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Auditors Association
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INTERNAL AUDIT IN 2031: FUTURE PROOFING INTERNAL AUDIT

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TODAY'S AGENDA

Setting the Context

Evolution of Internal Audit

Value based Internal Audit

Current Risks for 2022 & Assurance by
cutting edge Internal Audit functions

Key Challenges facing Internal Audit

Key Risks – Middle East 2030

2030 | Potential areas for Assurance

Preparing for the future: Asking the right
questions

Preparing for the future: Internal Audit
roadmap

Q&A

SETTING THE CONTEXT – INTRODUCTION (‘WHO’)

2008



2022



Source: Friendly Neighborhood photographer

SETTING THE CONTEXT - DECLARATION # 1

Every Chief Audit Executive (CAE) is at a different stage of their journey at their respective Internal Audit department.

I hope everyone can take something from this discussion.

SETTING THE CONTEXT - DECLARATION # 2

I remain a humble student of this profession and continue to learn more on how we can add value to our clients.

SETTING THE CONTEXT - SESSION ON FUTURE PROOFING INTERNAL AUDIT ('WHY')

External Quality Assessment (over and above compliance of IIA Standards)

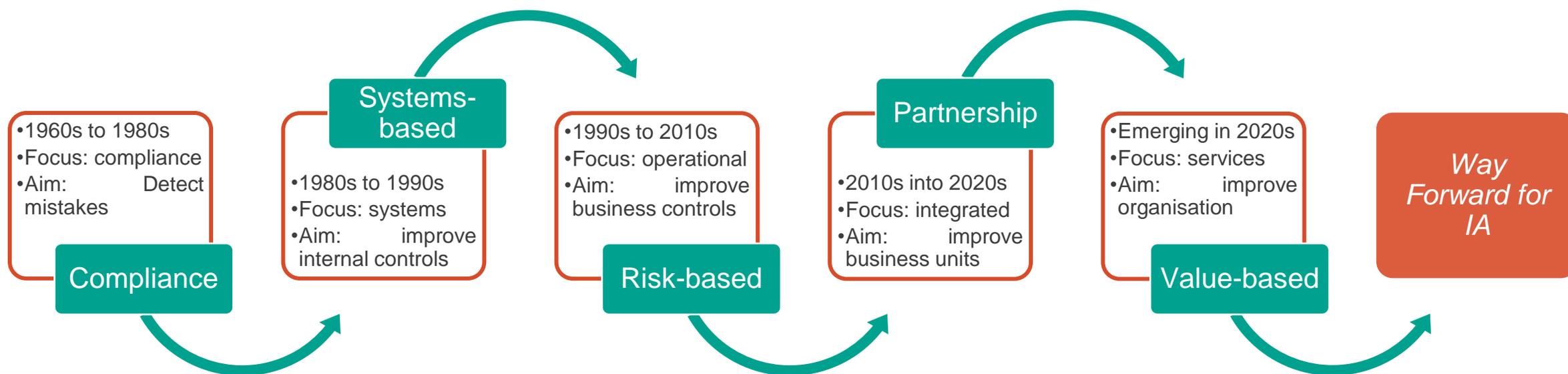
Internal Audit Transformation exercise

Leader of Internal Audit services - publications in ME context and future horizon

Discussions with our clients and people

EVOLUTION OF INTERNAL AUDIT

The concept of risk, internal control and corporate governance has developed gradually over time in conjunction with the internal audit profession which has existed for more than 70 years. The profession has been subject to a greater pace of change over the last 25 years due to the rate of technological advancement.



For internal audit to remain relevant, it must **respond effectively** to the various challenges faced by organizations. **Failing to evolve** will erode the **impact and value internal audit can bring**.

VALUE BASED INTERNAL AUDIT

Strategic Foundations

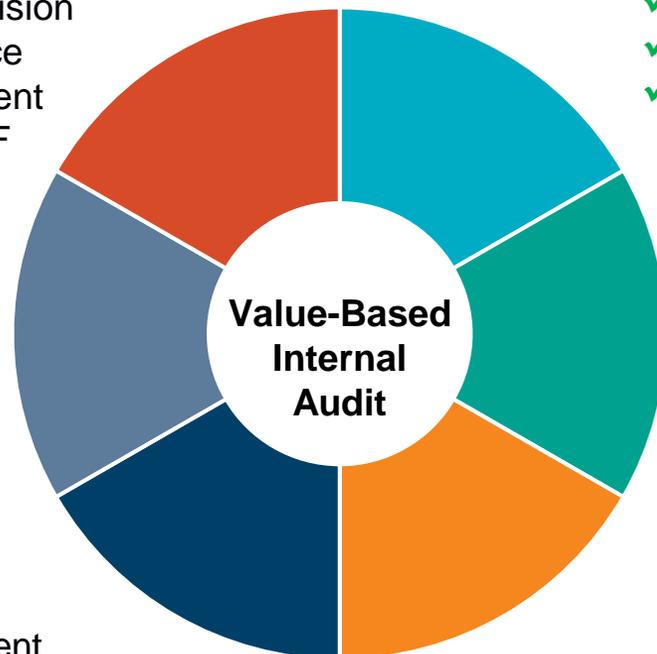
- ✓ Internal audit positioning
- ✓ Internal audit strategic vision
- ✓ Internal audit governance
- ✓ Learning and development
- ✓ Commitment to the IPPF

