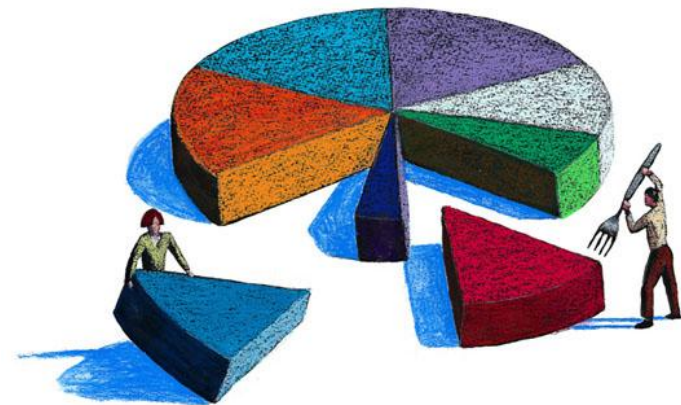


Presented by : Albert Yip, FCPA Aust., CRMA, CMA, MSc(I.S.)
Governor & Chairman of Professional Development, IIA HK
Venue: HKICPA
Date: 8th October, 2018

Internal Audit's Role – Navigating Risk During Times of Global Volatility



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About the speaker

Albert Yip, FCPA (Aust.), CRMA, CMA, BA(Hons), MSc(I.S.)

Albert Yip is a senior vice president and head of Corporate Audit, Asia Pacific at State Street, one of the world's leading providers of financial services to institutional investors. Based in Hong Kong, he leads the corporate audit function in Asia Pacific which is responsible for auditing State Street's compliance with global regulations in the region.

Albert joined State Street in 2015 and has over 30 years of experience leading internal audit, compliance, risk management, finance and regulatory teams. He worked in the United States and Asia Pacific for companies including Manulife Financial and Westpac Banking Corporation.

Albert earned a Master of Science in Information Systems from the Hong Kong Polytechnic University, an Honors Degree in Accountancy from the City University of Hong Kong and holds FCPA (Aust.), CMA, CRMA, CRISC and Forensic CPA designations. Albert is the governor and chair of Professional Development of IIA Hong Kong and the chair of the Financial Services Committee of CPA Australia.

Albert is a frequent guest speaker at professional bodies, universities, international conferences and forums in the Asia Pacific region and United States. He was the first honoree in Asia to receive the WACE Award, for his contribution to university student career development in Hong Kong and overseas. Albert is also the charter president of Lions Club of HK IFC, who contributes significantly to community services and volunteer works. In his spare time, Albert is a championship fencer



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Internal Audit's Role - Navigating Risk During Times of Global Volatility

Outline

- Transformation and changing role of internal audit
- Organizations face complex risks
- We have opportunity to add value
- How do we get there
- A mission for internal audit
- Audit never sleeps



Transformation and Changing Role of Internal Audit

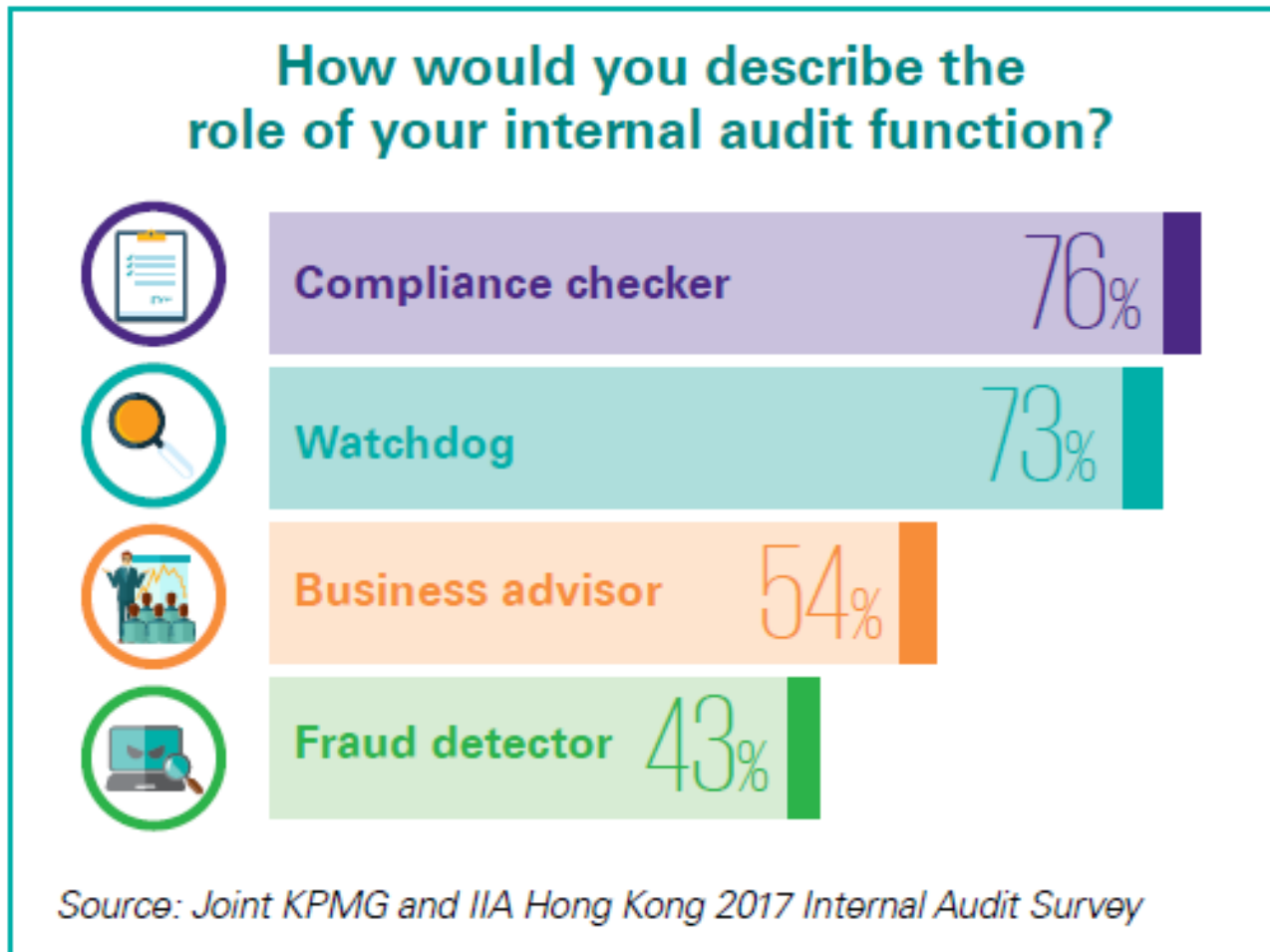
“Internal auditors are reaching beyond their traditional capabilities to partner with business and improve company operations”

