

# Auditing at the Expectation of Generation Z - Adding Value

*IIA Kenya National Conference*

07-09 May 2019

Mombasa



Tarling Assurance Risk  
& Control Services



# Presenter



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- Head of Internal Audit for the UN Special Tribunal for the Lebanon
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# Agenda

1. Generation Z & their expectations
2. Internal Audit for a new Generation
3. Its all about Adding Value
4. Going the One Step further - Audits to Consider
5. Conclusion



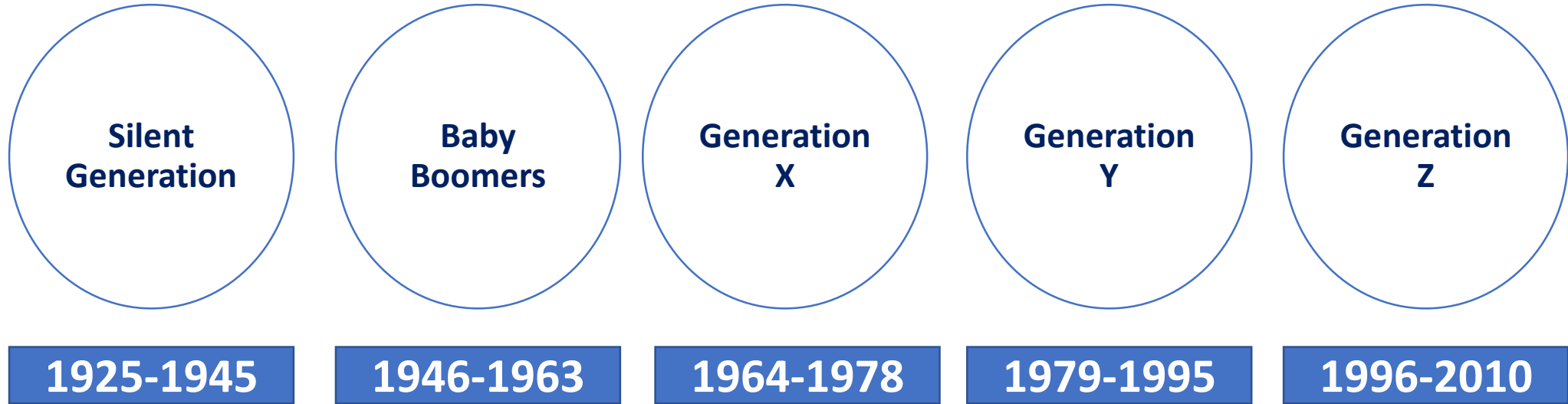


# Generation Z & their Expectations



# Generation Z & their Expectations

Who are they?



# Generation Z & their Expectations

	Baby Boomer	Generation X	Generation Y	Generation Z
<i>Strengths &amp; Assets</i>	Customer Service oriented, Optimistic, Dedicated, Future oriented	Adaptable, Tech literate, Creative, Willing to challenge the norms	Optimistic, Tech knowledgeable, Global world view, Team Player	Digital native, Service oriented, Receptive, Culturally sensitive
<i>Influence</i>	Suburbia, Civil Rights, Vietnam, Rock & Roll	Challenger, Gangs, Internet, AIDS, Sesame Street, Latch-key kids	Facebook, MySpace, 9/11, High speed internet, Y2K	Social networks, Bloggers, Mobile Games, ISIS
<i>Information Source</i>	TV, Websites, Newspapers	TV, Websites, Books	Email, Facebook, Instagram, Hangouts	Chat rooms, Blogs, YouTube, Hangouts
<i>Learning Styles</i>	Traditional plus participation	Receptive to E-Learning, Structured Lecture series	Integrated technology and media	Personalised, customised environment (snowflake)
<i>Career Planning</i>	Dedication and service should be rewarded	Its about time I got promotion	I delivered the results, I'll get promotion	I'm smart, I deserve a job, I require top wage





# Generation Z & their Expectations

# Generation Z & their Expectations

THE TIMES | Wednesday November 8 2017 13M

News

## Cambridge students 'horrified' by hard work

Rosemary Bennett Education Editor

It was similar advice to that doled out by many parents to offspring beginning their university careers: work hard and don't drink too much.

But when a Cambridge tutor sent an email to his students warning them that the course required their full attention if they were to succeed, the undergraduates were horrified.

They called his stance "extremely damaging" and one university vice-chancellor accused him of "frightening impressionable undergraduates".

Mental health campaigners said the message was neither "appropriate nor acceptable".

In his email to first-year natural sciences undergraduates at Queens' College, Eugene Terentjev, director of studies, warned that they would have little time or mental capacity to spare for having fun.

"Physical sciences is a VERY hard subject, which will require ALL of your attention and your FULL brain capacity (and for a large fraction of you, even that will not be quite enough)."

Professor Terentjev wrote, "You can ONLY do well (ie achieve your potential, which rightly or wrongly several people here assumed you have) if you are completely focused, and learn to enjoy the course. People who just TAKE the course, but enjoy their social life, can easily survive in many subjects — but not in this one."

The email, leaked to the student newspaper *Varsity*, urged undergraduates to "be careful how you handle yourselves here in these early weeks".

"Remember that you are NOT at any other uni, where students do drink a lot and do have what they regard as a 'good time' — and you are NOT on a course, as some Cambridge courses sadly are, where such a behaviour pattern is possible or acceptable."

Student Minds Cambridge, a mental health campaigning group, said in a statement: "No matter how much work you have, no matter your current levels of attainment, there is nothing more important than your mental health."

"We are very concerned that this could be extremely damaging to the mental well-being of the students concerned, and potentially others as well. This could enforce feelings of 'imposter syndrome' commonly experienced by Cambridge students. It is important to remember that there are many reasons different people get different grades, and it does not mean that they do not deserve their place here."

