REIMAGINING RESILIENCE

Jenitha John, CIA
2020-21 Chairman of the Global Board
The Institute of Internal Auditors
Agenda

- Resilience and Internal Audit
  - The Pandemic
  - The ‘Novel’ Tomorrow
- Resilience Leads to Transformation
- TACTT: 5 Keys to Sustainability
- The Critical Role of the New Three Lines Model
- Final Thoughts
In times of crisis:

- Capacity to rebound
- Ability to achieve
- Capability to succeed
For internal auditors and their organizations, resilience demands far-reaching transformation.
## Audit hotspots over time

<table>
<thead>
<tr>
<th>Year</th>
<th>Information security</th>
<th>Data privacy</th>
<th>Data privacy</th>
<th>Data privacy</th>
<th>Cybersecurity</th>
<th>Cybersecurity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>2016</td>
<td>Strategic change management</td>
<td>Cybersecurity</td>
<td>Cybersecurity – external threats</td>
<td>Cloud vulnerabilities</td>
<td>Digitalization and technology (AI, RPA)</td>
<td>Data protection</td>
</tr>
<tr>
<td>2017</td>
<td>Climate change and extreme weather</td>
<td>Third-party relationships</td>
<td>Pace of innovation</td>
<td>Information Security</td>
<td>Cloud computing</td>
<td>Regulatory change</td>
</tr>
<tr>
<td>2018</td>
<td>Geopolitical instability</td>
<td>Strategic change management</td>
<td>Sustainability</td>
<td>Corporate culture</td>
<td>Data governance</td>
<td>Business continuity and crisis response</td>
</tr>
<tr>
<td>2019</td>
<td>Data policy</td>
<td>Continuity and disaster recovery</td>
<td>Third-party relationships</td>
<td>Fraud</td>
<td>Third-party risk management</td>
<td>Data and new technology</td>
</tr>
<tr>
<td>2020</td>
<td>Third-party relationships</td>
<td>Competitive environment</td>
<td>Political uncertainty</td>
<td>Geopolitical uncertainty</td>
<td>Fraud risk management</td>
<td>Third-party risk</td>
</tr>
<tr>
<td></td>
<td>Compliance management</td>
<td>Talent management</td>
<td>Budgeting and forecasting</td>
<td>Tech disruptions – business model change</td>
<td>Corporate culture</td>
<td>Talent management</td>
</tr>
<tr>
<td></td>
<td>Risk culture</td>
<td>Macro volatility</td>
<td>Strategic decision-making and execution</td>
<td>Changing workforce demographic</td>
<td>Regulatory burden</td>
<td>Operational resilience</td>
</tr>
<tr>
<td></td>
<td>Strategic workforce planning</td>
<td>Governance</td>
<td>International tax planning</td>
<td>Changing consumer behavior</td>
<td>Risk management overhaul</td>
<td>Sustainability</td>
</tr>
</tbody>
</table>

Source: Various industry thought leadership materials
Change is constant . . .

. . . and the velocity of risk is increasing.
Evolving control environment

Regulation

Revenue and long-term viability

Human resources

Business continuity

Operational resilience

Supply chain
Impact on Internal Audit

RISK: Strategic response and managing related risks

AGILITY: Reallocation of resources and audit plan revisions

FINANCIAL: Budget declines

PERSONNEL: Staffing cuts

RELATIONSHIPS: Evaluating changing relationships

ADAPTABILITY: Assessing long-term impact and smarter audit techniques (remote auditing)
### Strategic Response to COVID-19

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>64%</td>
<td>Detailed assessment of short-term impact</td>
</tr>
<tr>
<td>59%</td>
<td>Business continuity plan revised</td>
</tr>
<tr>
<td>50%</td>
<td>COVID-19 updates provided to the board</td>
</tr>
<tr>
<td>49%</td>
<td>Strategic plan reviewed with management</td>
</tr>
<tr>
<td>47%</td>
<td>Special meeting of the board to discuss issues</td>
</tr>
<tr>
<td>43%</td>
<td>Detailed assessment of long-term impact</td>
</tr>
<tr>
<td>33%</td>
<td>Scenarios tested for response capabilities</td>
</tr>
<tr>
<td>33%</td>
<td>Third-party relationships evaluated</td>
</tr>
</tbody>
</table>

