Internal Audit Conference 2021: Key insights from the Chartered IIA event

Here is your in-depth summary of the Chartered IIA's Internal Audit Conference 2021.

Jump to areas of interest or take your time to absorb two days of conference insights in just over 10 minutes.

To get you started, here are some takeaways from the event:

1. Be confident in the scepticism of your governance leaders
2. Sample based testing is quickly becoming non-plausible
3. ESG risks are increasing and internal audit is still playing catch up
4. Climate disclosure assurance is necessary now
5. Annual reports offer signs of looming corporate failure
6. Diversity is part of our corporate social conscience
7. An agile mindset is critical
8. Recruit, develop and retain game-changing talent
9. Innovate, embrace technology and adapt
10. Complacency now signals the decline of internal audit

Key business priorities

Opening the conference, Lord Callanan, Parliamentary Under Secretary of State for the Department for Business, Energy and Industrial Strategy (BEIS) told delegates that internal audit has: “so much ability to influence and correct business conduct from the inside to improve performance and to avert potential problems.”

Callanan emphasised the government’s intent for the post-pandemic economy to build back better, greener and with increased trust in business. Regarding the BEIS white paper restoring trust in audit and corporate governance, he set out three key roles of the new Audit and Assurance Policy:

- Demonstrate transparency of the assurance approach
- Enable investors to engage in assurance where necessary
- Extend assurance beyond financial statements

Check out our latest guidance on the role of audit and creation of an AAP. Assurance mapping is an essential step. Spreadsheets are a pragmatic start point. With maturity, consideration can be given to interactive GRC software to integrate assurance, risk and control data.

What next for internal audit?

Grab an energy bar! There’s no let-up. The decade ahead is going to be exciting, challenging and defining. For our organisations, our profession and the planet.

Internal audit has an emerging talent risk, says Richard Chambers, Former President of IIA Global and a Chair at the Internal Audit Conference. The profession needs to refocus on critical risks and rebuild relationships that are not as strong in the virtual world. CAEs need to be prepared for the volatility ahead.

Chambers proposes a cone of uncertainty with three scenarios based on strategic risks for the decade ahead.

Work location	Fully in-person	In-person first	Collaboration first	Remote first	Fully remote
Beliefs	Believe working at a physical office is their long-term norm, with daily co-location	Believe that regular in-person collaboration, connection, and office-based work is important	Believe that in-person collaboration, connection, and office-based work important, but can do a lot remotely	Believe office is primarily a space for targeted collaboration, and come-in for critical sessions	Believe most/all work & collaboration can happen effectively remotely, co-locating only for connectivity with colleagues and to attend signature events
Benefits[1]	Cultural and social cohesion				Access to talent and cost optimization
Where they work	Mostly from an office, but on occasion, will take remote days for important life events, heads-down work, etc.	Split their week, spending minimum 3-4 days at an office	May split their week, spending minimum 1-2 days at an office, or may be remote and in-person full weeks at a time	Remote is the default, and spend minimum 2-4 days per month at an office	Mostly remote, spending minimum 2-4 days per quarter at an office
Example roles	Primarily manual labor that must be done on a daily basis – E.g., Facilities	Regular in-person collaboration (e.g., whiteboarding) needed Frequent interactions with physical items – E.g., Research	Periodic need for in-person collaboration Limited interactions with physical items – E.g., Medical, Field	Occasional, targeted need for in-person collaboration – E.g., PV, Regulatory, HR Operations, Market Access	Occasional in-person learning and development opportunities and events geared at building social connections – E.g., Finance, EAs, Tech

Scenario 1: seize opportunity and soar, agile mindset, embrace technology, continuous risk assessment drives dynamic audit plans, relevant talent, new “I need internal audit” moments.

Scenario 2: glide through, moderate investment in resource, low profile, seen as valuable but not indispensable, no iconic “where were internal audit” moments.

Scenario 3: complacency causes us to dive, strategic risks converge, alternative assurance providers gain prominence and too many “where were internal audit” moments.

Three scenarios. Only one option. Agreed?

Here are five things all audit leaders must get right quickly:

1. Be a beacon for emerging risk
2. Recruit and retain game-changing talent
3. Be champions for strong governance
4. Innovate for greater efficiency and impact
5. Be prolific in telling the ‘internal audit’s story’ about how we preserve and create value

In his latest book, Chambers calls on internal auditors to be agents of change, demonstrating four key skills: innovation, business acumen, strategic mindset and ability to sustain strong relationships.