Impostor syndrome is a form of anxiety where an individual does not believe that they deserve their achievement or status and are on the verge of being "found out".

Anthony Seldon, vice-chancellor of Buckingham University and a long-standing campaigner for young people's mental well-being, said higher education was about helping young people learn how to live a balanced life.

"Frightening impressionable undergraduates into believing that work alone is all-important is irresponsible, unkind and wrong-headed," he said.

Micha Frazer-Carroll, Cambridge University Student Union's welfare officer, said: "To offer support regarding drinking culture in Cambridge could have been a positive thing — words of wisdom on work/life balance, or getting enough rest among social commitments might be another. But the email sent last week took neither opportunity. It only looked to criticise the very premise of having a social life, or any sort of life, outside of study."

A spokeswoman for the University said that the mental health of students was a priority. "The university believes that all first-year students in all disciplines, having undergone the thorough admissions process that Cambridge requires, have the capacity to succeed academically," she said.

Eugene Terentjev said that students would need their full brain capacity



Say hello to iPhone X





# Generation Z & their Expectations


## As Customers

- Give Foresight
- Present findings in digital format
- Suggest solutions for improvement
- Acknowledge any satisfactory control environments

## As Staff

- Provide interesting work
- Look to provide personalised training in non-confrontational environments
- Be prepared to pay high for good skills and experience
- Continue to praise
- Expect high turnover





# Internal Audit for a new Generation

# What is Internal Audit



Tarling Assurance Risk  
& Control Services



# Risk & Control Responsibilities

Understanding the Three Lines of Defence is fundamental to understanding the governance oversight role

**The First Line**, that is operational management, which has ownership, responsibility and accountability for directly assessing, controlling and mitigating risks.

**The Second Line**, that is activities covered by several components of internal governance (compliance, risk management, quality, IT and other control departments). This line of defence monitors and facilitates the implementation of effective risk management practices by operational management and assists the risk owners in reporting adequate risk related information up and down the organisation.

**The Third Line**, An independent internal audit function will, through a risk-based approach to its work, provide assurance to the organisation's board of directors and senior management. This assurance will cover how effectively the organisation assesses and manages its risks and will include assurance on the effectiveness of the first and second lines of defence. It encompasses all elements of an organisation's risk landscape.





Football managers often say that for the goalkeeper to miss a save, 10 other players must have missed it before him. This third line role likens internal audit to that of a goalkeeper in a football match. When the ball is lost in midfield (first line) and the defence (second line) fails to pick up the opposition's attack, it is left to the goalkeeper (third line) to save the day. There is a reasonable expectation that internal audit will identify the weaknesses in both first and second lines and failure to do so may lead to significant loss to the organisation.



**Tarling Assurance Risk  
& Control Services**



**External Audit and the Regulators  
are the Referee and Linesman**

**1<sup>st</sup> line:**  
Business  
Management

**2<sup>nd</sup> line:**  
Risk Mgt / Compliance /  
Others

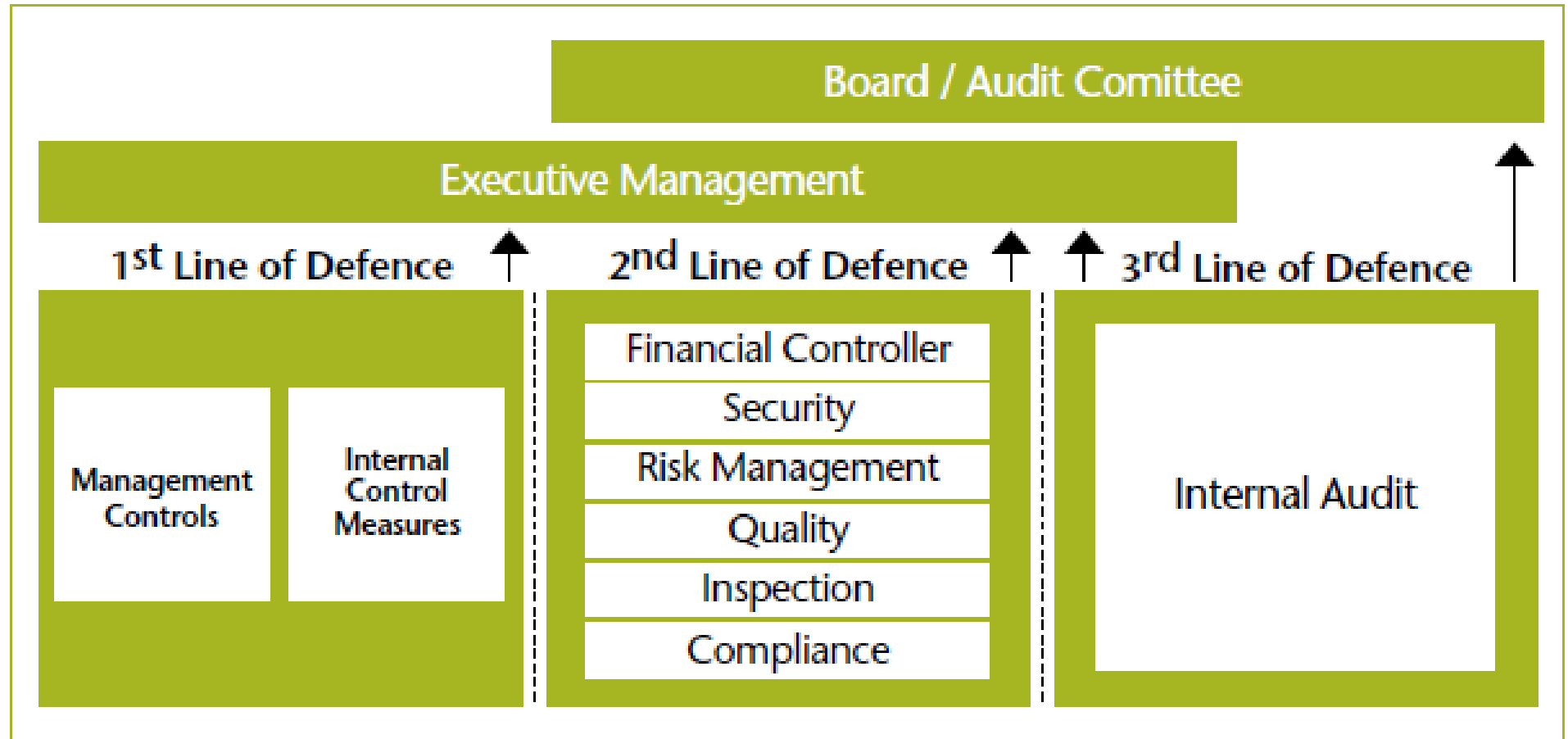
**3<sup>rd</sup> line:**  
Risk Based Internal Audit



