Future of internal audit – and its effect on lines of defence

Budapest, March 13, 2019

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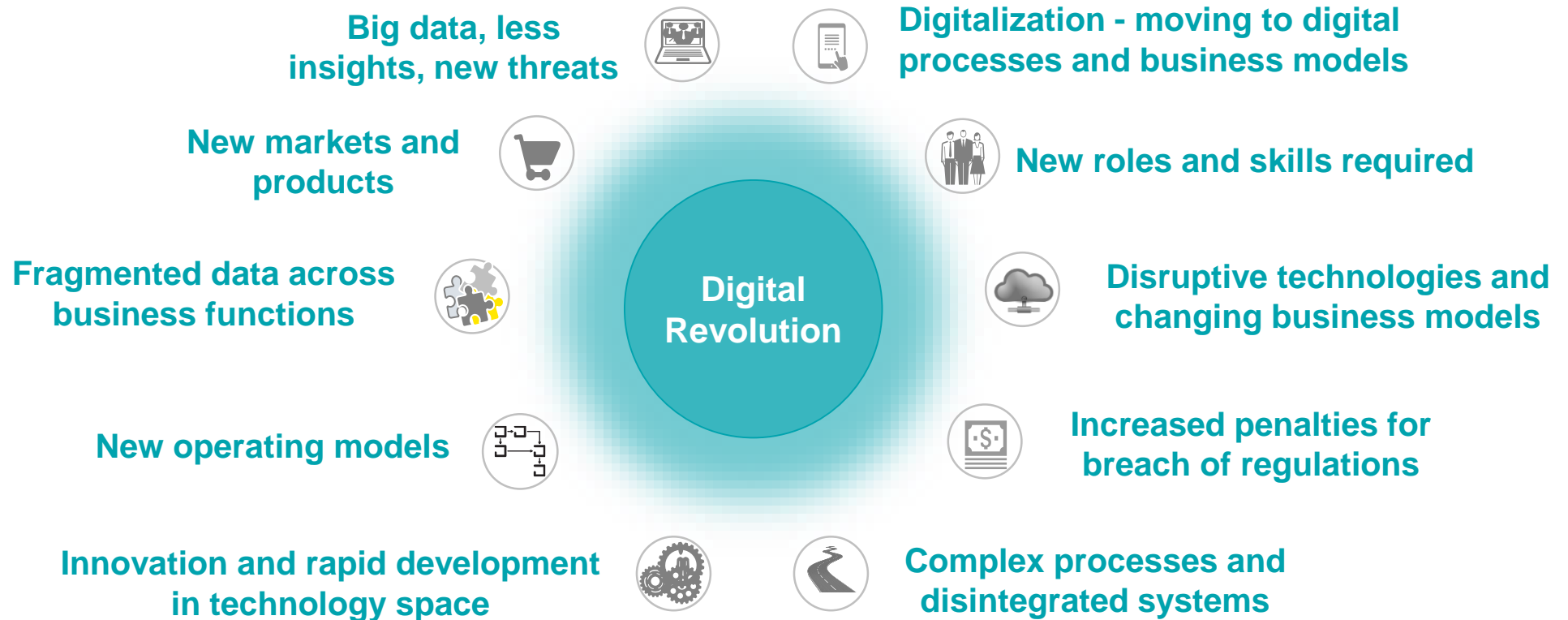Building a better working world

Agenda

1 Digitalisation – how it shapes IA in the future?

2 Evolving IA strategy

3 Useful tools for IA

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Digitalization – the new normal?

1

Big data, less insights, new threats

Digitalization - moving to digital processes and business models

New markets and products

New roles and skills required

Fragmented data across business functions

Digital Revolution

Disruptive technologies and changing business models

New operating models

Increased penalties for breach of regulations

Innovation and rapid development in technology space

Complex processes and disintegrated systems

Question: Is IA ready to transform itself to take the challenge to deliver more comprehensive solutions and make itself more relevant?

