



# Evolution and the Future of Internal Audit

**Presentation by:**

**OLUSOLA OLOWOYEYE**

BSc., MSc., FCA, FCTI, CRA, IIA

## About the Speaker

**Olusola Olowoyeye brings over 15 years financial services industry experience gained from diverse industries in the Country. He graduated from the University of Lagos where he obtained an M.sc in Finance as well as a degree in Insurance.**

**Sola currently handles financial Risk Management and has rolled out risk management framework for financial services organisation as well as developed a corporate governance framework for financial institutions in sub-Sahara Africa, which has been implemented enterprise-wide by most firms. He has worked with various institutions including KPMG (Audit & Risk Advisory) , BGL Plc, Kedari Capital Limited, Sahara Energy Resource Limited & Sovereign Trust Insurance Plc (Finance & Investment).**

**He is a member of the Institute of Chartered Accountants of Nigeria (ICAN) , Chartered Institute of Taxation of Nigeria (CITN) and the acclaimed Institute of Internal Auditors (USA)**



# Table of Content

<b>I</b>	<b>Definition and Components of Internal Audit</b>
<b>II</b>	<b>Setting the Scene - Macro Market Trends</b>
<b>III</b>	<b>The Shifting Role of Internal Audit from Providing Information to Interpreting Information – <i>Value Creation</i></b>
<b>IV</b>	<b>Integrated Assurance</b>
<b>V</b>	<b>Innovation, Technology, and Tools - Continuous Auditing</b>
<b>VI</b>	<b>Talent Management</b>
<b>VII</b>	<b>Single View of Risk</b>
<b>VIII</b>	<b>Internal Audit of the Future</b>

## I Definition and Components of Internal Audit

**Internal audit** helps an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of

- ✓ Risk Management,
- ✓ Internal Control,
- ✓ Governance processes.

Internal Audit is an **independent, objective assurance and consulting** activity designed to add value and improve an organization's operations.



# I Definition and Components of Internal Audit (Cont'd)

## Risk Management

**Risk Management** is a process which satisfies appropriate transition or exchange between **risk** and **yield** and adds "**value**" to the organization.

### Identification of Risks

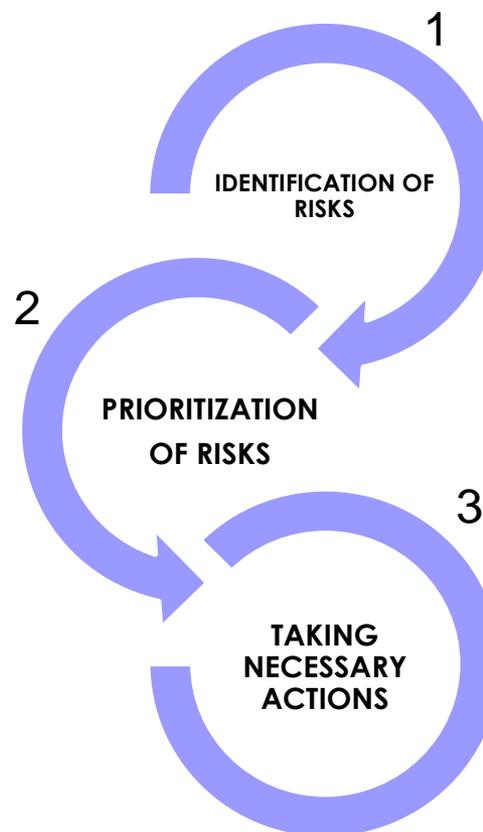
Defining the risks  
 Measuring the risks  
 Analysis the risks  
 Reporting

### Prioritization of Risk

Probability of the Risk  
 Severity of the Risk

### Taking Necessary Actions

Acceptance  
 Transferring  
 Controlling



*Risk management concerns all departments.*

# I Definition and Components of Internal Audit (Cont'd)

## Internal Control

Control is one of the actions which are taken to mitigate the effects of the risks in terms of;

- Safeguarding of assets,
- Compliance with laws, regulations, and agreements,
- Reliability and integrity of financial and operational information,
- Effectiveness and efficiency of operation

**Basic Control Activity Examples are;**

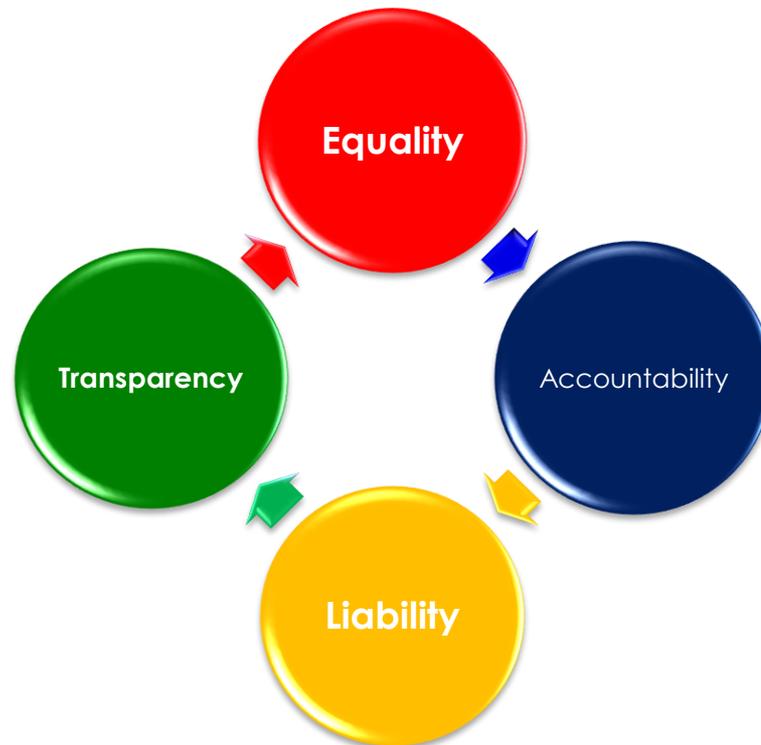
- Authorization Methods
- Limit Applications
- Decompositions of Tasks
- Policy and Procedures
- Task Descriptions and Responsibilities
- Reconciliation Methods