# Organisational Roles defined

## The Three Lines of Defence

- the key to risk responsibilities in an organisation



# Business Process & Internal Audit

## Why is this important to Internal Auditors

To understand risk and control you need to understand the process by which objectives are to be achieved.

The scenario of how you get to work can change, certain things can be done at a different stage of the process. For example, if you use your car when do you fill with petrol?

What you will do is to find the most efficient, effective way in which to achieve your objective.

This is exactly the same for a business; the process must reflect the most efficient and effective way of achieving the objective.

The auditor is then in a position to evaluate the business process not only to ensure that risks are being managed but also that the process is the best it could be.





Its all about  
Adding Value



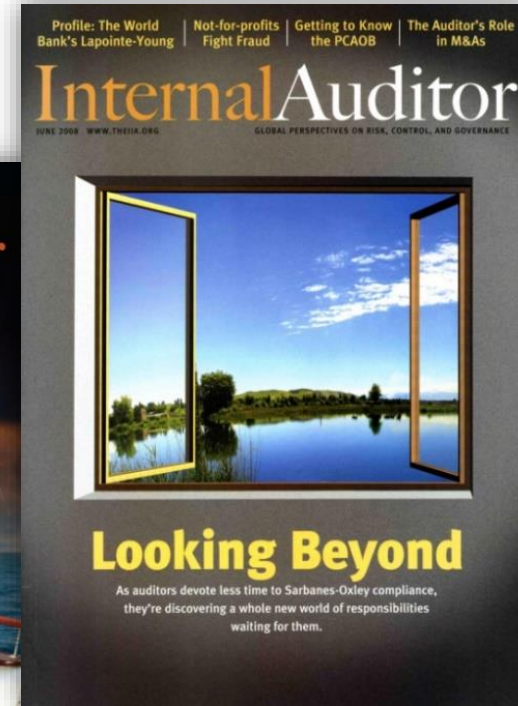
# Adding Value



Hindsight



Insight



Foresight



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# Adding Value?

## IPPF definition, from Glossary

### Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management, and control processes

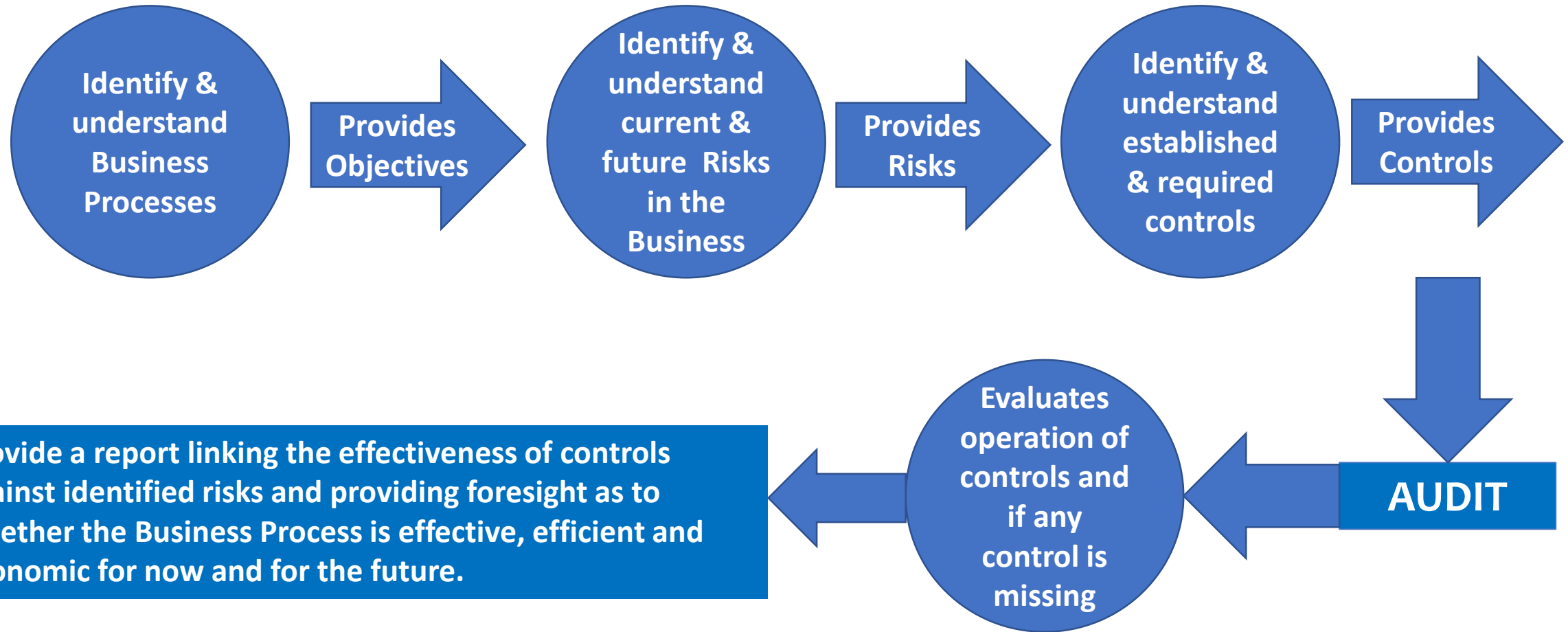


# Adding Value

A four stage approach



# Adding Value in Audits





# Adding Value by understanding the business

Remember that Management do not want to just know that things are going wrong but they want to know why things have gone wrong and what needs to be done to correct it.

