

**Deloitte.**

## **Optimizing the Benefits of QAR**

# About myself



## Island of Gods

- 5,780 sq km (719 sq km)
- 4.3m (5.4m)
- 80% tourism (75% services, 25% industry)
- Rest & relax (Business)
- HPI 16/140 (??/140)



# Basics

## What is QAR?

A quality assurance and improvement program, as defined by The Institute of Internal Auditor's (IIA) *International Standards for the Practice of Internal Auditing*, requires the chief audit executive (CAE) to develop and maintain a quality assurance and improvement program that **covers all aspects** of the internal audit activity. It must include both internal and external assessments.

Quality Assurance Review assesses:

- Conformance to the IIA Standards and provide an opinion as to whether the Internal Audit (IA) activity generally conforms to all of the standards
- How effective the Internal Audit Activity is in providing **assurance and consulting services** to the board, senior executives, and other interested parties

## Benefits of QAR

- Increase the credibility of the internal audit activity within the organization
- Bring a systematic, disciplined approach to internal audit activity
- Anticipate, meet or excel stakeholders' expectations

\*Source: Research Report by the IIARF - The Value of Quality Assurance and Improvement Programs

# Types of QAR

## Internal Assessment

- On-going monitoring of the performance of the internal audit activity
- Periodic reviews performed through self-assessment or by other persons within the organization with sufficient knowledge or internal audit practices

## External Assessment

- It must be conducted once every 5 years
- It must be performed by an independent reviewer outside the organization

# Case Study



# Overview

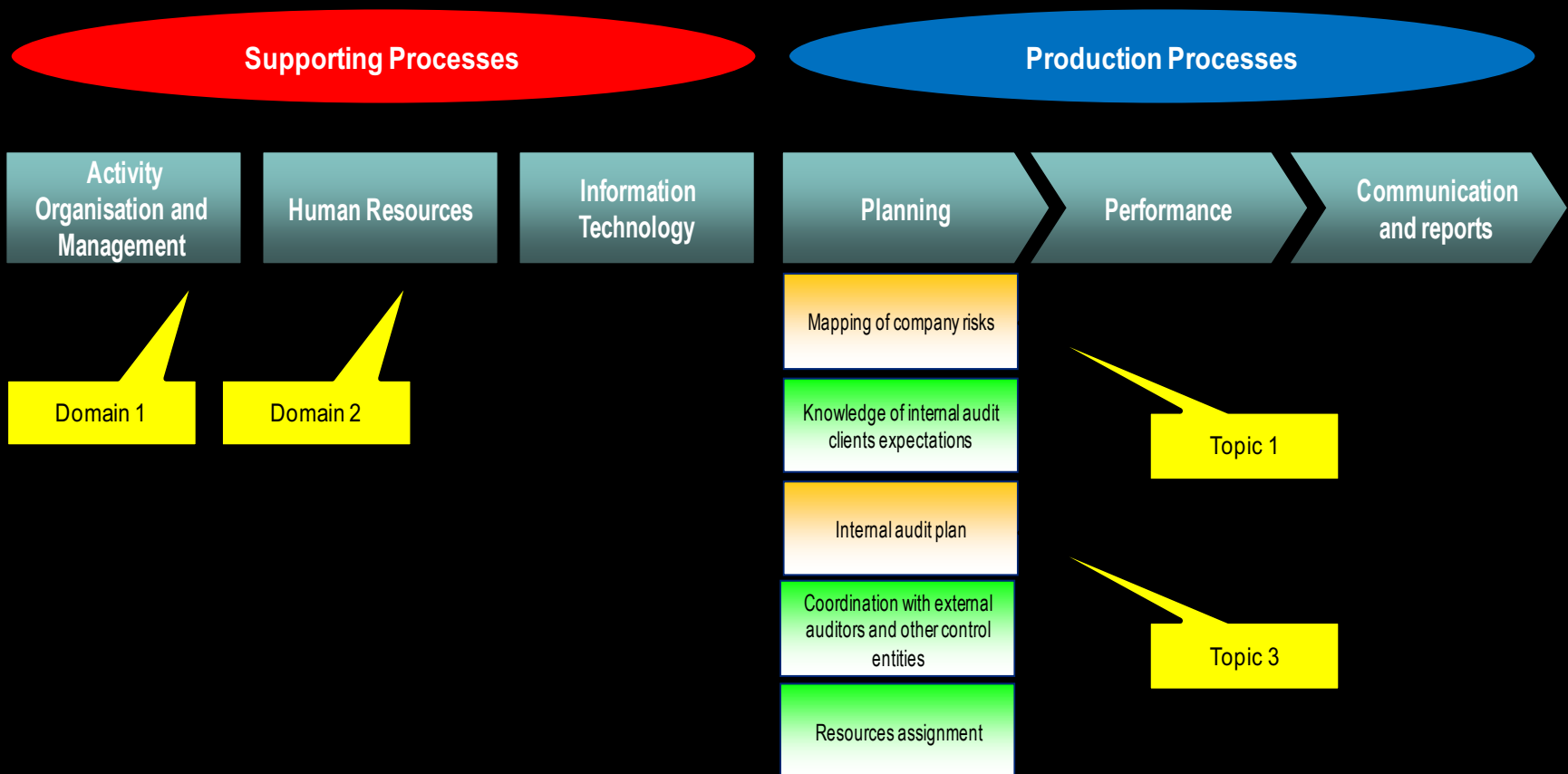
## External Assessment of a Financial Institution

