AUDIT TRANSFORMATION
STRATEGIES TO MEET ESCALATING
STAKEHOLDER EXPECTATIONS

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Your Presenter

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About Your Presenter

Tim J. Leech, FCPA FCA CIA CRMA CCSA CFE is Managing Director Global Services at Risk Oversight Inc. He has over 30 years of experience in the risk governance, internal audit, IT, and forensic accounting/litigation support fields. His experience base includes setting up a new business unit, a “first of its kind”, for Coopers & Lybrand, “Control & Risk Management Services”, in 1987; founding in 1991, building, and successfully selling CARD®decisions, a global risk and assurance consulting and software firm, to Paisley/Thomson Reuters in 2004; serving as Paisley’s Chief Methodology Officer from 2004 -2007; and 25+ years of global experience helping clients around the world with internal audit transformation initiatives and the design, implementation, and maintenance of integrated ERM/IA methodology and technology frameworks.

He developed and successfully released CARD®map, the world’s first integrated risk and assurance software, in 1997. The web-enabled “cloud” version of CARD®map was released in 2000. Tim was the first to develop and deliver training on IIA IPPF Standard 2120 training to equip internal auditors to assess and report on the effectiveness of risk management processes. He is the author of the Conference Board Director Notes December 2012 publication “Board Oversight of Management’s Risk Appetite and Tolerance” and the highly acclaimed January 2014 “Risk Oversight: Evolving Expectations for Boards”. Leech was a pioneer in the global control and risk self-assessment (“CRSA/RCSA”) movement from 1996 to 2004.

In 2013 he launched a second generation of disruptive innovation with a breakthrough approach to risk and assurance management – “Board & C-Suite Driven/Objective-centric” risk governance. The goal – respond to the rapid escalation in board risk oversight expectations and deliver substantially more “bang for the buck” from formal assurance spending. Leech is currently working with Resolver in Toronto, Canada to build RiskStatusNet™ software to support full integration of what is sometimes referenced as the five lines of defence. Beta testing is currently underway.

Leech was the recipient of IIA Canada’s first Outstanding Contributions to the Profession award at the first IIA Canada national conference in Quebec City in 2009 and is currently working with IIA Global to roll-out training to IIA National Institutes and in-house training clients around the world.
Agenda

MODULE #1

• IA customer feedback & IIA’s “CALL TO ACTION”
• What’s causing the decline in customer satisfaction?
• Five strategies for IA success in the year ahead
• Barriers to change
• What IIA Global is doing to help
• Questions

MODULE #2

• Board & C-Suite Driven/Objective Centric IA & ERM
Customer Feedback & IIA Call to Action

Figure 4. Satisfaction with internal audit value and performance

Percent of stakeholders reporting internal audit provides “significant value”

- Board Members: 2013 - 79%, 2014 - 68%
- Senior Management: 2013 - 44%, 2014 - 45%

Percent of 2014 respondents reporting that internal audit “performs well”

- Board Members: 64%
- Senior Management: 65%
- CAEs: 49%


¹Represents the average of “performs well” ratings
Similarly, PwC survey results — which reflect the opinions of more than 1,900 CAEs, internal audit managers, senior management, and board members — indicate significant dissatisfaction with internal audit value and performance. Taking into account the respondents who did not know whether internal auditing adds significant value to the organization, the survey results show that 50 percent of senior management and nearly 28 percent of board members believe internal auditing adds less than significant value to their organization. Furthermore, only 49 percent of senior management and 64 percent of board members believe internal auditing is performing well at delivering on expectations (Figure 4). Also noteworthy, the belief among board members that internal audit adds significant value has dropped 10 points from last year. Evident from these findings, an expectation gap exists between stakeholders and the internal audit activity.
Customer Feedback & IIA Call to Action

Figure 5. Distinctions between the lines of defense

Regarding the clarity between your organization’s various “lines of defense,” how clear are the distinctions between the roles of internal audit and your organization’s management, risk, compliance, and control functions?

