The 10th Conference

ROBOTECH SOLUTIONS

DIGITAL INNOVATION COMES CALLING

How to increase the agility of the internal audit response?

18 November 2021

Giridhar LS

THE 10th CHIEF AUDIT EXECUTIVE CONFERENCE

"BEYOND ALL BARRIERS"

16th – 18th NOVEMBER, 2021

ATLANTIS, THE PALM HOTEL, DUBAI

UNITED ARAB OF EMIRATES

How to increase the agility of the internal audit response?

Internal auditors are navigating a new landscape

How to capitalise on the potential of innovation to respond to the changes in technology and the business environment.

This new landscape asks for internal auditors to have an agile internal audit response

OBJECTIVES OF THE SESSION

- Know the various concepts in the innovation space
- Understand the anatomy of an effective innovation strategy
- Learn to manoeuvre the risks of innovation towards required outcomes

Concepts in the IA Space

ROBOTICS PROCESS AUTOMATIONS, DATA ANALYTICS & MACHINE LEARNING

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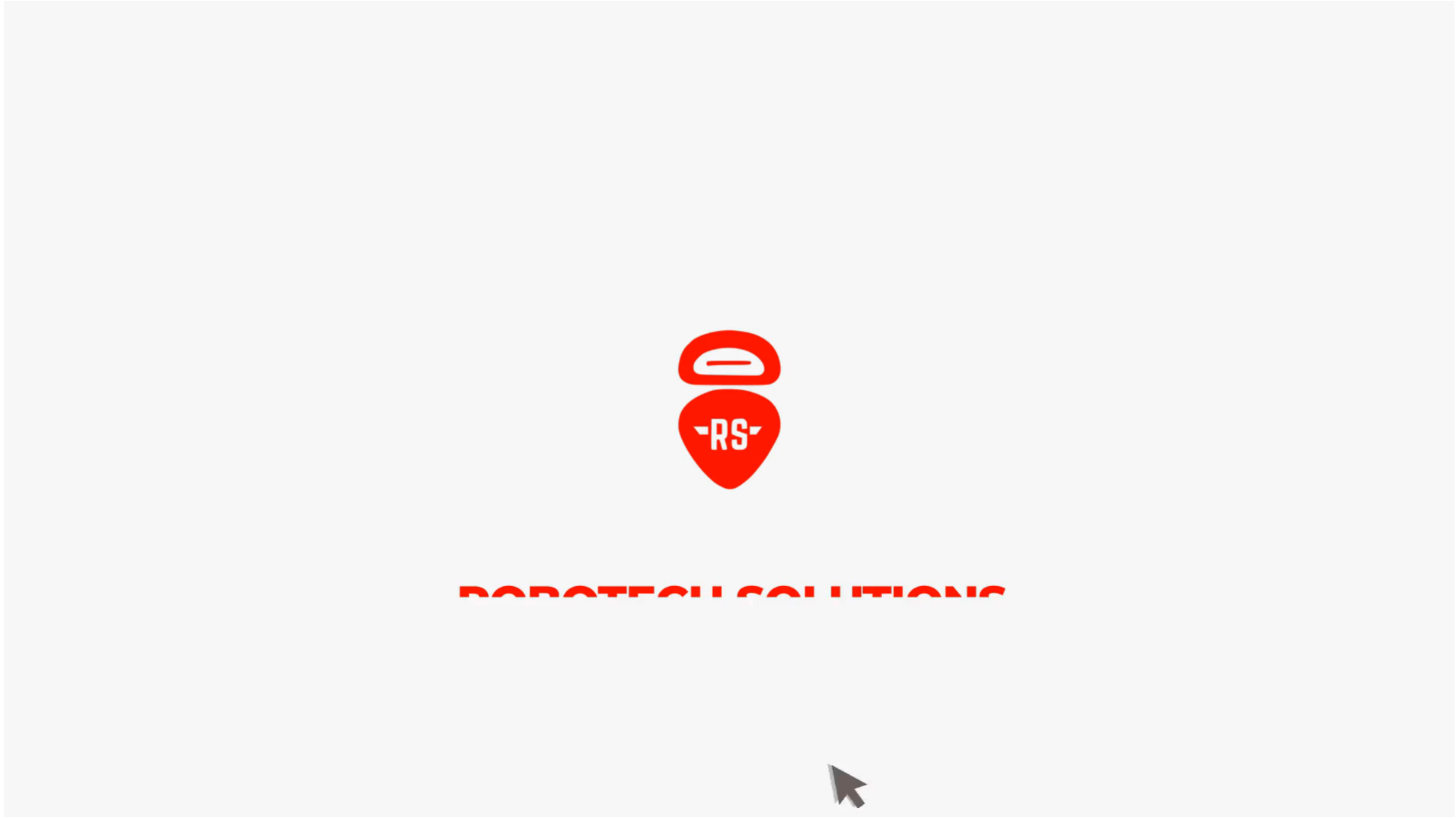
Case Study



RPA Opportunities in Internal Audit

Data Management

- Data Gathering
- Validation
- Data Appends
- Data Classification
- Data Analytics

Audit Controls

- Control Testing
- Segregation of Duties
- Periodic Review
- Real Time Risk Assessment

Program Management

- Reporting
- Task Management
- Issues Tracking
- Reporting of Control Performance