## 1 Definition and Components of Internal Audit (Cont'd)

**Corporate governance** is a general system which promotes enterprise orientation and control structure.

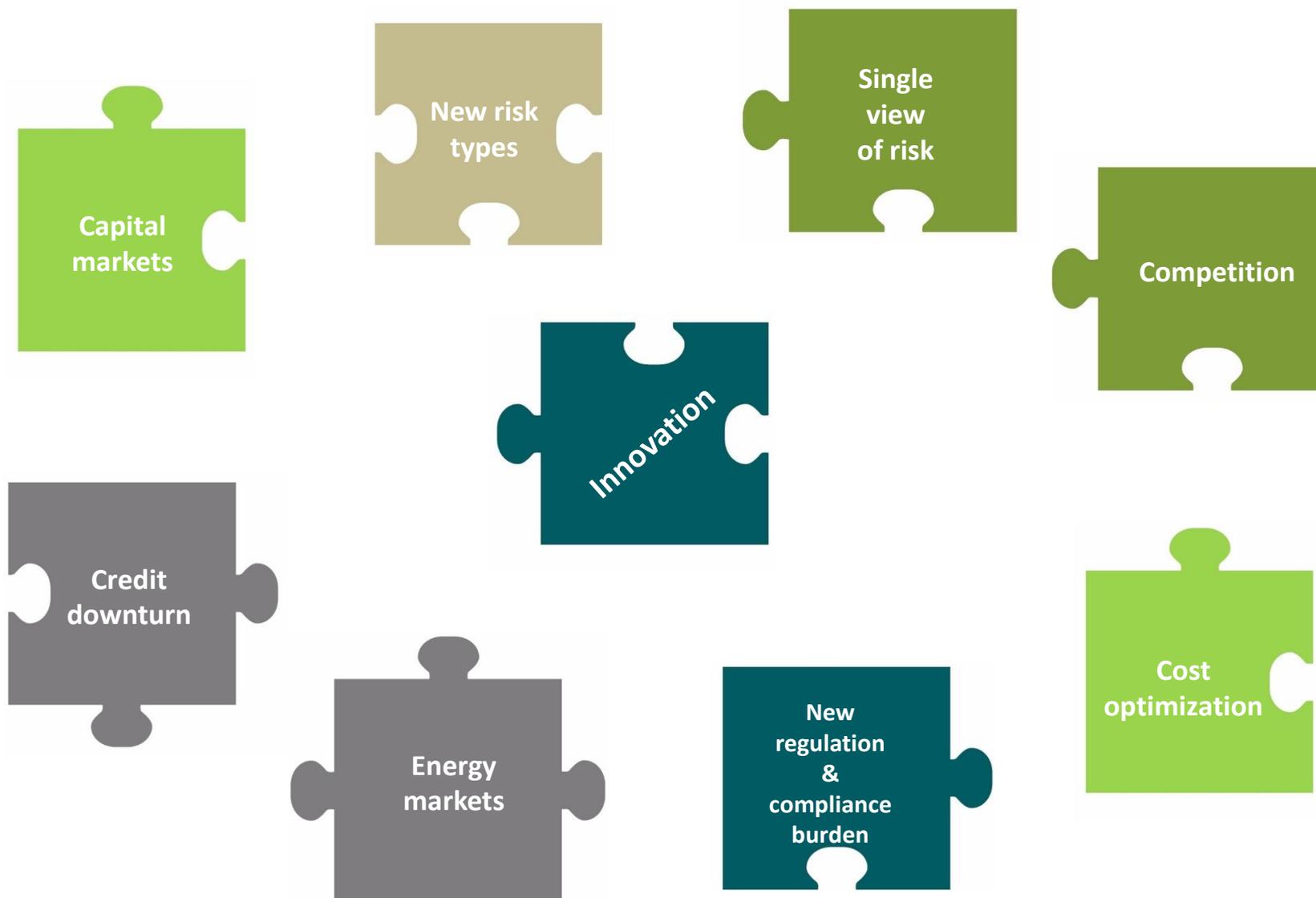
As generally accepted international corporate governance understanding involves;