- Very Clearly Defined, 36%
- Moderately Defined, 32%
- Somewhat Defined, 21%
- Not Clearly Defined, 11%

64%

Source: The IIA’s Audit Executive Center Global Pulse of the Profession survey, 2014. This chart reflects data from the global CAE respondents of the survey.
Customer Feedback & IIA Call to Action

Figure 8. In the year ahead, in which of the following areas would you like your internal audit function to devote more of its time and/or sharpen its focus? (Select all that apply.)

- Risk Management Processes: 65%
- Information Technology and Data Management: 58%
- Operational Risks: 52%
- Compliance and Regulation: 45%
- Corruption/Fraud: 36%
- Ethics and Culture: 28%
- Corporate Governance: 27%
- Cost Containment: 21%
- Change Management: 18%
- Crisis Management: 14%
- Tax Compliance: 14%
- Other: 3%
- Company Does Not Have an Internal Audit Function: 1%

Source: KPMG International’s Global Audit Committee Survey, 2014. This chart reflects data from only those respondents who indicated that internal auditing’s roles and responsibilities should extend beyond the adequacy of financial reporting and controls.
Fewer than half (49 percent) of senior management responding in PwC’s survey believe that internal audit is performing well at obtaining, training, and/or sourcing the right level of talent and the right specialists for its needs. The PwC report surmises, “As the right talent model is imperative to delivering on expectations, it is no wonder that there is such a correlation between stakeholders’ views about skillset development and their views about internal auditing’s overall performance.” There are several ways to close this gap — cosourcing, recruiting, and training. The key is to identify the gap and close it.
Customer Feedback & IIA Call to Action

Figure 8. Are you satisfied that your audit committee has the time and expertise to oversee the major risks on its agenda in addition to carrying out its core oversight responsibilities?

- YES: 50%
- YES but increasingly difficult: 43%
- NO: 7%

Based on the July 2014 Pulse on the Profession report, the number one area that internal audit customers say they want more IA focus on is:

- a) Cyber security
- b) SOX 404/financial statement control testing
- c) Risk management processes
- d) Executive expense reports
- e) Corporate social responsibility
- f) Corporate ethics
- g) Don’t know
CAUSES OF DECLINING CUSTOMER SATISFACTION
Cause #1: Codification of risk oversight expectations - IA isn’t providing much help right now
Cause #2: Boards and CEOs are explicitly responsible for overseeing management’s risk appetite and tolerance - IA isn’t providing much help right now

4.1 The board of directors should:

a) approve the financial institution’s RAF, developed in collaboration with the CEO, CRO and CFO, and ensure it remains consistent with the institution’s short- and long-term strategy, business and capital plans, risk capacity as well as compensation programs;

b) hold the CEO and other senior management accountable for the integrity of the RAF, including the timely identification, management and escalation of breaches in risk limits and of material risk exposures;

c) ensure that annual business plans are in line with the approved risk appetite and incentives/disincentives are included in the compensation programmes to facilitate adherence to risk appetite;

d) include an assessment of risk appetite in their strategic discussions including decisions regarding mergers, acquisitions, and growth in business lines or products;
Cause #3: Regulators are calling on IA to support board & C-suite risk oversight but IA is transitioning very slowly

4.6 Internal audit (or other independent assessor) should:\n
a) routinely include assessments of the RAF on an institution-wide basis as well as on an individual business line and legal entity basis;
b) identify whether breaches in risk limits are being appropriately identified, escalated and reported, and report on the implementation of the RAF to the board and senior management as appropriate;
c) independently assess periodically the design and effectiveness of the RAF and its alignment with supervisory expectations;
d) assess the effectiveness of the implementation of the RAF, including linkage to organisational culture, as well as strategic and business planning, compensation, and decision-making processes;
e) assess the design and effectiveness of risk measurement techniques and MIS used to monitor the institution’s risk profile in relation to its risk appetite;
f) report any material deficiencies in the RAF and on alignment (or otherwise) of risk appetite and risk profile with risk culture to the board and senior management in a timely manner; and

g) evaluate the need to supplement its own independent assessment with expertise from third parties to provide a comprehensive independent view of the
Cause #4: Risks are emerging faster than status quo assurance methods and tools can cope - IA isn't providing much help coping.