Continuous Improvement

- ✓ Quality assurance and improvement program
- ✓ Performance measures and balanced scorecard reporting
- ✓ Internal audit annual report

Technology

- ✓ Automated audit management software
- ✓ Audit committee secure portal
- ✓ Technology assurance strategy
- ✓ New technologies



Stakeholder Relations

- ✓ Partnership model
- ✓ Advisory services
- ✓ Service catalogue
- ✓ Constant stakeholder feedback

Resourcing

- ✓ Multi-disciplinary team
- ✓ Guest auditors
- ✓ Rotation program
- ✓ Co-sourcing
- ✓ Career and succession planning
- ✓ Performance management

Approach

- ✓ Key agent of change
- ✓ Continuous risk assessment
- ✓ Assurance strategy
- ✓ Integrated auditing
- ✓ Operational auditing
- ✓ Agile audit approach
- ✓ Insightful reporting
- ✓ Audit recommendation monitoring
- ✓ Internal audit work plan

Not many Internal Audit functions are there yet, but it is an emerging trend.

CURRENT RISK FOR 2022 & ASSURANCE BY CUTTING EDGE INTERNAL AUDIT FUNCTIONS

TOP RISKS FOR 2022

- 01 Pandemic-related government policies and regulation impact business performance
- 02 Succession challenges, ability to attract and retain top talent
- 03 Pandemic-related market conditions reduce customer demand
- 04 Inability to utilize data analytics and “big data” to achieve market intelligence and increase productivity and efficiency
- 05 Adoption of digital technologies requires new skills or significant efforts to upskill/ reskill existing employees
- 06 Cyber threats
- 07 Increasing labor cost impact profitability targets
- 08 Economic conditions, including inflationary pressures, constrain growth opportunities
- 09 Resistance to change culture, operations and the business model
- 10 Shifts in expectations about social issues and diversity, equity and inclusion outpace organization’s response



ASSURANCE BY CUTTING EDGE IA FUNCTIONS

Continuous Auditing and Data Management

- Maturity Assessment
- DM policy
- Capability Audit Framework
- Implementation plan
- Change Framework

Integrated Governance Review

- Regulatory compliance, processes and reporting frameworks.
- Integrating emerging areas within the organization such as data maturity, IT security, technology infrastructure is equally important.

Technology Strategy and Operations (TSO) Review

- Custom Application Development
- GRC Platform implementation

Security & Privacy Review

- Managed security services
- SCADA

Costing and Profitability Review

- Insight into the true value drivers of the business and provides management with the right information at the right time to make informed business decisions.

Operations & Supply Chain Efficiencies Review

- Critical components and origin of supply
- Interruption risk and establishment of tier 2 suppliers
- Inventory estimation along the value chain including spare parts
- Review of logistics capacity

Source: Protiviti: Executive Perspective on Top Risks – Key issues being discussed in the boardroom and C-suite | Executive summary

KEY CHALLENGES FACING INTERNAL AUDIT



Adapting to Business Environment

The challenge for Internal Audit (IA) is to **adapt to changing environments** and respond to the various challenges presented.

Internal audit must take an **anticipatory and strategic approach to evolve** ahead of the wider organization to ensure it can fulfil its purpose, stay relevant and deliver insight.

- Internal audit approach **needs to reflect increased awareness & reliance on new technologies** to improve the audit process which includes developing **data analysis** capabilities, employing **artificial intelligence** and continuous monitoring approaches.
- Internal audit has to consider the **implications of big data** and the structured and unstructured emerging tools and technologies around this such as cloud computing and **data mining**

Ever Evolving Technology



Regulation

Internal Audit functions needs to have a good **understanding of regulation** that directly and indirectly impacts on the organization's in which they operate and covering multiple jurisdictions.

Internal audit needs to **evolve in tandem with changing regulatory pressures** and considerations in order for to fulfil its purpose and add value to the organization.

- The challenge is to **complement key skill sets with a more flexible** and adaptive approach.
- Success depends on **attracting a wider spectrum of professionals** to improve capabilities and **broader mind-sets** and facilitating it with dynamic methodology and tools.
- Internal audit needs to promote the fact that it is an **innovative, forward looking, insightful, dynamic** and value-adding team of 'trusted' advisors.