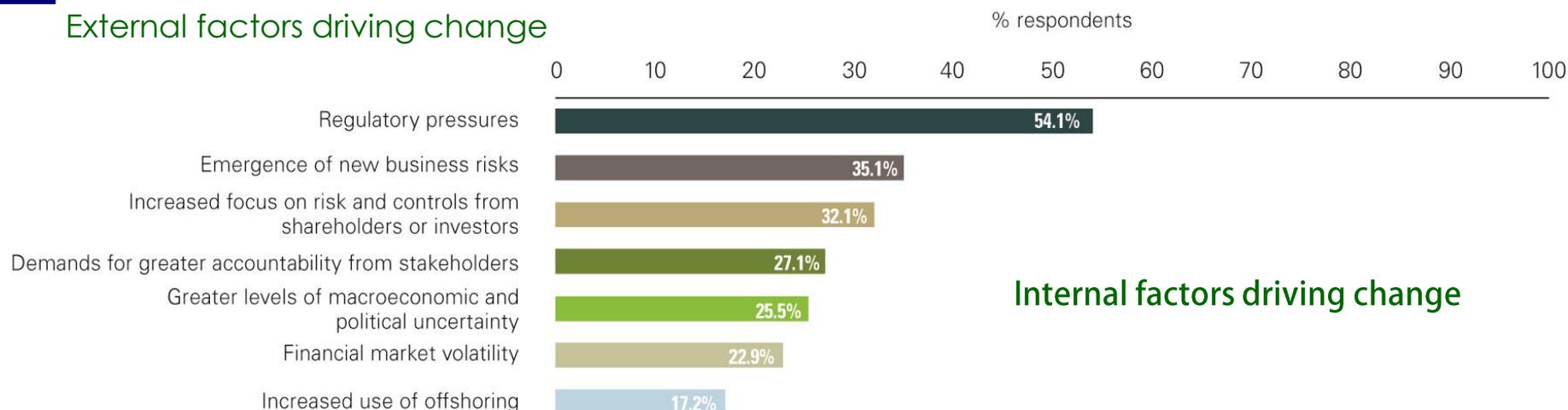
## Setting the Scene – Macro Market Trends

## II Setting the Scene - Macro Market Trends

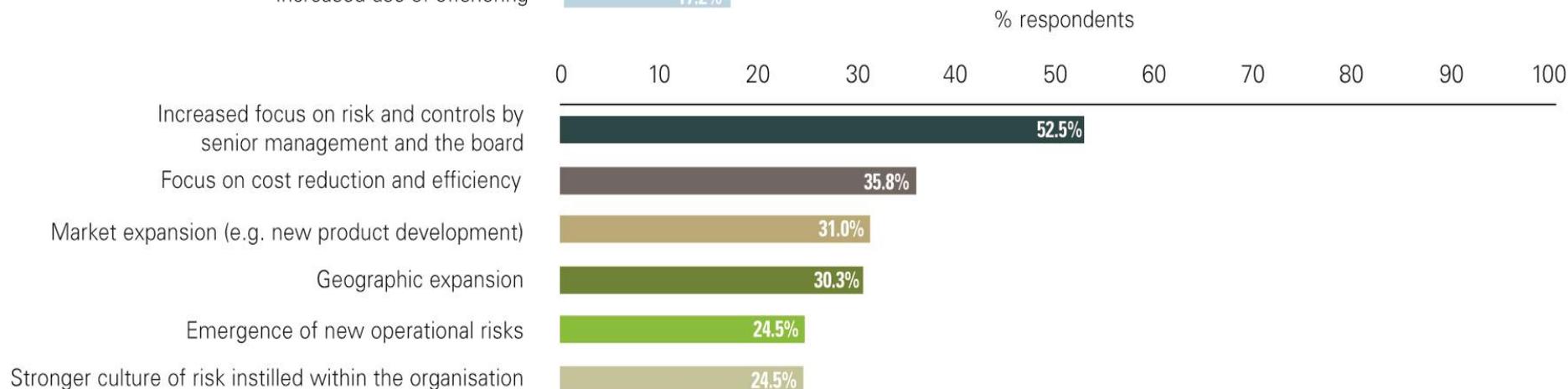


## II Factors Driving Change

### External factors driving change



### Internal factors driving change



“Global Companies are looking to risk and control management to become more strategic and forward looking with a focus on creating as opposed to merely preserving value. These Companies will be looking for a genuinely holistic, integrated, future focussed and process orientated approach to risk and control.”

## II Factors Driving Change (Cont'd)

Internal audit needs to maintain and strengthen its value preservation activities (lower right oval) and move more fully into activities that create value (upper left oval).

Internal audit needs to find new ways to deploy its risk-and control-based skills to help the Bank achieve its strategic objectives and thereby enable value creation.

Adding capabilities that are in keeping with these goals will become increasingly important.



*...Enhancing Value Preservation, Expanding Value Creation*

## || Internal Audit Share Forum Highlights

- “Internal Audit is experiencing a shift in its role from providing information to providing interpretation. It is offering and is being expected to offer increased synthesis and analysis of information to help management identify themes, trends, and business challenges.”
- “Boards and Audit Committees are seeking a ‘real time’ overarching view of the control environment from Internal Audit rather than reports on individual areas of the business.”
- “Internal Audit should gather and integrate assurances provided by others to provide a view.”