Source: IIA Global Quick Poll – How Organizations Globally Are Responding to COVID-19
Internal Audit Budgets

Short-term Impact of COVID-19

<table>
<thead>
<tr>
<th>Region</th>
<th>Decreased significantly</th>
<th>Decreased slightly</th>
<th>Stayed about the same</th>
<th>Increased</th>
<th>n/a or not sure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>15%</td>
<td>23%</td>
<td>42%</td>
<td>7%</td>
<td>13%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>22%</td>
<td>24%</td>
<td>43%</td>
<td>3%</td>
<td>8%</td>
</tr>
<tr>
<td>Europe</td>
<td>11%</td>
<td>16%</td>
<td>63%</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>Latin America &amp; Caribbean</td>
<td>22%</td>
<td>24%</td>
<td>42%</td>
<td>4%</td>
<td>8%</td>
</tr>
<tr>
<td>Middle East</td>
<td>17%</td>
<td>19%</td>
<td>39%</td>
<td>4%</td>
<td>22%</td>
</tr>
<tr>
<td>North America</td>
<td>11%</td>
<td>20%</td>
<td>59%</td>
<td>2%</td>
<td>8%</td>
</tr>
<tr>
<td>All</td>
<td>16%</td>
<td>21%</td>
<td>50%</td>
<td>3%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source: IIA Global Quick Poll – How Organizations Globally Are Responding to COVID-19
Audit Plan Changes Due to COVID-19

- **AFRICA**: 36% Discontinued, reduced scope, or cancelled some audit engagements, 74% Added some new audit engagements
- **ASIA PACIFIC**: 44% Discontinued, reduced scope, or cancelled some audit engagements, 74% Added some new audit engagements
- **EUROPE**: 40% Discontinued, reduced scope, or cancelled some audit engagements, 66% Added some new audit engagements
- **LATIN AMERICA & CARIBBEAN**: 40% Discontinued, reduced scope, or cancelled some audit engagements, 53% Added some new audit engagements
- **MIDDLE EAST**: 44% Discontinued, reduced scope, or cancelled some audit engagements, 69% Added some new audit engagements
- **NORTH AMERICA**: 38% Discontinued, reduced scope, or cancelled some audit engagements, 73% Added some new audit engagements
- **ALL**: 42% Discontinued, reduced scope, or cancelled some audit engagements, 72% Added some new audit engagements

Source: IIA Global Quick Poll – How Organizations Globally Are Responding to COVID-19
Lessons Learned: What Went RIGHT

Within Internal Audit
- Quick to update plans
- Reassessed risks swiftly

Internal Audit within the Organization
- Put aside normal audits to assist the organization
- Proved additional value by being agile and flexible
RESPONDING to the COVID-19 Crisis

The IIA COVID-19 Resource Exchange is a comprehensive source for internal audit practitioners around the globe, featuring risk guidance, thought leadership, training, tools, events, and more relating to COVID-19.

Online Learning | Webinars & Symposiums | Benchmarking | Relevant Publications | Partner Content

NEW! Get Certified From Home and Save

Even in difficult times, professional development remains important. To support you, The IIA is adding a test from home option for CIA and CRMA. Also, until May 31, The IIA is offering members a 20% discount on CIA and CRMA applications and exam registrations. Enjoy extra savings on study materials, including The IIA’s CIA Learning System.

Learn more about eligibility and savings.
Lessons Learned: What Went WRONG

Within Internal Audit
- Hesitation to take on high profile role
- Key risks not adequately mapped

Internal Audit within the Organization
- Delayed understanding of full range of risks
- Internal audit not involved soon enough
### Is internal audit involved in the discussion?