After nearly five decades in the profession, Chambers talks with authority. As did Lindsay O’Reilly, Group Chief Internal Auditor for Barclays, who presented a session on driving business success. With little more than a year in the profession, she has consolidated the cone of uncertainty into one big PR issue: people rarely see internal audit as an asset.

She called on CAEs to develop diversity of talent to demonstrate expertise, experience and gravitas. To deliver relevant assurance and reflect the organisation they work in. Why wouldn’t you want to have engineers in the team if engineering is the heartbeat of the organisation?

It’s the role of leaders to inspire people to work in internal audit and develop the talent pipeline which includes making tough decisions. Make training a priority and ensure that the culture of the function befits being in a glasshouse with impeccable ethics and standards.

Retrospective audits are an innovation which O’Reilly says all CAEs can introduce. Whenever a significant issue occurs in the organisation, internal audit asks itself: should we have seen this, did we miss something, what can we learn from this to improve our ways of working? It is better to find cracks before they become a crevice, to learn from issues that others experience and to engage the business at every stage, clearly articulating the 'so what' to drive powerful change.

Innovation and internal audit

Innovation can be novel or simply new to you, reflecting changing mindsets and approaches like the team at the British Heart Foundation. Internal audit's pandemic adaption has led them to be stronger, more relevant and with an elevated profile. Innovating ways of working, collaboration and communication not only within their team but in partnership with governance leaders resulting in heightened risk maturity and ongoing scenario planning to learn to live with the impact of COVID-19.

Digital and cyber risk, stalwarts of Risk in Focus, were covered in technical and strategic detail, from augmented advertising on wearable devices to the handling of ransomware attacks.

With the Fourth Industrial Revolution upon us, one speaker emphasised that Gen Z (born 1997-2012) typically spend a reluctant eight seconds on a webpage, make decisions quickly and would rather receive their information via a known contact in TikTok. How are you attracting and engaging this new generation of internal auditors?

Fintech continues to disrupt the financial services sector. Increased regulator engagement is likely to see the introduction of more complex products and services building on developments in blockchain, machine learning and open-source capabilities. Internal audit must be influential early in decision-making, the mitigations don't change only how they are delivered. Useful due diligence guidance in this regard has recently been published by the Fed.

Significant IT risk sits outside of most organisations due to the transition to cloud computing – private clouds, infrastructure and software as a service. Yet what is the governance? Does your organisation understand that responsibility for activities in the cloud is shared with providers? What's more, does the internal audit plan include all IT risks or simply the residual risks, believed to be managed in-house?

The NIST cyber security framework is a useful basis for assurance, and also the NCSC Cyber Assessment Framework, as both enable internal auditors to position their work in a way that is familiar to the audience. NIST moves through phases of security controls from identity, protect, detect, respond and recovery. A top tip for internal auditors is to start at the end of the cycle as the response and recovery plans are a good indicator of maturity and cyber culture.

The need for resilience

Thinking about financial resilience, internal audit should focus on cash and monitor liquidity. Organisations are often good at setting a budget but less so in using it to drive a forecast which is adjusted and reviewed ongoing. Internal audit assurance can not only address weaknesses in the process and reporting but pick up optimism bias, which is a common trait.

Warning signs to look out for in management information include: late MI, blaming external factors, missing detail or analysis, defensiveness in answering questions, mismatches to audited accounts.

Tim Steer, Author of The Signs Were There, advocates that, read correctly and with professional scepticism, a company's annual report can highlight undisclosed issues and possibly even predict corporate failure. Signs that there may be trouble ahead include:

Costs become assets	Deteriorating quality of assets
Unusual stock adjustments	Bad debt provisions
Massive accruals of income	Related parties
Goodwill	Conflicts of interest
Acquisitive companies	Deteriorating trends

An ex-Fund Manager, Steer recommends running your fingers down the balance sheet to see if anything has a percentage increase/decline significantly different to the business overall. Ultimately, cash is fact, and everything else is opinion based on estimates and judgements.

Continued economic uncertainty increases the value of financial assurance. If there isn't sufficient competency in-house, bring in an expert to work alongside rather than create an assurance gap.

Within the supply chain, audits of supplier management are not enough. Assurance should be across the vast breadth of the supply chain.

Priority areas include:

- Governance of forums and committees, roles and responsibilities
- Awarding of contracts and setting performance indicators
- Demand forecasting, supplier capacity and stock forecasting
- Process to gather intelligence for supply chain risk identification
- Distribution channels and consignment visibility
- Process to monitor, react and respond to events (resilience capability)

Looking ahead, future models may have less reliance on Asia, use artificial intelligence and digital twins (real-time data simulation model), mandate visibility from source at all stages, increase pressure on working capital and require greater collaboration between parties.