Internal Auditor Dec 2011 – Internal Audit as Business Partner



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Transformation and Changing Role of Internal Audit



Transformation and Changing Role of Internal Audit



IIA Global Internal Audit Competency Framework

Core competencies IX Internal Audit Delivery:

Provides assurance and advisory services to senior management and the board

Benefits for becoming a trusted business advisor

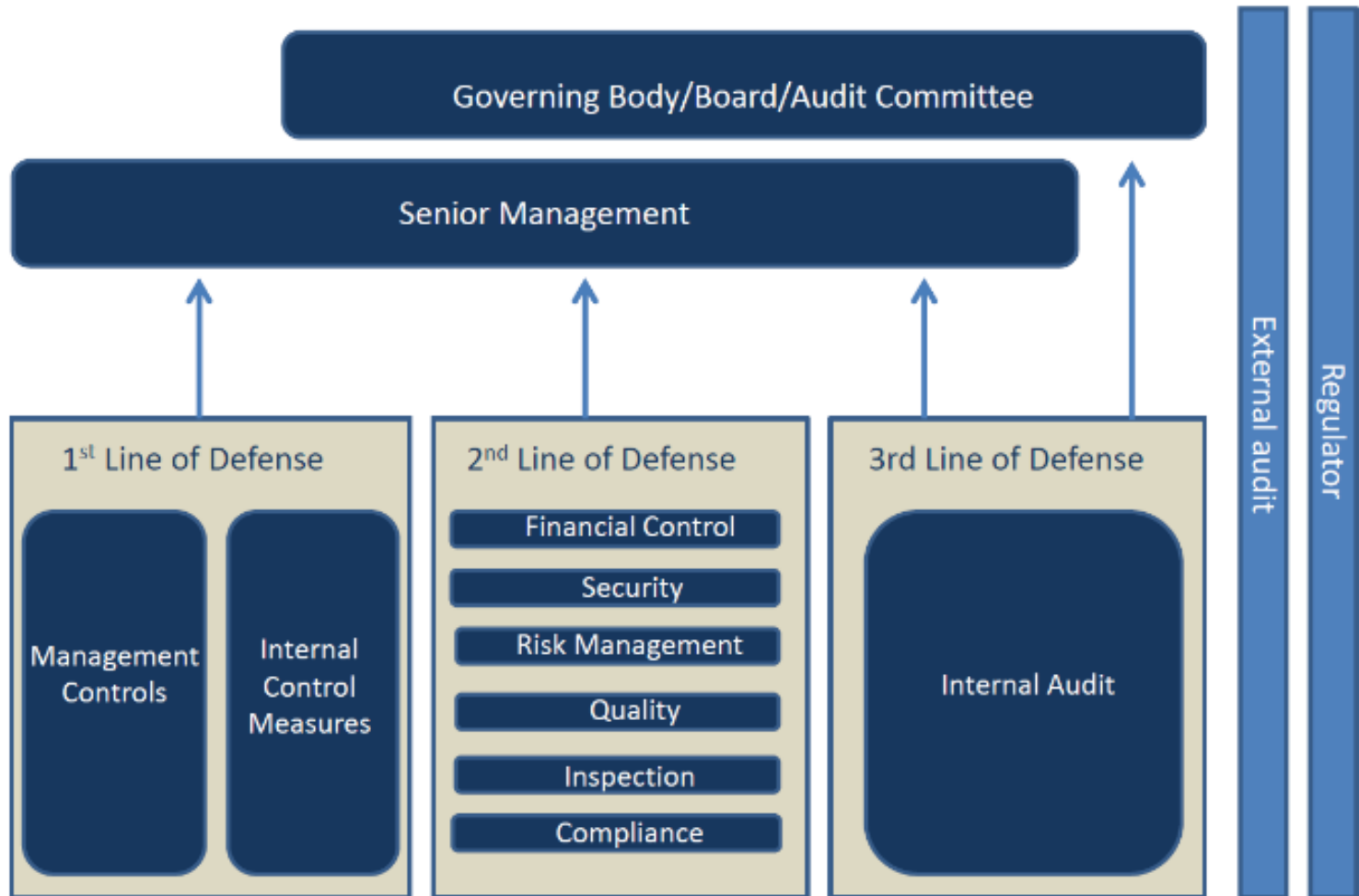
- Provide the organisation an independent view of underlying risks to make better strategic decisions
- Internal audit function is more involved with business operations and enhances trust levels with senior executives and leaders from other business units
- Greater emphasis on managing risks rather than assuring compliance with company policies



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The 3 Lines of Defense Model

The Three Lines of Defense Model



Organizations Face Complex Risks



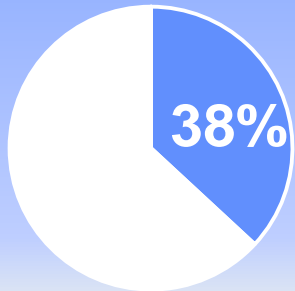
**VOLATILITY
AHEAD**

Organizations face complex risks

- Geopolitical risk (e.g. Trade War)
- Cyber risk
- Increased and evolving regulation
- Reputational harm
- Technology advancements and disruptive innovation
- Global economic volatility