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Two IA objectives to be accomplished

1

EFFECTIVENESS

IA objectives

RELEVANCE

How to
"get better in what we do today"

How to
"become more relevant" to our stakeholders

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Plan IA strategy to align with new expectations

2

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Key IA Stakeholders Agenda

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Current Challenges

- Maintain and optimize current operations
- Increase revenue
- Secure business

Evolving Challenges

- Maintain and optimize business using the new technologies
- Increase revenue using the new technologies
- Secure business from emerging risks
- Not get disrupted!

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Digitalization – what does it mean for IA?

1

Digital as an enabler for Internal Audit

Digital Revolution

Digital as an audit object

» Digitalization transforms the IA function fundamentally

» Digital risk needs to be addressed by Internal Audit

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Developing an IA analytics strategy

2

The following are some of the benefits:

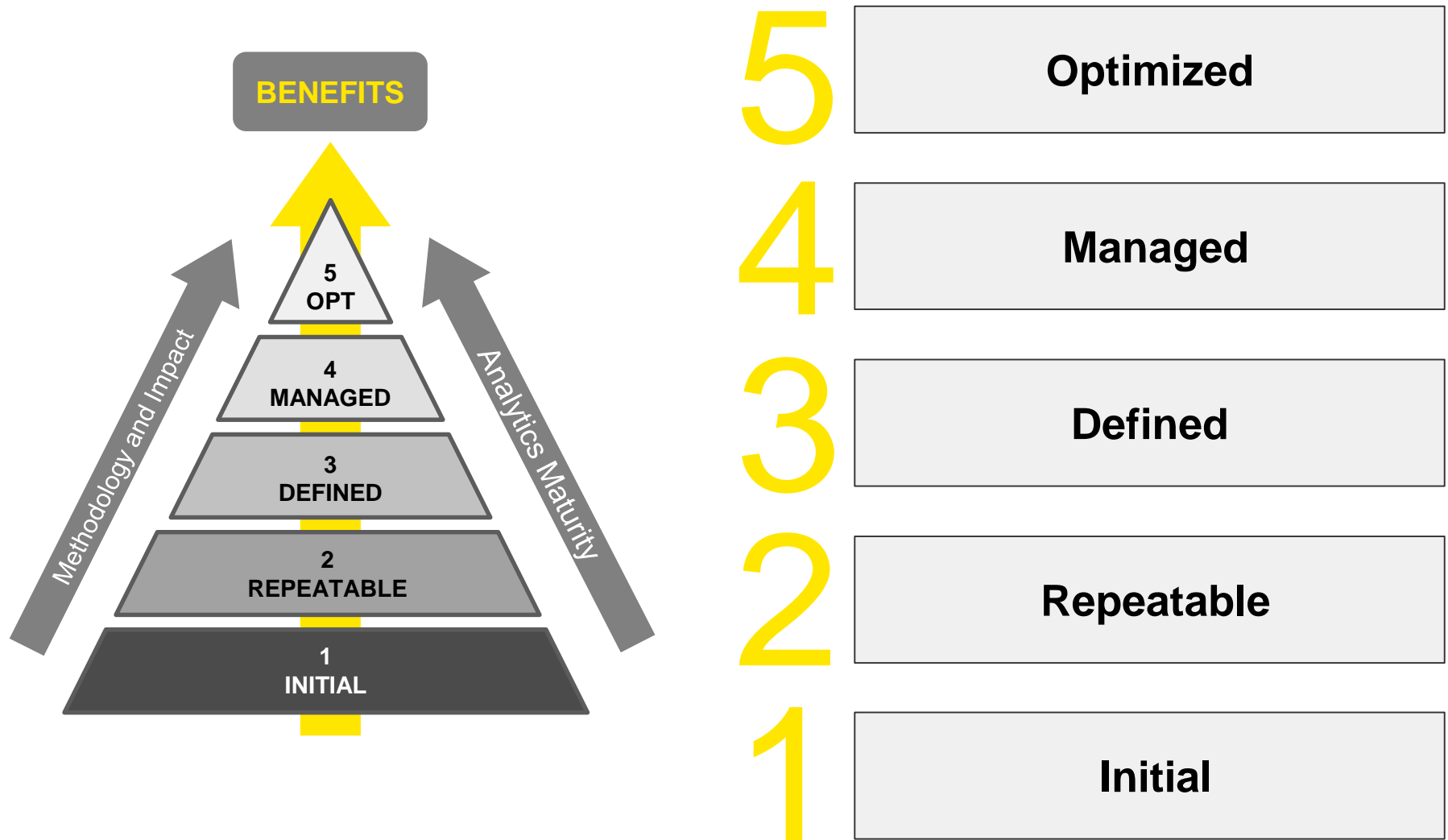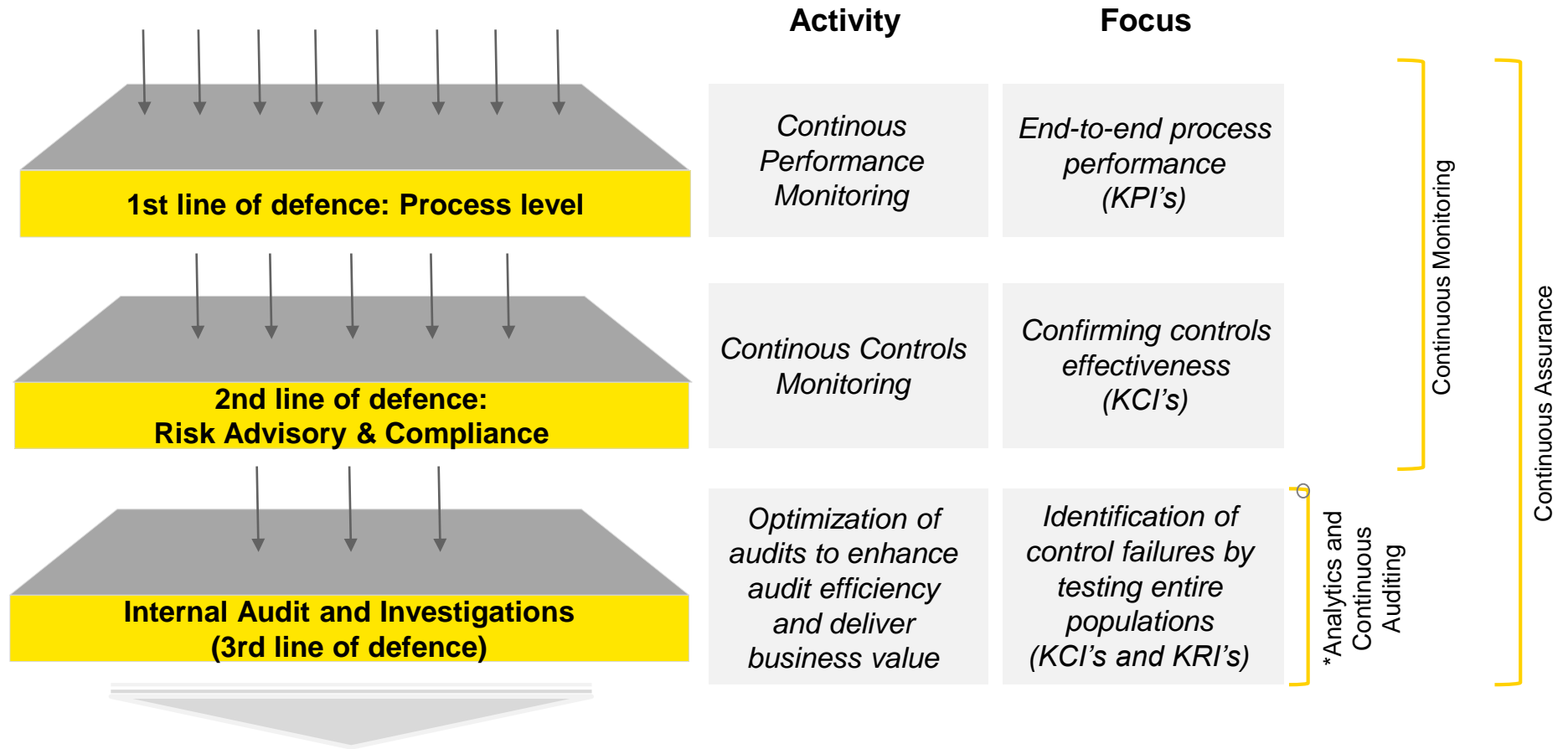| Increase efficiency	Deliver more effective projects	Business value delivered
» Remote testing » High ratio of implementable value: Implementable value vs. Cost to acquire insight » Issues based reporting allows user or small group level changes	» Full population testing » All data points » Absolute insight into what individuals are doing, how processes are really being performed across the business	» Leverages your existing data » Can deliver opportunities to directly recover cash » Can deliver value from improved effectiveness (Working capital, better negotiated deals with suppliers) » Can identify potential savings

