-making across the organization
- 6 Watch for signs of a deteriorating risk culture
- 7 Expand the emphasis on assurance through effective communications with management and the board.
- 8 Collaborate more effectively with other independent functions focused on managing risk and compliance.
- 9 Leverage technology-enabled auditing.
- 10 Improve the control structure, including the use of automated controls

- 11 Advise on improving and streamlining compliance management
- 12 Remain vigilant with respect to fraud

12 Ways the Future Auditor Contributes Value

By assuming 12 impactful responsibilities, the future auditor becomes a positive change agent, providing an essential sounding board to executive management and the board, and making significant long-term contributions to the organization's success.

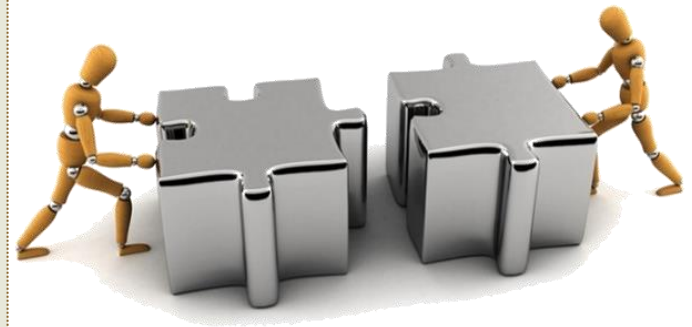
Now's the time to raise the bar for the profession. Progressive CAEs are taking the lead and showing the way to achieve the profession's full potential.



1. Think More Strategically When Analyzing Risk and Framing Audit Plans

To gain access to the C-suite more frequently, future auditor needs to be relevant and think more strategically when evaluating risk and formulating audit plans.

- **Sound understanding of organization strategy:** Focuses on the risks that matter and ascertains whether someone in the organization is *monitoring the vital signs that indicate whether critical assumptions underlying the strategy remain valid.*
- **Determine what risk matters to the organization:** Facilitate dialogues at the highest levels and understand:
 - Assertions around acceptable or strategic risks that the organization intends to take,
 - Assertion around undesirable or off-strategy risks that should be avoided.
- **Update risk profile to reflect changing conditions and technological trends that impact the organization:** Auditors should play a significant facilitation role in updating the company's risk profile and risk appetite.



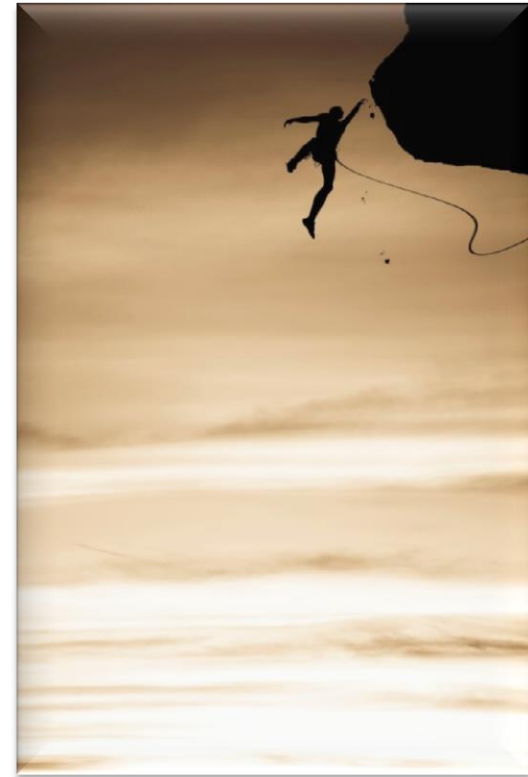
2. Provide Early Warning on Emerging Risks

Emerging risks can lie hidden within the organization's processes until they appear without warning, triggering embarrassing surprises.

● **Data Mining and Analysis:** The biggest trend in internal auditing during the past decade. Auditors are now employing various techniques to increase audit coverage and improve sampling methodology to provide board with improve assurance.

