The Never Ending Evolution, Innovation, and Challenges Facing Internal Audit in Canada

IIA Calgary AGM
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Introduction

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Internal Audit in Canada

Bottom-Up Supply is the Greatest Risk, Followed by Advocacy

Bottom Up Supply
- Academic Institutions
- Professional Associations
- Industry & Professional Development
- Co-Source Professional Services

Top Down Demand
- Advocacy & Awareness
- Audit Committee & Board
- Executive
- Partners / External Auditors

Resource & Capability Gap
Internal Audit Leading Practices

Next Generation Internal Audit

Source: The Next-generation Internal Audit Journey Needs To Begin Now, Protiviti, March 2021
# Current Risk Trends

## Risk and Audit Planning

### Pulse 2021 Findings

<table>
<thead>
<tr>
<th>Highest Risk Categories</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cybersecurity</td>
<td>71%</td>
</tr>
<tr>
<td>2. IT (not covered in other choices)</td>
<td>48%</td>
</tr>
<tr>
<td>3. Third-party relationships</td>
<td>44%</td>
</tr>
<tr>
<td>4. Operational</td>
<td>43%</td>
</tr>
<tr>
<td>5. ERM and related processes</td>
<td>30%</td>
</tr>
</tbody>
</table>

Percentage who rated the audit area as **high** or **very high** risk.

<table>
<thead>
<tr>
<th>Top Audit Plan Allocation Areas</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Operational</td>
<td>17%</td>
</tr>
<tr>
<td>2. Financial Reporting (including ICFR)</td>
<td>13%</td>
</tr>
<tr>
<td>3. Cybersecurity</td>
<td>11%</td>
</tr>
<tr>
<td>4. ERM and related processes</td>
<td>9%</td>
</tr>
<tr>
<td>5. Financial (excluding ICFR)</td>
<td>9%</td>
</tr>
</tbody>
</table>

Percentage who rated the audit area as **high** or **very high** risk. ICFR = Internal controls over financial.
Current Risk Trends

Service and Value Delivery to the Customer & Client

Enterprise workflow, manual activity and process automation

Internal process control framework

- Segmentation and segregation
- Provisioning
- Access Control
- Encryption
- Authentication
- Identification

Application Systems
(Security for production systems, network, file, processing, data entry etc.)

- Systems Development Life-cycle
  (Sod, Version & branch management, Secure Coding, Edit data/validation, stress testing)

- Servers
- Containers
- Virtual System

Hardware

Network Services
(Name Services, NOS, Directory services, AD, Data surveillance)

Cloud

Network fabric (switches, routers, firewalls)

- Patch management and vulnerability management program
- Asset Identification & Life-cycle Management
- IT General Control Framework (IAM, CM and Operations)

Business Line, Corporate function IT Management

Challenge Functions
ERM, Op Risk, Compliance, Finance and Legal

Internal & External Audit and Third Party Assurance (SOC I/II)
Current Risk Trends
IT (Digital Transformation)
Current Risk Trends

IT (Digital Transformation)

What are the value drivers and risks?

DIGITAL TRANSFORMATION

GROWTH DRIVERS
- Demand Generation
- Reach & Selection
- Customer Purchase Process
- Customer Experience

OPERATIONAL IMPROVEMENT
- Process Efficiency
- Asset Utilization
- Agility
- New Business & Service Models
Current Risk Trends

Third-party Relationships

Source: Protiviti
Current Risk Trends

**ESG**

- Material impact on an organization’s operating and financial performance
- Driven by the operating culture of the organization

<table>
<thead>
<tr>
<th>Environmental</th>
<th>Social</th>
<th>Governance</th>
</tr>
</thead>
</table>
| • Energy efficiency  
• Carbon footprint  
• Water usage  
• Waste management  
• Packaging  
• Biodiversity management | • Employee attraction and retention  
• Diversity and inclusion  
• Pay equity  
• Customer data privacy  
• Social acceptability of projects/business  
• Organizational culture | • Climate change  
• Cybersecurity  
• Corruption and bribery  
• Responsible taxes  
• Compensation  
• Reliable financial disclosure |
Current Risk Trends

Data Governance

- Data Architecture Management
- Data Development
- Database Operations Management
- Data Security Management
- Reference & Master Data Management
- Data Warehousing & Business Intelligence Management
- Document & Content Management
- Metadata Management
- Data Quality Management

DAMA International Model for Operating Standards
Anticipating Future Risk

- Maturing intelligent digital technologies
- Ongoing global pandemic risk mitigation
- Self-disruption is a competitive advantage
- War for leadership succession talent
- Extreme generational differences in preferences
- Constant increase in ESG expectations
- Data insight competitive advantage
- Never ending cyber threat innovation
- Virtual, automated, and continuous risk management
- Robot co-workers
Internal Audit Leading Practices

