MARKS SATTIN

BDO

INTERNAL AUDIT ROUNDTABLE 2024

ROUNDTABLE SUMMARY | RAJVEER SANGHA | JUNE 2024

OVERVIEW

REGULATORY ENVIRONMENT

Marks Sattin, in conjunction with BDO, ran an Internal Audit Roundtable event in Manchester in June 2024 to exchange useful ideas, insights and experiences on key topics currently facing the Internal Audit profession.

Participants were senior representatives from the Financial Services sector across the Internal Audit Community. This whitepaper outlines their conversation, and covers the following topics:

REGULATORY ENVIRONMENT
- Consumer duty
- General election and change of government
- Reflections on the implementation of Basel 3.1

INTERNAL AUDIT TOPICS
- How functions are evolving to address and prepare for future strategic risks
- How firms are overseeing and mitigating the risks of Artificial Intelligence ("AI")
- Controls assurance alignment and presenting this to audit committees

INTERNAL AUDIT METHODOLOGY
- Reflections on the implementation of new IIA standards
- Considerations to Audit and Assurance policies
- Parallels between Assurance and Advisory work

INTERNAL AUDIT OPERATIONS
- How function's structure their career pathway for team members.
- How functions are deploying Co-source management/models

CONSUMER DUTY

There is a mixture of in-house and co-source solutions regarding Consumer Duty, with many noting a move from outsource to co-source models of late. Many have been preparing for their first audit assessment, and around the table it was noted that the depth in scope was varied. It was also noted that 2nd line's compliance work will be reviewed to determine the extent to which it could be leveraged.

There has not been much detailed outcomes testing completed. This year, the work will focus around the four pillars, such as vulnerable customers, and be linked it to Consumer Duty. Forthcoming reviews will also consider and incorporate Consumer Duty in their scope. The business will also be challenged to understand what they are doing to meet the requirements following these reports.

Heads of Internal Audit (HofIAs) have been asked for input into the Consumer Duty board report, and it was noted that where other aspects have been requested, such as operational resilience, they will consider Consumer Duty as part of these.

The aim expressed was to provide an holistic view on assurance. It was agreed that Consumer Duty would be treated in the same was as traditional requirements going forward.

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INTERNAL AUDIT TOPICS

The topic also came up in Audit Committee meetings, who asked how to imbed it into the audit methodology. It was noted that the first year assessments were more focused on Management Information (MI). Sensitivities around aggregation were noted, especially where there were nuances to consider. Concern about what the MI was telling the board was raised, to ensure it is truly beneficial to the organisation. This was echoed by some co-sources partners who reiterated the need to further interrogate what the MI is saying to improve outcomes. It needs to be qualified and balanced with an eye on outcomes for the customer. Where weaknesses are found, this was seen as an opportunity to improve the customer journey and experience. All agreed that there is still a lot of work to do.

Some participants commented that there have been conflicting messages from the other lines of defence.

The inevitable issue of cost came up as it often does with regulatory requirements, questioning how this makes the business more effective, coupled with the reticence of additional costs.

GENERAL ELECTION AND CHANGE OF GOVERNMENT

The impact of the general election was met with a universal 'wait and see' approach. No one had any immediate plans and thought any rushed regulations were unlikely. Interest was expressed how the FCA and PRA may change, in what direction they may go, potentially with a 'green agenda'.

More significance was placed on the potential outcome of a successful Trump campaign, and along with it, the increasing move to the right wing across the world.

Reflections on the implementation of Basel 3.1

This was met with a similar approach as for the election, of 'wait and see'. It was agreed that it was too early to complete audit work, and there was some debate over the timings of its introduction. The challenge of how to communicate the requirements to the audit committee was raised.

HOW FUNCTIONS ARE EVOLVING TO ADDRESS AND PREPARE FOR FUTURE STRATEGIC RISKS.

At a recent seminar on strategic risk, the point of attracting and retaining talent in IA departments was raised. Of particular note amongst the group was the issue of the lack of IT audit skills in IA and of the pace of change in IT, and the consequential difficulties in providing assurance over it. This is seen as a significant challenge, coupled with the difficulties in identifying emerging risks. The question of training the team to be in a position to provide assurance over these areas was also raised.

IT audit is often seen by the business as a luxury. When an IT specialist is recruited, the volume of work required often means that there is no time available to train other members of the team in IT audit skills, thereby not taking advantage of leveraging these skills.

IT audit skills are either bought, with the recruitment of a permanent member of staff, which also brings the challenges of the right skills geographically especially outside London, the right time for the candidate's own objectives and preferences, and of retention, or using an outsource or co-source partner. All participants agreed with the need to upskill the incumbent team members, and thereby taking pressure off the more technical IT work.

It was also raised that IT colleagues have been recently trained in audit skills, and have found this especially beneficial. Similarly, there has been experience of leveraging skills in business within audit.

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Recent External Quality Assessments (EQA) raised the point about lack of data analytic reviews conducted in IA departments. Many have been working on meeting this gap. Some have brought IT audit work back in house after using an outsource provider in the past. Some have been recruiting both IT Audit managers and Data managers.