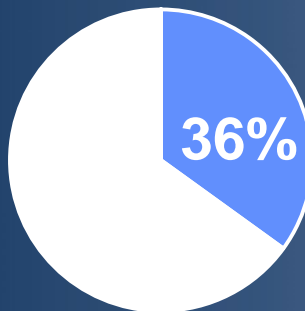
Cyber breaches and privacy/information security continues to plague organizations



year-over-year
increase in
detected
information
security incidents

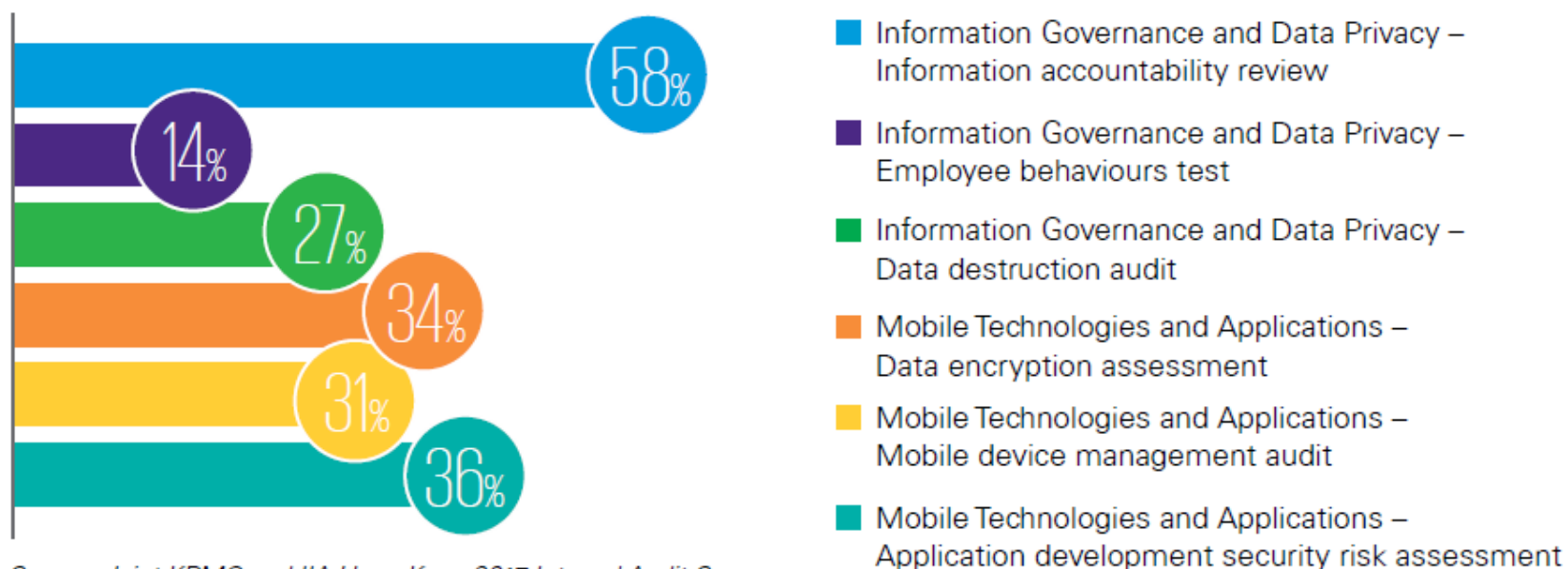
**“Many executives
are declaring cyber
as the risk that will
define our
generation.”**

**— Dennis Chelsey,
Global Risk Consulting
Leader, PwC**



of corporate directors are not satisfied
with the quality of information provided
by management on cybersecurity and
information technology risks

What kind of review (s) has/have been added to your internal audit plans in response to digitalisation and the rise of digital threats?



Source: Joint KPMG and IIA Hong Kong 2017 Internal Audit Survey



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Regulation's impact is growing

Regulation affects costs, growth, and innovation...and regulation remains complex.



83%

said regulation's impact on organization is more significant compared to five years ago



80%

significant impact on business costs



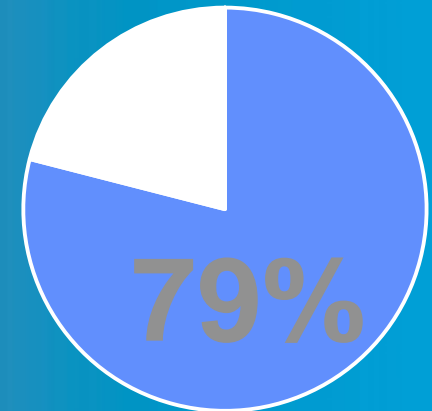
66%

significant impact growth opportunities



63%

significant impact on innovation opportunities

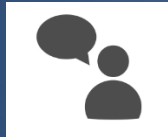


said the regulation impacting their organization is complex

Reputation events can have outsized impact

Companies that experienced a negative reputation event were impacted in these areas:

87%



of executives rate reputation risk as more important than other strategic risks



41% Revenue/Earnings



41% Loss of brand value



37% Regulatory investigation

Rapid speed of disruptive innovation and new technologies

- Disruptive innovation
- Technological advancements and new technologies
- Artificial intelligence and virtual reality