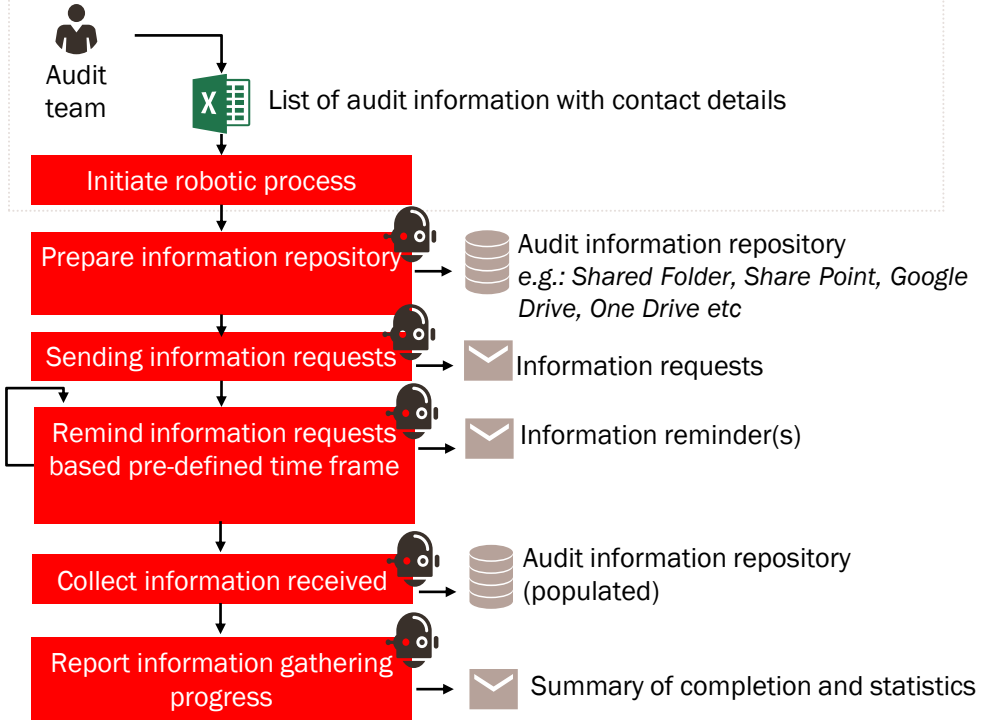
RPA can drive improvements by enhancing the quality, accelerating the speed, and expanding the coverage/frequency of internal audits.

Internal Audit: Customer Use Case Examples

- Audit accuracy of custom reports relative to collateral documents
- Validate standard/overtime work hours and pay rates against timecards
- Perform audit validations on year-end tax filings
- Collect data from SAP to create an internal audit dashboard
- Identify transactions between client and third-party vendors where Directors have a financial interest
- Audit financial controls and save transaction screenshots

RPA Use Case – Audit Kick-off Case Examples

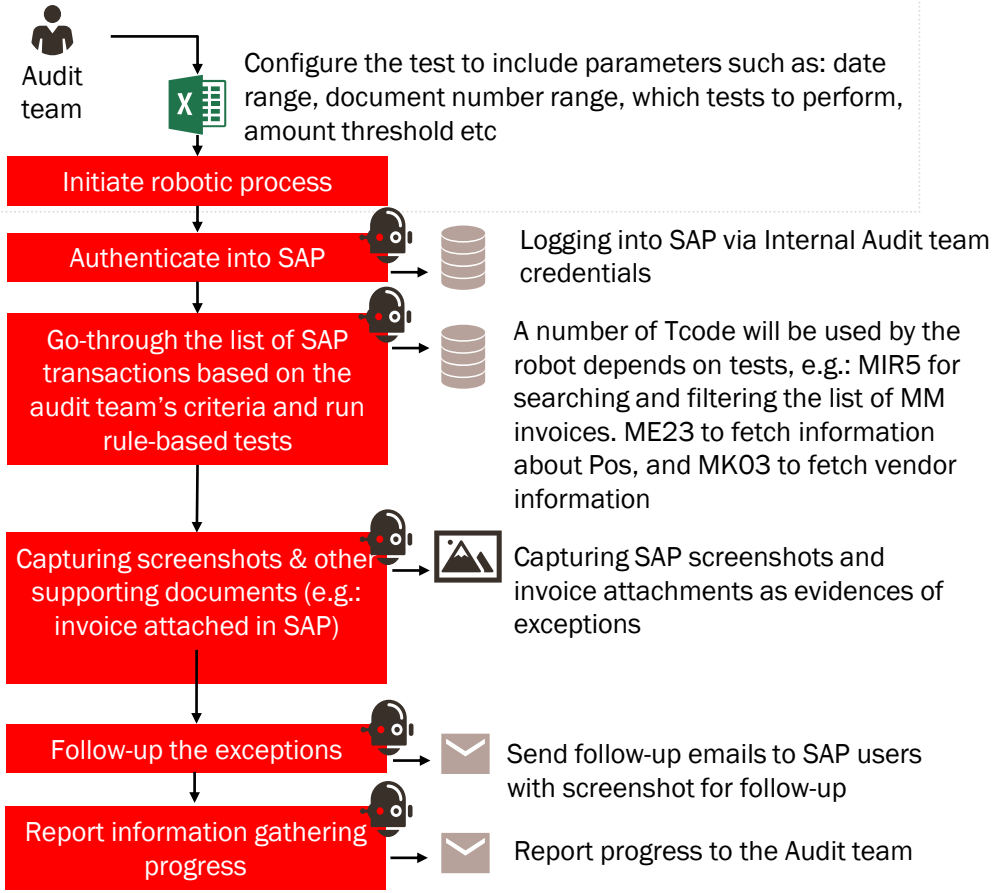
Audit Information Gathering



Automation timeframe:	3 to 5 weeks
Remaining user tasks	• Create email templates for information request and reminder • Create a list of audit information items and contact emails • Handle if no information is populated after n times of reminders
Additional notes	The robot can be developed with 'smart logic'.to record cases if the email has been forwarded to other contact,and inform the audit team in case the contact emails should be updated. The robot can also keep the audit team informed about information outstanding and asking to prolong the reminder period or not.
Business benefits	• Types of audit programs: all • Manual effort reduction: 80%

RPA Use Case – Field Work Examples

SAP Procurement Testing



Automation timeframe:	4 to 8 weeks (depends on the number of tests)
Remaining user tasks	• Decide test scope • Analyze the test results and the follow-up responses • Report based on the test results and follow-up responses
Additional notes	Example tests: • Multiple POs from the same vendor bypassing delegated authority thresholds • Retrospective POs after invoice • Excessive use of one-time vendor • Posting to sanctioned vendors • etc It is advisable to schedule the robot after hour or during the week-ends when SAP usage is at minimum.
Business benefits	• Types of audit programs: procurement testing • Manual effort reduction: 70% • Other benefits: Audit evidence gathering can be a tedious task for the audit team but a relative simple step by a RPA robot

