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# Future directions for internal audit

CIPFA audit training seminars

Scarman House – Warwick University

October 2011

***“... to share with you some of our observations on what both Private and Public Sector Internal Audit (IA) teams are thinking about in terms of the future directions of internal audit ...”***

# The areas of focus

1. What's happening now?
2. What should Internal Audit be doing?
3. Conclusion

# Curricula vitae

## Sav Della Rocca



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<b>Position</b>	Director, Internal Audit Risk and Compliance Services
<b>Experience</b>	Experienced in Governance, ERM and Internal Audit services including IA effectiveness reviews
<b>Industry experience</b>	More than 12 years of auditing experience
<b>KPMG IA clients</b>	<ul style="list-style-type: none"><li>■ Herefordshire County Council</li><li>■ Forensic Science Service</li><li>■ East Midlands Development Agency</li><li>■ National College for School Leadership</li><li>■ Energies Technologies Institute</li><li>■ Aspire Housing</li></ul>
	<i>Other KPMG Private Sector IA work on which we have drawn from:</i> <ul style="list-style-type: none"><li>■ ArcelorMittal; Burberry; Nestle; Tesco; Unilever; Toyota; and National Grid</li></ul>
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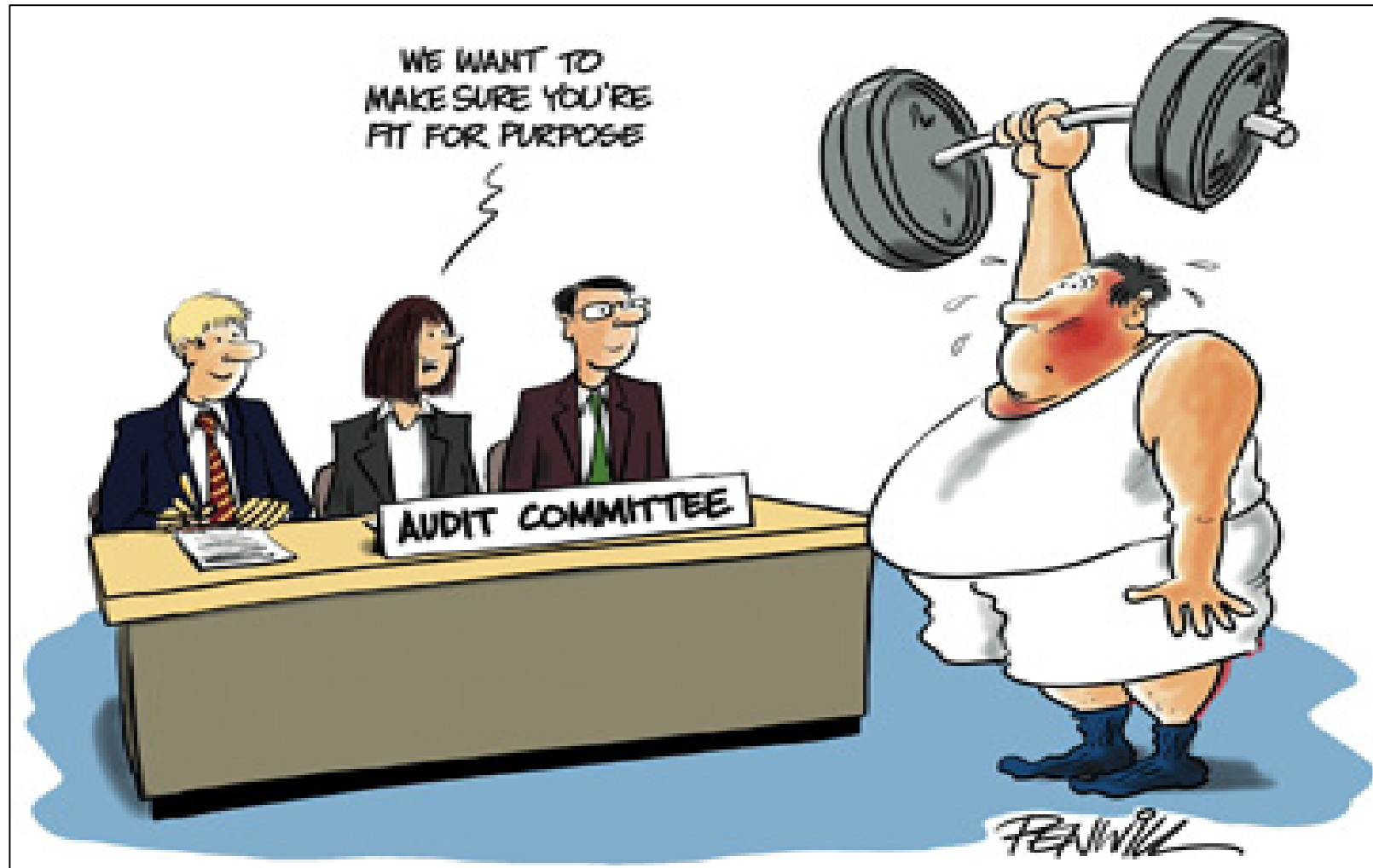
# What's happening now?