It was acknowledged that data skills need to become a standard skillset amongst auditors. Data will be part of everyday auditing.

The details of the data required for reviews, and when it would be needed was recognised as an important consideration. Similarly, the perennial problem of obtaining data from legacy systems was raised.

There was an expectation that 1st line of defence would incorporate data analytics within BAU processes. This could be used as part of continuous assurance.

The question was also raised about the skillset of auditors once data analytics is imbedded. Then, the interpretation of data will be more complex and may require more experienced practitioners to conduct reviews. This led to the question about where that would leave the more junior team members. The resource pipeline and the route to obtain the required skills when the more 'basic' skills are no longer needed was also raised.

Modelling was touched upon, as another gap within many IA departments. Leveraging 2LOD was found to be a satisfactory solution, but most found that utilising co-source partners was beneficial. With any co-source, the management of this relationship was seen as key.

The discussion then moved to a general debate about the skills needed in IA in the future. It was recognised that Artificial Intelligence (AI) will be transformative in this. Auditors will need to have pragmatic knowledge to ensure that AI is applied appropriately. How AI will ultimately affect businesses is unknown, which raises the challenge of knowing what the right strategy will be in assessing its use.

HOW FIRMS ARE OVERSEEING AND MITIGATING THE RISKS OF ARTIFICIAL INTELLIGENCE ("AI")

It was noted by all that AI is ubiquitous, but also it can be so embedded in the background of what we do that we don't always know when it is being utilised. This came up in one organisation when the first they heard of they were using AI was when IT informed them that they'd done so. There may be a policy regarding its use but it was unclear how effective is this if we don't know when we're using it? All commented that they may not always recognise it as AI. This raises the challenge of understanding and managing the risks associated with inadvertent use of AI as well as any data protection/GDPR implications. Inherent within this is the question whether to turn it off but there is a circular argument because we may not know whether it is turned on in the first place.

Participants mentioned darker aspects such as Deep Fake, and financial crime, including calls automatically generated to customers. These are areas of large risk, exacerbated by the pace of change and the challenges of trying to keep up with it.

CONTROLS ASSURANCE ALIGNMENT AND PRESENTING THIS TO AUDIT COMMITTEES

Typically, the participants commented that reporting is split out into functional areas, but at the same time, there is consideration of the impact on strategic objectives. The ratings of the various audits are also reviewed and an overall opinion is produced.

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CONSIDERATIONS TO AUDIT AND ASSURANCE POLICIES

1st and 2nd lines are sometimes involved, to present an integrated assurance position. Instances were mentioned where this was not welcome. The Audit Committee wanted assurance on the key controls instead, but the register of key controls was not always up to date. When the AC were asked what they wanted, this was not always clear, and some education was found to be needed in some instances.

Some opine on functional areas, whilst others may drill down into specific areas of concern. The annual opinion may also report on changes to the overall risk framework. Many could see this becoming more nuanced in the future, but this may depend on the size of the organisation. All agreed with the need to link the opinion to the top risks.

INTERNAL AUDIT METHODOLOGY

Reflections on the implementation of new IIA standards

The new standards have seen a shift in stance from 'should do' to 'must do.' This is also coupled with a greater emphasis on having to demonstrate the evidence to support findings. This is not to say that the evidence requirement was not there before, but it was recognised that there is now greater significance placed on it. An example of provided where CRO and CFO provided an opinion to a question, but the HofIA had to provide evidence to support it.

THE NEED TO AVOID A 'TICK BOX' EXERCISE WAS EMPHASISED. MANY WERE DRIVEN MORE BY STRATEGIC ASPECTS. SOME FELT THAT THERE CAN SOMETIMES BE A DISTANCE BETWEEN PRACTIONERS AND THE QA TEAMS WHO DECIDE ON IA DIRECTION. THE NEED FOR PRACTIONERS THEREFORE TO SPEAK TO THE QA TEAMS IS IMPORTANT.

There was some lack of clarity around the full status of the new code. Many had taken some elements of the code and were beginning to integrate them with the standards.

It was noted that IA recognised that they have a part to play in assisting the board to sign off on the code, and recognised it was not for IA to lead that process. IA input to material financial controls, reporting compliance and operations as well as providing assurance on the effectiveness of the Risk Self-Assessment (RSA) mechanism. Similarly, IA will provide assurance or advice from other assurance activities outside of IA.

Risk registers were universally acknowledged as the bedrock of all 3rd line activities. Some were more up to date than others, and it was recognised that not all key controls were material controls.

Those firms without a good control framework need assistance, as do those where the framework needs refreshing.

Many are looking at revising opinions in the light of the combined code requirements, to bring it together into an assurance policy. These will incorporate 1st and 2nd line components, and aim to do so 2025-2026. Many commented on it has brought a further education piece, and some are starting to introduce a 1 ½ line of defence.

It was recognised that there are challenges of bringing the Board along, as well as keeping an eye on costs amidst many changes within organisations.

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PARALLELS BETWEEN ASSURANCE AND ADVISORY WORK

Many participants recorded seeing an increase in advisory work being conducted although it is sometimes seen as quite basic. At the same time, co-source work is seen to be more detailed. With IA brought back in-house more, often after being fully outsourced for some time, issues are being raised that the board had not seen before, and IA are being asked to conduct work to address risks in specific areas.