Approach, Mind-sets and Mainstreaming Specialisms



KEY RISKS – MIDDLE EAST 2030

TOP RISKS FOR 2030 – Middle East

- 01 **Sustaining customer loyalty** and retention may be increasingly difficult due to evolving customer performance and/ or demographic shifts in our existing customer base
- 02 Our **organization’s succession challenges** and **ability to attract and retain top talent** in a tightening talent market may limit our ability to achieve operational targets
- 03 The **adoption of digital technologies** (e.g. artificial intelligence, robotics, natural language processing, visual recognition software) in the marketplace and in our organization may require new skills that either are in short supply in the market for talent or require **significant efforts to upskill and reskill** existing employees
- 04 **Economic conditions in markets** we currently serve, particularly related to unemployment and government stimulus, may significantly **restrict growth opportunities for our organization**
- 05 **Ease of entrance of new competitors** into the industry and marketplace or other significant changes in the competitive environment (such as major market concentrations due to M&A activity) may threaten our market share

TOP RISKS FOR 2030 – Middle East

- 06 **Regulatory changes** and scrutiny may heighten, noticeably affecting the manner in which our products or services will be produced or delivered
- 07 **Political uncertainty** surrounding the influence and continued tenure of key global leaders may impact national and international markets to the point of significantly limiting our growth opportunities
- 08 **Resistance to change** in our culture may restrict our organization from making necessary adjustments to the business model and core operations
- 09 Our **ability to access sufficient capital/ liquidity** may restrict growth opportunities for our organization
- 10 **Rapid speed of disruptive innovations** enabled by new and emerging technologies (e.g. artificial intelligence, robotics, machine learning, hyper-scalable platforms, increasing bandwidth, faster data transmission) and/ or other market forces may **outpace our organization’s ability to compete** and/ or manage the risk appropriately, without making significant change to our business model

Source: Protiviti: A Middle East Perspective on Top Risk – Key issues being discussed in the boardroom and C-suite.

2030 | POTENTIAL AREAS FOR ASSURANCE

POTENTIAL AREAS FOR ASSURANCE

Sustainability

- Listed companies across GCC are required to make voluntary disclosures.
- No or limited assurance provided on the information to market authorities

Technology Strategy and Operations (TSO) Review

- FinTech (Payment as a service)
- Reg Tech
- AI enabled solutions
- Blockchain development
- PMO Transformations
- Future ready Workforce

Emerging Technologies Group

- Cloud Strategy
- IOT Testing
- Cloud modernization

Security & Privacy Review

- Cloud security
- IOT security
- Healthcare security / medical devices



POTENTIAL AREAS FOR ASSURANCE

Innovation and research effectiveness reviews

- Significant investments made in R&D – Future boards and audit committees shall require **assurance on the effectiveness of R&D spend** and ability to monetize through patents and licensing arrangements

Combined Technology Assurance

- Multiple technologies and/or systems providing different outputs / reports to board and senior management
- Future audit committees shall require Internal Audit to provide 'One Unified Assurance view' across multiple technologies

Technology optimization reviews

- Excessive spend on Technology by organizations to become future ready – Future boards and audit committees shall require Internal Audit to provide **assurance on the effectiveness of the spend**, underlying applications and opportunities for optimization

Strategic Expansion and M&A Reviews

- **Aggressive growth plans** for new products and entry in new markets
- Ever increasing trend of **mergers and acquisition** to gain competitive edge
- Future board and audit committee shall require Internal Audit's view of the **effectiveness of new product development**, new market entry and acquisition.

PREPARING FOR THE FUTURE: ASKING THE RIGHT QUESTIONS

METHODOLOGY



- Has the function considered **new and efficient approaches** to working such as the Agile method?
- Has the audit committee defined what it believes **good internal audit looks like** and does the internal audit function match up to that?
- Has the **internal audit function benchmarked** its effectiveness with external quality assessments and does it live up to the IIA Core Principles?
- Does the function have an **adequate quality assurance and improvement program** in place to ensure it is advancing and evolving?
- Who is **accountable for digitalization** projects and are they taking into account the potential risks that come with digitalization?

PEOPLE



- Has internal audit performed a **gap analysis** to assess where it may be lacking skills?
- If the function is **co-sourcing/outsourcing** to address any gaps do these ad-hoc resources deliver the right level of insight, expertise and assurance?
- Is there **enough buy-in and sponsorship** from middle management to give technology adoption the required momentum to be successful?
- Is there **resistance to digitalization** in the workforce and is it negatively impacting culture? If so, what steps can be taken to measure and remediate this?
- What the **organization's assurance requirements** are today and are likely to be in the future, and is this consistent with the internal audit function's collective skill set?