Global economic volatility causes risks to emerge at a faster pace

- Economic conditions
- Volatility in global financial markets and currencies

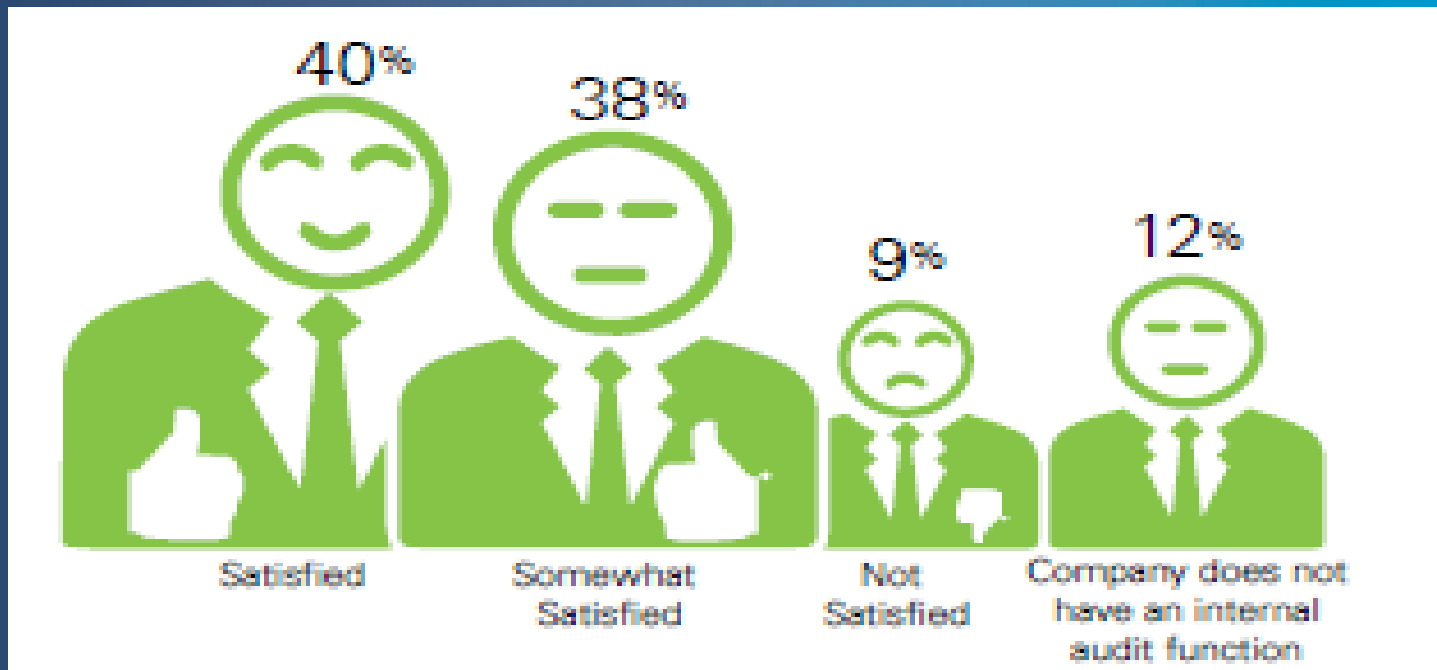




We have opportunity to
add value

We have opportunity to add value

How satisfied are you in the value internal audit provides?



We have opportunity to add value



Manage Your Risk

10%

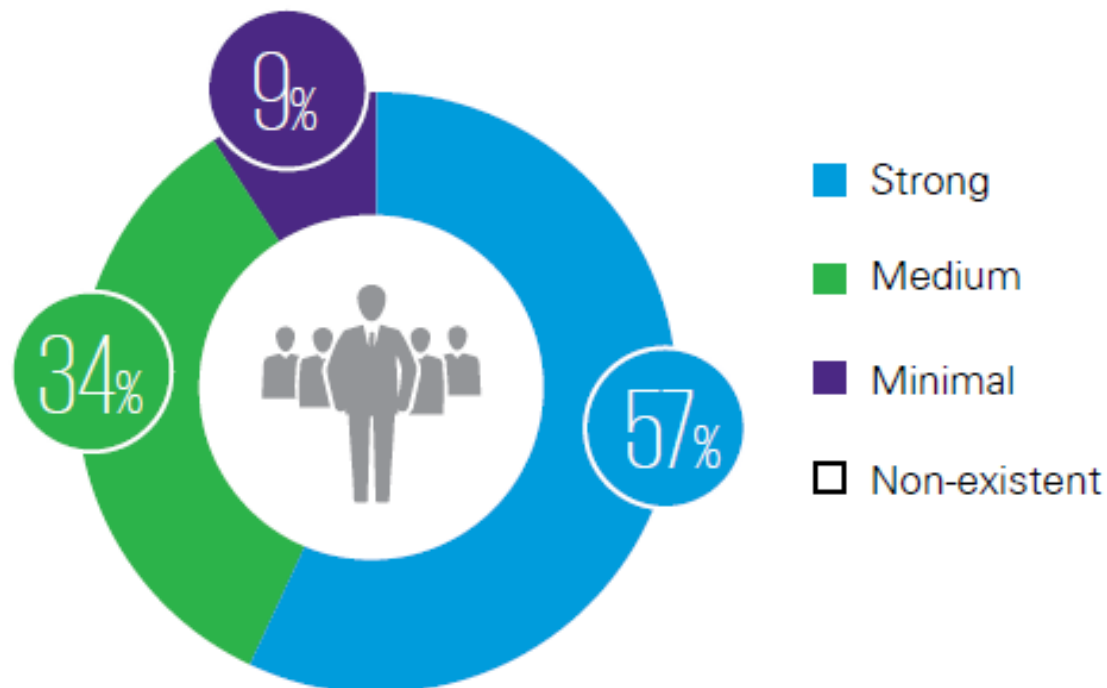
agree that internal
audit adequately
responds to risk

The value of internal audit

Our work offers round-the-clock assurance that our organizations are well-positioned to meet the challenges of a dynamic and complex business environment.



The level of senior management support for internal audit functions to perform their duties effectively



Source: Joint KPMG and IIA Hong Kong 2017 Internal Audit Survey



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Should internal audit go beyond the basics?