Analytics Across Internal Audit

	Traditional	Using Analytics
Risk Assessment	• Understanding obtained at high level • Interviews drive the approach	• Insights drive the interviews • Time can then be spent on high-risk areas
Control Testing	• Sample based testing • Review is limited to the known	• Analyze total population and review the outliers • Identify patterns that do not figure out in a traditional testing
Repeatability	• Heavy effort required from execution to reporting	• With RPA and analytics, this can be generated on the fly

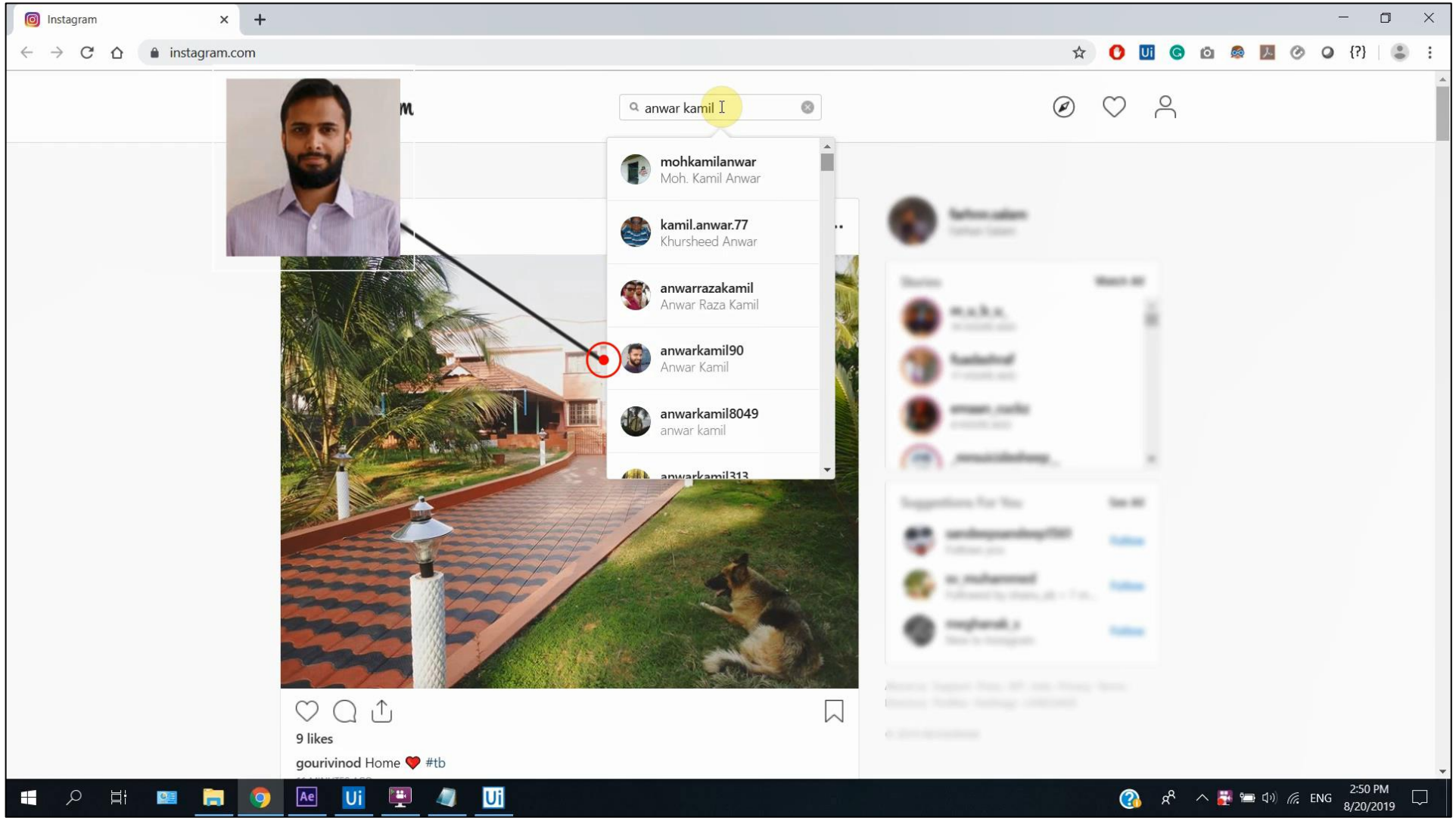
CHALLENGES for an IA

- Developing an approach or model
- Acquiring the right skills on analytics
- Selecting the right tools and technologies

CHALLENGES from data side

- **Different** data formats / systems
- **Limited data dimensions** from ERP / accounting systems
- **Lack of integration** to real time happenings i.e. economic index etc
- **Many FTE's** involved i.e. MIS, IT etc
- ERP data usually **downloaded in excel** and analysis happens from there
- Coping with **data bias**
- **Individualistic approach** to data i.e. Lack of complete perception
- Data **predictability**