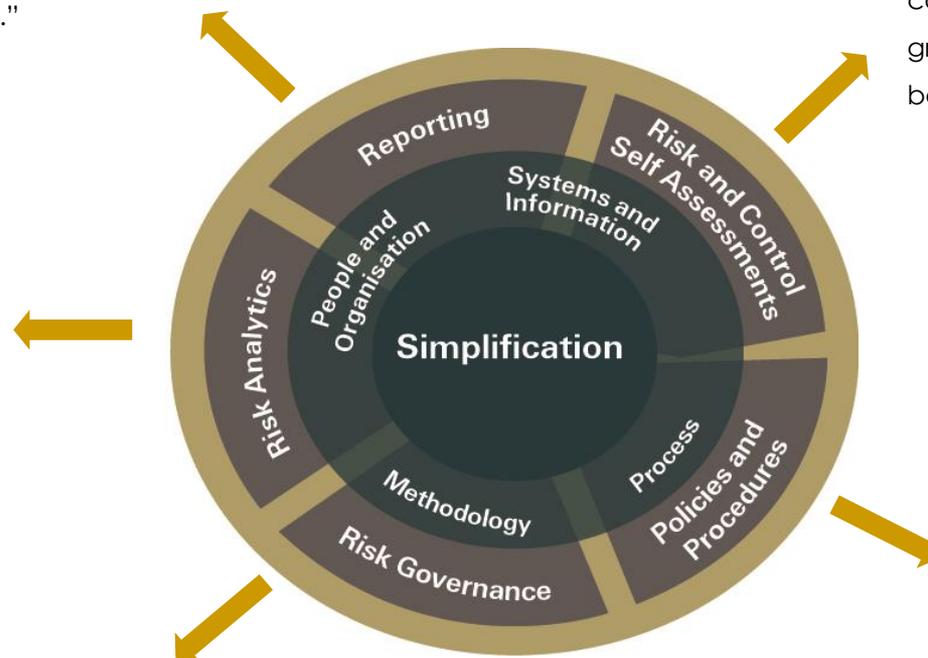
## What are we hearing in the Executive Corridors?

### Reporting

"I'm inundated with multiple risk and assurance reports that divert my focus from customers and the business."

### Risk and Control Self Assessments

"I have to deal with multiple risk and control assessments some at a very granular level. There has to be a better way."



### Policies and Procedures

"I have a challenge in communicating policies and procedures to the organization because of the lack of consistency between the documents."

### Risk Analytics

"My current risk models need consistent calibration to convert, manage, and analyze information to achieve the purpose for which they were designed – can't I do this once?"

### Governance

"Governance around risk ownership, independent monitoring and reporting, and independent review and assessment (three-lines of defense) is not easily apparent to everyone in the organization."



The Shifting Role of Internal Audit from Providing Information to Interpreting Information – *Value Creation*

---

“Leading integrated Internal Audit functions will need to stay ahead of the risk curve rather than simply follow the business, whilst preserving the core compliance and assurance activities senior management and the audit committee require.”

**Economist Intelligence Unit and KPMG**

---

---

“The important step for internal audit is to create and provide its own ‘world-view on a real-time basis.’”

**KPMG: Internal Audit of the Future,  
Financial Institutions Look Ahead**

---

---

### The Challenge for Internal Audit

- How to focus on creating as opposed to merely preserving value
  - Defining “value” and how the meaning differs according to audience
  - Delivering “value” based auditing
  - Keeping the ‘finger on the pulse’, spotting and communicating the big picture risks and future vulnerability to senior management
  - Being on top of, even anticipating, change rather than responding to it
  - Meaningful relationships with the right people in the business
-



## Value Creation

### What does “good” look like in the future?

- Understanding and refocusing on the executive agenda
- Ensuring a clear link from business strategy to internal audit's focus. The Internal Audit department's structure mirrors the organization structure
- Expansion of the internal audit department's focus into new areas (e.g., business planning, liquidity/tax strategy, fraud prevention)
- Having a rapid response unit (to respond to market events as well as company crises)
- Succinct and timely reports identifying trends/themes/future vulnerabilities
- Provision of real time internal audit opinions on state of the control environment and managements control consciousness
- When appropriate, calculating savings from internal audit's findings

#### Need to consider:

- **Definition of “value” and redesigning internal audit's focus and approach to suit**
- **Real time, ‘on demand’ internal audit opinions**