Areas Beyond
Assurance that
Should Be in
Scope for
Internal Audit:

85%



Identify known/emerging
risk areas

78%



Facilitate/monitor
effective risk
management practices

78%



Identify appropriate risk
management frameworks/
practices/processes

Help meet the challenge

- **Know the risks. Audit the risks.**
 - Audit beyond traditional areas
 - Align with organizational goals



Our stakeholders rely on us



- They demand:
 - No surprises
 - Assurance and advisory services
 - Value



How do we get there?

How do we get there?



Fault-finder



Trusted adviser



Communicate well

A trusted adviser communicates well

- Invest in relationships
- Listen actively
- Respect diverse perspectives
- Use formal and informal channels



Become an integrated
auditor



**VOLATILITY
AHEAD**

A trusted adviser is an “integrated auditor”

- A diverse set of competencies and soft skills
 - Invest in new competencies
 - Focus on problem-solving
 - Be able to compromise



Soft skills among internal auditors are lacking

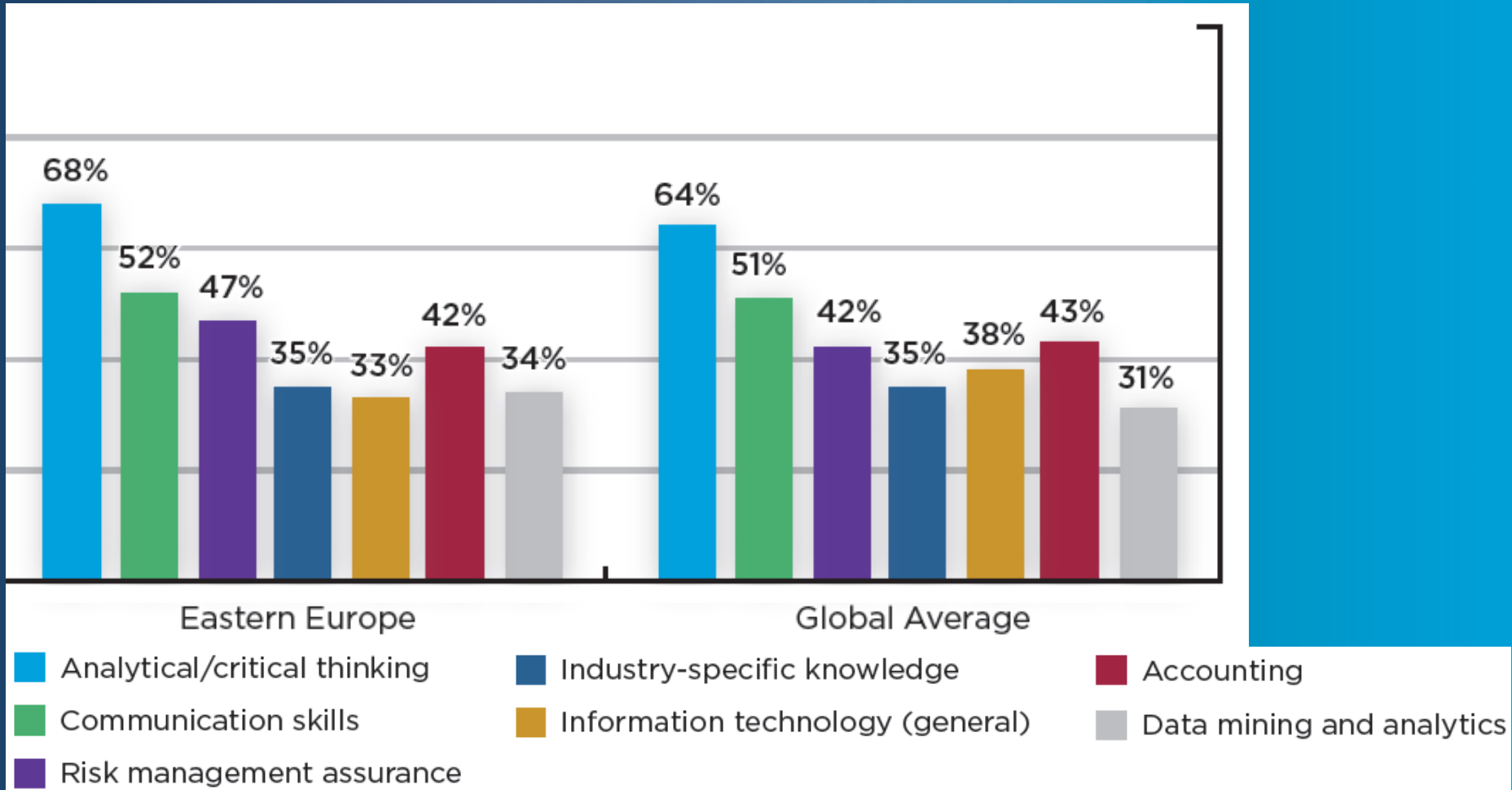


65% rated their average audit team member as not at all, slightly, or only moderately proficient in accounting for the organization's politics.

58% rated their average audit team member as not at all, slightly, or moderately proficient in balancing diplomacy with assertiveness.

63% rated their average audit team member as not at all, slightly, or only moderately proficient in managing conflict effectively.

Skills being recruited for internal audit departments

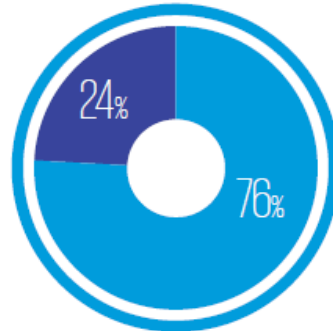


Note: Q30: What skills are you recruiting or building the most in your internal audit department? (Choose up to five.) CAEs only. n = 927 for Europe. n = 3,288 for global average.

