The role of internal audit in business innovation

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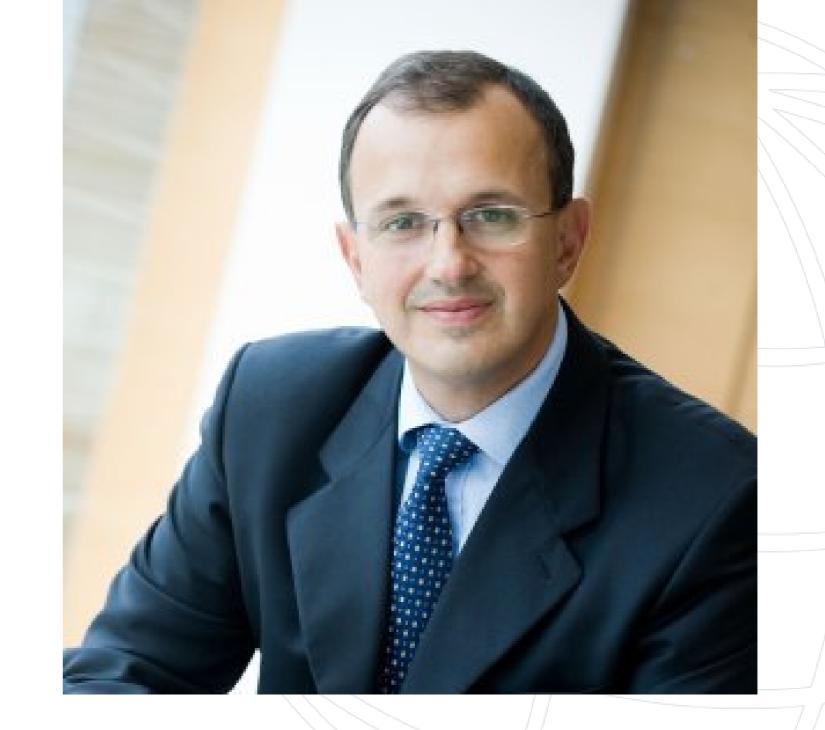


Instituut van Internal Auditors Nederland

Introduction

Hello!

I'm here to talk to you about business innovation and internal audit.





But what is business innovation? And how does it influence the role of internal audit?





For today, three burning questions...



What impact does a fast, innovative environment have on Internal Audit challenges?

Internal Audit in Financial Services, what does a real example look like?

Auditing in a fast innovative, environment – what should we expect?







Number one...

What impact does a

FAST and **INNOVATIVE** environment

have on Internal Audit challenges?







First, let's try to define what Innovation is...

- a new idea, device, or method
- something original and effective that breaks into or disrupts the market or society

In other words...

Insight + Ideas + Impact = Innovation







However, for auditing, there's more to it than that...

...because innovation also means:

Change

Uncertainty

(the past is seldom a good predictor of the future)

and

Speed





This creates certain challenges for the IA function

Externally

- Changes in customer behaviour and preferences
- Market competition developments international / local
- Technology
- Professional bodies regulations

Internally

- Organisational changes more with less
- Product changes
- **Process** changes





So, innovation has a direct impact on IA activities...

...because a rapidly changing/uncertain environment impacts:

- Shelf-life of internal audit products
- Frequency of audit planning assessments/decisions
- Flexibility of execution
- Auditors' skill set
- "Curing vs prevention"
- Our need to be part of the innovation







Number two...

Internal Audit in Financial Services -

what would be a real example?

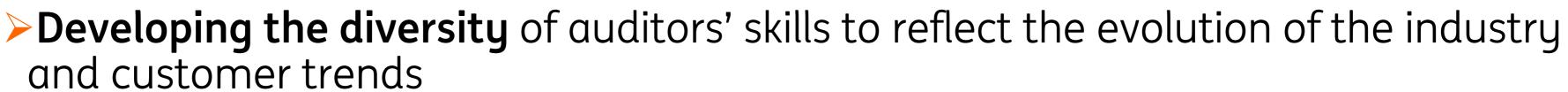




What key challenges does IA face in Financial Services?

>Increasing regulatory demands

- Change in banking organisation's customer and risk profiles beyond credit and market risk:
 - Digitalisation of services
 - Decision models (regulatory and non-regulatory)
 - Use of customer data
 - Business conduct and compliance
 - Technology
- >Ability to influence a sustainable strategy:
 - Coverage of and participate in key projects
 - "Seat at the table"



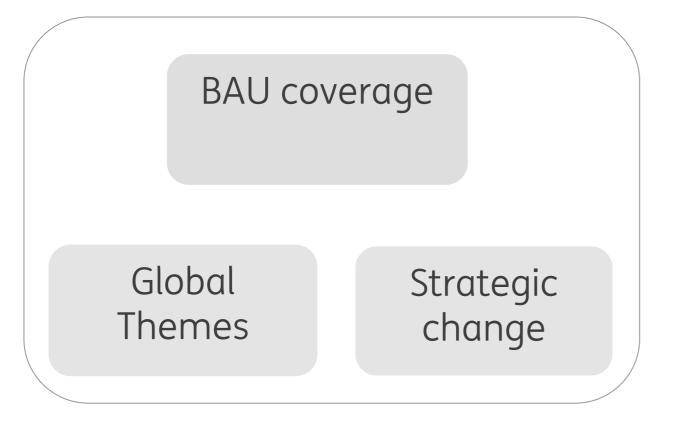
> Audit shelf-life





Demand for services vs Supply of resources

Demand



Strategic priorities for IAF

- Respond to the digital banking (r)evolution
- More strategically influential
- global co-ordination and interaction
- Make things happen more quickly



Resources to address the identified strategic changes

Supply













Internal audit skills assessment

Potential Gaps:

- Digital and mobile IT
- Deep technical IT (cybercrime, infrastructure, networks)
- Compliance/Conduct risk
- Modelling and data analytics
- Project management
- Open mindset



Excesses:

Generalist auditors and accountants







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Today's final burning question...



in a

fast, innovative environment -

what does that look like?





In rapid innovation periods, you will need to...

- Change your product mix: more audits on projects, new products
- Increase the frequency of audits and planning decisions
- Change auditor skills and mind-sets
- Innovate to increase audit productivity (e.g. data analytics)
- Change your leadership style





What mind-set must an auditor have, to support innovation?

From

- Command and control
- > Information is power
- Delegation
- Single answer solutions
- > Fear of failure
- Risk aversion
- Right work practices
- > Individualistic
- Perfection

To

- Empowerment and Trust
- Openness
- Participation
- Multiple answers and experimentation
- Learning from failure
- Sensible risk taking
- > Flexibility and adaptability
- > Team oriented
- Trial and learning

Source: PWC

A short recap

- Innovation is a pervasive factor impacting all industries
- IA challenges that are posed by fast innovation:
 - Shelf-life of business-as-usual audits
 - Relevance of traditional auditors' skills
- Auditing in a fast innovation environment asks for:
 - Project and change coverage
 - Influence innovation
 - Change of skill mix, mindset and leadership style





And I'm ready for questions!