Continuous Improvement & Testing

The IIA’s Three Lines Model (Interactive Governance)

GOVERNING BODY
Accountability to stakeholders for organizational oversight

Governing body roles: integrity, leadership and transparency

MANAGEMENT
Actions (including managing risk) to achieve organizational objectives

First line roles: Provision of products/services to clients; managing risk
Second line roles: Expertise, support, monitoring and challenge on risk-related matters

INTERNAL AUDIT
Independent assurance

Third line roles: Independent and objective assurance and advice on all matters related to the achievement of objectives

KEY:

Accountability, reporting
Delegation, direction, resources, oversight
Alignment, communication coordination, collaboration

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Integrated Assurance and Advisory

- Strategy
- Operations
- Quality
- Management
- Finance & Treasury
- Supply Chain
- IT

- Development
- Engineering
- Commercial Services
- Others

- Risk Management
- Regulatory Compliance
- Legal
- Company Secretary
- Health and Safety
- Others

- Strategy
- Operations
- Quality
- Management
- Finance & Treasury
- Supply Chain
- IT

- Development
- Engineering
- Commercial Services
- Others

- Risk Management
- Regulatory Compliance
- Legal
- Company Secretary
- Health and Safety
- Others

- Management Assurance
- Combined Assurance to Board & Executives
- External Assurance

- Risk areas affecting the company

Profiling assurance providers
Combined assurance will leverage an existing model - such as the three lines model - to help clarify roles and responsibilities for assurance providers.
Internal Audit Leading Practices

Critical Risk Analytics Capabilities

**Technical & Analytical**

- **Testing & Validation**
  Defining, developing, and implementing quality assurance practices

- **SQL Querying**
  Querying and manipulating data to facilitate the solving of more complex problems

- **Data Modelling**
  Structuring data to enable the analysis of information, both internal and external to the business

- **Data Analytics**
  Valuating data using analytical and logical reasoning for the discovery of insight [e.g. predictive modeling]

- **Reporting Software**
  Understanding the underlying theory and application of key reporting software

**Business & Communication**

- **Technology Alignment**
  Understand how technology can be leveraged to solve business problems

- **Macro-Perspective**
  Understanding the company’s business strategy, current business issues and priorities, and current industry trends

- **Business Knowledge**
  Understand the business measurement of key performance indicators and business frameworks

- **Business Commentary**
  Articulation of insight to explain current and forecasted trends, their impact and opportunities for the business

- **Soft Skills**
  Communication and interpersonal skills necessary to articulate insight gained from analysis
Internal Audit Leading Practices

RPA

- Regulatory compliance
- Operational efficiency
- Business agility
- Cost reduction
- Legacy systems
- Customer experience

Robotic Process Automation
Agile Internal Audit

Methodology

Big **A** Agility:
- Agility methodology was created by the IT profession
- Optimizing the value and efficiency related to new system implementations

Small **a** Agility:
- Relates to defining value, continuously being willing to change, and the effectiveness and efficiency of IA work
- Can be applied to all key areas of IA methodology [e.g. risk assessment, planning, execution, reporting, and follow up]
Agile Internal Audit

Iteration 1
- Refine Audit Program using Risk Backlog
- Collect Feedback
- Health Check 1

Iteration 2
- Refine Audit Program using Risk Backlog
- Collect Feedback
- Health Check 2

Iteration n to (n-1)
- Refine Audit Program using Risk Backlog
- Collect Feedback
- Health Check 3 to n-1

Iteration n
- Refine Audit Program using Risk Backlog
- Collect Feedback
- Health Check n

BDM - Program
- Audit procedures

BDM Gate

Periodic Summary of Audit Procedures
# Agile Internal Audit

## Agile IA Implementation Spectrum

### Agile Lean
- Focus on reducing waste in the audit process
- Emphasize *mindset* shift toward Agile values and principles

### Agile Lite
- Socialize with staff
- Experiment with Agile methods and tools during audit engagements:
  - Daily stand-up meetings
  - Working in sprints
  - Agile wall/Kanban board
- Provide formal Agile training

### Full Agile
- Commitment to Agile IA:
  - Socialize with stakeholders
  - Develop change management plan
  - Select methodology [e.g. scrum, Kanban, etc.]
  - Formalize roles

*Source: Agile Internal Audit, R. Wright Jr.*
Old School to New School (Agile)

Agile Requires High Quality Planning

Old School

1. Risk/Value Assessment & Planning 10%
2. Execution 50%
3. Reporting 40%

New School

1. Risk/Value Assessment & Planning 40%
2. Execution 40%
3. Reporting 20%
Please contact Richard Arthurs for more information

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