The scope of the QAR exercise encompassed the following elements:

- A review of IAD's Mission and Audit Charter, and assessment of the IAD team competencies
- A review of the IAD risk assessment techniques
- Evaluation of the Internal Audit Plan
- Examination of audit work programs and working papers, as well as an assessment of the reporting techniques
- Identification of opportunities and provision of recommendations to IAD for improvement of performance

# Methodology : End-to-end

This methodology ensures that all domains are properly addressed in relation to IIA Standards during the review. For each domain, a certain number of topics will be reviewed through the standards and best practices perspectives



# Findings Dashboard

## Supporting Processes

## Production Processes

Activity organization & management	Human Resources	Information Technology	Planning	Performance	Communication and reports
Vision, Value and Strategic Objectives	Constitution of a Team of Experts	IT Risk Assessment	Mapping of company risk	Information on objectives and expectations for each mission	Communication / Reporting to Audited Entities
Structure and Organisation	Recruitment	Electronic Management system of Work Files	Knowledge of internal audit clients expectations	Collaboration with audited entity	Communication/ Reporting to management
Resource Management	Training and Personal Development	Specific Application & Technology	Internal Audit Plan	Work Program	Communication / Reporting to Audit Committee
Activity Measurement	Internal Communication	Central Information Repository	Coordination with external auditors and other control entities	Needs for expertise evaluation and responses to main issues	Communication with External Auditors and other control entities
	Individual Evaluations		Resources Assignment	Tests and analysis	Internal Audit Clients Satisfaction measurement
				Engagement Supervision	
				Follow up	

Good Practice

Needs improvement

Deficiency

Out of scope

## Key Finding 1

Improve communication of the annual audit plan

Improving communication to stakeholders can increase the impact and influence of the Internal Audit

Current State	Recommendations
<p>The previous audit plan was presented at a very high level and did not appear to have sufficient detail to allow management to discern what specific projects are being proposed for the IA activity. Additional details of IA's approach to risk assessment and related IA prioritization could have also been included.</p>	<p>The CAE should communicate in sufficient detail the IA plans and resource requirements to senior management for review, challenge, and approval. Additionally, IA should consider reviewing audits that did not get considered for the current plan because of resource limitations. This provides the senior management with information to actually participate in audit plan decisions.</p>

## Key Finding 2

Improve integration with the Bank risk and control monitoring activities

Improving risk and control monitoring activities can increase effectiveness of Internal Audit as it understand the need for change

Current State	Recommendations
<p>IA has not been effective in integrating all of the control, compliance, assurance and monitoring activities within the Bank and using that information to develop a comprehensive plan which prevents overlap and embraces IA reliance when possible.</p>	<p>IA role within the Bank should be to identify all control monitoring functions within the Bank and hold a periodic audit symposium to understand and collaborate on how various risks are considered and controls are monitored. IA should consider performing quality assurance reviews of each of these other monitoring functions and, where possible, establish an integrated approach to gain reliance on their activities</p>