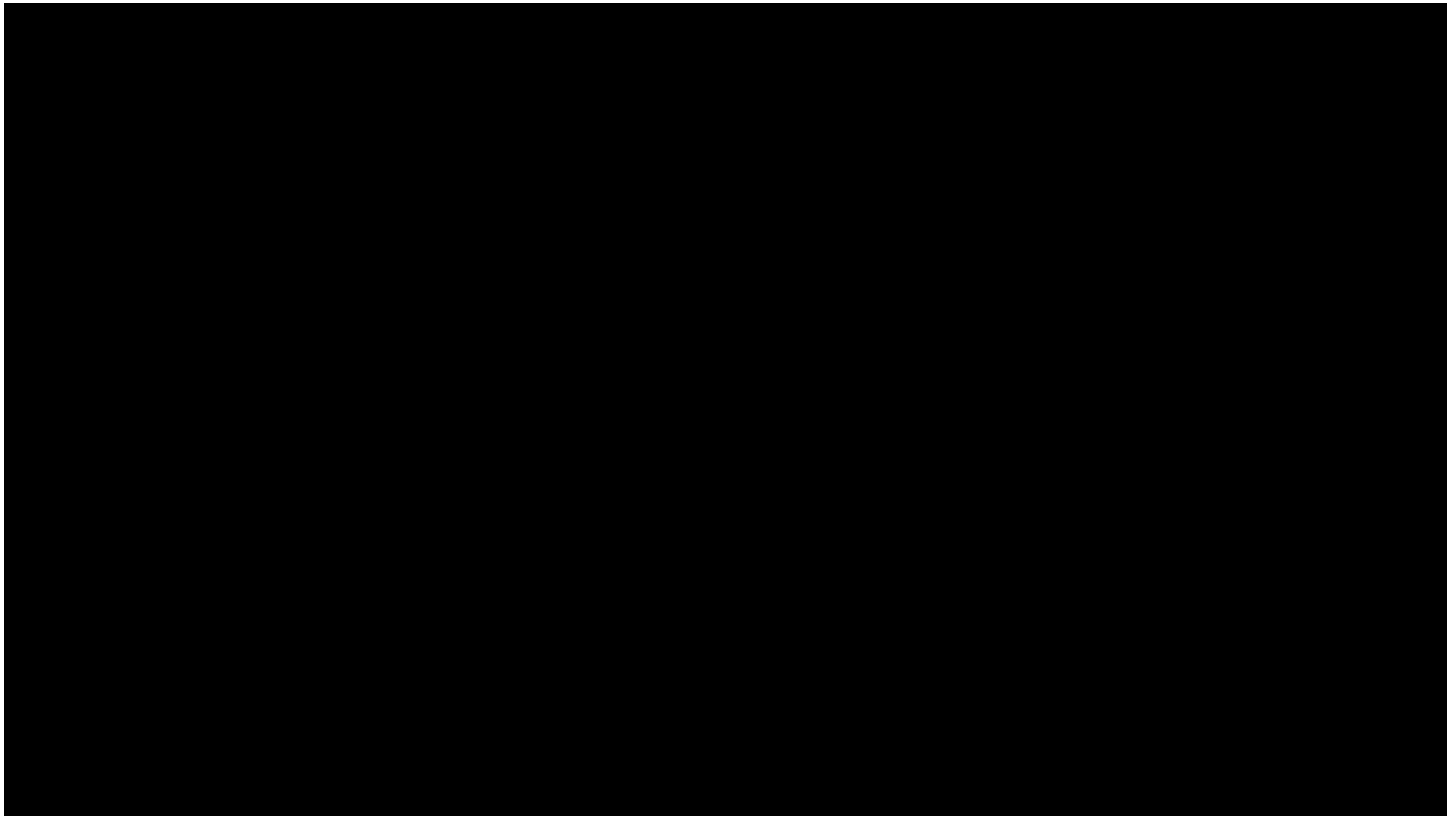
ML Case Study



Concepts in the IA Space

BLOCKCHAIN

Blockchain Intro



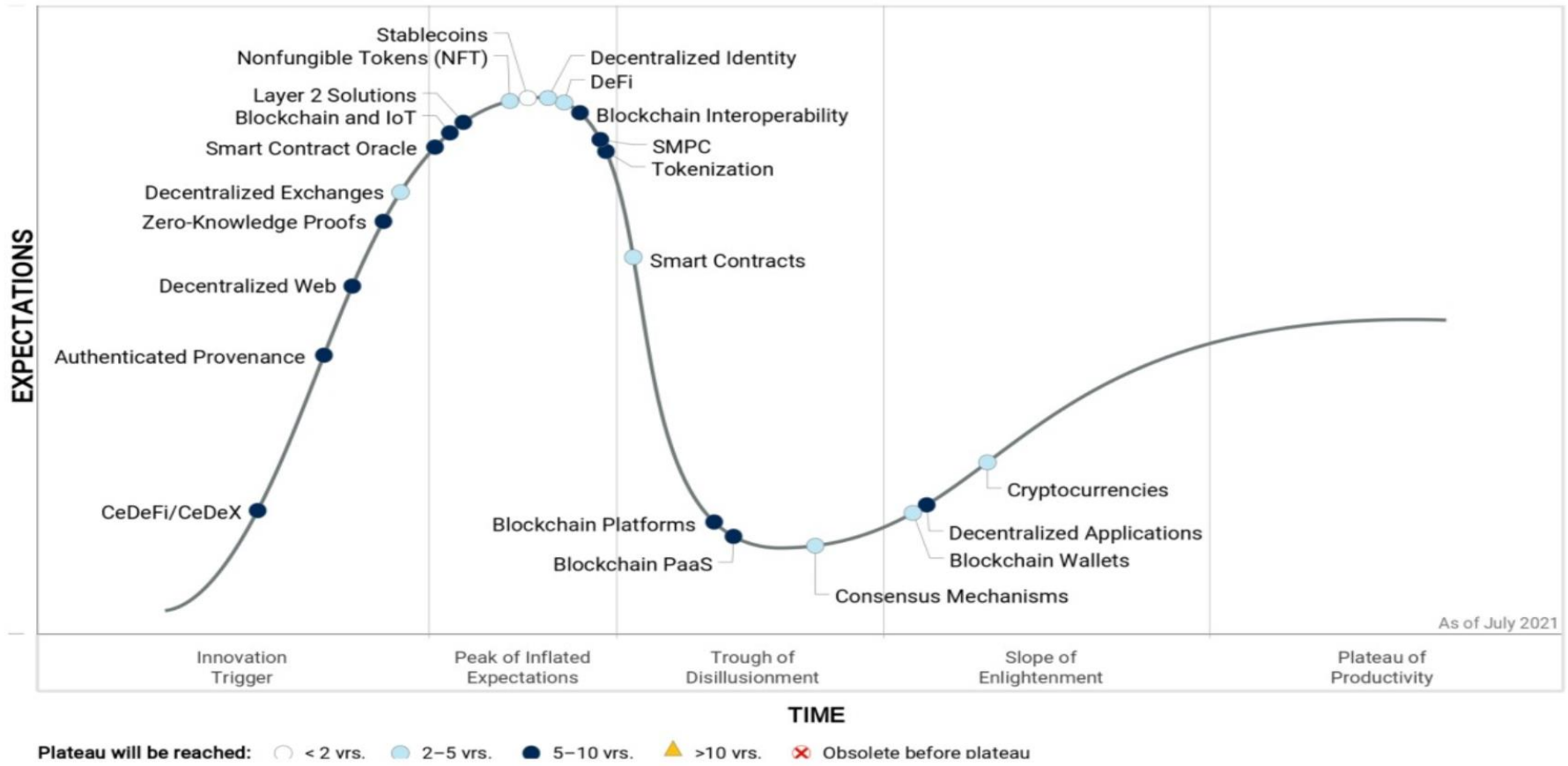
Blockchain Overview

A blockchain can be defined as a purely distributed peer-to-peer system in the form of a Ledger (accounting book) that uses a software/algorithm that adds informational content into ordered and connected data blocks, ensuring the inviolability of previous blocks, through cryptographic technology