Remember **INSIGHT** & **FORESIGHT**

To be able to correct things we need to know why they went wrong

So we need to ask the **5 Whys**

Why did it go wrong?

Why did that happen?

What was the reason that happened?

Why did that happen?

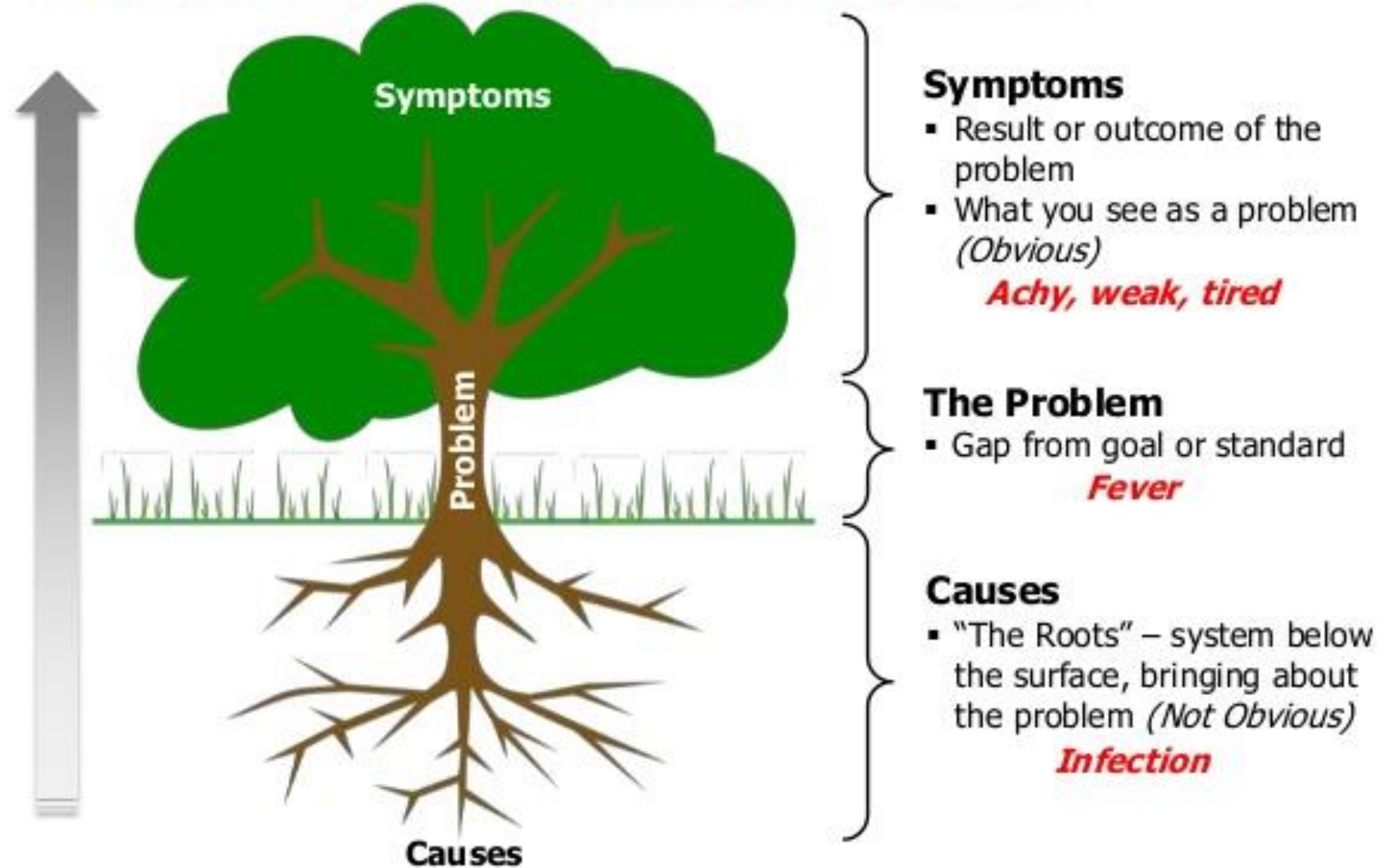
Why did it occur?



# Adding Value By understanding the issues

## Understanding Root Causes

To provide Value to Management you need to identify the root cause(s) – there may be more than one



# Adding Value by recommendations

Reiterating the basic control requirements will not improve the Internal Control environment.

The recommendation needs to tackle the reasons why control was circumvented, to prevent it happening in the future.

Identify the root cause of the control breakdown and then suggest how it can be fixed.



# Adding Value by Qualifications

## Value in Qualification

Internal audit is a complex and fast evolving field

Qualification shows both Employer and Auditee that you have the necessary knowledge and expertise to undertake the work

Professional qualification gives auditors the confidence to succeed

The IIA qualifications are recognised internationally.