## Key Finding 3

Improve the skills of Internal Audit members

Enhancing IT skills to address the gaps in Internal Audit capabilities

Current State	Recommendations
<p>None of the IA staff, particularly personnel from the IT &amp; Project Audit Division, are currently pursuing / have completed any IT-related professional qualifications.</p>	<p>The IA personnel assigned to the IT Audit Unit should be equipped with the relevant IT knowledge and skills. Professional qualifications such as Certified Information Systems Auditor ("CISA") or Certified Ethical Hacker ("CEH") could be considered.</p>

# Conformance to Standards Result

The overall assessment results by IIA Attribute Standards are illustrated as below:

Reference	IIA Standards	
1000	Purpose, Authority & Responsibility	▲
1100	Independence & Objectivity	●
1200	Proficiency and Due Professional Care	▲
1300	Quality Assurance and Improvement Program	▲
2000	Managing the Internal Audit Activity	▲
2100	Nature of Work	●
2200	Engagement Planning	▲
2300	Performing the Engagement	▲
2400	Communicating Results	▲
2500	Monitoring Progress	●
2600	Resolution of Management's Acceptance of Risks	●

- Generally conforms to the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, complies with the requirements of the individual Standard.
- ▲ Partially conforms to the activity and is making good-faith efforts to comply with the requirements of the individual Standard.
- Does not conform to the activity and is not aware of, is not making good-faith efforts to comply with, or failing to achieve many/all of the objectives of the individual Standard.

**Optimizing (make the best or most effective use of)  
the benefits of QAR**



**Firstly, QAR needs to be effective**

## Let's recap on the "auditee"

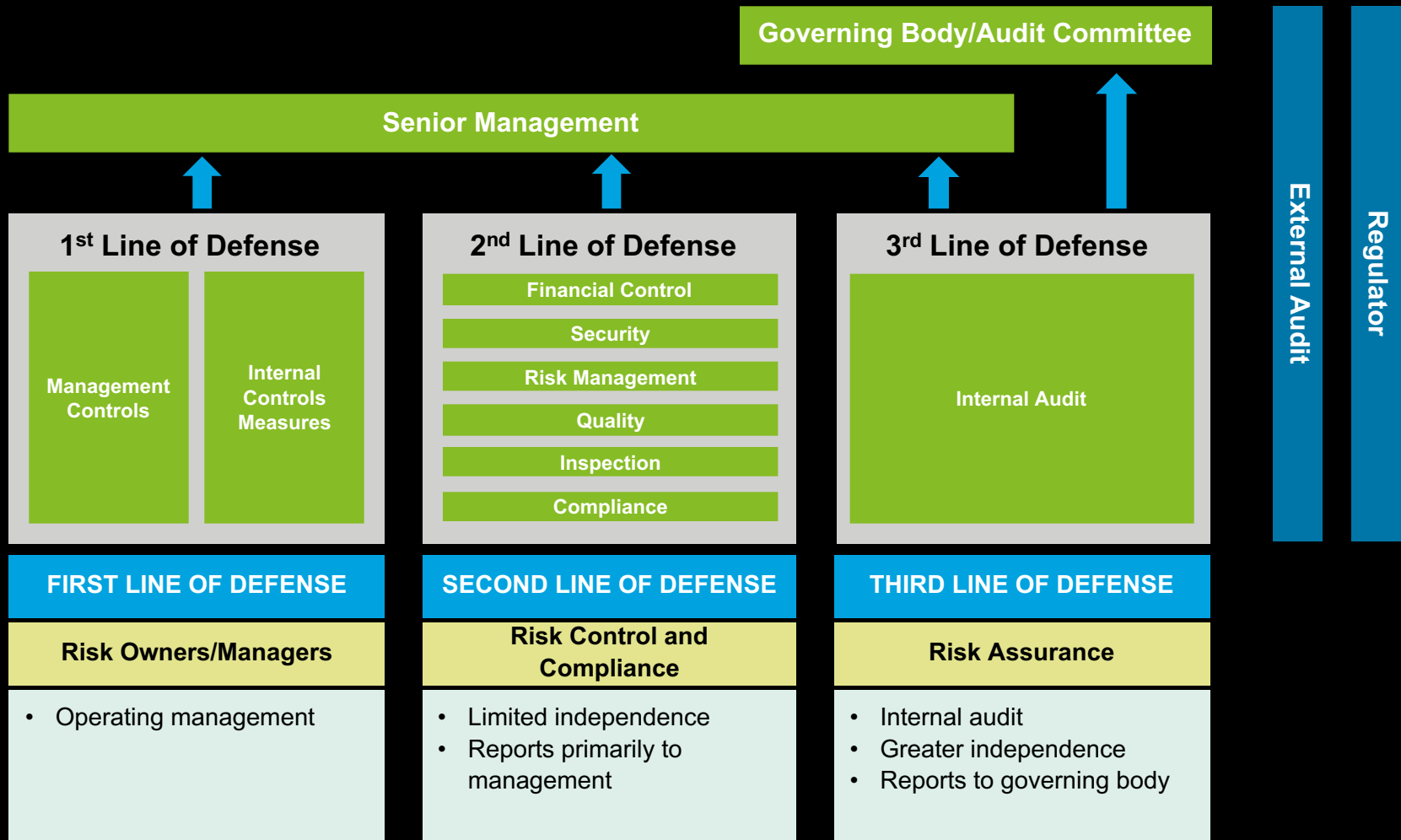
"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization **accomplish its objectives** by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

