

# Internal Audit Landscape 2014



# Agenda

- Ø Examining the evolution of risk in today's digital world and the impact on traditional audit, security, risk, and compliance functions
- Ø Emerging internal audit methodologies
- Ø Updated COSO framework – Understanding what's new and considerations for internal auditors

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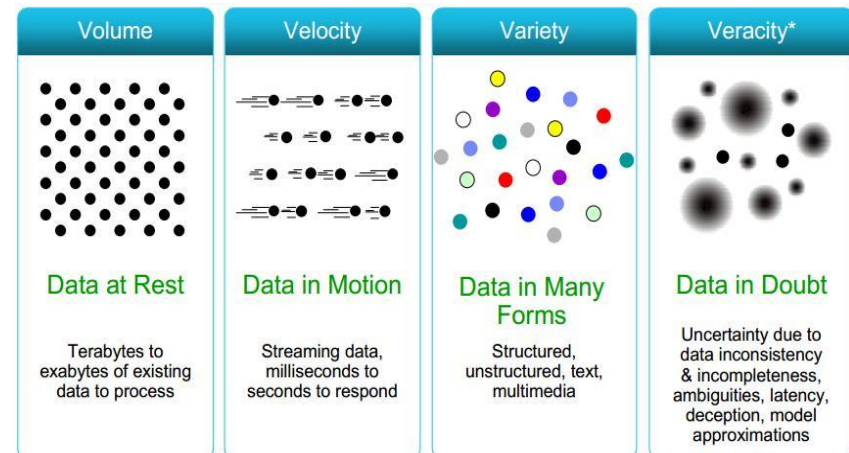
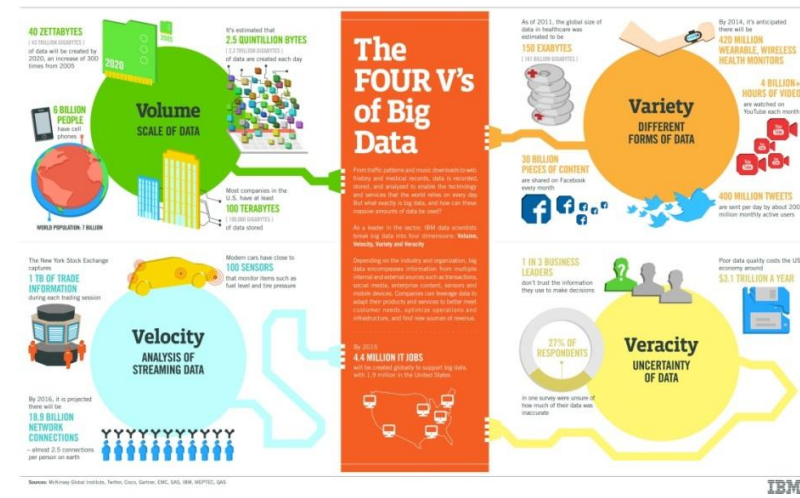
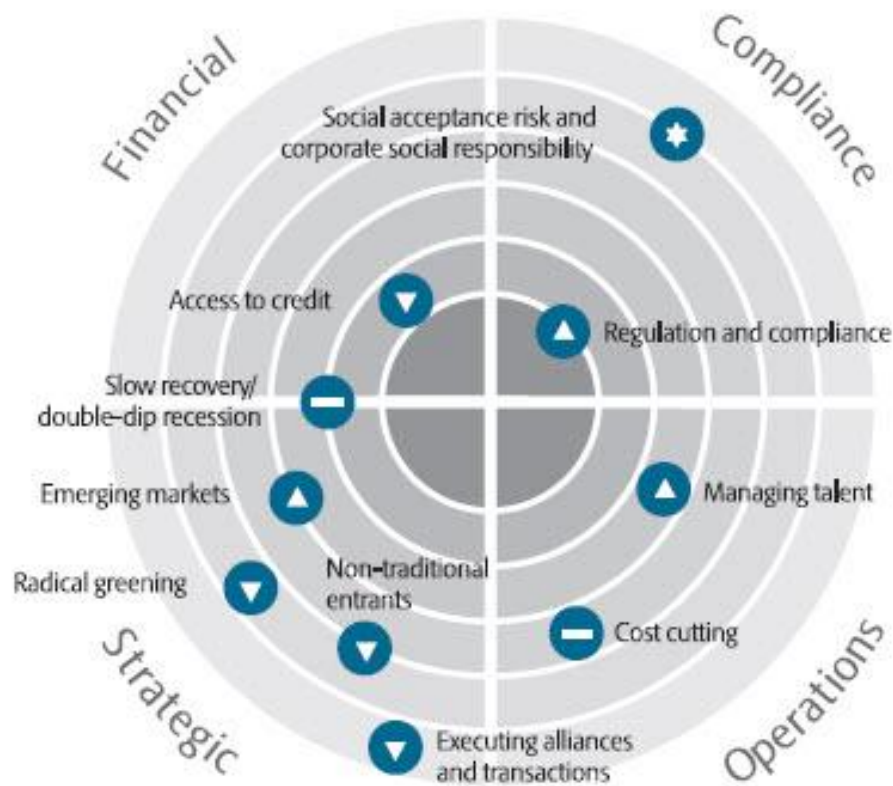
**Banking and Financial Services**  
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Hot topics for 2014 Audit Planning