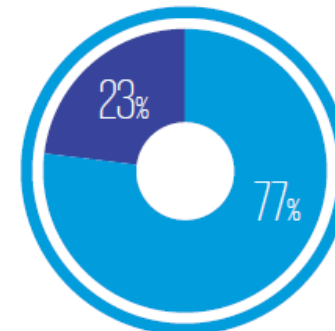
Level of resources, skill set and experience of internal audit functions

■ Sufficient ■ Not sufficient

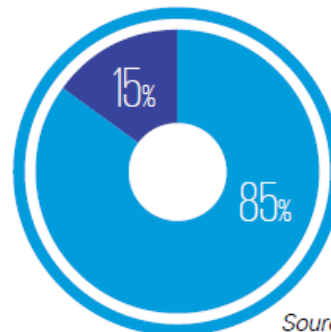
Does your internal audit function have sufficient resources to perform its duties?



Does your internal audit function possess the required skill set to perform its duties?



Does your internal audit function have enough experience to perform its duties?



Source: Joint KPMG and IIA Hong Kong 2017 Internal Audit Survey



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Do the right thing

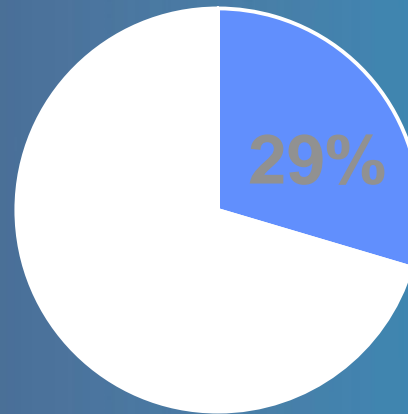
A trusted adviser is transparent

- The audit process:
 - Approved by management, board, audit committee
 - Clearly defined judgement and assessment
 - Clear and precise
 - Well-documented with traceable evidence
 - Tells the truth



A trusted adviser acts with integrity

- Ethical
- Honest
- Diligent
- Responsible
- Respectful
- Trustworthy
- Objective
- Role model



of CAEs in Europe say they have been asked to modify or suppress legitimate audit findings at least once during their careers

Be strategic and
future-focused



**VOLATILITY
AHEAD**

A trusted adviser thinks strategically



43%

say audit plan is not well-aligned with organization's strategy

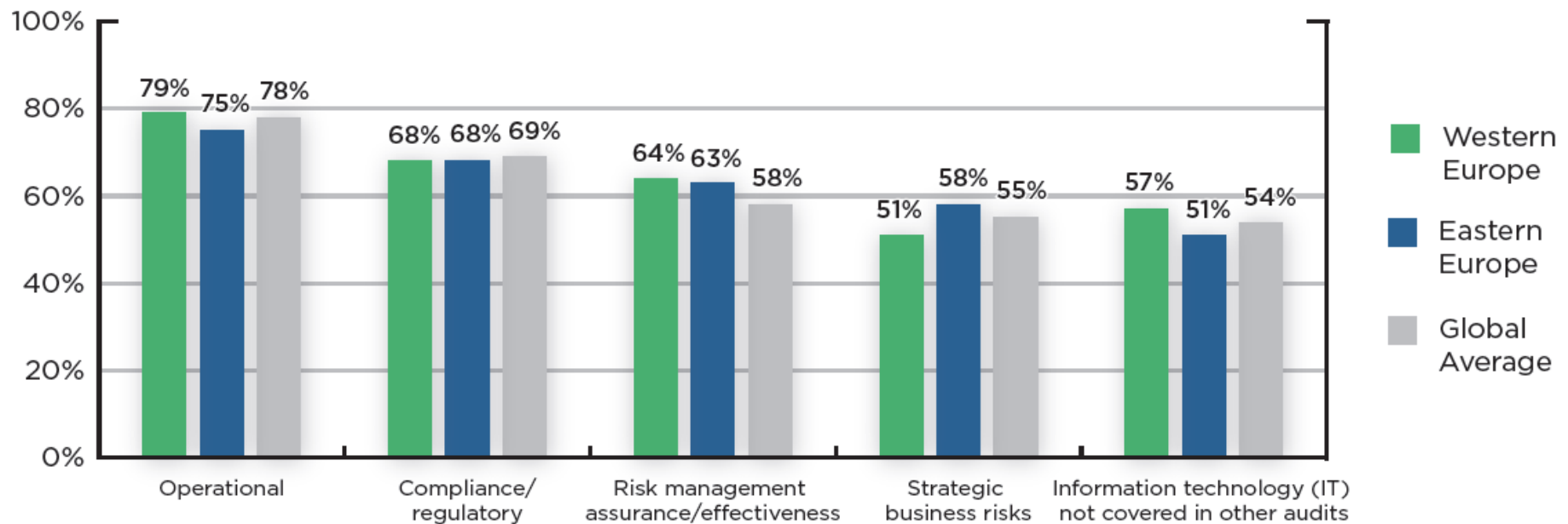
- Understand key business risks
- Align audit plan with organization's strategic path
- Be proactive to advise stakeholders
- Collaborate inside, outside organization
- Benchmark to peers

A trusted adviser is future-focused

- **Keep informed**
- **Anticipate future needs**
- **Adapt your audit team's skillset**



Anticipate future needs



Note: Q66: Please identify the top five risks on which your internal audit department is focusing the greatest level of attention in 2015. CAEs only. *n* = 798 for Europe. *n* = 2,742 for global average.