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Developing an IA analytics strategy – Maturity model

Where are you now and where do you want to be?

5 | **Optimized**

4 | **Managed**

3 | **Defined**

2 | **Repeatable**

1 | **Initial**

BENEFITS

5 OPT

4 MANAGED

3 DEFINED

2 REPEATABLE

1 INITIAL

Methodology and Impact

Analytics Maturity

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Rethinking traditional lines of defence

	Activity	Focus	
1st line of defence: Process level	*Continous Performance Monitoring*	*End-to-end process performance (KPI's)*	
2nd line of defence: Risk Advisory & Compliance	*Continous Controls Monitoring*	*Confirming controls effectiveness (KCI's)*	Continuous Monitoring
Internal Audit and Investigations (3rd line of defence)	*Optimization of audits to enhance audit efficiency and deliver business value*	*Identification of control failures by testing entire populations (KCI's and KRI's)*	*Analytics and Continuous Auditing

Continuous Assurance

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What other tools are available?

③

Tools available today

Effectiveness

Relevance

How to
"get better in what
we do today"
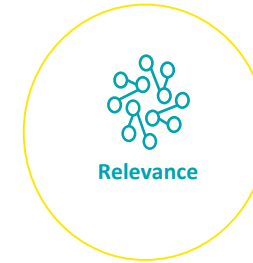
How to
"become more relevant
to our stakeholders"

EY Optix	Think Tank	OnCorps (IA Survey)
TeamMate	Process Mining (IA lense)	EY VUE
Robotic Process Automation (RPA)	Digital Boardrooom Technology	BEAM for Risk Culture
IA Video Reporting	High Impact Audits	Growing Beyond Borders

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Process Mining

What is it all about and what are the benefits?