● **Key Risk Indicators:** Continuous monitoring is adopted by many organization via the use of key risk indicators. Some organizations have adopted key risk indicators in the audit plan and improve audit prioritization.

● **Contrarian Analysis:** Auditors should think outside the box to identify emerging strategic risks and scenarios that could impact the organization.



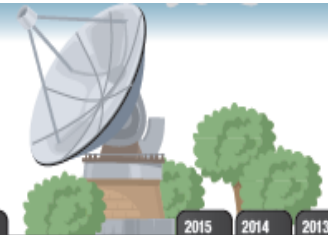
3. Broaden Focus on Operations, Compliance and Non-Financial Reporting

Focus on financial controls is not enough and is unsustainable in terms of meeting stakeholders expectation over the long term.

- Protiviti's 2015 Internal Audit Capabilities and Needs Survey revealed a number of notable trends and priorities that are shaping the internal audit landscape.
- Among the key takeaways are observations that run beyond the reliability of financial reporting:
 - Cyber and data security;
 - Emerging technologies (social media, cloud computing and mobile applications)
 - Regulatory and compliance violations;
 - Fraud risks
- The future auditor ensures that the function (including any co-source partners) has the resources, skill sets and tools it needs to address the above trends and priorities as well as the company's key risks.

KEY FINDINGS:

- The global business environment in 2015 is perceived to be somewhat less risky for organizations than it was in the last two years.
- Most organizations are more likely to invest additional resources toward risk management in 2015 compared to the past two years.
- Regulatory change and heightened regulatory scrutiny is the top overall risk for the third consecutive year.
- There are increasing concerns about cyberthreats disrupting core operations.
- Economic conditions are again a key risk area for organizations.
- There is greater focus on succession challenges and the ability to attract and retain talent.



TOP RISKS: ^a		2015	2014	2013
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The full survey report, Executive Perspectives on Top Risks for 2015, may be accessed at www.icsa.edu/protiviti.com/toprisks. It includes detailed breakdowns of the results by respondent role, organization size, industry and other categories.

^aEach respondent was asked to rate 27 individual risks based on a 10-point scale, where a score of 1 reflects "No impact at all" and a score of 10 reflects "Catastrophic impact" to their organization over the next year.

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4. Strengthen Lines of Defense That Make Risk Management Work

Lines of defense model provides an effective lens through which to evaluate risk management.

The future auditor provides assurance that other lines of defense are functioning effectively and uses the lines-of-defense framework to focus assurance activities more broadly on risk management.

Some warning signs:

- Internal Audit Plan is narrowly focused on compliance matters;
- Internal Audit has no reporting line or face constraint to be able to meet the Board or appointed committees in executive session;
- Internal Audit is responsible for risk management;
- Internal Audit Budget and Resources are limited in terms of acquiring competencies;
- Lack of support by executive management on recommendations by Internal Audit and improvement opportunities are left unaddressed



5. Improve Information for Decision-Making Across the Organization

Emphasis on improving risk information across the organization that can lead to better information for decision-making used in the business.

1

Using performance indicators, metrics and monitoring systems the organization already has in place;

2

Combining the use of analytic tools and techniques with performance indicators, metrics to monitor lead and lag performance indicators and trending metrics to signal when risk events might be approaching or occurring;

3

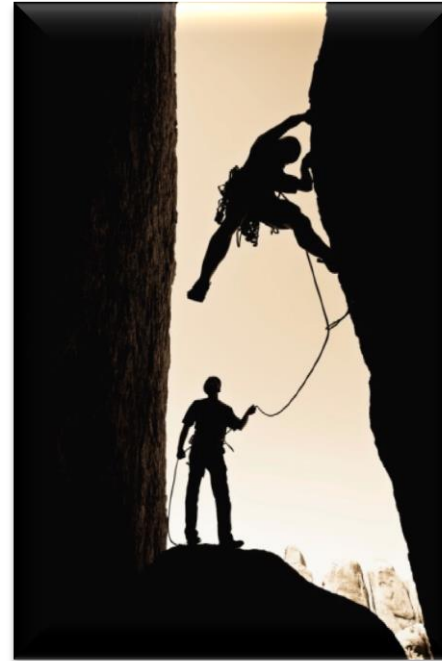
Automating key controls or selected business processes to enable continuous monitoring by primary risk owners, independent risk management functions and internal audit.