Our hybrid Internal Audit Conference audience reflected the new working environment. And a challenge for internal audit. Talk to an experienced internal auditor and they will tell you that there is real value in seeing people face-to-face, using the 'audit nose' in addition to the normal senses of sight and sound.

However, separate sessions on digital and workforce planning gave the same message. Looking ahead five to 10 years, there will be a significant change to job roles and a segmented workforce will be commonplace.

How then will your audit nose evolve? Even if internal auditors are in-person first, those being audited might not be. The environment is changing, we cannot stay the same.

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ESG isn't just a buzzword

E is for Environmental

Against the backdrop of COP26, Chartered IIA President Peter Elam announced the Institute's pledge to develop a net-zero strategy having joined CAFA, Climate Action for Associations.

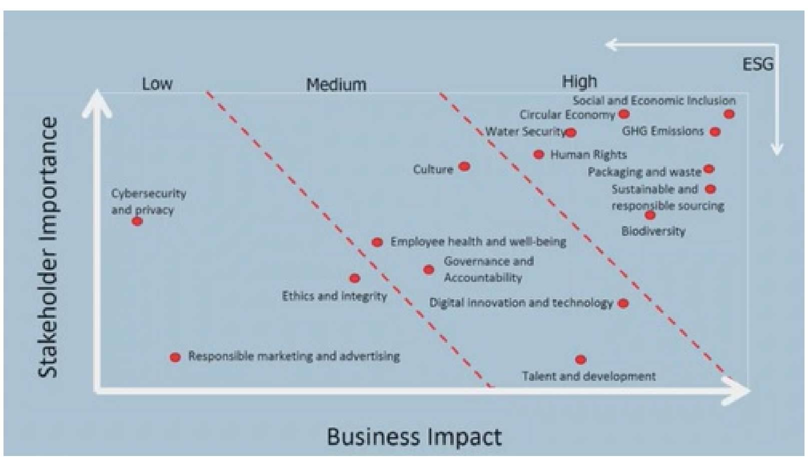
The UK Government led the world in legislating its net zero strategy. It is now driving business accountability for climate change by making TCFD reporting mandatory for a range of organisations by 2025, with many corporates falling liable by 2022.

If environmental disclosure is not on your audit plan, include it today.

TCFD is one of many sustainability reporting standards that the IFRS Foundation is aiming to consolidate. Stay alert to this as the rules of the game may change.

Expert speakers talked of the new imperative to 'govern with purpose' and warned of greenwashing and the associated reputation risk. A Harvard Business School quote suggests that of their membership 90% of CEOs state that sustainability is essential to their company's success. Audit leaders have an educational role where board members and senior executives are being slow to adapt to the new risk landscape.

The diagram below shows how the BSI are prioritising standards and guidance. It is a useful list for boardroom discussion and the audit plan too.



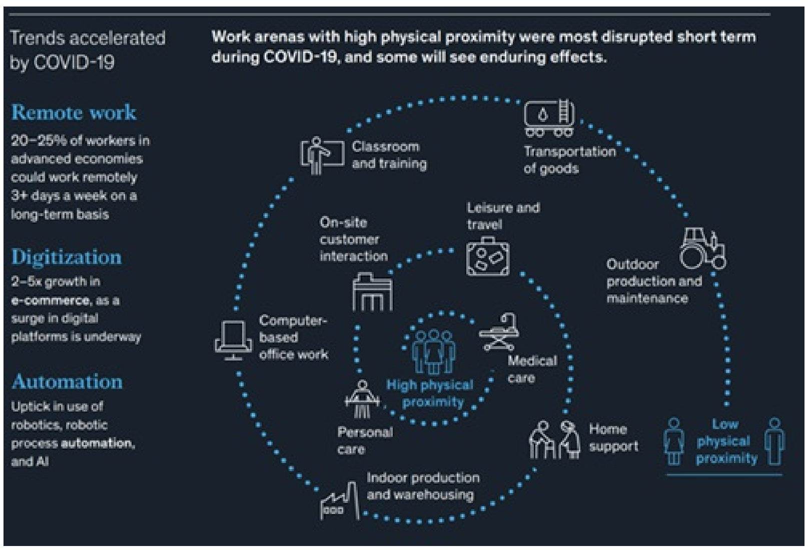
How carbon aware are you? Negotiations at COP26 include formalising a framework for a global carbon market to turn emission reductions and removals into tradeable assets. Countries and organisations will be able to buy the excess 'credits' traded on the market to put towards their own targets. It is likely to be legislated.