# IA effectiveness: risks and organizations' objectives

QAR needs to align to these factors



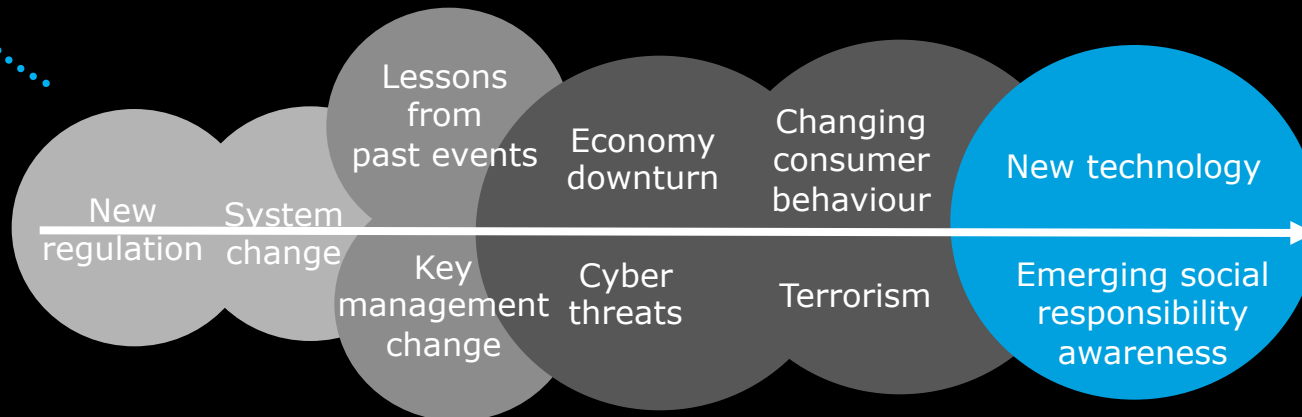
# Role as Assurance: IA as the third line of defense



# Role as Trusted Advisor : Changing business landscape

Changing external landscape

Changing internal landscape

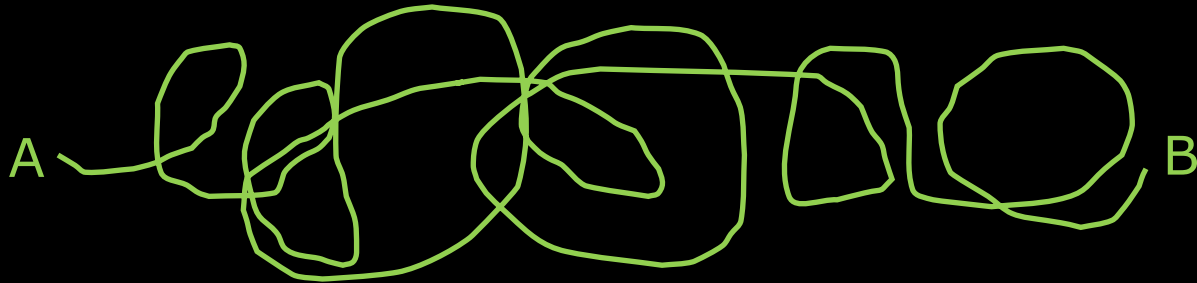


**Hence...**

The QAR needs to be **beyond checklist review** but more in-depth into effectiveness of the IA in performing its role.