Process Mining…
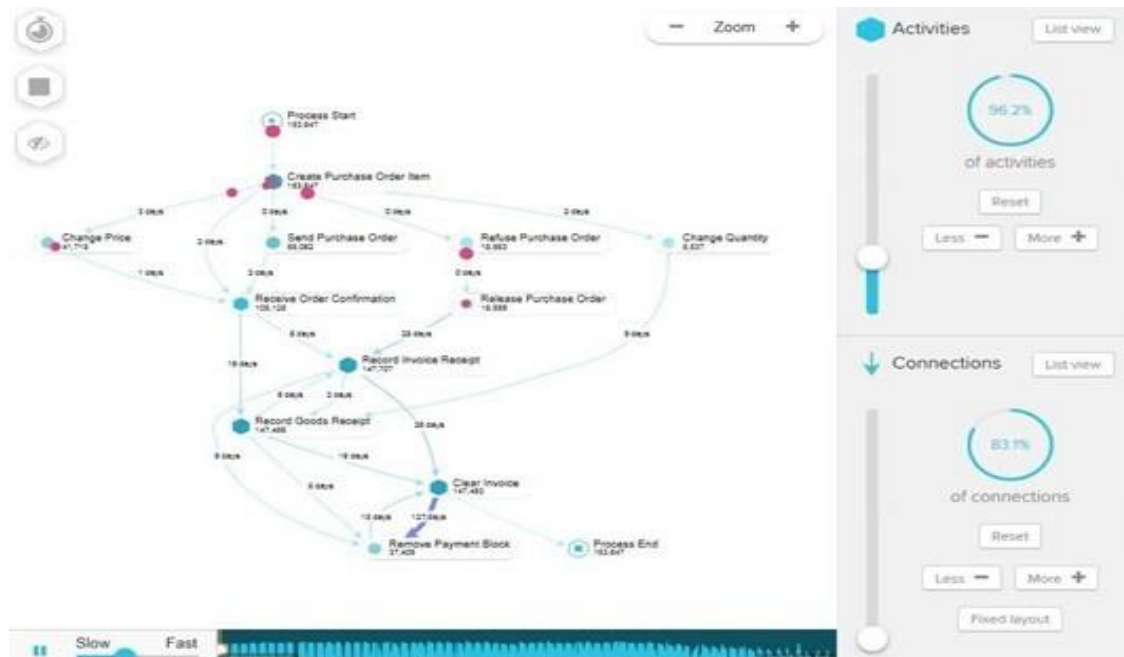
Benefits

25%	37%
SAVE COSTS	**INCREASE SPEED**
Identification of hidden inefficiencies, deviations and bottlenecks	Using the fastest process paths & targeted optimization

30%	100%
BOOST EFFICIENCY	**ENSURE QUALITY**
Improved automati-zation, standardization & avoiding manual rework	Using up to date real process documentation & accelerating migrations

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Process Mining

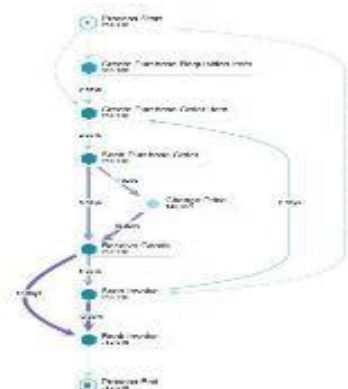*Science to exploit the value of real data - coverage and results*
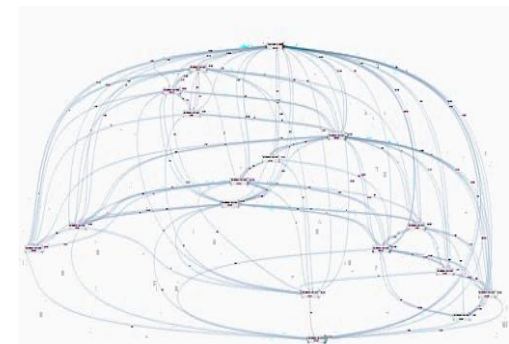