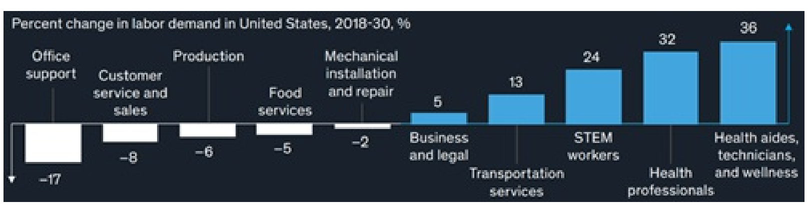
In addition to the Chartered IIA's climate guidance, there are various standards, such as the BSI with associated best practice and guidance to help internal auditors drive change.

S is for Social

It is often said that people are an organisation's greatest asset.

According to McKinsey, 20-25% of workers in advanced economies could permanently work remotely 3+ days a week. A trend which, along with the use of digital platforms and robotics, has been accelerated by the pandemic. Estimates suggest that digitalisation will force the occupational transition of 3 million people, including accountants and auditors, in the UK by 2030. Research from the US shows how these changes may impact skill needs, especially science, technology, engineering and maths (STEM) and a wide range within the health care sector.





The need to reimagine the 'what', 'how', 'who' and 'where' of the workforce is a major undertaking. It will require a positive employee experience, a focus on wellbeing and a real understanding of why people stay or leave.

Does your organisation have a talent strategy?

Do your internal auditors have the skills to provide assurance and insight?

This scenario fits with Chambers' reflections on the future of internal audit, noting that if the profession continues to do what it's always done, we will not be relevant. Audit leaders need to urgently prioritise an increasing demand for skills such as data analysts, AI, big data and risk management specialists, strategic advisors, behavioural psychologists and organisation analysts. Automation should take a primary role in compliance assurance in the future.

Diversity, equality and inclusion is fundamental to the S in ESG. The corporate social conscience of an organisation impacts its culture with stakeholders demanding and expecting more. Culture that creates psychological safety enables people to ask questions and be authentic. A genuine workforce voice and an emerging trend for flexible faith-based holidays are examples of good practice.

Here are three data points for assessing inclusion culture:

Diversity data: review and benchmark diversity of employees against relevant metrics

Policy and Processes: assess inclusion maturity through desktop review of practices and policies

Experience: undertake questionnaires and focus groups with employees

Social conscience should extend throughout the organisation, such as modern slavery within the supply chain being a key concern as the pandemic made fighting financial crimes more difficult.

G is for governance

Lord Callanan advised delegates that a response to the audit reform white paper consultation was forthcoming before going through the parliamentary process. The next stage in this wide-ranging governance reform could be pivotal for the role of internal audit.

CAEs were advised to build relationships with their company secretary by Victoria Penrice, President of Chartered Governance Institute, whose session 'What does good governance look like and what are the warning signs that it may be failing' appeared on day one of the conference. Their shared goal of good governance and integrity makes for a good alliance. She observed that even small issues raised but not addressed are red flags and that board effectiveness reviews are only as good as the action the board takes to improve.

Do you see the output of effectiveness reviews? Penrice says you should.

The culture of audit committees needs to change. Often led by accountants, the focus once predominantly on financials, must now be balanced and include non-financial reporting according to Bryan Foss, audit committee chair and member of the Risk Coalition. Options are to extend remit (and time) to be an audit and risk committee or, like financial services, create a separate risk committee, either way non-executives must raise the bar on their knowledge and be proactive to maintain awareness across all disclosures. Foss said: "We should not delay implementing what we know is already needed."

Activist investors such as Engine 1 are taking a seat at the top table. In 2021, with a relatively small budget, Engine 1 lobbied shareholders and succeeded in getting three nominated directors to Exxon's board to effect change.

Internal auditors use professional scepticism. Chambers asked the question: is the board sceptical enough when faced with information such as strategic proposals, risk assessments and assurance reports?

Integrity is another audit trait that is essential to good governance; breaches must have personal consequences. Take fraud as an example, does your organisation deal with it openly or brush it under the carpet?