The future auditor's emphasis on improving risk information across the organization can lead to better information for decision-making used in the business. Importantly, it enables internal audit to be in tune with the right issues at or before the time they hit the screens of executive management and the board as significant problems.

6. Watch for Signs of a Deteriorating Risk Culture

Risk culture is the “set of encouraged and acceptable behaviors, discussions, decisions and attitudes toward taking and managing risk within an institution.”

- The emphasis on ethical and responsible business behavior in any organization is only as strong as its weakest link.
- The organization’s tone at the top must be translated into an effective tone in the middle before it can reach the rest of the organization.
- Shared values, goals, practices must be reinforced and embedded into an organization’s decision-making processes and risk management into its operating processes.



Risk culture (General Control Environment) always lacks focus in the Audit Plan and very often not emphasized enough during Board discussion.

Future Auditor needs to understand that deteriorating risk culture presents a formidable hurdle to improving risk management performance and deterring inefficiencies, non-compliance and fraud.

7. Expand the Emphasis on Assurance Through Effective Communications

There are mainly 3 classes of assurance providers, differentiated by the stakeholders they serve, their level of independence of the activities and the robustness of assurance provided:

- 1 Those who report to management and/or are part of management
- 2 Those who report to the board (including internal audit); and
- 3 Those whose reports are of interest to external stakeholders (e.g., the external auditor).

Future Auditors needs to assess via various assurance maps to clarify “who does what” at different level of assurance and identify gaps and overlaps against the various risk based expectations and objectives.

As board request “assurance” from internal audit, not really knowing what the request entails – auditors needs to use assurance maps and educate boards to where accountability lies and focus the audit plan to assess the quality of organization internal assurance process.

8. Collaborate More Effectively with Other Independent Functions

Collaboration is a vital skill on many fronts in any discipline, and especially for internal audit.

Of necessity, the future auditor undertakes a collaborative approach with independent risk management and compliance function.

Good things happen when strong alliances between the risk management and internal audit functions are formed



9. Leverage Technology-Enabled Auditing

Intelligent use of continuous auditing and computer-assisted auditing techniques is another important area that increases the future auditor's reach and broadens audit and risk coverage through the use of data mining and analysis tools

- By using technology, the future auditor is able to devote more time and effort to building relationships with process and functional owners and providing expertise in high-impact areas.
- A technology-focused audit approach facilitates the future auditor's shift of emphasis to strategic issues and critical enterprise risks.
- Technology enables the internal audit function to gain more coverage with less effort, provide more analytic insight and offer early warning capability.



10. Improve Internal Control Structure, including Use of Automated Controls

The future auditor evaluates the control structure and identifies opportunities to eliminate, simplify, focus and automate controls.

● Rationalizes the overall control environment, including the number of overall key controls, the extent of reliance on manual controls and opportunities to increase the use of automated controls across the organization;

● Designs and implements custom automated tests that examine configurable data, master data and transaction data to address high-priority control issues; and

● Implements continuous monitoring tools such as detective controls that alert management to changes or activities that warrant further investigation.

Automated controls can reduce costs, mitigate risks, improve processes and streamline compliance, providing tangible value relative to required investments in hardware, software, implementation and training.

11. Advise on Improving and Streamlining Compliance Management

The future auditor recognizes challenges of proliferation of operating silos, gaps and overlaps in ownership of controls, fragmented and diffused risk and control data, and unaligned stakeholders' expectation in new policies and procedures.