# Veracity - Big Data

Rapid changes in information technology infrastructure are increasing the difficulty of maintaining high levels of preparedness simultaneously against all threats. In response, organizations are adopting enhanced strategies for fighting fraud: from 100% success at prevention, to greater visibility, faster detection and incident response; from 'figure out what already happened' using post-incident forensics, to proactively 'figuring out what's happening' using Big Data and predictive analytics.”

## The top 10 business risks



# Emerging Internal Audit Methodologies - 2014 Industry Topics (1/4)

Consideration for Internal audit	Topics			
	Governance	Culture	Risk Management	Capital & Liquidity
Assessing the structures, processes and controls to manage a business	ü			
How Processes, actions and tone at the top align with the values and behaviors of the business		ü		
Assessing how a risk or group of risks are managed across a Group or business			ü	
How risk management is linked to strategy			ü	
Aggregation of risk data and MI			ü	
How data management measures up against the BCBS principles for effective Risk Data Aggregation and Risk Reporting			ü	
Readiness/ compliance with new requirements (internationally agreed standards on capital and liquidity – Basel III) effective 1 January 2014				ü
Completeness, accuracy and integrity of source data inputs and calculated RWA outputs				ü
Board and senior management oversight				ü
Policies, procedures and limits (e.g. stress- testing)				ü
Risk measurement and monitoring				ü
Design and development of model governance and model validation				ü

# Emerging Internal Audit Methodologies - 2014 Industry Topics (2/4)

Consideration for Internal audit	Topics				
	Trading	Accounting & Tax	Loan loss provisioning	IT	Resilience
The spotlight is starting to shine on other indices (aside from LIBOR), benchmarks and wider price setting processes that banks contribute to	ü				
A focus on reviewing submission processes against definitions and best practice.	ü				
Assurance over controls to capture and report unauthorised trading	ü				
The firm's culture and attitude towards unauthorised trading	ü				
Assurance over trade execution controls given recent glitches and failures in high frequency trading	ü				
Tax strategy and tax governance arrangements		ü			
Alignment of tax strategy to wider business strategy		ü			
Identifying and recognition of loan loss provisioning			ü		
Controls over the functioning of the model			ü		
Reporting and disclosure requirements			ü		
Third party/ out-sourced partners relations				ü	
Data security risk				ü	
Business continuity and disaster recovery processes					ü
Resilience controls and processes					ü

# Emerging Internal Audit Methodologies - 2014 Industry Topics (3/4)

Consideration for Internal audit	Topics			
	Payments	Cyber crime	Data governance and quality	Regulatory
Payment services regulation compliance	ü			
Account switching requirements (going live in September 2013)	ü			
Mobile payments (Spring 2014)	ü			
Resolution and recovery plans, ring-fencing, intraday liquidity management, FATCA compliance, sanctions compliance and fraud prevention	ü			
Exposure to cyber threats increases as companies embrace the digital world. Regulatory demands increase over security and public confidence is challenged		ü		
Controls over time to recover from a cyber attack and ability to reduce the net impact as well as preventative controls		ü		
Controls over the governance and quality of data			ü	
Increasing regulatory attention			ü	
Compliance with the Conduct of Business rules (including COBS, ICOBS, MCOB and BCOBS sourcebooks)				ü
Identifying the likely end customer and how controls in place ensure focus on products and services meeting the long term interests of both retail and wholesale customers				ü
Regulatory data quality				ü
Capital, liquidity and other prudential returns is increasingly being challenged as a result of peer group review.				ü
Challenge and oversight over regulatory reporting				ü



# Emerging Internal Audit Methodologies - 2014 Industry Topics (4/4)

Consideration for Internal audit	Topics		
	Regulatory	Financial Crime	Client assets
Control framework surrounding the new COREP and FINREP data requirements	ü		
Systems and controls to combat financial crime are robust and in line with regulations		ü	
Focus on AML		ü	
Arrangements over client assets in areas such as management processes, adequate trust letters, treatment of collateral, completeness and accuracy of the client money calculations, oversight of outsourced providers and sufficient management information and reporting			ü
Compliance with the CASS rules			ü
Second and third line of defence monitoring programmes			ü