- The world of the UK's public sector is changing
- Government cuts, funding reductions
- Fundamental changes to public services
- Different delivery models
- Policy reform (welfare reforms, HRA, business rates)
- Changes to the external audit regime
- How, why, when services provided
- More for less, same for less, less for ...
- Value for money, Value for money...



Source: Daily Telegraph.

# What's happening now?



# What's happening now?

## Internal auditors are not exempt from scrutiny ... the questions Local Authorities are now asking include:

- Does Internal Audit have the right skills?
- Are Internal Audit doing too little?
- Are Internal Audit doing too much?
- Are Internal Audit looking at the right things?
- Are we getting value from Internal Audit?
- Can we reduce the cost of Internal Audit?

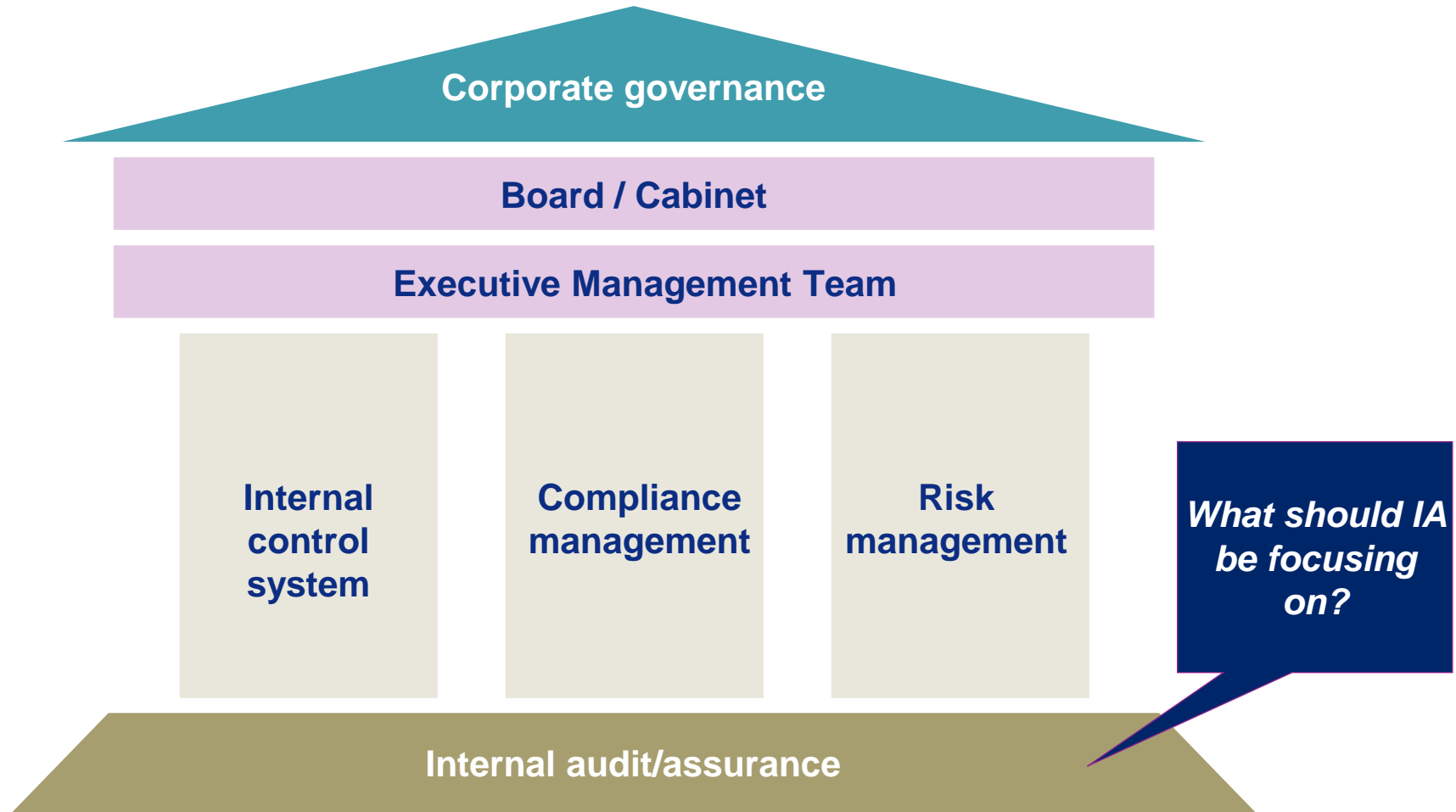
# What should Internal Audit (IA) be doing?