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# Going that one step further - Audits to Consider

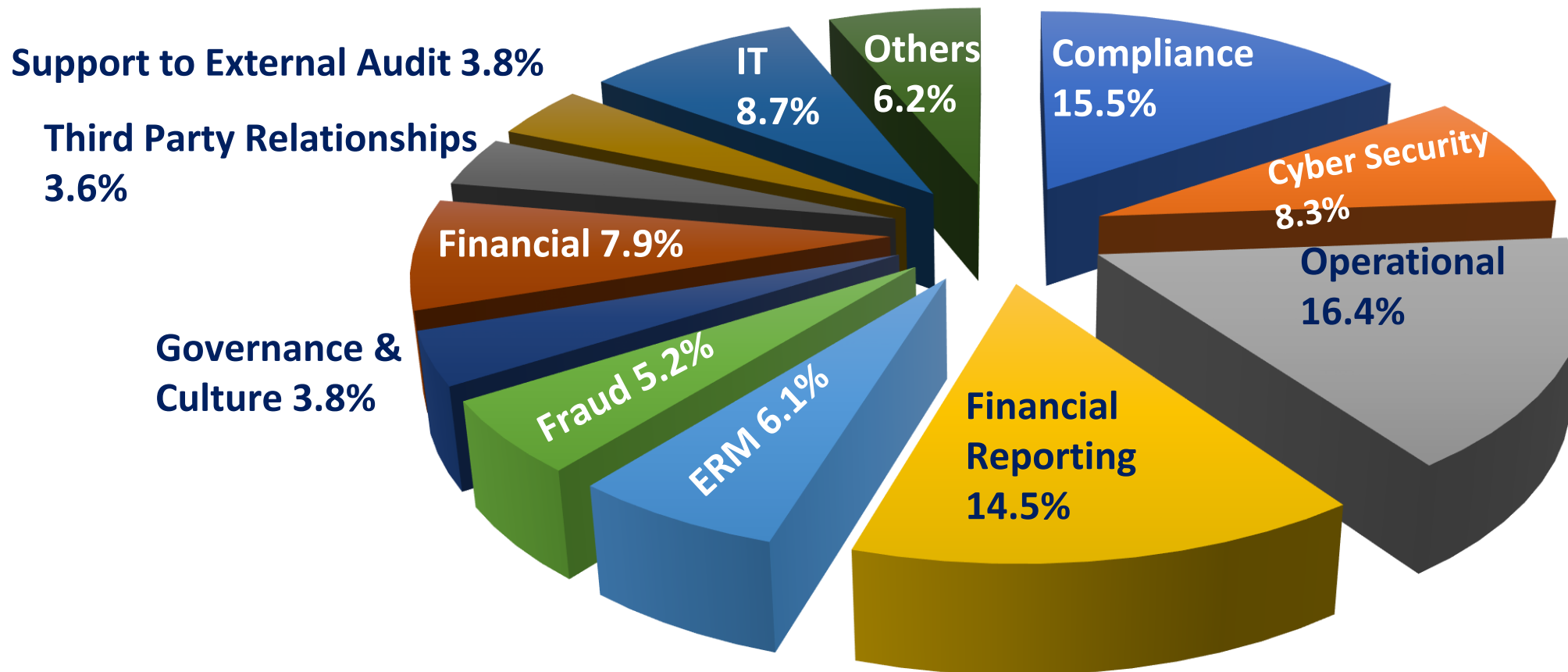


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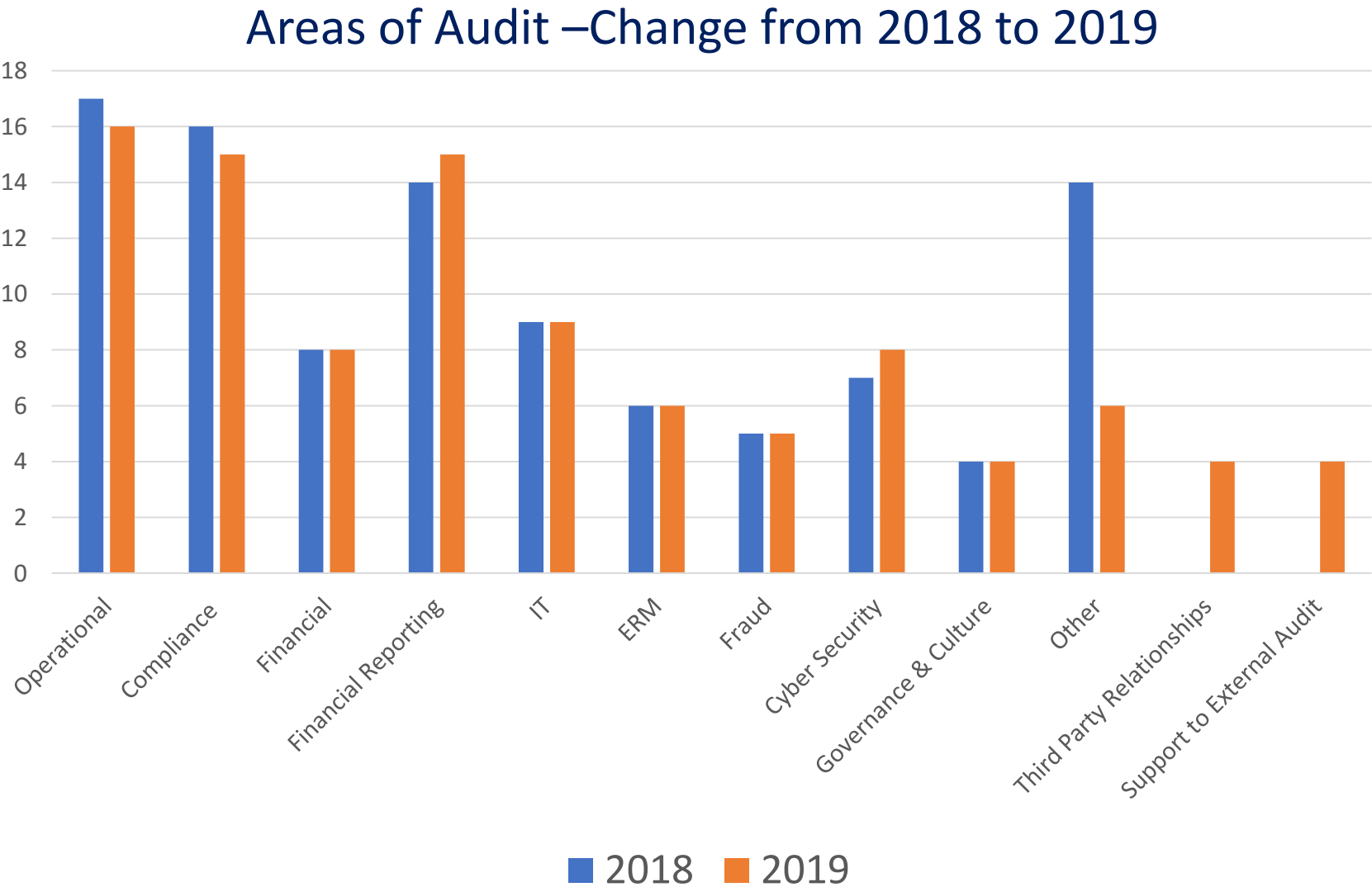