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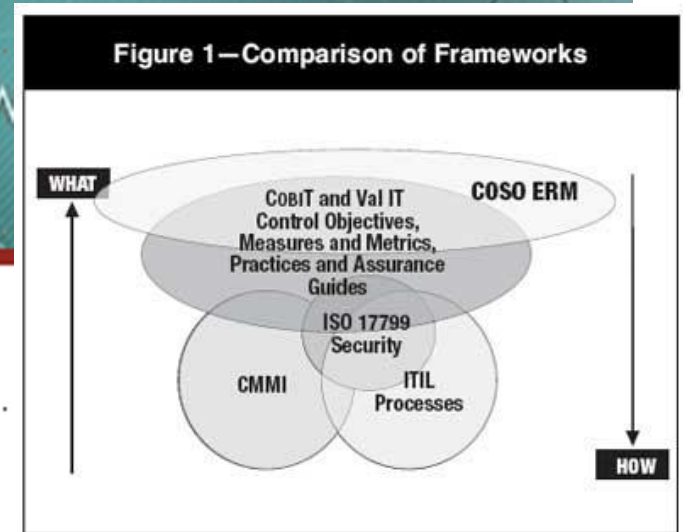
# Emerging Internal Audit Methodologies - 2014

## Methodology Topics

Consideration for Internal audit	IA processes	Opinion on internal control environment	Data Analysis
Internal auditors are expected to increase both the value and impact of internal audit	ü		
Internal audit is required to have the necessary skills and experience that is commensurate with the risks of the organisation	ü		
The Guidance provides that “the Chief Auditor should provide the Audit Committee with a regular assessment of the skills required to conduct the work needed and whether the internal audit budget is sufficient”	ü		
The Audit Committee should be responsible for approving the internal audit budget and, as part of the Board’s overall governance responsibility, should disclose in the annual report whether it is satisfied that Internal Audit has the appropriate resources	ü		
The Guidance suggests that an assessment of the “overall effectiveness of the governance, risk and control framework of the organisation”, including themes and trends emerging from internal audit work, should be provided at least annually		ü	
Internal Audit will need to create methodologies to assess the control environments, and support their conclusions. These methodologies include: <ul style="list-style-type: none"> <li>• Review of internal audit data; and</li> <li>• Review of data from first and second lines of defence</li> </ul>		ü	
There is now an increased awareness of the power of using data analytics to support assurance activities, which has led to increased demand for enhanced analytics capability			ü
While it is relatively simple to implement analytics tools, developing the skillsets to use the tools effectively, embedding their use into the audit plan and managing the target data is more challenging			ü

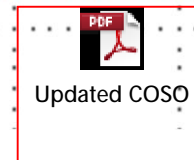


# COSO – Recommendations



## Recommended Actions

- Read COSO's updated Framework and illustrative documents
- Educate the audit committee, C-suite, operating unit and functional management
- Establish a process for identifying, assessing, and implementing necessary changes in controls and related documentation
- Develop and implement a transition plan timely to meet key objectives – e.g., apply updated Framework by December 31, 2014 for external reporting



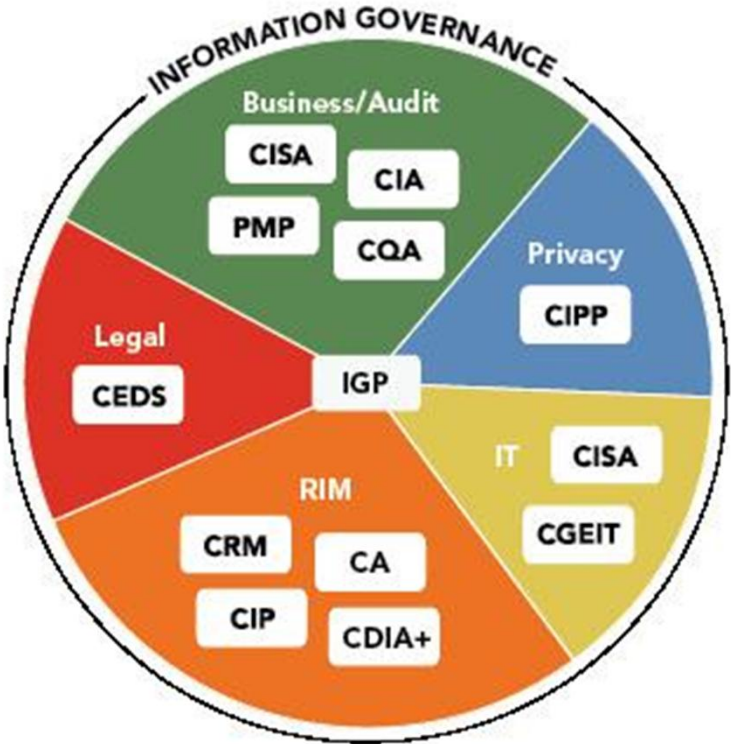
# Information Governance Professional



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*The skills and experience needed to be successful in the field of Records and Information management have been changing rapidly as we mature and grow into Information Governance.*

*The IGP represents this maturation and next phase for our field by identifying the skills and information professionals need. By earning this credential, I can demonstrate that I have the foundational base necessary to be successful." -Jason Stearns, IGP*



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