<table>
<thead>
<tr>
<th>Region</th>
<th>Disagree or strongly disagree</th>
<th>Neither agree or disagree</th>
<th>Agree or strongly agree</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Africa</strong></td>
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<td>57%</td>
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</tr>
<tr>
<td><strong>Europe</strong></td>
<td>29%</td>
<td>17%</td>
<td>49%</td>
<td>5%</td>
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<td>17%</td>
<td>54%</td>
<td>3%</td>
</tr>
</tbody>
</table>

- Red: Disagree or strongly disagree internal audit is involved
- Blue: Neither agree or disagree
- Green: Agree or strongly agree internal audit is involved
- Gray: Don’t know

Source: IIA Global Quick Poll – How Organizations Globally Are Responding to COVID-19
Respond with Resilience

### Financial Sustainability
- Liquidity
- Reserves
- Cash
- Insurance
- Tax
- Disclosure
- Investments
- Impairments
- Debt covenants
- Fraud risk
- Relief mechanisms

### Third-Party Risk Management
- Supply chain
- Contracts
- Technology
- Cloud software licensing
- Cyber risk

### Human Capital
- Employee well-being
- Productivity/culture
- Layoffs, retrenchments
- Leave authenticity
- Broadband access

### Capital Adequacy & Stress Testing
- Regulatory requirements
- Scenario tests

### Business Continuity
- Crisis response
- Adverse media
- Continuity plans
- New products

### Technology Resilience
- Broadband costs
- New platforms
- Patching
- Zoom, MS teams
- Data/cyber security
- Social media

### Insider Threat
- Information security
- Assets safeguard
- Digital signatures
- Retention and archiving

### Going Concerns
- Key person dependency
- Talent/succession plan
- Cash flow forecast
- Technology resilience
- Operational resilience
- Customer lapse rates
Internal Audit in the “Novel” Tomorrow

**HEAD OF AUDIT**
- Reports directly to board
- Independent
- Objective assurance and insight

**ORGANIZATIONAL VALUE**
- Risk-based, objective assurance, advice, and insight
- Assurance that governance framework is sound

**IMPROVES OPERATIONS**
- Supports achievement of objectives through an objective, systematic, and disciplined approach

**ENTERPRISE-WIDE PERSPECTIVE**
- Evaluates and improves effectiveness of risk management, control, and governance processes

**Visionary**
Use hindsight, probe changes

**Understanding**
Challenge perspectives, learn

**Clarity**
Focus, cultivate opportunities

**Agility**
Nimble, harness innovation
Refocus: New Realities

- Blended value proposition
- Public, private partnerships and the role of government
- Investor activism
- Corporate scandals
- Consumer spending and behavior
- Pandemic
- Business model rethink against technology disruption
- Changing global economic and political conditions
- Cyber threats
- Competition for talent and workforce demographics
- Increased regulatory burden
Evolution Begins

Auditing In a Time of Crisis
- Agility
- Flexibility
- Creativity

Business Continuity
- Direct engagement in continuity planning
- Assurance

Technology
- Roles
- Responsibilities
Seize the Opportunity

- Participate in crisis management committees
- Identify new and changed risks
- Eliminate duplications and bottlenecks in new processes
- Be agile, including finding ways to work remotely
- Ramp up data analytics
- Provide answers as liaison to the board, audit committee
- Be a humble but confident protector and nurturer
- Work closely with first and second lines, as well as with external audit, by asking, “How can we help?”
- Prepare to deal with pressures to “cross the lines” by assuming management responsibilities
Sustainability

- Technology
- Agility
- Tenacity
- Talent
- Collaboration
TACTT: It’s how we become RESILIENT

- Technology
- Agility
- Collaboration
- Talent
- Tenacity
4IR, data analytics, robotic process automation, and artificial intelligence enable continuous monitoring and faster detection of problems.

- Improves focus on risks and big picture
- Special needs, rising demand during crisis
- Skills needed for day-to-day and challenging times
- Data and digital impact on business models
- Leverage governance, risk and compliance platforms
- Cyber world risks and opportunities
Agility

Ability to anticipate, respond swiftly to changing landscape, and reshape

- A challenge for tight-knit teams
- Audit activities align with organizational priorities
- IA provides relevant and reliable insights and advice to foster innovation and improvement
- Anticipate emerging issues – swift response
- Agile mind and methodology
Collaboration

Ability to work together even when apart

- Strategic
- Necessity of shared resources – and free content
- Convergence of different disciplines
- Innate intelligence - CQ (collaborative, connective intelligence)
- Embrace combined assurance
- Adopt the Three Lines Model
- Tone at the top, tune in the middle, rhythm on the dance floor
Knowledge and training position us to provide valuable insight and help our organizations anticipate and prepare for the future.