# Audits being undertaken

Areas of Audit – Pulse of the Profession North America 2019



# Audits being undertaken



# Adding Value by audits undertaken

## *Little change*

- Slight decrease in Operational Audit, slight increase in Financial Reporting
- Ignore increase in Other as this is accounted for no separate category for External Audit Support and Third Party Relationships in 2018.

## *Some Concern though*

- Cyber Security shows only a 1% increase, although NACD Report shows 42% rate Cyber Security as their highest risk
- Operational audit is decreasing, but this could reflect the fact that operational areas are being tracked individually

Overall the areas included within internal audit's plans do not appear to be as dynamic and evolving as the risk landscape is.





A person wearing a dark hoodie is shown from the side, typing on a laptop. The background is a dark blue-grey color with a pattern of white binary code (0s and 1s) scattered across it. The text "Increasing Technology brings new risks" is overlaid in the center in a white, sans-serif font.

Increasing Technology brings  
new risks



# Cyber Response

Although Cyber Security is seen as a high risk the effort from internal audit is too little and is hampered by a lack of skilled staff



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**Reputational damage** related to cyber breaches remains a top organizational concern for North American CAEs.



of CAEs say their organizations have high or very high **concerns about potential reputational harm** caused by inappropriate disclosure of private data.

**Internal audit lags** in developing the skills and expertise to provide assurance on cyber.



of CAEs cite **lack of cyber expertise** on staff as an obstacle to addressing cybersecurity risk.

**There is an effort gap** between the level of effort currently exerted by internal audit functions on key cyber areas and the level that CAEs believe they should be exerting.

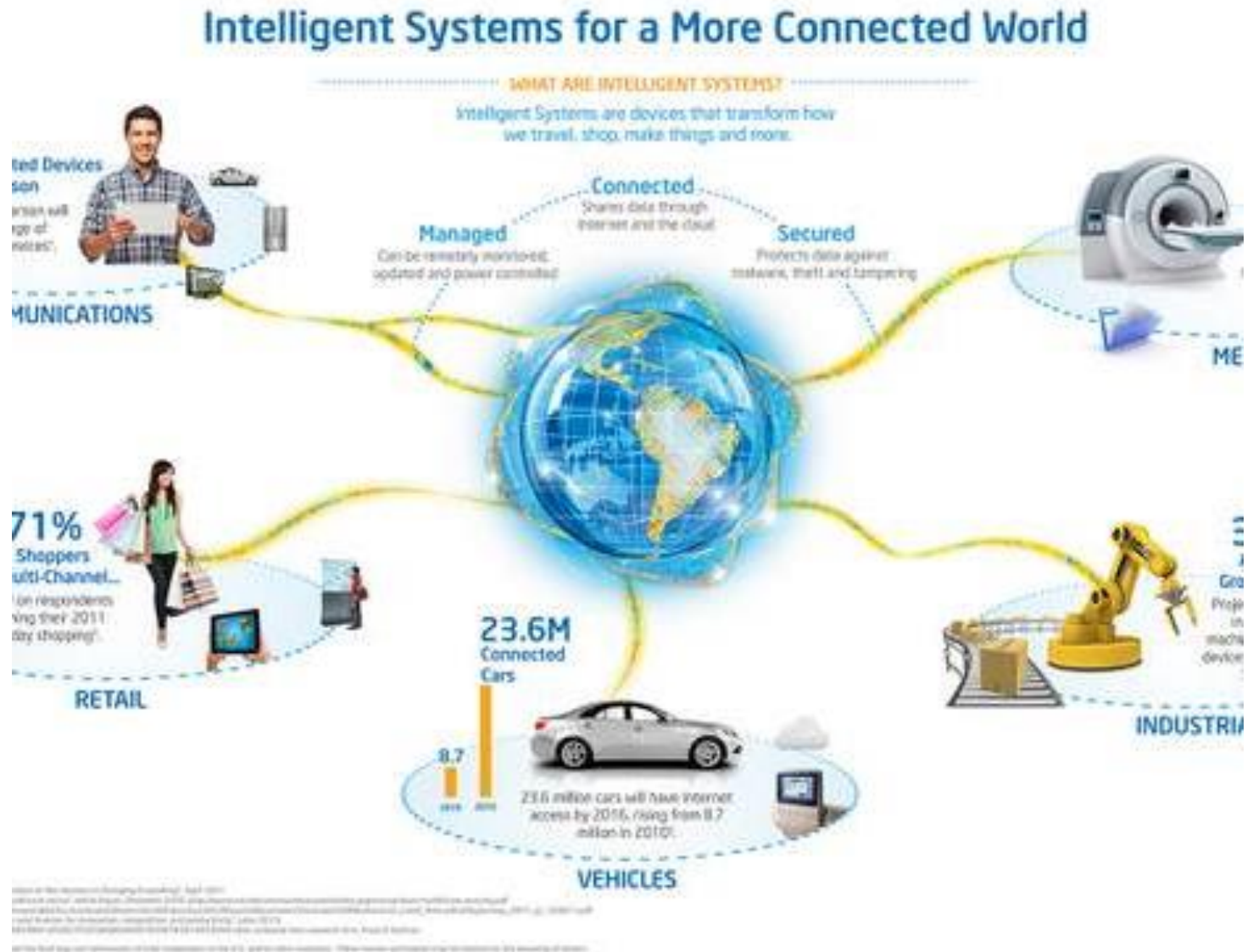


CAEs report a 36% **gap between actual vs. desired assurance** over readiness and response to cyber threats.