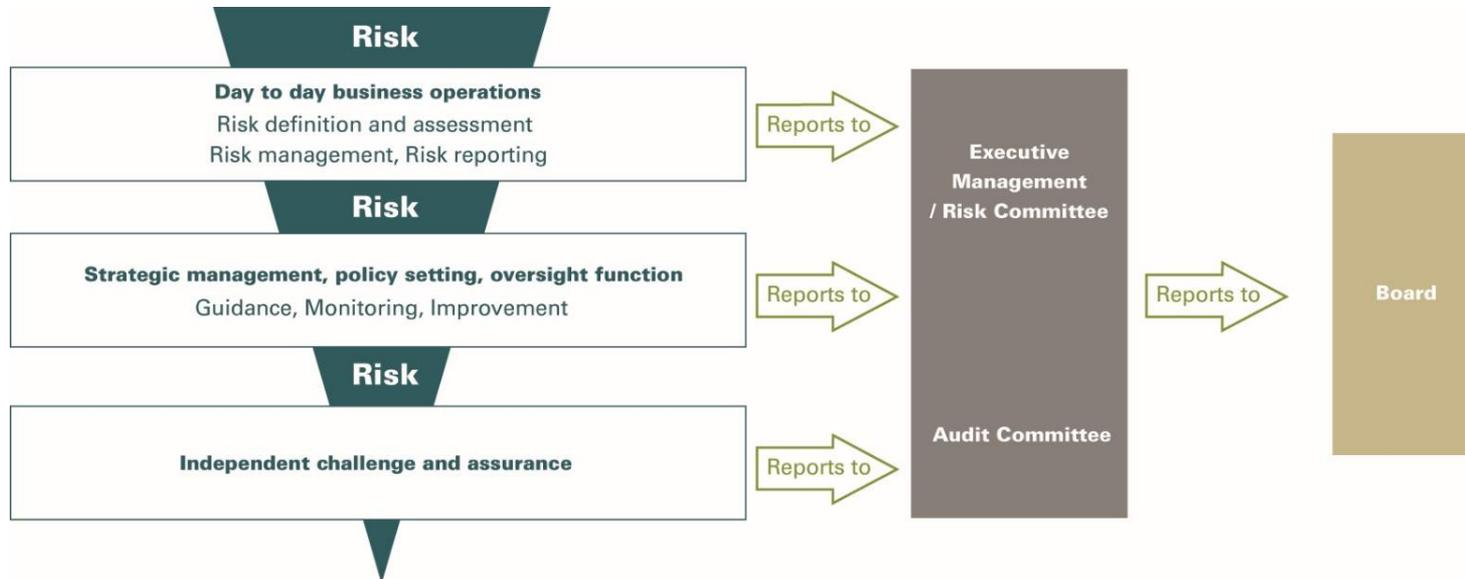


## IV Integrated Assurance

# IV

## Integrated Assurance

- How well is the “3-lines of defense model” working in internal audit?
- How is the internal audit department building consensus with management and the Board about how its role should evolve as well as communicating the value of an integrated assurance approach?



### The Challenge for Internal Audit:

- Identifying and understanding the assurance universe across internal audit
- Extent of consideration of other assurance providers in internal audit planning and execution
- Duplication of work by different assurance functions creating a “nuisance factor” within the business
- Contradictory views given to executive management