TECHNOLOGY

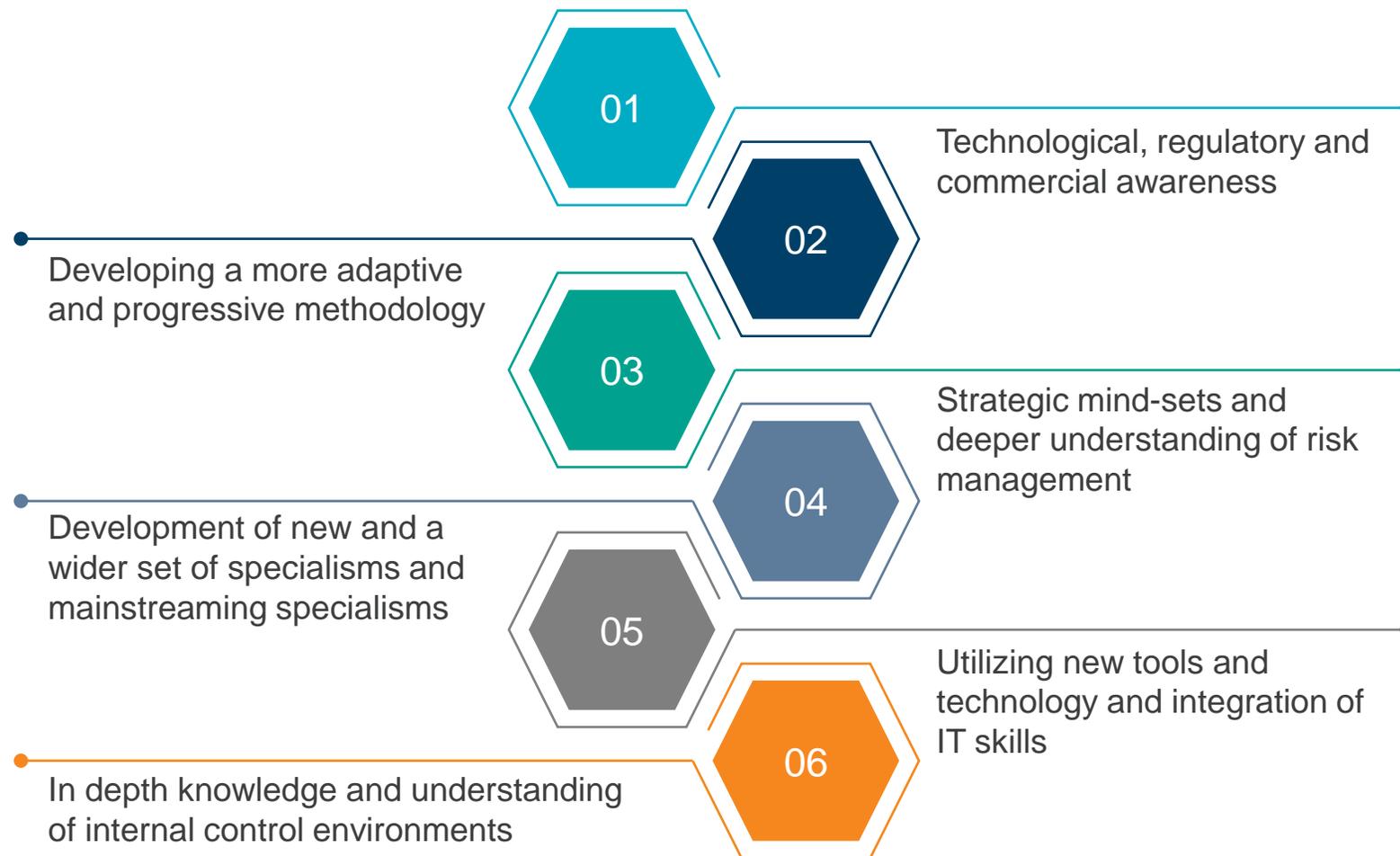


- Has the internal audit function considered the net benefit of **adopting data analytics** tools?
- What **different technologies** are being adopted? Is there a clear, documented rationale for doing so that is consistent with the organization's **broader operational and strategic objectives**?
- To what extent will **new technologies** require updates and modifications to the control environment? Is the first line making these control changes?
- Are **automated processes** being risk assessed for data quality, the **accuracy of algorithms** and outputs and is internal audit equipped to confirm that technologies are working as intended? If not, who is providing this independent assurance?

PREPARING FOR THE FUTURE: INTERNAL AUDIT ROADMAP

The challenge for internal audit is to keep up with the latest developments as the potential exponential rate of technological advancement poses significant risk and may require a change in paradigm from an internal audit perspective as requirements and possibilities evolve.

Internal audit functions must develop and enhance their capabilities over the following:



Q&A



THANK YOU