A full transcription of this video post is below:

Rate of change in the world today is going up. It’s going up fast, and it’s affecting organizations in a huge way. The evidence of this can be seen almost everywhere—life-cycle of products, number of patents filed in the US Patent Office, amount of cell phone activity across national boundaries—on and on and on.
Cause #5: Internal audit and SOX 404 have focused on control “effectiveness” - not acceptability of residual risk

2.27
residual risk
risk (2.1) remaining after risk treatment (2.25)

NOTE 1  Residual risk can contain unidentified risk.

NOTE 2  Residual risk can also be known as “retained risk”.

The number one cause of significant declines in internal audit customer satisfaction globally in your opinion is:

a) New board risk oversight expectations - traditional IA methods don’t provide enough help
b) Critical internal audit reports that irritate management
c) Internal audit isn’t delivering what customers need most – help managing rapid change and new risks
d) Not enough focus on effectiveness of risk processes
e) Internal audit isn’t delivering what C-Suite and boards see as sufficient bang for the buck
f) All of the above
g) Other
h) Don’t know
FIVE STRATEGIES FOR INTERNAL AUDIT SUCCESS
STRATEGY #1: Brief boards and senior executives on risk governance trends
STRATEGY #2: Propose the use of an “OBJECTIVES REGISTER” as the foundation for all formal assurance work including IA, ERM, safety, compliance, and other assurance areas. Include top “value creation” and “potential value erosion objectives”
STRATEGY #3: Require C-Suite and board define “Owner/Sponsors”, “Risk Assessment Rigour” (RAR) levels, and “Independent Assurance Levels” (IAL) for all objectives in the Objectives Register.
STRATEGY #4: Use risk assessment methods that focus on painting a picture of residual risk status, not subjective opinions on “control effectiveness”
STRATEGY #5: Provide regular reports to senior management and the board on the effectiveness and reliability of the organization’s risk appetite framework ("RAF") and risk status reports from CEO/CRO to the board.
Which of the following is not one of the strategies recommended in today’s presentation:

a) IA should use management quarterly/annual risk register reports to decide where to do direct report audits and then provide IA’s opinions on control effectiveness

b) Use an OBJECTIVE REGISTER as the foundation for all formal assurance work

c) Assign OWNER/SPONSORS to each objective and require they report on residual risk status

d) Require senior management and the board define risk assessment rigor and independent assurance levels

e) Don’t know
BARRIERS TO CHANGE
BARRIER #1: The amount of change required from boards, senior management, risk specialists, and internal audit is significant

Definition:
What is resistance to change in your workplace and how does it manifest itself? Resistance to change is the act of opposing or struggling with modifications or transformations that alter the status quo in the workplace.
BARRIER #2: Not all C-Suites want the board to know “the whole truth and nothing but the truth” and not all boards want to know
BARRIER #3: Not all organizations have clear end result objectives, particularly key strategic “value creation” objectives and top “value erosion” objectives.

In short, goals are the desired end result.

As Stephen Covey says, it helps to “Begin with the end in mind.”

Goals should also decide the results that are wanted/needed and set a timeframe for achieving results. Most importantly, goals must build in accountability and consequences for not achieving them.

Performance measures are the best indicators of success in achieving goals and outcomes; they should be relevant and practical.
BARRIER #4: The current internal audit delivery paradigm is providing “direct report” opinions on “control effectiveness”, not attestation reports on management reports on residual risk status. Management often says they don’t have time to do risk self-assessments. It’s easier for internal audit to do assessments for them than convince management they should self-assess and report results to the board.