QAR may be the fourth pillar.

## Simplifying QAR



Is the IA function effective in its roles as the third line of defense and trusted advisor?

**Let's consider...**

What CAEs around the world are saying IA should be in providing more value.










# **Internal Audit Insights**

## 2016 Deloitte's Global CAE Survey

# Evolution or Irrelevance? Internal Audit at crossroads

More than 1,200 CAEs participated in a survey to indicate ways in which Internal Audit can evolve to increase its value to the organization.

Among the key findings are these:

-  CAEs recognize the need for change
-  Internal Audit needs more impact & influence
-  Gaps in skills must be addressed
-  Use of alternative resourcing models will expand
-  Analytics presents major opportunities
-  Dynamic reporting is poised to increase
-  Advisory services will expand
-  Innovation is important too
-  Reviews of strategic planning and risk management will increase
-  Stable Internal Audit budgets may presents challenges

# 1. CAEs recognize the need for change

Organizations are evolving to boost performance, address disruptors and stay competitive. IA functions need to understand the changes their organizations are undergoing and how to respond in ways to support stakeholders.

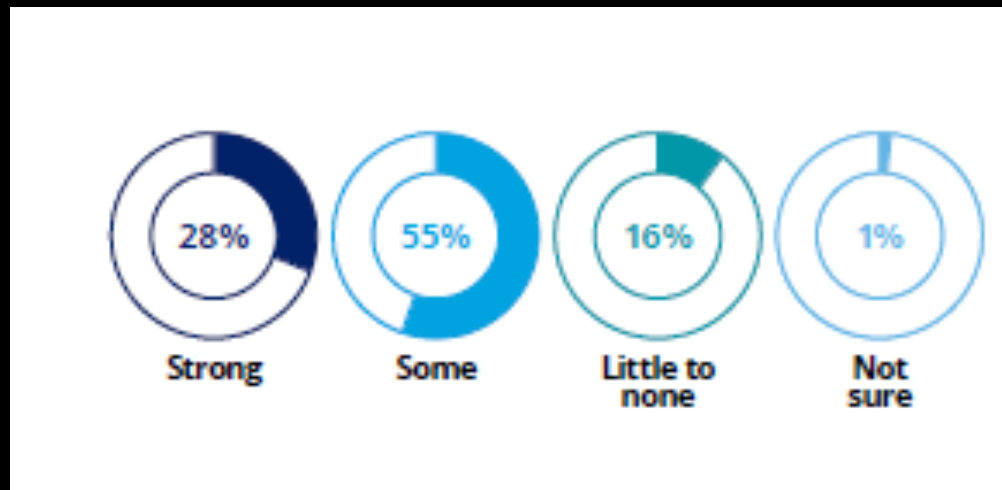
Change expected within the organization for the next 5 years:



## 2. Internal Audit needs more impact & influence

A minority of CAEs believe they have the ability to exert influence over the board of directors, executive team and other key personnel and make a significant impact in their organizations.

Current impact and influence of internal audit:



### 3. Gaps in skills must be addressed

Internal Audit needs to strengthen its skillset if it is to increase its impact and influence within the organization. Relatively few of the CAEs are fully satisfied that their groups have the skills and expertise to deliver on stakeholders' expectations.