- Commit to certification and continuous professional development
- Embrace diversity
- Adapt to non-audit roles as appropriate
- Cultivate continuous commercial awareness
- Nurture innate intelligence
- Avoid drone mentality
Internal audit must have the courage to share views on the risk landscape, providing advice and assurance from within organizations to help people:

- Understand the internal and external environments in which they operate
- Make better-informed, risk-based decisions
- Achieve their goals effectively, efficiently, ethically, and sustainably in support of both the function and the business/organization.

Tenacity
Resilience does not come about by accident: It takes hard work and ongoing commitment. But as directors and executives, we may have a more important role. All of our actions should have the ultimate goal of preparing our organizations to face the future — and that future is one of increasing risks and uncertainty, in which only the best-prepared organizations are likely to survive.
AGILE, INTEGRATED RISK-BASED ASSURANCE

EMBRACE SMARTER TOOLS – LEVERAGE AUTOMATION

CONTINUOUS CALIBRATION OF STAKEHOLDER EXPECTATIONS

PRAGMATISM ON RISK EXPOSURE AND REMEDIATION

LEARN, RESKILL, REBOOT

OPTIMIZE OPPORTUNITIES, SHARE INSIGHTS

MEASURE VALUE ADD AND ONGOING REFINEMENT

+/-

CONTINUOUS CALIBRATION OF STAKEHOLDER EXPECTATIONS
Guided by the Three Lines

The IIA’s Three Lines Model

GOVERNING BODY
Accountability to stakeholders for organizational oversight
Governing body roles: integrity, leadership, and transparency

MANAGEMENT
Actions (including managing risk) to achieve organizational objectives
First line roles: Provision of products/services to clients; managing risk
Second line roles: Expertise, support, monitoring and challenge on risk-related matters
Third line roles: Independent and objective assurance and advice on all matters related to the achievement of objectives

INTERNAL AUDIT
Independent assurance

EXTERNAL ASSURANCE PROVIDERS

Governing Body
• Integrity
• Leadership
• Oversight

Management
• Strategy
• Execution
• Risk – compliance and support

Internal Audit
• Accountable to governing body
• Independent, objective assurance
• Related advisory

KEY:
↑ Accountability, reporting
↓ Delegation, direction, resources, oversight
↔ Alignment, communication coordination, collaboration
Reimagining Resilience

Let’s work together to:

- Rescan the landscape
- Refocus on new realities
- Reshape audit perceptions
- Reinvent internal audit
“The future belongs to those who are prepared for it.”

-Ralph Waldo Emerson
Jenitha John, CIA, QIAL
The Institute of Internal Auditors
2020-21 Chairman of the Global Board
johnjenitha@gmail.com
RESOURCES

- The IIA’s COVID-19 Resource Exchange and Newswire
- Crisis Resilience: IIA President and CEO Richard F. Chambers and IIA Global Chair Jenitha John (video)
- Assessing Risk in a Post-pandemic World (Internal Auditor magazine)
- How Organizations Globally Are Responding to COVID-19
- The IIA’s Three Lines Model
- The Virtual Audit (Internal Auditor magazine)
- Rethinking Preparedness: Pandemics and Cybersecurity (IIA Bulletin)
- Social Distancing and Internal Audit: Strategies for Auditing in a Time of Crisis (webinar)
- What New IIA Survey Reveals About Pandemic’s Impact and Year Ahead for Internal Audit (blog)
- Crisis Resiliency: Missed Conversations, Misplaced Confidence (Tone at the Top)
- Resilience of a Tech-Enabled and Digitally Upskilled Work Force in the COVID-19 Era (video)
- Global Perspectives and Insights: Crisis Resilience (paper)
- American Corporate Governance Index (ACGI) (report)
- The King IV Report on Corporate Governance for South Africa 2016