## Key areas of focus:

1. **Governance & ERM** are top strategic priorities and will remain a top focus for the foreseeable future
2. **Flexibility & Agility** are key
3. **Emerging Issues & Hot Topics**



# What should IA be doing? – Governance & ERM



Source: KPMG LLP (UK).

# What should IA be doing? – Governance & ERM

## Integrated Assurance Framework - The Three Lines of Defence

1st Line of Defence

Strategic  
Controlling

Risk  
Manage-  
ment

Other  
Assurance  
Provider

Internal  
Audit

External  
Audit

2nd Line of Defence

3rd Line of Defence

1. The first line of defence is the day to day business operations and controls
2. The second line of defence is the management supervision and oversight
3. The third line of defence is the independent challenge and assurance

Source: KPMG LLP (UK).

# What should IA be doing? – Governance & ERM

## Benefits of fully understanding The Three Lines of Defence include:

- Emphasises the importance of the role of line management – often an area of weakness
- Recognition that IA is only part of the assurance model
- By improving lines 1 and 2, you can commission less independent assurance
- Joining up line 3 allows you to ensure no duplication between assurance providers

## Assurance Departments should consider:

- Joining up line 3 allows you to ensure no duplication between assurance providers
- Does your organisation have an integrated assurance plan or just an IA plan?
- Is the work of all different assurance providers known and joined up?
- To what extent do you take account of lines 1 and 2 when determining assurance need?
- Does the work you do as IA really help get lines 1 and 2 effective?

# What should IA be doing? – Governance & ERM

## Example from a council near you ...

### Housing Benefit

- 1st Line of Defence – HB Team
- 2nd Line of Defence – Quality Team
- 3rd Line of Defence – Internal Audit

### Benefits ...

- Improved accuracy of HB processing – high performance
- Less errors on the HB claim
- Decreased external audit required – less fees paid
- Refocus of IA work

## Risk Appetite - Questions organisations should be asking themselves:

- Are all risks being captured?
- Is the organisation clear about what its risk appetite is?
- Is risk management a ‘real’ process?”