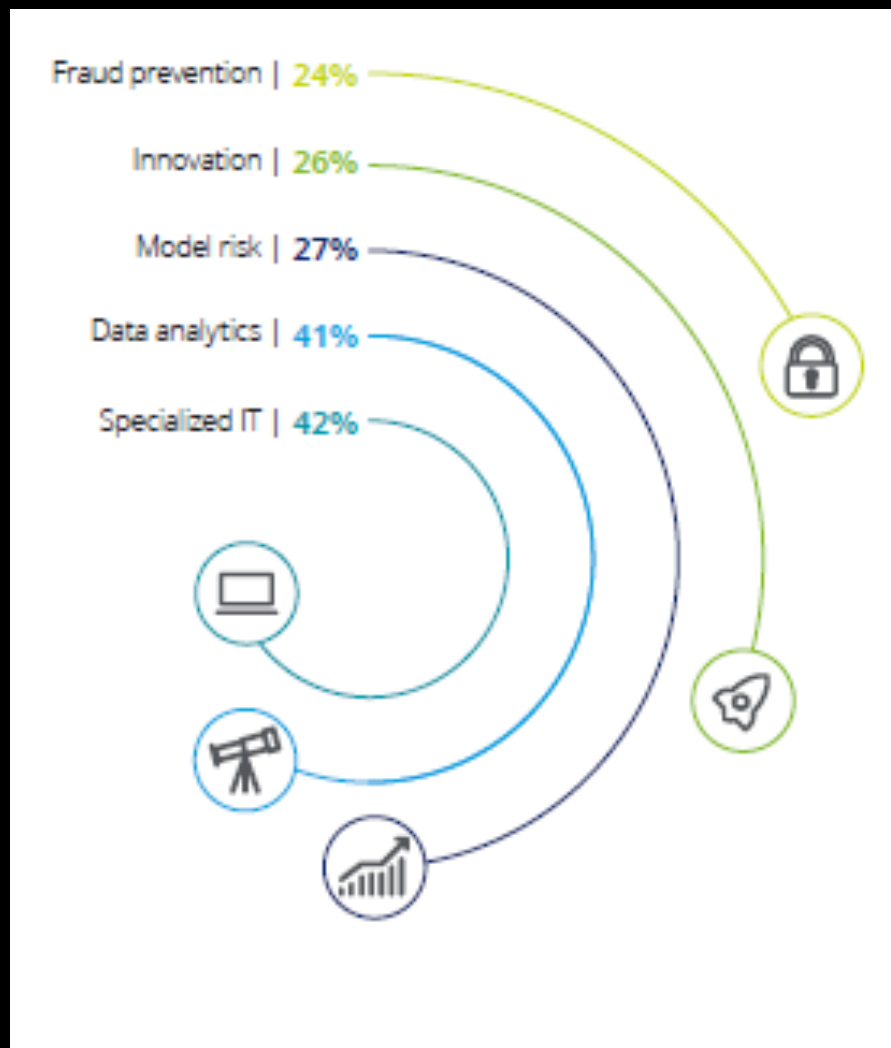
Current satisfaction with Internal Audit capabilities:



### 3. Gaps in skills must be addressed (con't)

Specifically identified gaps help to explain why CAEs are not satisfied with the groups' capabilities, and perhaps why those groups lack impact and influence.

#### Top 5 Gaps in Capabilities



## 4. Analytics presents major opportunities

- Use of analytics is largely at basic levels
  - While 86% of respondents use analytics, 24% use them at an intermediate level and 7% at an advanced level. The other 66% use basic analytics or no analytics.
  - The usage of analytics would benefit the IA function by expanding their use in audit scoping and planning
- Use of analytics is expected to increase
  - Over the next 3 to 5 years, 58% of respondents expect to be using analytics in at least 50% of their audit
  - 37% expect to move to high usage, using at least 75% of their audit
- Internal audit faces barriers to greater use of analytics
  - CAEs see talent gaps in accessing quality data as key barriers to greater use of analytics
  - Analytical and technological skills need to be upgraded

# Examples of how QAR helps address the findings

## Challenges for CAEs

## Opportunities

### Need for Change

QAR helps Internal Audit activity to understand the changes in their organization how to respond in ways to support stakeholders

### Low Impact & Influence

QAR helps Internal Audit to identify opportunities to influence key stakeholders and make significant impact on organizations

### Gaps in Skills

QAR helps to identify Internal Audit gaps in skills and recommend ways to address the gaps

### Basic Usage of Analytics

QAR helps to assess the usage of analytics in the Internal Audit and enhance audit activity by embedding analytics