Due to its decentralized nature and the fact that each node has its own copy of the ledger, blockchain fraud is unlikely to occur, as participating nodes can access to the blockchain transactions as they were published

Two most significant threats to an organization running on Blockchain technology are Cyber Security and Data Governance

Hype Cycle for Blockchain, 2021



Source: Gartner (July 2021)

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Blockchain Overview

Blockchain Potential
Shared ledger ensuring no reactive completeness tests to be done, realtime reconciliation of entries before posting on shared ledger
Transactions stamped on blockchain using node identity with consensus and full audit trail. Single version of truth with history of preparer/approvers
Smart contract ensures automated validation of entries without any manual intervention
Smart contract automates categorization principles. Blockchain events notifies each end user with changes ensuring realtime communication
Immutable and consensus based data on-chain with tight coupling to Offchain records and documents (IPFS)
Consensus enabled governance established on network to handle asset management. Digital asset and identity established for each type of account
Smart contract ensures transactions are recorded for correct period. Any un-authorised entries are real-time notified to consortium and immediate actions can be taken

- Shared immutable double-entry ledger – with digital signatures/ identity of preparer and approver records on blockchain

Triple ledger" accounting

- Shared databases and smart contract overlays facilitating reporting and realtime status availability

Reporting (e.g. Regulatory / Tax)

- Registry recording ownership of IP and content rights

Intellectual property management

- Overlay to amalgamate disparate silo-ed data sets within organisations

Enterprise solutions

- Auditing via reconciliation between triple-ledgers

Communal auditing

- Immutable, time-stamped records of activities demonstrating compliance

Compliance procedures

- Self executing contracts; emulating logic in contractual clauses

Self-executing contracts

- Immutable transactions
- Single version of truth
- Consensus based entries
- Encryptions and

Cyber-crime & Security

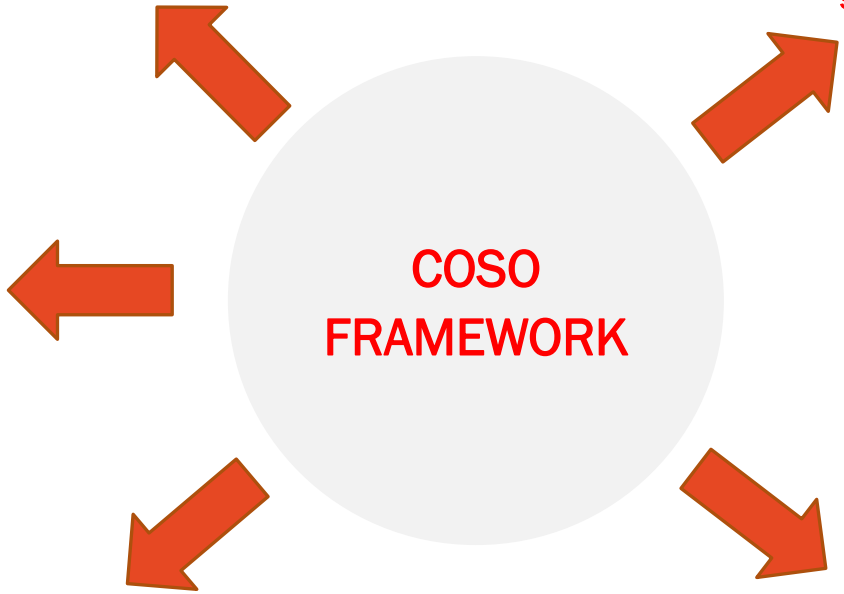
How Blockchain fits into COSO

CONTROL ENVIRONMENT

To ensure both the security and the utility of a private blockchain system, operators must consider the recourse available to users who disagree with changes to the system's rules

RISK ASSESSMENT

Risk and innovation cannot be wholly separated from each other. Understanding the organization's risk appetite and aligning investments in technology with strategic goals can increase managerial effectiveness



MONITORING

Ongoing monitoring on the Blockchain system, evaluating the internal control system and reporting any deficiencies.

INFORMATION & COMMUNICATION

Since Blockchain works on consensus mechanism on their ledger, effective communication is required to record and validate new transactions.

CONTROL ACTIVITES

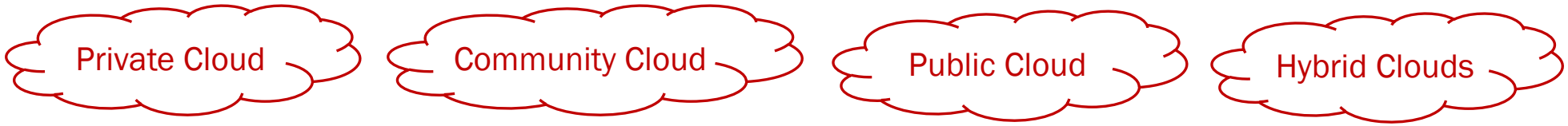
Preventive measures taken by an enterprise to prevent effect of risks on operations. Like on a private Blockchain, access to system is given to only known parties.