A useful mnemonic for internal audit to apply to itself and governance is **HOLD**, which stands for:

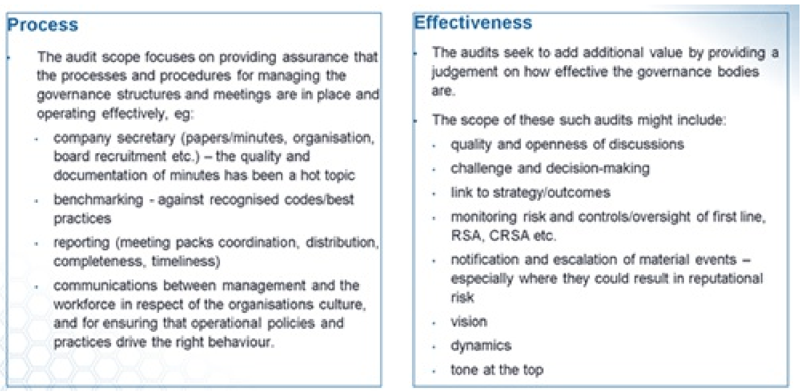
Honesty

Objectivity

Loyalty

Diligence

Auditing governance and culture was frequently referred to by speakers, including the need to be brave and address training needs. There are two possible approaches to auditing corporate governance.



Data and fraud are intertwined

Data

Over 100 organisations collaborate as part of the Chartered IIA's Data Analytics Working Group to start or enhance their data analytics journey. For details on how to join, click here.

Delegates heard from expert speakers on a range of data analysis issues such as data access, skills and knowledge, and capacity. Sample-based testing is rapidly becoming non-plausible due to the extent of the technology estate and volume of data. Internal audit has access to software now, including free tools, to enable whole population testing.

Capacity, according to PwC, can be created by moving away from standard length audits, collaborating more with management during scoping and communicating results and audit scoping in two stages. Firstly, define high level objectives and scope, then obtain and analyse data ahead of agreeing a detailed scope; this enables data led sampling plus outliers and anomalies can inform the test plan.

Data risks remain focused on three areas: privacy risk, internal and external security risk and compliance risk.

Top tips from an expert in this field include:

1. **Audit data governance**: look at the cyber culture and understand corporate politics
2. **Commission independent secret pen tests to learn from**: it's important this is not a blame game
3. **Raise awareness that risk velocity is off the scale:** a zero event can move an organisation from a good state to vulnerable in minutes

Internal audit itself is a significant hacking risk as auditors have broad access to all data within the organisation. How strong is the cyber culture within your team?

The Brexit transition created UK GDPR: a 2018 revision of the Data Protection Act. There are minor differences regarding movement of data such as restricted transfer rights and also how consent for website cookies are obtained and stored. The UK Government's agenda includes plans to introduce tougher penalties, a new data regime and prioritises innovative and responsible uses of data.

Disclosures, whether TCFD or DEI require data. Data metrics and data validation is an imperative for organisations and internal audit. If your organisation is not already doing it, then it needs to start capturing, benchmarking and reporting quickly to address inherent problems with ESG data.

Regulations and stakeholder requirements are changing	Multiple frameworks and reports create integrity risk.
Third-party ESG risk is gaining attention	Data collection is difficult
Monitoring progress against targets is resource intensive	

What advisory and assurance role are you taking to help resolve these problems?

Fraud

The pandemic has been a perfect storm for the fraud triangle: opportunity + pressure + rationalisation. The National Audit Office shared common issues that led to the recent upswing in fraud: prioritised speed over control when setting up new processes, engaging with new suppliers. Check out their new good practice guide to managing fraud risk and error.

Research shared by risk solutions provider, Kroll, suggests that the biggest fraud risks are a lack of visibility over third parties (46%), weaknesses in internal record-keeping (31%) and employee actions (23%). Cultural tolerance of small breaches and reluctance to prosecute is also a red flag as it demonstrates weak leadership. An organisation's control environment should be cost-effective while enabling fraud and error to be minimised to its risk appetite.

They also offered examples of red flags.

Entity wide control	Process level control	Transaction level control
Opaque, autocratic leadership Inconsistent messaging Lack of consideration of organisational risk Lack of governance over fraud risk management	Limited or 'box ticking due diligence on third parties Irrational/inconsistent hiring practices Inconsistent/excessive gifts Links between employees and third parties	Excessive or unexplained 'miscellaneous' transactions Poor books and records Use of cash Complex intercompany debt structures (disguise cash movements)

Conclusion

Thank you for reading this. You have joined the 900+ delegates demonstrating passion for developing themselves, their teams and the profession by attending the conference. The real value of learning is in taking action.

Here are five things we must get right in the decade ahead, according to Richard Chambers:

1. Be a beacon for emerging risks
2. Recruit and retain game-changing talent
3. Be champions for strong governance
4. Innovate for greater efficiency and impact
5. Be prolific in telling “internal audit’s story” – how we preserve and CREATE value