# What should IA be doing? – Governance & ERM

## Consideration of Risk Appetite?

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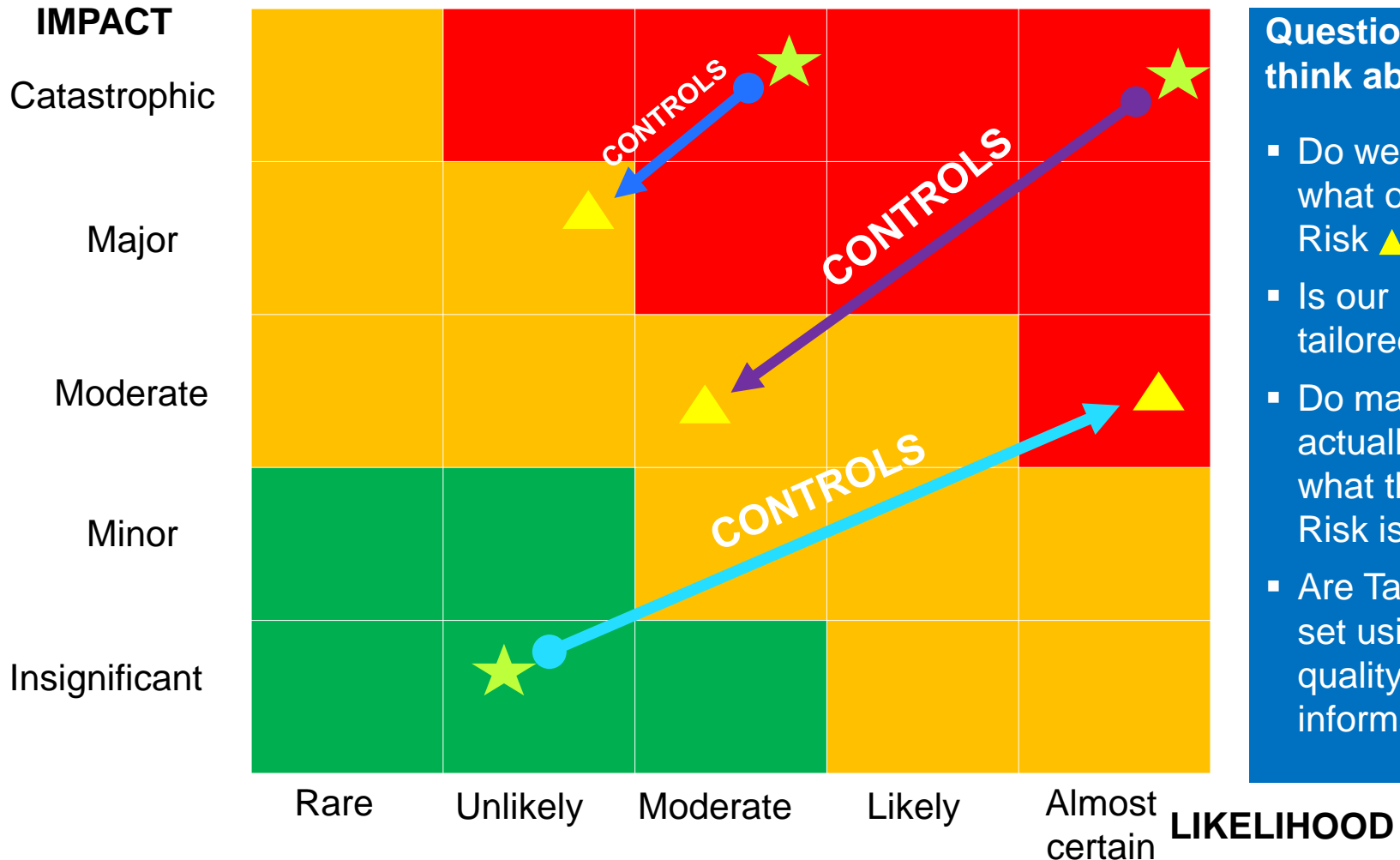