It was noted that IA does not always agree to perform advisory work. In some instances, the business could quite easily perform this work themselves. It was recognised that sometimes IA is asked to conduct a piece of work for a particular reason, which can present difficulties in how IA is used or seen to be employed.

The wider question of formality was raised as sometimes IA may be asked to review an area but without an agreed deliverable. Sometimes, this may be in the form of assisting the board in how best to assess risks more effectively.

There has been no exercise completed to determine the extent of advisory work as oppose to traditional assurance work.

INTERNAL AUDIT OPERATIONS

How function's structure their career pathway for team members.

Career pathway has been a challenge for many IA departments, especially smaller ones. Discussions amongst the group highlighted various positive practices, such as developing the relationship between the business and IA,

with members of the business spending time in IA. An example was provided where junior members of IA taught senior business managers about auditing.

The risk of losing IA staff to the business, including to 2nd line, was raised. This was overall seen as positive as it was better to lose a member of staff internally than externally. This could also be seen as motivating too because it demonstrated other routes for staff to progress to in the organisation. It was also recognised that some may come back to IA in a senior position after being in the business.

HOW FUNCTIONS ARE DEPLOYING CO-SOURCE MANAGEMENT/MODELS

A collaborative approach between the in-house team and the co-source partner was found to be very beneficial to both. It was noted that the business can be suspicious of the co-source party but when they can demonstrate added value, they are accepted.

Participants stated they sometime use more than one partner. The use of co-source helps to tap into knowledge that is not available in-house as well as having access to a pool of resource. In all instances, the report goes out under the internal team's banner.

Frustration with co-source partners was also expressed because of their internal review process if senior managers were not available when a deliverable was needed.

One of the members of the group was a co-source partner who stated that working with IA provided access to contacts in the business. Examples were also provided where the business has utilised a co-source partner on the back of assurance work, although the business has not always implemented the recommendations of that partner.

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**THE ROLE OF AUDIT AND ACCOUNTANCY QUALIFICATIONS IN RECRUITMENT AND PROMOTIONS**

The consensus was that qualifications were not a mandatory requirement for IA, although it was recognised that some roles need certain qualifications.

Discussions revealed it was important that the function had the right skills in the teams. To facilitate retention and provide a career path, it is important to play to the person's skillset and their mindset. Instances were cited of excellent auditors who were not qualified.

The need for qualifications in organisations is sometimes driven by HR, which the group acknowledged could be a barrier, as was seen as 'old school'. One organisation was mentioned that insisted on qualifications for progression, and was seen as an outlier. The risk of everyone thinking the same if they all had the same qualifications, and were from the same background, was also muted. This lack of diversity was not advantageous to the department or to the organisation.

All agreed that qualifications were desirable not mandatory. Deep knowledge of the business was raised as more beneficial than specific qualifications.

On that note, the roundtable was concluded and all the participants thanked for contributing.
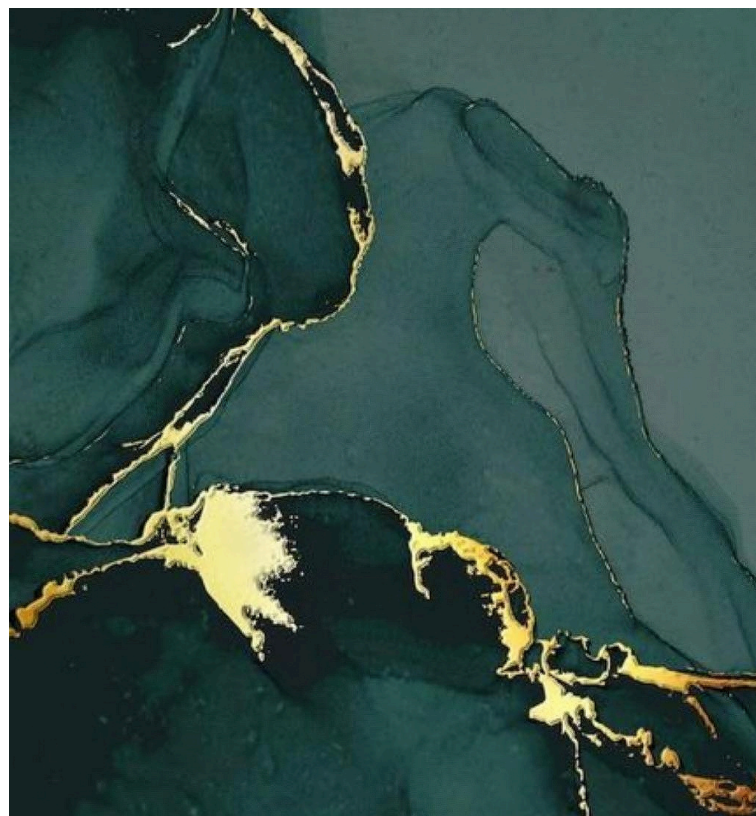
If you have any feedback or would like to discuss your recruitment needs, please contact me:

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