**How to QAR IA in its Trusted Advisor role?**

## Key principles...

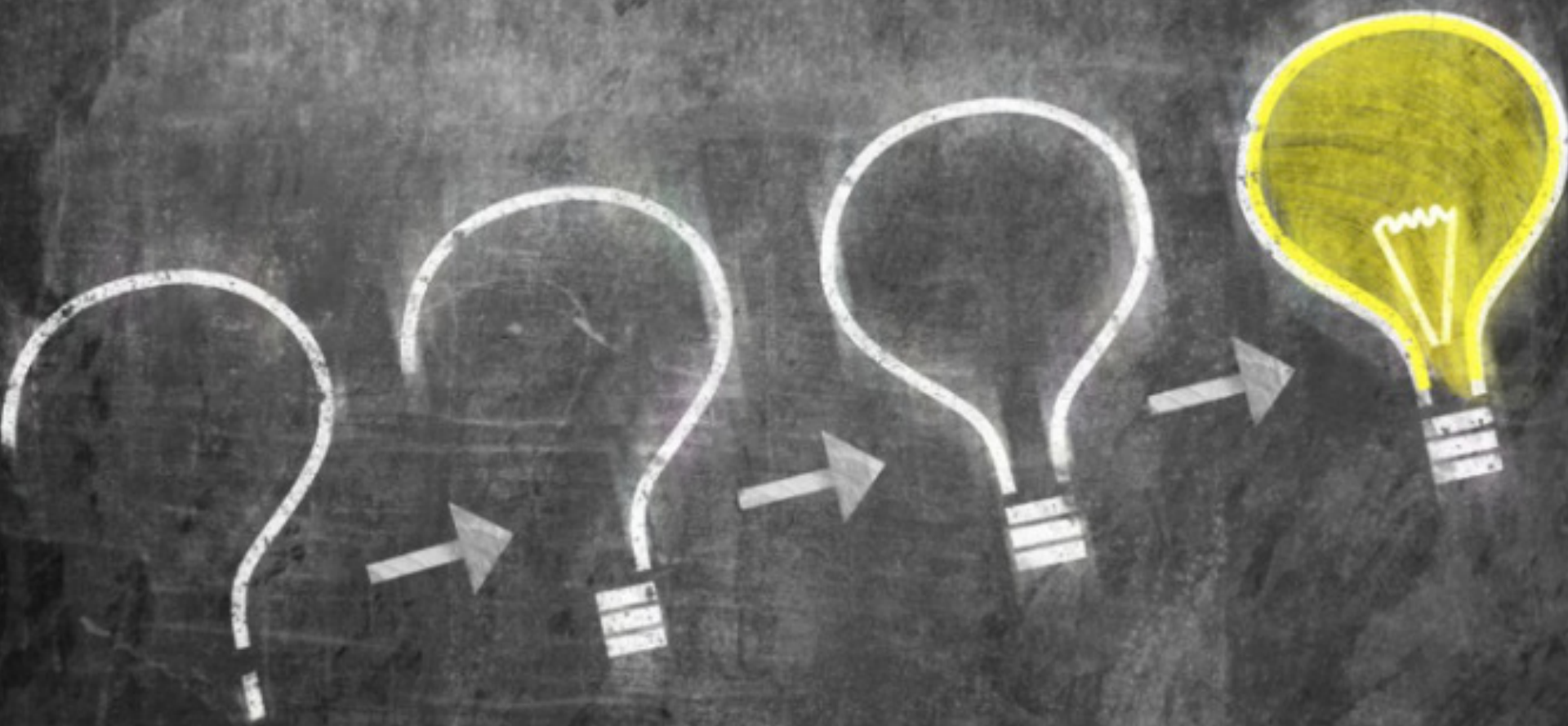
- Strategic
- Business minded
- leverage on your expertise & knowledge

# A simple case study QAR IA role as Trusted Advisor

- Background
  - Trading company
  - Part of a global supply chain, holds inventories
  - Economy downturn, cashflow problems
- Expected IA findings in providing Assurance
  - Credit policy
  - Cashflow monitoring
  - AP monitoring
- Strategic considerations
  - Re-negotiations on terms with suppliers and customers
  - Identify ecosystem of collaborators to share risks
  - Government grants

## An effective QAR

- Adequate coverage
- Beyond checklist review
- Unlock internal auditors' potential
- Think like the BOD and management, like your own business
- Lend our expertise without compromising independence



# Talk to me, share with me

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