**"I think, perhaps, we need to come up with a new approach to risk management."**



# What should IA be doing? – Governance & ERM

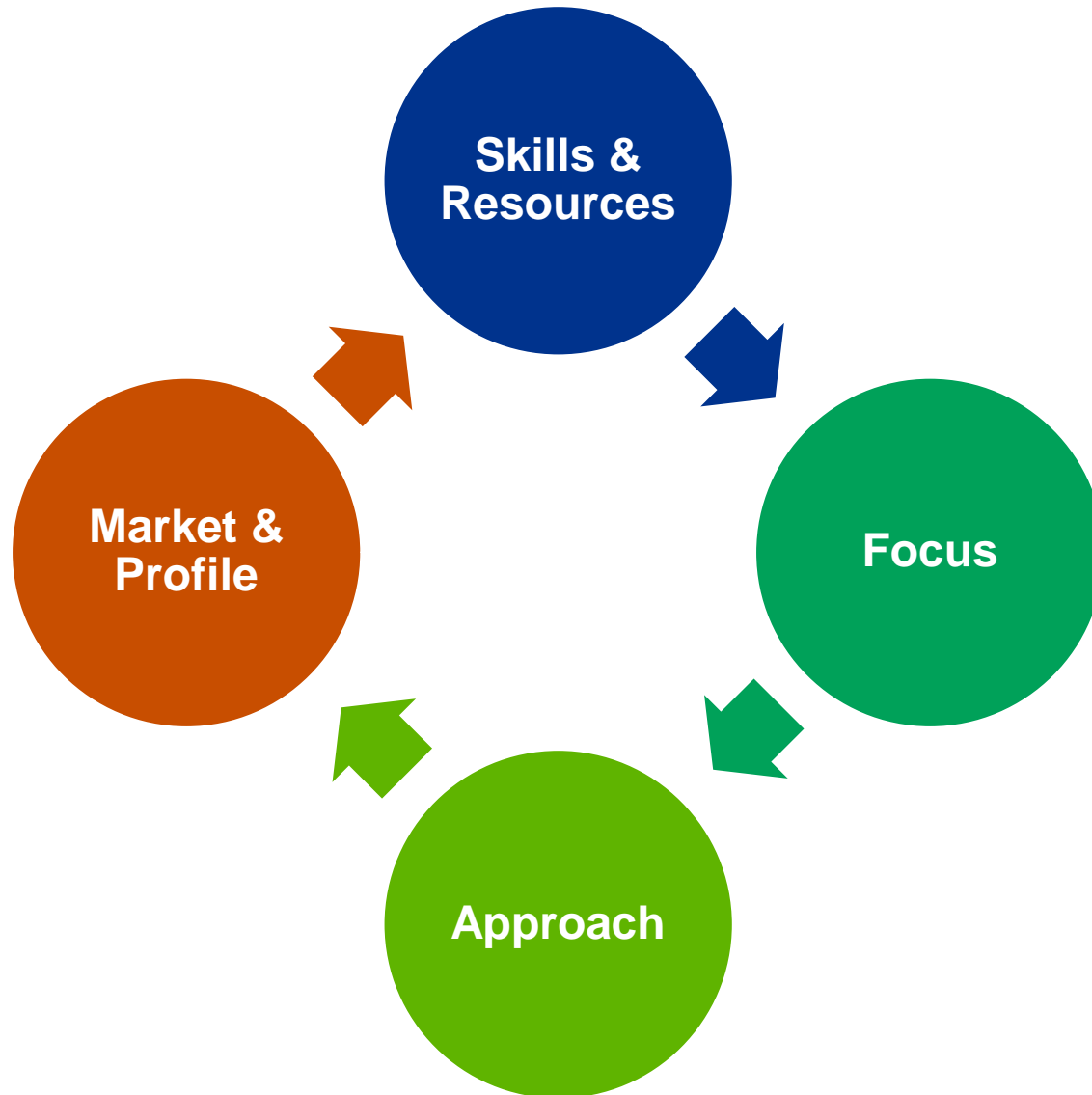
**We must consider the Organisation's Risk Appetite and Controls ...**



## Questions to think about ...

- Do we know what our Target Risk ▲ is?
- Is our IA work tailored to this?
- Do managers actually know what their Target Risk is?
- Are Target Risks set using quality/robust information?