Concepts in the IA Space

CLOUD

CLOUD CONCEPTS

Deployment Models



Service Models

Infrastructure as a Service (IaaS)	Platform as a Service (PaaS)	Software as a Service (SaaS)

Essential Characteristics

On Demand Self-Service

Broad Network Access — Rapid Elasticity

Resource Pooling — Measured Service

Common Characteristics

- Massive Scale
- Homogeneity
- Virtualization
- Low-Cost Software
- Resilient Computing
- Geographic Distribution
- Service Orientation
- Advanced Security

Source: NIST

Considerations by an Internal Auditor

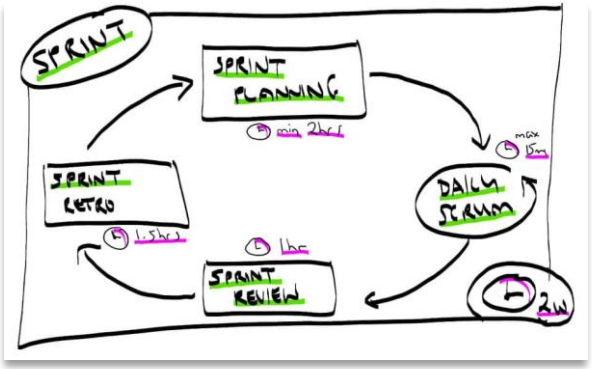
Source: NIST

What are your top Audit challenges

- Lack of skilled internal auditors
- Lack of the right tools and technologies
- Changing business priorities, risk and compliance landscape
- Takes a lot of time to collate, collaborate, and complete audits
- Lack of perspective across new and emerging areas – cybersecurity, cloud, compliance, data privacy, analytics, etc.
- Provide integrated assurance with risk and compliance

Key definitions before the next poll

Scrum in Audit *is amplifying the need for more regular retrospective (end of each Sprint instead of at the end of the audit or project) and daily interaction is increasing engagement, enthusiasm and transparency.*



Agility *is more than just a methodology. It's more than simply doing things faster or demonstrating greater efficiency. It's about embracing change - being willing to flex and adapt. It's also about focusing on the objectives and issues that matter most to the organization*

Does your organization follow an agile approach to auditing?

- No, we don’t follow an agile approach yet
- Rapid planning and task prioritization
- Shorter sprints (weeks) to achieve specific goals
- Regular scrum meetings to check on progress, discuss problems, and brainstorm ideas
- Regular sprint reviews to discuss what is completed, and to define objectives for the next Sprint

At what stage is your organization in adopting continuous monitoring and continuous auditing processes?

- We have not planned yet
- Planning to implement next year
- In the process of implementing continuous monitoring and auditing
- Implemented continuous monitoring and automated evidence collection tools but yet to leverage them for audit
- Implemented continuous monitoring and automated evidence collection tools and actively using them for audit

Anatomy of an effective Innovation Strategy

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What Can the Auditors do differently

We suggest that internal audit organizations continue to be actively involved and have a seat at the table. Digital transformation has the opportunity to provide extensive value to the firm, and the risk and control experience of internal audit can help highlight the enabling technology and its potential impacts & considerations.

1. **Effective challenge of digital transformation**

Involvement in the digital transformation strategy to assess impacts on the internal audit plan,

Advise the organization through appropriate risk and control decisions.

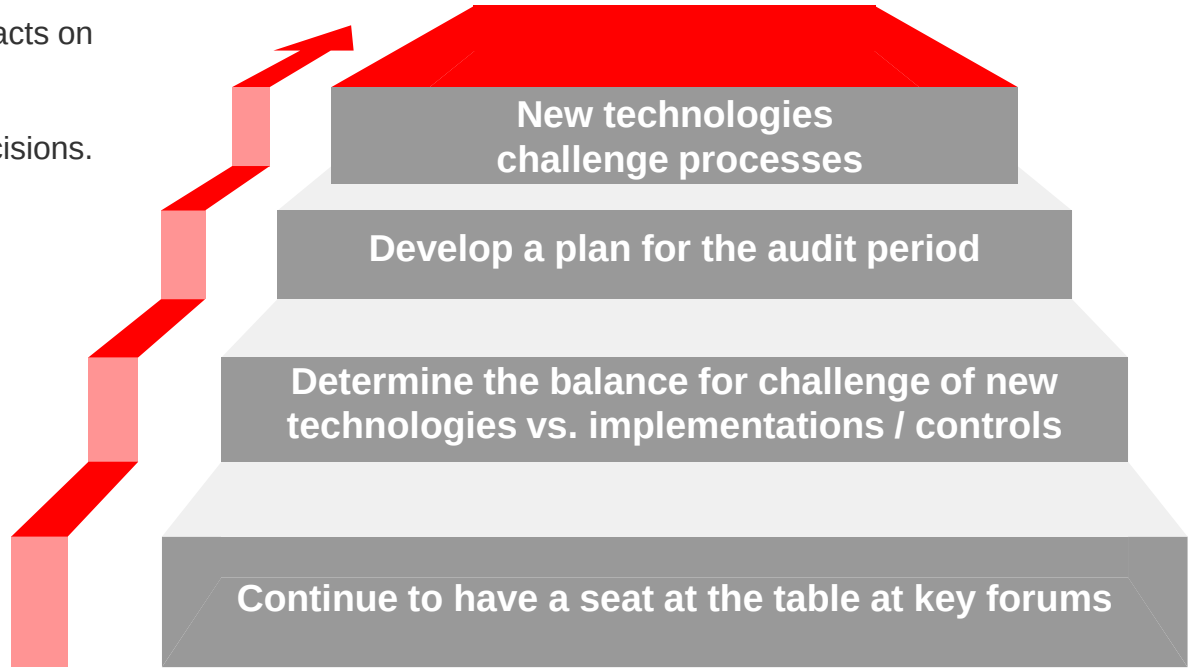
2. **Process modifications**

Assess the impact of new risks to be introduced through digital transformations.

Consider the effect of digital transformation on process, controls, and reliability and accuracy of data.

3. **Impact to existing audit strategy**

Evaluate testing strategy modifications, affect availability and collection of audit evidence,



What software does your organization use for internal audit?

- Office productivity software (e.g. documents and spreadsheets)
- Knowledge management software
- Audit management solution, but not integrated with risk and compliance solution
- One integrated solution for policy, audit, risk, and compliance management

In what ways does your organization use the software?