Drivers for increasing internal audit investment



Demand from Audit Committee / Board

51%

Demand from senior management 32%

Regulatory requirements

44%

Hiring of specialists

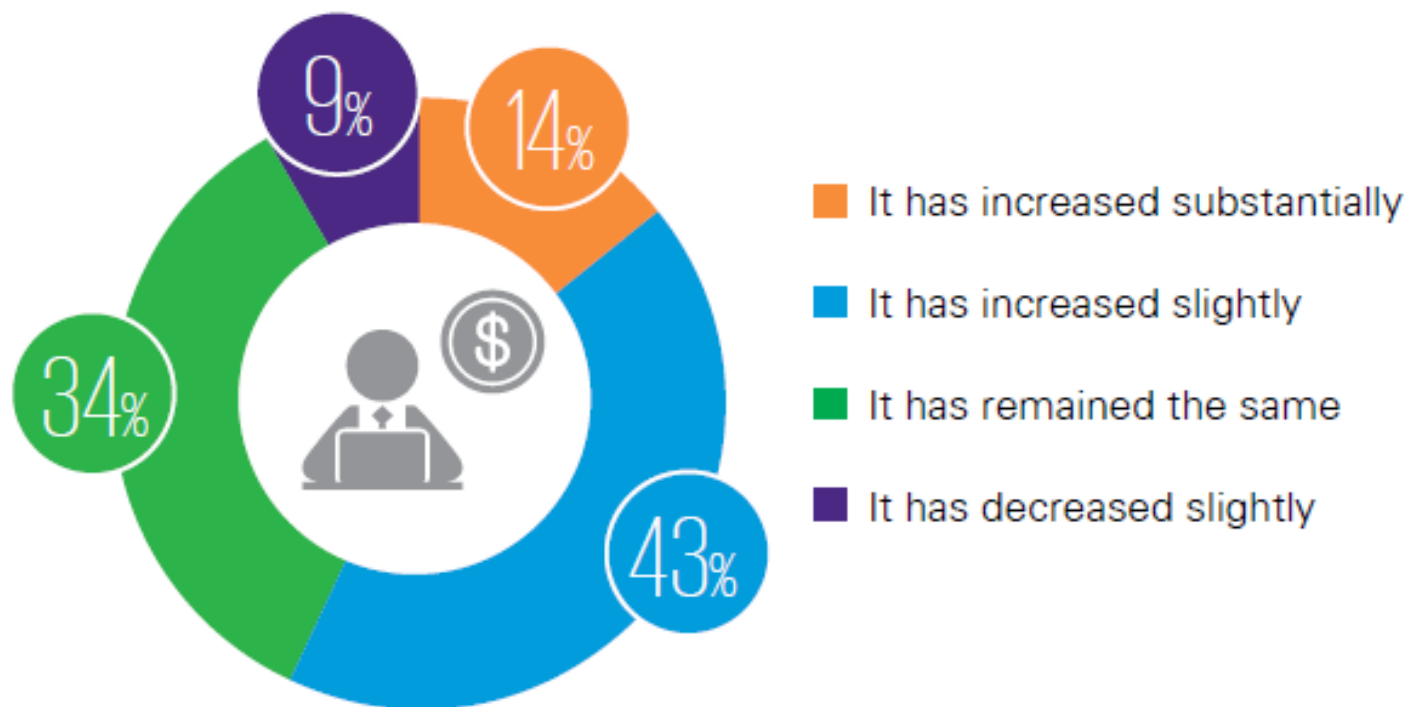
30%

Source: Joint KPMG and IIA Hong Kong 2017 Internal Audit Survey



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An organisation's change in internal audit investment (as a percentage of total operating expenses) over the past three years

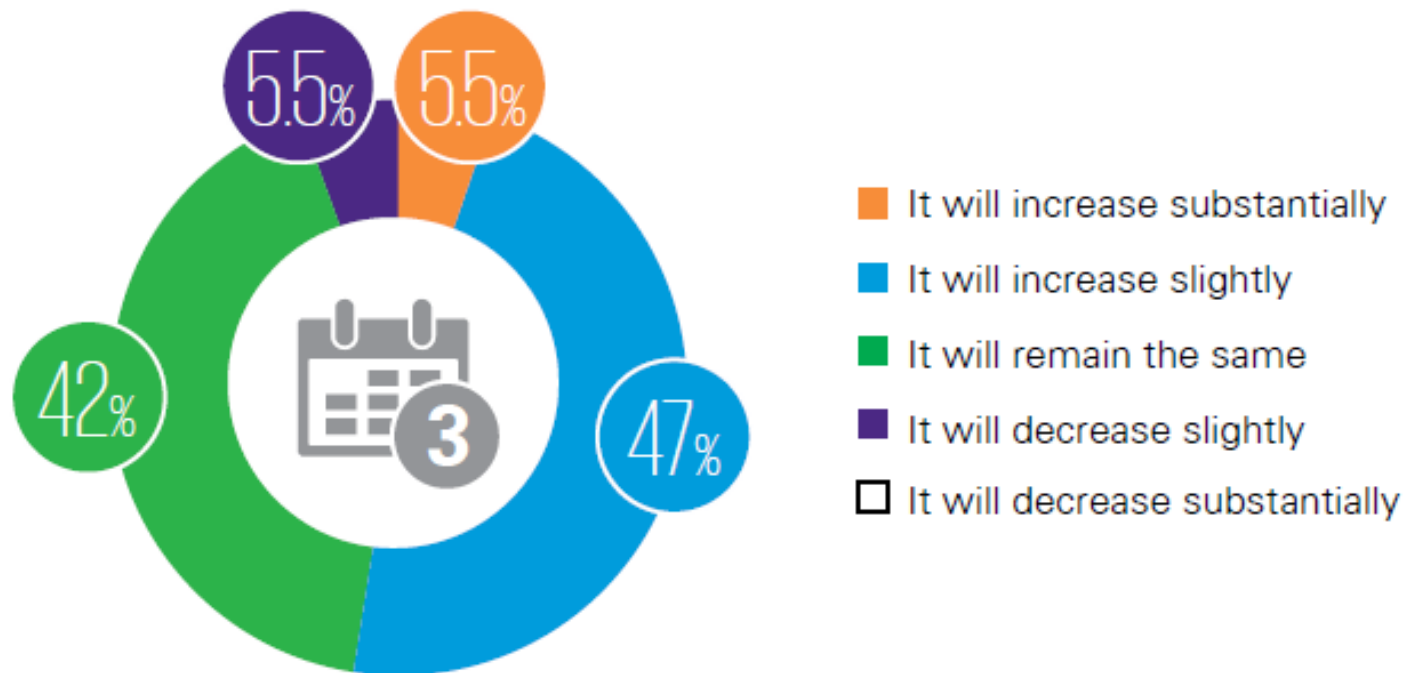


Source: Joint KPMG and IIA Hong Kong 2017 Internal Audit Survey



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An organisation's anticipated level of internal audit investment (as a percentage of total operating expenses) over the next three years