# IV

## Integrated Assurance (Cont'd)

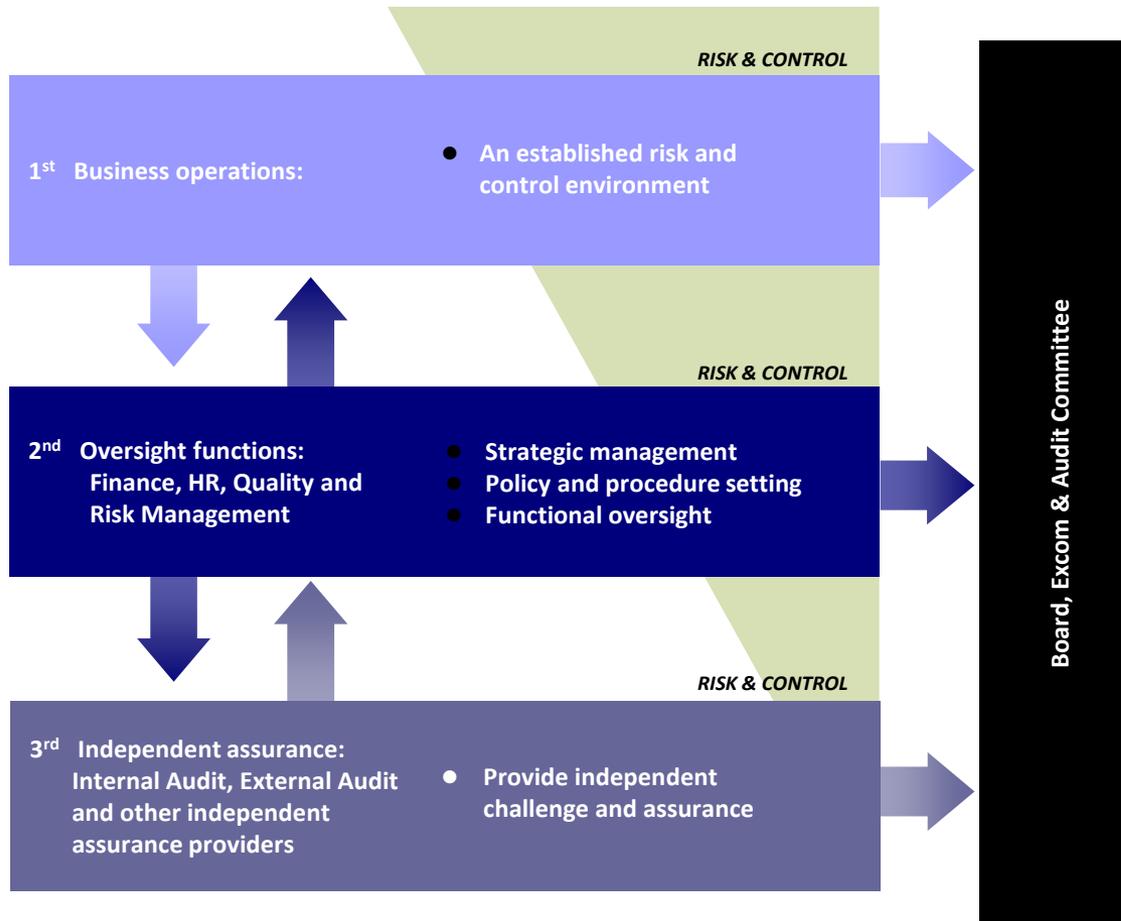
### Three Lines of Defense – Components

1 <sup>st</sup> Line of Defense	2 <sup>nd</sup> Line of Defense	3 <sup>rd</sup> Line of Defense
<p data-bbox="73 464 463 535"><b>Primary Responsibility De-Centralized</b></p> <ul data-bbox="73 599 666 1235" style="list-style-type: none"><li data-bbox="73 599 666 756">■ The business have primary responsibility for identifying, managing and reporting their risks</li><li data-bbox="73 821 666 1092">■ The businesses are required to help manage certain defined risks through the use of facilities and services provided by specialist risk departments (e.g., Corp Insurance)</li><li data-bbox="73 1156 666 1235">■ Group/Support Functions can report their own risks</li></ul>	<p data-bbox="718 464 1110 492"><b>Oversight Centralized</b></p> <ul data-bbox="718 592 1275 1192" style="list-style-type: none"><li data-bbox="718 592 1275 806">■ The Risk Management Framework (RMF) will provide support to the businesses, review and report key risks to central RMCs</li><li data-bbox="718 863 1275 1035">■ The Board and the RMCs will satisfy themselves that risks are managed cost effectively and to an acceptable level</li><li data-bbox="718 1092 1275 1192">■ Specialist departments will support other parties within the model</li></ul>	<p data-bbox="1323 464 1864 535"><b>Independent Assurance of all Other Components</b></p> <ul data-bbox="1323 606 1903 1049" style="list-style-type: none"><li data-bbox="1323 606 1903 835">• Internal audit can provide independent assurance of the robustness of the different risk management processes and methodologies</li><li data-bbox="1323 899 1903 1049">• Internal audit communicates with external audit and the audit committee</li></ul>

# IV

## Integrated Assurance (Cont'd)

### Three Lines of Defense - Accountabilities



#### First line

- The first level of the control environment is the **business operations** which perform day to day risk management activity

#### Second line

- Oversight functions** in the company, such as Finance, HR and Risk Management set direction, define policy and help provide assurance

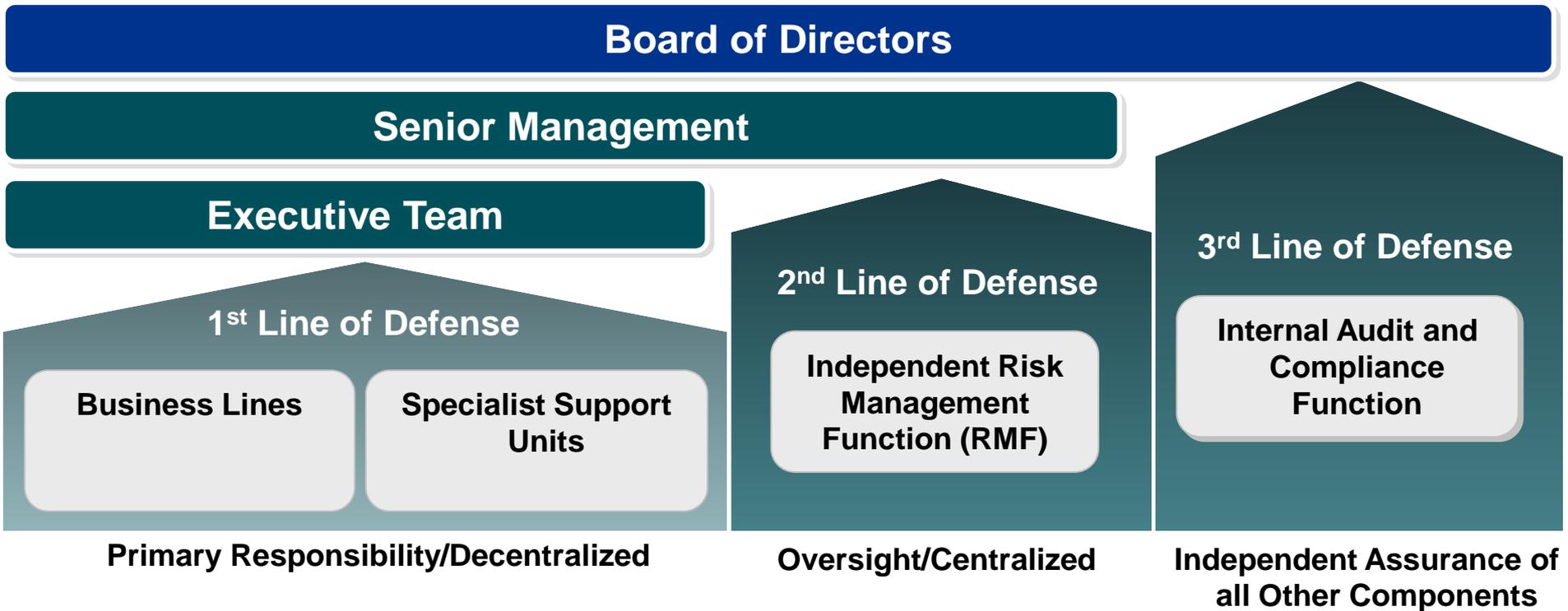
#### Third line

- Internal and external audit are the third line of defence, offering **independent** challenge to the levels of **assurance** provided by business operations and oversight functions

# IV

## Integrated Assurance (Cont'd)

### Three Lines of Defense – Oversight Responsibility



## IV Integrated Assurance (Cont'd)

What does “good” look like in the future?