# What should IA be doing? – Flexibility & Agility



# What should IA be doing? – Flexibility & Agility

## Skills & Resources

- Develop **resource strategies** to ensure the right skills and business knowledge exists within the IA function to meet the needs of the business in 5 years time
- Develop an **IA Model that allows the IA Plan to be flexed and changed** – i.e. where the 300 audit days can be changed to 250 days or 400 days as the situation demands

## Focus

- Aligning IA work to key **business priorities** - As management look to new ways of working - partnerships, JVs, mergers or shared services – IA should too
- Consider the **extended control environment**
- A new focus on **Value for Money (VFM)** – IA should move towards assessing management control's for obtaining VFM and undertaking VFM reviews itself - Deliver reviews that identify **cost reduction opportunities**
- Greater focus on **value for money, key projects and programmes**, high value contracts, and less focus on “traditional” audit areas
- Facilitating **controls optimisation** - is the right control, performed correctly and cost efficient, and are there savings through control redesign

# What should IA be doing? – Flexibility & Agility

## Approach

- **Refreshed reporting styles and formats** – one page reports, enhanced links to risks
- Use **CA techniques and a digital dashboard of KPIs/performance parameters** to detect control gaps or abnormalities on a real-time basis
- IA plans are rolling plans and must **incorporate merging and strategic risks**
- Take account of **risk appetite and work of other assurance providers**
- **Different approaches will be needed** e.g. continuous auditing

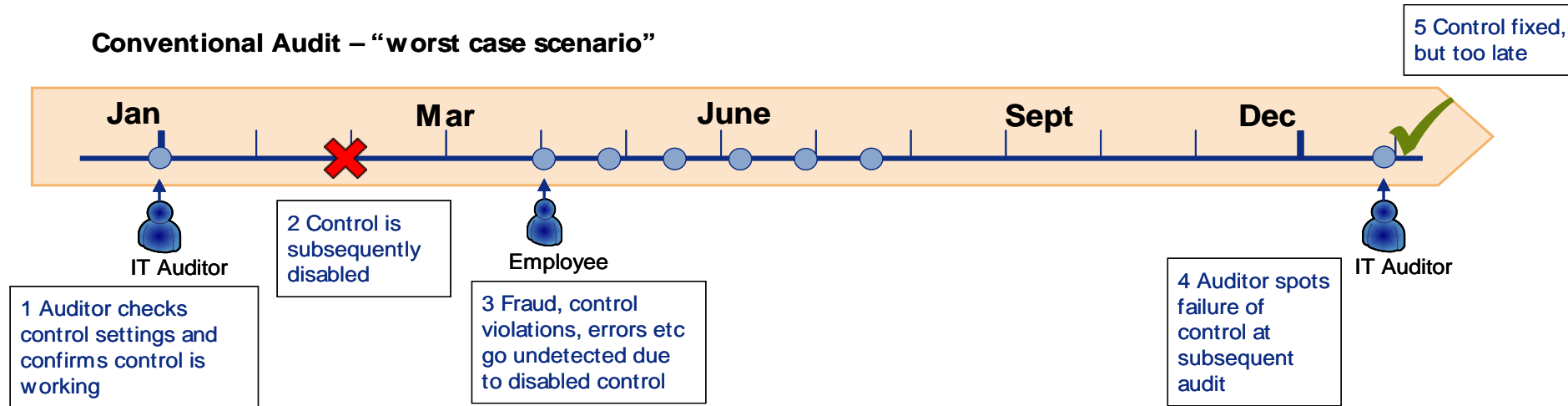
## Market & Profile

- **Market the IA function** and the value it brings to the organisation
- IA must **continually reinvent itself**
- New demands from stakeholders – IA work **more efficient and effective** too
- HIAs must keep their **eyes peeled for “black swans” and unforeseen events**