Richard Chambers @rfchambers · Sep 8

“An internal audit operation that is performing against outdated expectations is an accident waiting to happen.”

#Audittraillesson
POLLING QUESTION #4

Which of the following is likely to be the biggest barrier to management reporting to the board on risk status at your organization:

a) Lots of high retained risk positions management doesn’t want the board to know about

b) Management and the board believe it’s IA’s job to give opinions on whether IA thinks controls are, or are not, effective and they aren’t’ likely to change their view any time soon.

c) We don’t have a board hence there is nobody that management has to report to on risk status or effectiveness of risk processes.

d) Our head of internal audit fits the adage “you can’t teach an old dog new tricks” and likely will have to go out “boots first” before he/she changes

e) Nobody is making boards or management self-assess in Canada so far, so why do the work when it’s not required yet.

f) Other

g) Don’t know
WHAT IS IIA GLOBAL DOING TO HELP
What IIA Global is doing to help

Modified the IPPF in 2010 to require IA opinions on risk management processes

2120 – Risk Management

“The internal audit activity must evaluate the effectiveness and contribute to the improvement of the risk management process”
What IIA Global is doing to help

Created and successfully launched the Certification in Risk Management Assurance ("CRMA")

Certification in Risk Management Assurance (CRMA)

Be a Key Advisor to the Audit Committee and Executive Management for Risk Management

Job analysis and stakeholder surveys have indicated a key element to unlocking internal audit's full potential can be found in a professional's ability to provide advice and assurance on risk management to audit committees and executive management. In response, The IIA developed the CRMA designation.

The standard CRMA Core Exam will be a 100-question, multiple-choice exam, with a seat time of two hours. These exams will be instantly scored like all of the other IIA exams, and will be administered at Pearson VUE testing centers around the world. All Certification in Risk Management Assurance® (CRMA®) eligibility requirements will apply.

The CRMA: Your Key to Career Success

The CRMA is designed for internal auditors and risk management professionals with responsibility for and experience in providing risk assurance, governance processes, quality assurance, or control self-assessment (CSA). It demonstrates an individual's ability to evaluate the dynamic components that comprise an organization’s governance and enterprise risk management program and provide advice and assurance around these issues.
What IIA Global is doing to help

2013-2014 IIA Global Chair Paul Sobel and 2014-2015 Chair Anton van Wyk both champion the need for internal audit to address the growing gap.
What IIA Global is doing to help

Launching a new training offering for IIA members globally on how to implement “Board & C-Suite Driven/Objective Centric” Assurance to meet escalating stakeholder expectations

CAE WORKSHOP
AND AUDIT EXECUTIVE CENTER MEET & GREET
IN COLLABORATION WITH
THE IIA’S ALL-STAR CONFERENCE

We look forward to seeing you at the All-Star Conference in October and would like to invite you to join us for two invitation-only Audit Executive Center events. These are great opportunities to share knowledge and network with your Audit Executive Center peers.

CAE WORKSHOP: AUDIT TRANSFORMATION STRATEGIES TO MEET ESCALATING STAKEHOLDER EXPECTATIONS

Monday, October 27th
2:00pm-4:00pm (PST)
Caesars Palace, Las Vegas
CPE: 2.0
Facilitator: Tim Leech, FCPA FCA CIA CRMA CFE
Managing Director Global Services, Risk Oversight Inc. (“RO”)

Please join the Audit Executive Center and IIA On-site Training for this invitation-only event. The IIA’s Audit Executive Center 2014 Global Pulse of the Profession report cross-references the Pulse survey findings with survey findings from similar global reports issued by KPMG International, PwC, and Protiviti with results indicating a growing dissatisfaction on the part of boards and senior management with traditional internal audit and ERM delivery methods and services. The Pulse report recommends five core strategies to respond.
Questions???

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