- ❑ Integrated Assurance needs the support of the Audit Committee, CEO, CFO, and Heads of Assurance functions
- ❑ IA, Op Risk, FinCon and other functions:
  - ❑ Share a risk profile
  - ❑ Use same technology (risks, issues, etc.)
  - ❑ Rely on others' work where appropriate
- ❑ Streamline duplicated activities (e.g. Op Risk, Compliance, FinCon, and GIA)
- ❑ Continual/ongoing assessment of risks and Internal Audit highlights these to the business on a timely basis
- ❑ The Internal Audit plan includes ability to respond rapidly to emerging risks while ensuring coverage of core processes and controls
- ❑ “On demand” controls opinion includes risks in the control environment, as well as risks arising in management's awareness of those risks
- ❑ Trends in issues/problematic areas easier to identify and deal with

### **Need to consider:**

- ❑ **Preparing a business case for Integrated Assurance**
- ❑ **Developing methodologies/techniques to work with other assurance functions**
- ❑ **Collating, evaluating and reporting total assurance activities**
- ❑ **Giving a view on how good the assurance is, as well as where it comes from**



V

**Innovation, Technology, & Tools – Continuous Auditing**

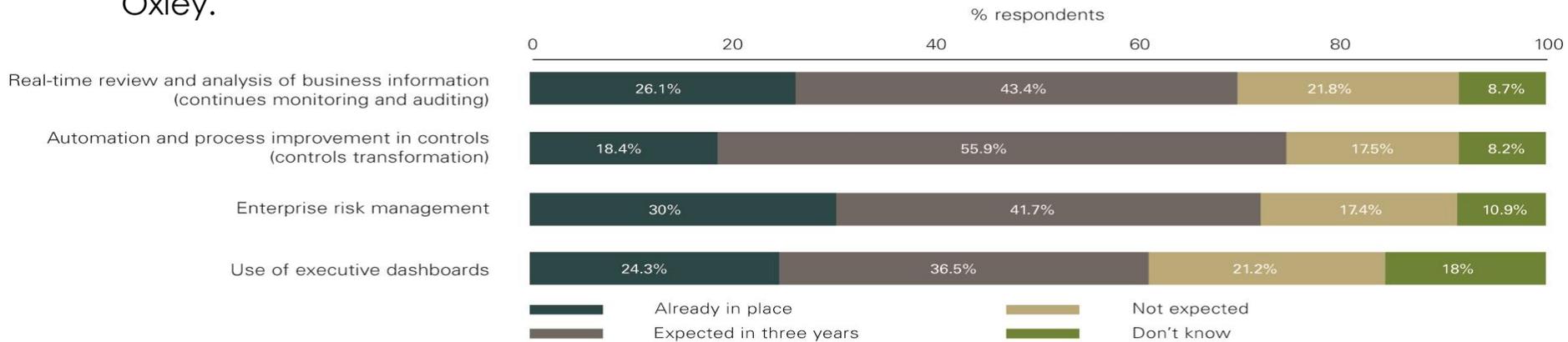
## V

## Continuous Auditing

Two recent developments have accelerated the implementation of continuous auditing and monitoring:

- Significant advancements in technology
- Impact of regulatory changes, such as Sarbanes – Oxley.

*Recent survey results support the trend towards continuous auditing.*



Source: Economist Intelligence Unit 2007

## The Challenge for the Internal Audit

- ❑ Re-evaluate risk assessment and audit planning processes, especially the cycle-based approach
- ❑ Use of technology and continuous auditing techniques
- ❑ Balance breadth of monitoring with 'deep dive' audits
- ❑ Make effective use of CAATs
- ❑ Use audit technology as "enabler" not "straightjacket"

## V Continuous Auditing (Cont'd)

What does “good” look like in the future?