To address such challenges, auditor needs to apply a quality focus to in managing compliance:

- Review and recommend the refinement of the compliance operating model, striving for lean central;
- Undertake enterprise wide approach to assess compliance risks (during audit planning and process reviews)
- Rationalize a more efficient control design and driving a more focused internal control structure for compliance.

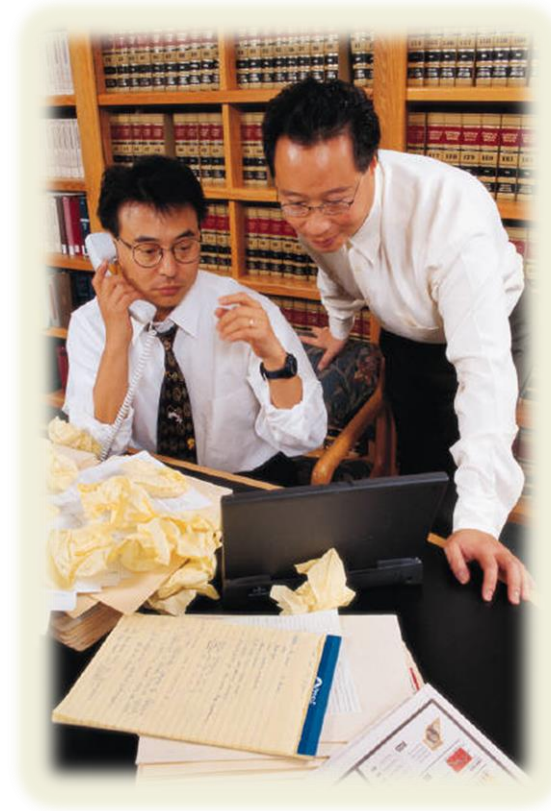
Future auditor needs to elaborate and collaborate with compliance management to fore a more streamlines, end-to-end view of compliance management and improved coordination across the organization.



12. Remain Vigilant with Respect to Fraud

The future auditor knows fully well that the nature of fraud is ever changing – as are the ways auditors address fraud, corruption and malpractice.

- The future auditor understands the importance of a comprehensive enterprise wide fraud and corruption risk assessment and evaluation of the robustness of the organization's anti-fraud and corruption program.
- Future auditor places emphasis on the ability of primary risk owners to prevent, deter and detect fraud in their respective activities, with special emphasis on high-risk areas.
- The future auditor deploys data mining and analytics techniques to analyze transactional data and activities involving third parties, obtain insights into the operating effectiveness of internal controls.





Can we be?

Managing the Tension Between Creating Enterprise Value and Protecting Enterprise Value...

...is the most difficult task of risk management and internal control

- For risk management and internal control to function when a crucial decision-making moment arises, directors and executive management must be committed to making it work
- Aligning the governance process, risk management and internal control toward striking the appropriate balance is crucial in this regard
- The objective is to balance the entrepreneurial activities and control activities of the organization so that neither one is too disproportionately strong relative to the other

Some Warning Signs

Internal Assurance Providers

- Internal Audit plan narrowly focus on compliance matters;
- Lack or no reporting line to the board or audit committee or unable to meet with in executive sessions;
- Internal Audit is responsible for risk management;
- Internal audit budget and resources are limited in terms of acquiring the competencies needed to broaden focus to risk management
- Executive management does not support internal audit recommendations and improvement opportunities are left unaddressed.



Questions for Boards...

Road towards the Future Internal Auditor



- Does Internal Audit provide adequate attention to operations, compliance and non-financial reporting issues?
- Is Internal Audit able to provide insight regarding strategic uncertainties and the organisation's decision –making processes, particularly around risk acceptance, and whether the right risks are accepted by the right people at acceptable levels?
- Does the Board periodically evaluate the scope of Internal Audit's activities and discuss whether modifications are needed in view of changes in the environment and the company's operations?

Summary

The Future Auditor has to think BIG to demonstrate the value demonstrate to executive management and the Board. If you don't, we will always be in the basement.

Get ready to accelerate your IA objectives...





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