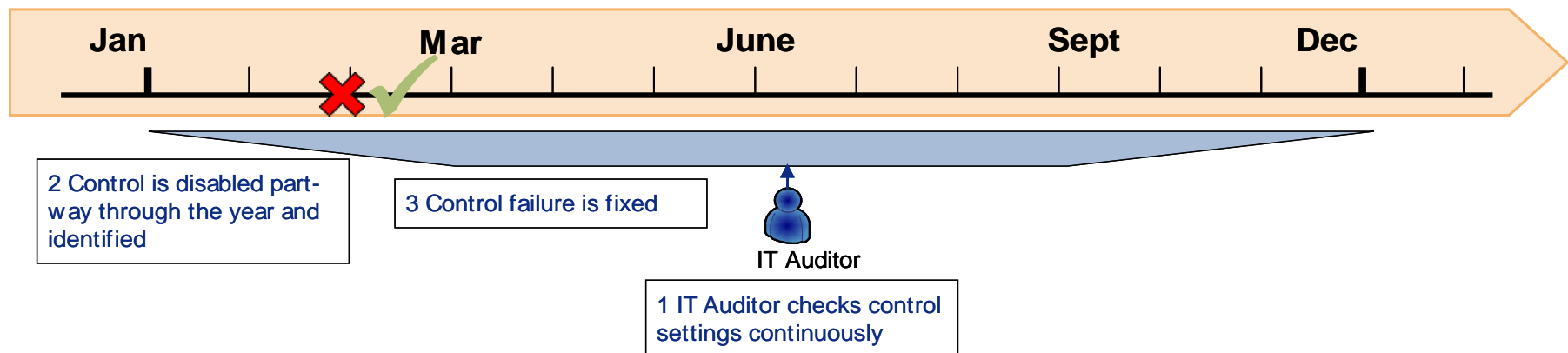
# What should IA be doing? – Flexibility & Agility

## The Continuous Audit ...

### Conventional Audit – “worst case scenario”



### Continuous Audit – an alternative outcome



# What should IA be doing? – Emerging Issues & Hot Topics

## Data security and privacy

- Cyber crime, cloud computing, eMobility = data security and privacy risks that may not be fully understood

## Business continuity management/IT disaster recovery

- How prepared are we to respond to a major business disruption?

## Fraud

- Number of incidents are increasing especially with downsizing and the current state of the economy

## Anti-bribery and corruption

- Most companies are now addressing but have Internal Audit adapted their audit programmes to incorporate appropriate testing of anti-bribery controls?

## Localism

- More local decision making, with decisions and funding passed to the community and individual to make their own choices



# What should IA be doing? – Emerging Issues & Hot Topics

## Emerging markets/JVs

- Many companies are looking at growth strategies that focus on emerging markets/JVs; how can IA functions help their companies address the risks associated with emerging markets expansion?

## Sustainability

- An emerging area but pace of regulatory change is increasing; what role should IA play in the design, implementation, and monitoring of these processes and controls?

# Conclusion

- The **World has changed**
- Pressure on public sector organisations to **deliver improved services at lower cost**
- IA must **strengthen its profile as a critical friend and advisor**
- IA has to change the **scope of its work and the way in which it is delivered**
- IA needs to focus on **governance, on risk management**
- IA has to be **flexible and agile** – as the organisation and the environment changes
- IA needs to be at the **forefront and thinking about emerging issues and challenges**



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**Any  
Questions?  
and  
Thank you**

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