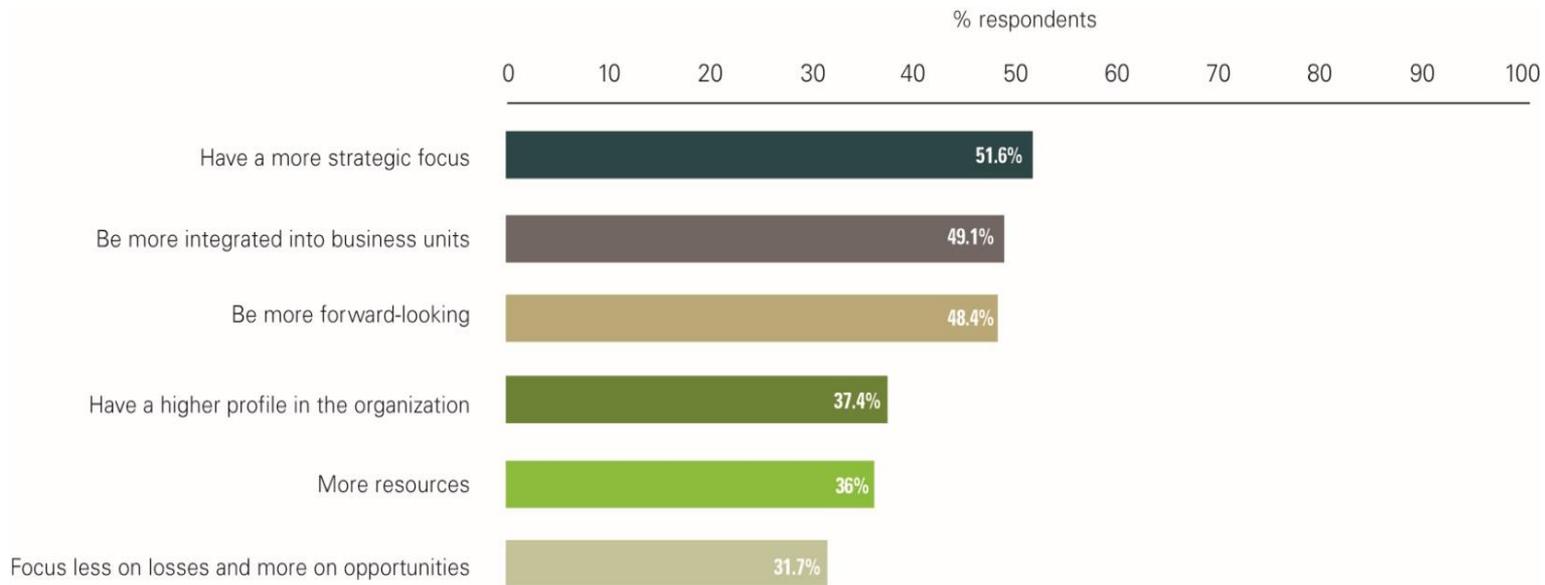
- ❑ Use of analysis tools to link disparate financial systems and allow inspection of every transaction in real time
- ❑ Deliver value by identifying errors and control violations as they happen
- ❑ Automation of the analysis and testing of auditors and fraud examiners over every transaction within multiple financial systems
- ❑ Continuous auditing and continuous monitoring incorporated into an Integrated Assurance model
- ❑ Continuous Monitoring Tools can be handed over by internal audit to the business to become part of their continuous monitoring efforts

Need to consider:

- ❑ Developing CA tools to enable IA to spend time on analysis not testing
- ❑ Assisting the business to develop CA tools that would allow internal audit to focus on other strategic areas
- ❑ Setting up a dedicated CA team within GIA



## The skills, experience, and capabilities of the Internal Audit resources are changing.



Source: Economist Intelligence Unit 2007

### The Challenge for Internal Audit

- Recruiting and retaining the right people—particularly from within the business
- Marketing internal audit as a valuable, viable career (or career step)
- Right skill mix for new products, services, and risks
- Nurturing key internal audit team members through leadership development programs and individual development plans
- Performance management system linked to business and internal audit strategy

Leading institutions are stepping back and rethinking every element of their group-wide risk management model



### The Challenge for Internal Audit

- ❑ Appetite for internal audit to contribute to a Single View of Risk (SVR)
- ❑ Adequacy of skills within the internal audit department to participate in SVR approach
- ❑ Internal audit independence through process
- ❑ Provide independent assurance over the risk management process



Financial Advisory | Credit Advisory | Treasury Management | Consulting



## Who we are:

**BetaPlus** is a leading Financial Institution in Africa offering a portfolio of customised and innovative services in our chosen market to improve access to finance, markets and advisory services by creating opportunities and offering innovative financial solutions to our customers; harnessing our core resources and strategic alliances with reputable institutions.



## Our Products & Services

We offer products & services like financial advisory, credit advisory, treasury management, consulting & insurance brokerage.



BetaPlus Int



@BetaPlusInt



BetaPlus Limited



[www.betaplusint.com](http://www.betaplusint.com)



## LIB INSURANCE BROKERS LIMITED

LIB Insurance Brokers Limited is a Nigerian company, licensed by the NAICOM to provide unique insurance brokerage services ranging from Insurance brokerage, risk management consultants, and claims service experts, life and pension and health Insurance consultant.

### OBJECTIVE

LIB's main objective is to secure our clients the widest and best cover with outstanding insurance companies with lowest possible cost and we pursue this with a passion that is unrivalled with our market.

- Insurance Broking
- Risk Management
- Consultancy Services

### Regulatory Bodies:



**N.C.R.I.B**  
THE NIGERIAN COUNCIL OF  
REGISTERED INSURANCE BROKERS





## **Olusola Olowoyeye**

BSc., MSc., FCA, FCTI, CRA, IIA

M.D BetaPlus Int'l Synergy Limited



08058900002; 08093827385



[www.olusolaolowoyeye.com](http://www.olusolaolowoyeye.com)



Olusola Olowoyeye