# The Internet of Things

The Internet of Things (IOT) will change dramatically the way that we live.

But provides more and more opportunities for security lapses







# The Daily Star

SECOND EDITION



Date: MON, MAR 20, 2016 | Vol. XXIV No. 22 | Pages 25, 5432 Bk | Yearly Budget for Review | Thursday, March 24, 2016 | 22 Dhaka Times, Lovers' Press, To 12:00



## Hackers steal \$100m from BB account

Central bank officials say most of the money is in the Philippines, a small portion recovered from Sri Lanka; culprits identified

By Anwar Hossain

Bangladesh Bank has identified the people involved in the hacking of around \$100 million (Tk 700 crore) from its foreign currency accounts with the Federal Reserve Bank of New York, claim BB officials.

Almost the entire amount was transferred online to the Philippines banking system and a small portion of it is still stuck in suspended Chinese accounts in February, it was said.

The incident took place at a time when Bangladesh's banking system is trying to recover from the recent CIB and cyber-attacks.

A senior BB official told the daily that yesterday that a small portion of the stolen money has already been recovered from Sri Lanka. But the amount, which is in the

Philippines, is yet to be recovered.

"We are dealing with the issue. Those who were behind the hacking have been identified," said the official.

The BB has around \$28 billion in foreign currency reserves. Nearly one-third of the reserve is in the form of liquid assets with the Federal Reserve Bank in the US and the Bank of England. The rest is invested in bonds and gold.

In a statement yesterday, the BB said it has been able to recover a portion of the stolen money. But it did not mention the amount.

"Bangladesh Financial Intelligence Unit (BFIU) is working with the Anti-Money Laundering Council (AMLC) of the Philippines to recover the stolen funds," it said.

ANWAR HOSSAIN



PHOTO: ANWAR HOSSAIN

With a pledge to end violence against women, people light candles at the Central Shaheed Minar in the capital at 12:01 today to mark the International Women's Day. Anwar Puri Paribasth Nijaton Prothoto Jati, an organisation working to end domestic violence, in collaboration with Dhaka University held the programme.

WOMEN IN INDUSTRIAL AND SERVICE SECTORS

MIR QUASEM TRAI

Comments on CI

# Cyber Security

## Number 3 Risk.

Our organisation may not be sufficiently prepared to manage cyber threats that have the potential to significantly disrupt core operations and/or damage the brand



Tarling Assurance Risk  
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• • • Figure 1: Top 10 Risks for 2018