Source: Joint KPMG and IIA Hong Kong 2017 Internal Audit Survey



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A mission for internal audit



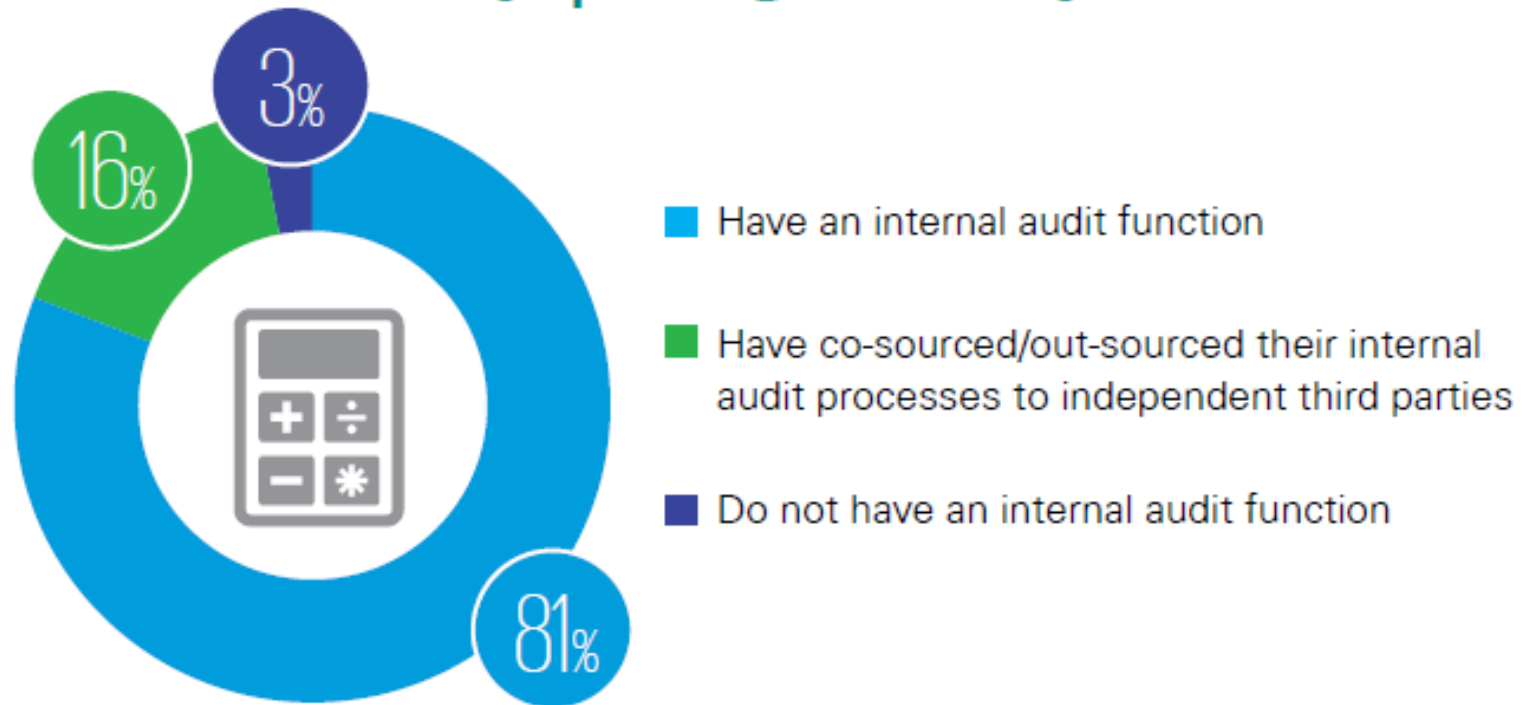
**VOLATILITY
AHEAD**

A mission for internal audit

“To enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.”



How companies are complying with the new Corporate Governance Code

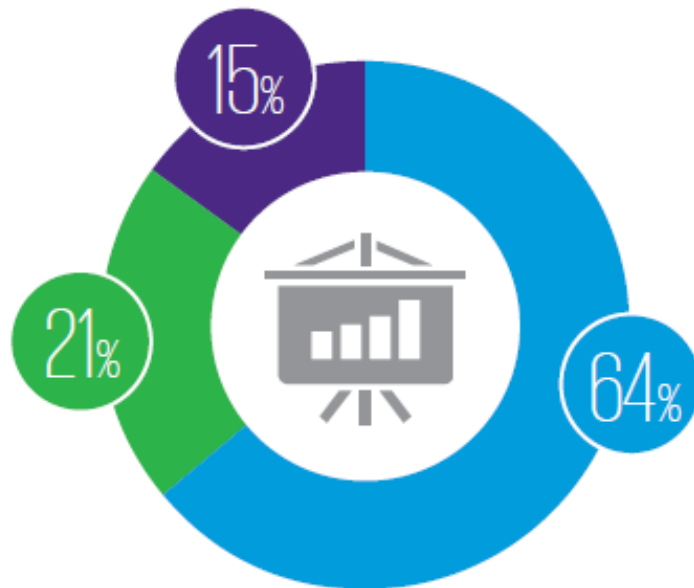


Source: Joint KPMG and IIA Hong Kong 2017 Internal Audit Survey



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An organisation's level of conformity with the IIA Standards



- Generally conformed - Internal audit policies and processes are mostly in-line with the IIA Standards with room for some improvement
- Partially conformed - Several internal audit processes deviate from IIA Standards, but do not obstruct the function's ability to perform its responsibilities in an acceptable manner
- Did not adopt the IIA Standards

Source: Joint KPMG and IIA Hong Kong 2017 Internal Audit Survey



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Audit Never Sleeps



Q & A

Thank You!!



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