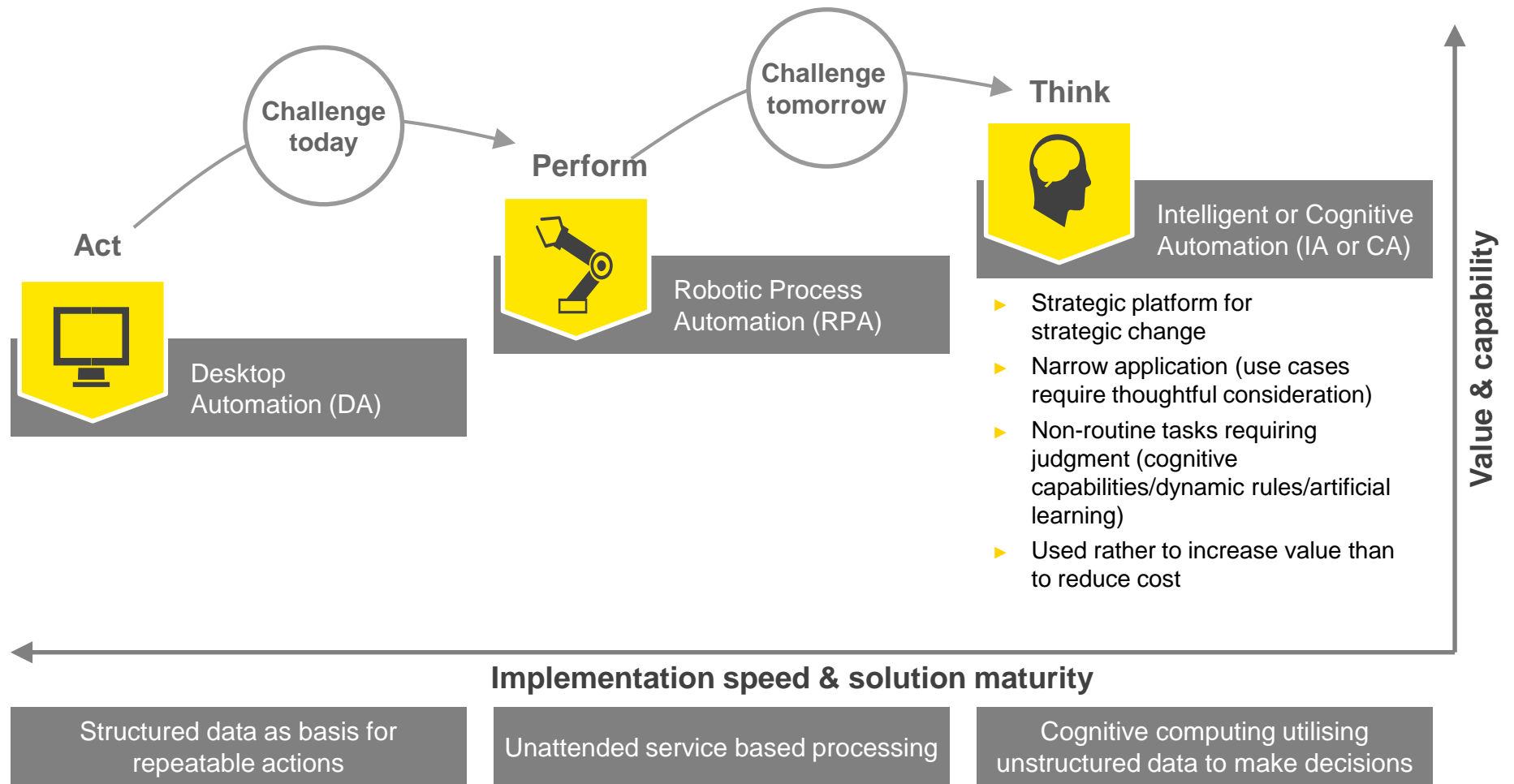| „Textbook" process	What people think	The reality
20% data coverage	40% data coverage	100% data coverage

Robotics Process Automation (RPA)

Where are we today?

③

Challenge today

Challenge tomorrow

Think

Act

Perform

Intelligent or Cognitive Automation (IA or CA)

Desktop Automation (DA)

Robotic Process Automation (RPA)

► Strategic platform for strategic change

► Narrow application (use cases require thoughtful consideration)

► Non-routine tasks requiring judgment (cognitive capabilities/dynamic rules/artificial learning)

► Used rather to increase value than to reduce cost

Value & capability

Implementation speed & solution maturity

| Structured data as basis for repeatable actions | Unattended service based processing | Cognitive computing utilising unstructured data to make decisions |

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RPA in 3 lines of defence

3

1st Line

IT
- Email related tasks
- Batch processing
- Server monitoring

Supply chain
- Inventory Management
- Order Management
- Returns processing

F&A
- Procure to Pay
- Order to Cash
- Collection

HR
- Payroll
- Onboarding
- Benefits

2nd Line
- Control Performance
- Continuous Monitoring
- Compliance Reporting

3rd Line
- Data Management
- Perform Audit Procedures
- Continuous Auditing

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Thank you for your attention!

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