Conduct Fieldwork	Create Audit Plans	Schedule Audit & Tasks	Create Reports
▪ Perform risk assessments and risk scoring	▪ Create audit plans	▪ Schedule audits and audit tasks ▪ Manage audit resources ▪ Perform audit field work ▪ Capture audit issues and automate follow-up	▪ Create audit reports ▪ Analytics and visualization

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Executive Summary of IA Survey 2021Cont

IMPACT OF THE PANDEMIC

67% Of internal auditors have had to change their plans, and reprioritize audit activities during the pandemic

TOP INTERNAL AUDIT CHALLENGES

- Changes in business priorities, risks, and compliance
- Lack of the right tools and technologies
- Providing integrated assurance with risk and compliance

AUDIT TOOLS AND TECHNOLOGIES

80% Of auditors still use office productivity software or point solutions despite the limitations of these tools

Only **10%**
Use one integrated solution for policy, audit, risk, and compliance management

HOW ARE INTERNAL AUDIT TEAMS ADAPTING?

Don't yet follow an agile approach to internal auditing

Are in the process of implementing, or have already implemented continuous monitoring and continuous auditing and are actively using them

Source: metricstream survey 2021

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Approach to make the Internal Auditor more agile

Use of RPA to automate the Internal audit process

Outsourcing innovation so that the internal skill can built

Adopting a more agile approach by the internal auditor

Proactive interaction with the process experts within the company

Use of ther right innovation tools by the internal auditor

Presence of a more diverse internal audit team

Learn to manoeuvre the risks of innovation towards required outcomes

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Where does your organization plan to invest in the next year?

- Hire more skilled auditors
- Train existing auditors on emerging areas and technologies
- Implement a standalone audit solution
- Adopt an integrated solution for policy, audit, risk, and compliance
- Leverage robotic process automation, continuous auditing, and continuous monitoring
- Outsource / co-source auditors

What CAEs need to consider on where and when to invest

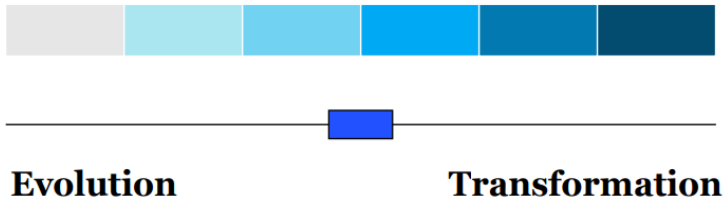
Scale of impact

How important is this trend for a given industry or company?

Will this technology fundamentally disrupt existing value pools?

Which technologies matter most for any given company?

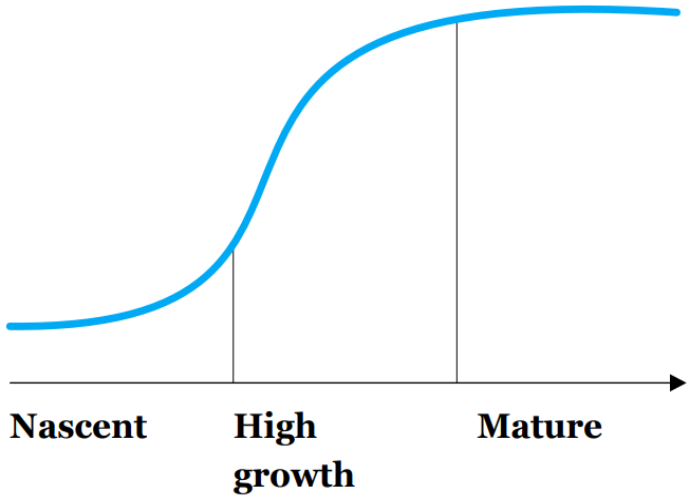
Will implementing these technologies give the company a competitive advantage?



Technical maturity

How fast do you need to react?

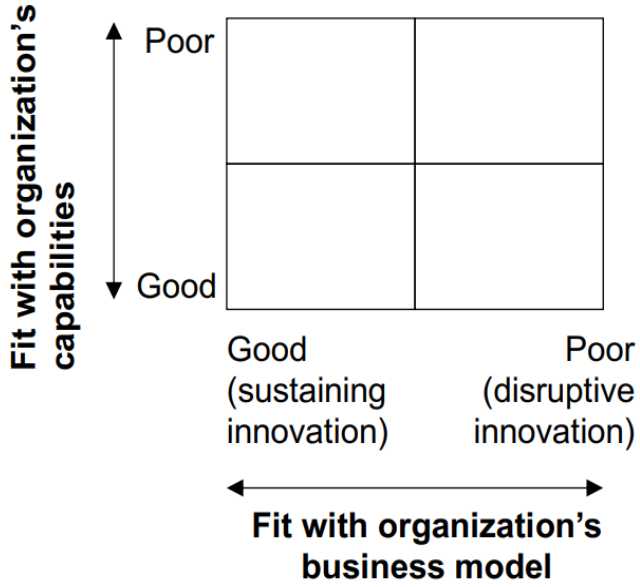
Is it the right time to scale any of the technologies given their stage and speed of maturity?



Fit with the organization

How do you approach the technology implementation?

How should you operationalize technologies to capture value?



Source: McKinsey Analysis

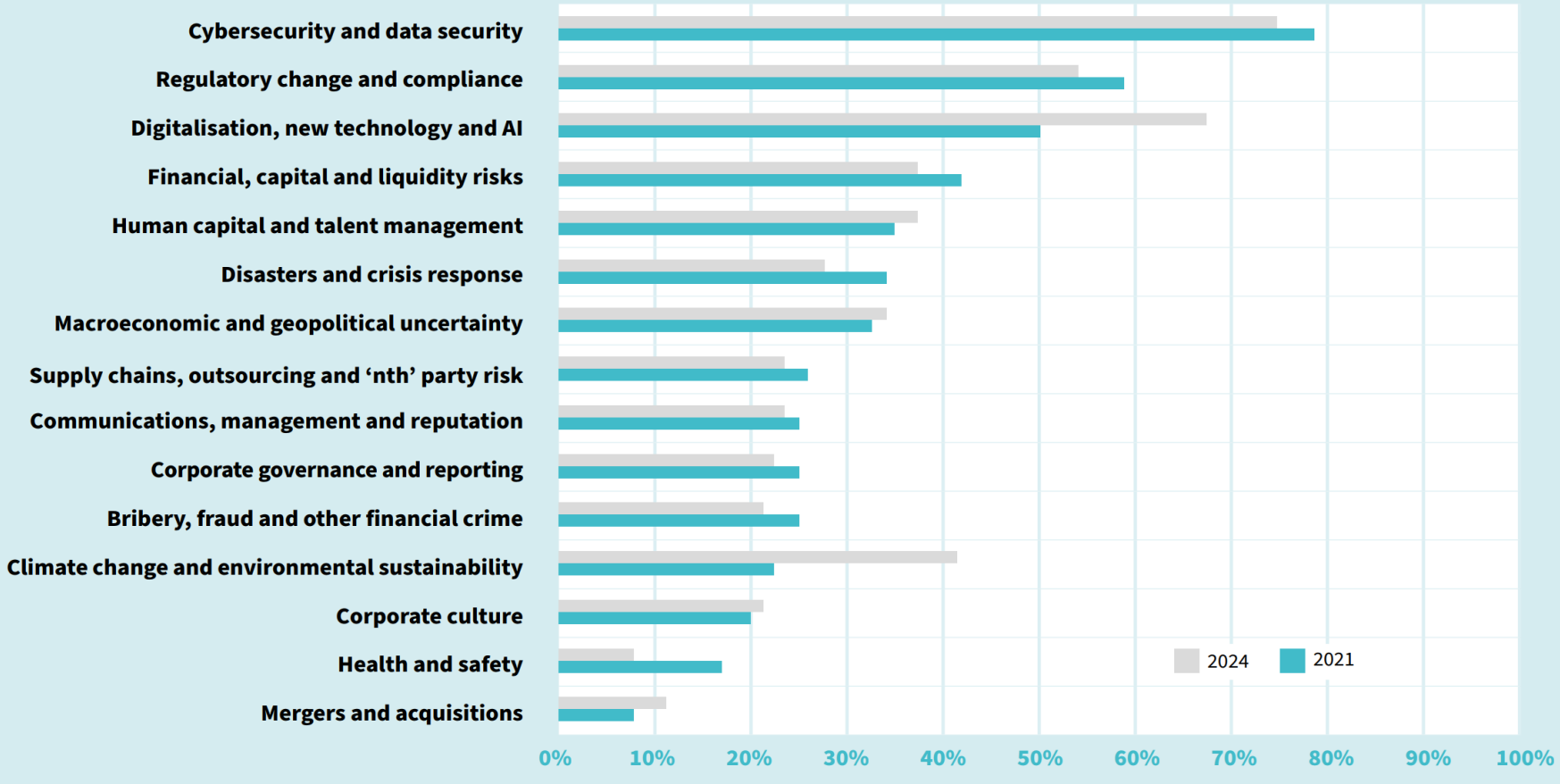
Top 5 Risks of tomorrow vs today

51 experts interviewed

579 survey respondents +10% annual increase

42 CAEs and Audit Committee Chairs interviewed

The top five risks that your organisation currently faces vs. the risks that you think your organisation will face in three years' time.



Source: Risk in Focus 2021 has been published by a consortium of institutes of internal auditors that includes the Chartered Institute of Internal Auditors (UK & Ireland)

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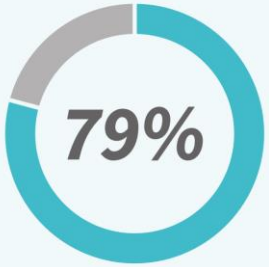
Top 5 Risks of tomorrow vs today



'Cybersecurity and data security' *came out on top in this year's survey, with 79% of CAEs saying it is a* ***top five risk****.*

Cyber threat	Most likely to be faced in the next year (order of importance: from more to less likely)	Challenge for organisations
Phishing		To reduce timeframe between security events and responses.
Malware infection		
Intrusion into the company's network		
DoS/DDos attacks		
Information security breach		
Cyberespionage activities/spyware		
Software vulnerabilities		
Data and information extraction		

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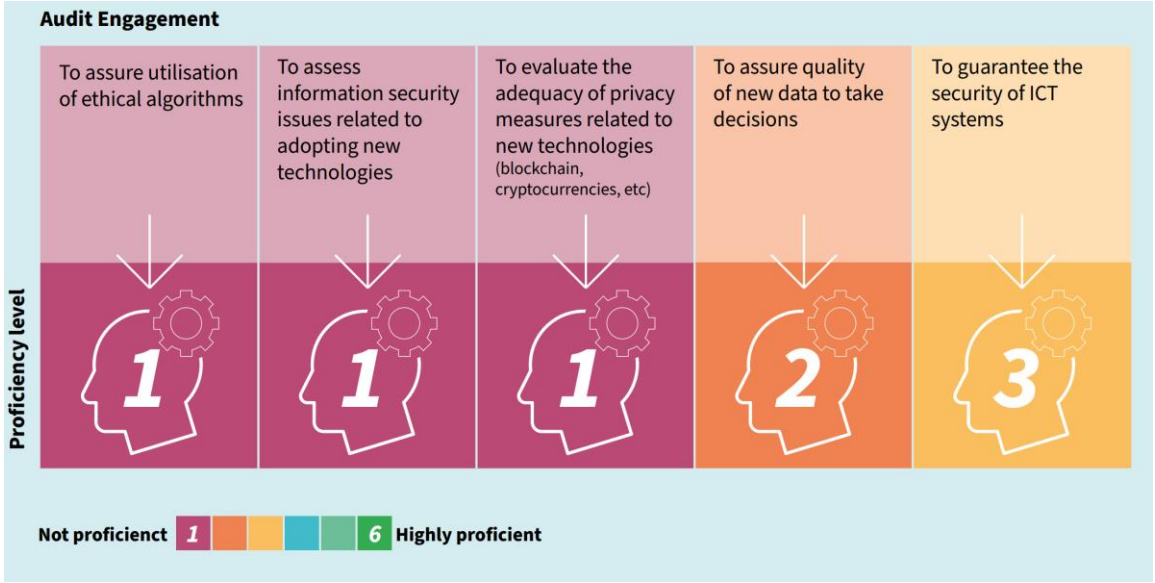
Top 5 Risks of tomorrow vs today



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ROBOTECH SOLUTIONS

Question me about...

- How to identify which processes require automation?
- How to implement innovative solutions?
- What is the RPA decision making process?
- What aspects to present in Board Proposals to aid decision making for RPA?

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