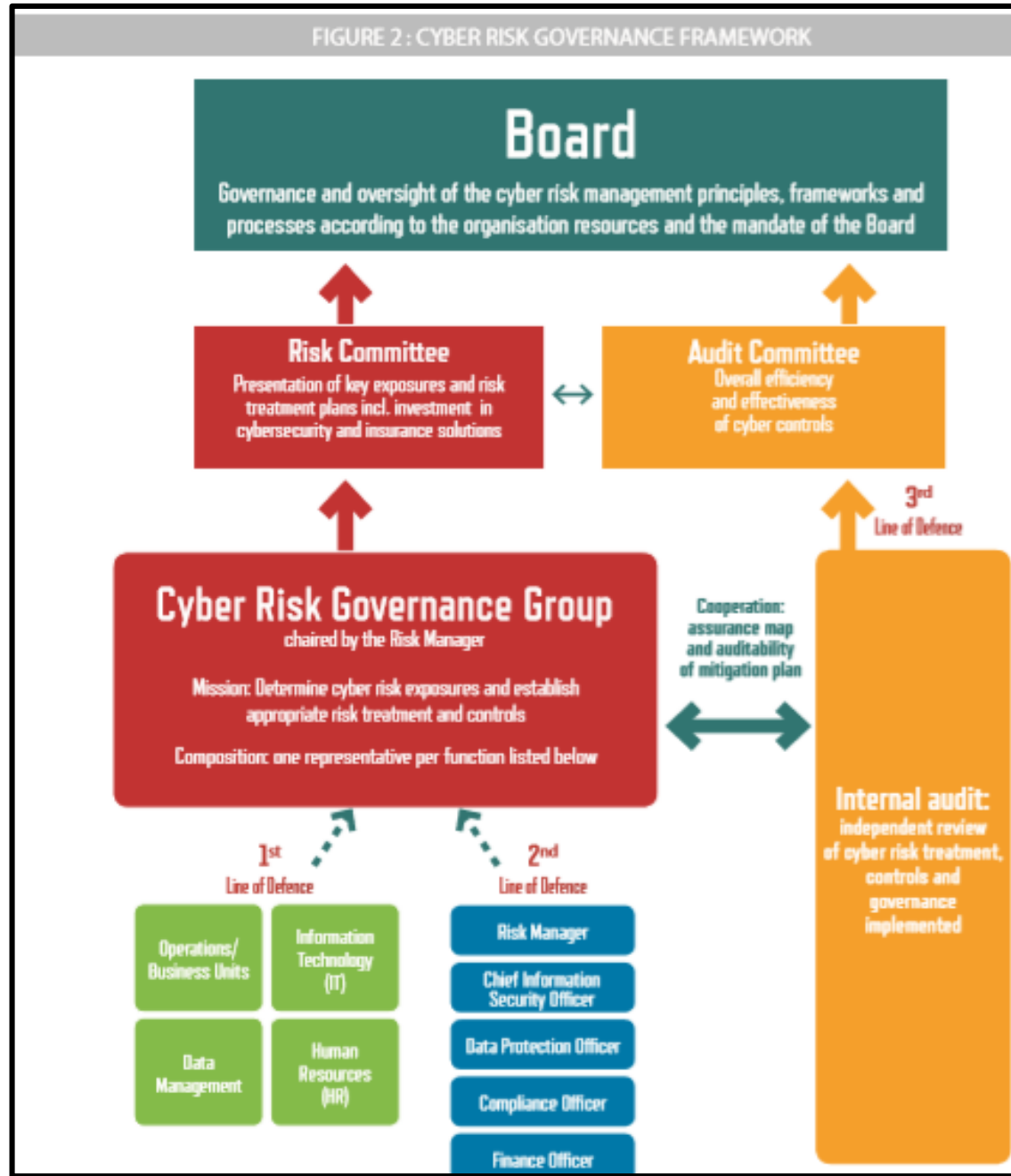


This has been a consistently rated risk over the past three years

Source.  
Executive perspectives of Top Risks 2018  
Protiviti & North Carolina State University's ERM Initiative

# The Three Lines of Defence in a Cyber Context

Re-visualising  
the 3 Lines of  
Defence within  
a Digital  
context



Source.  
At the junction of Corporate Governance  
and Cyber Security  
FERMA & ECIIA - 2017





# Adding Value in the field of Cyber Security

As the third line of defence, Internal Audit is responsible for providing an objective and independent assurance that the first and second lines of defence are functioning as designed, and looks at the overall coherence and consistency of the information security programme of the organisation.

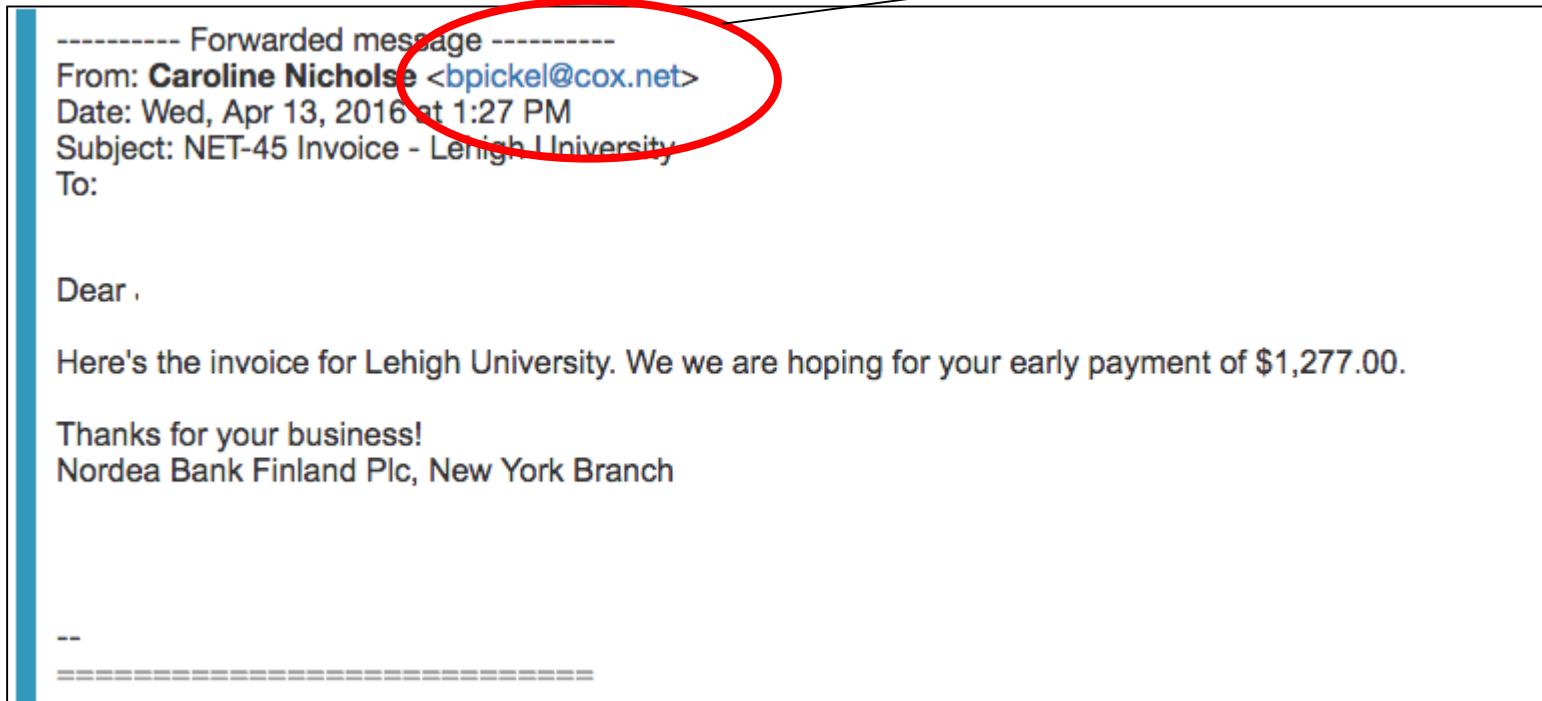
It should provide at least an annual health check to the Board on the state of that programme.



# Cyber Security - Phishing

## Audit the defences against Phishing

This email address does not tie in to the sender being a bank



This email, personalised to someone in the Financial department had an attachment, allegedly the invoice. However if you clicked on the attachment you released malware that infected your computer. I have received a number of these over the last year.

Response is through User Education including simulated Phishing emails



# Internal Audit is changing through technology

Audit the various Technology Risks



Ensure that Internal Audit has a role in Cloud Computing  
Internal Audit should examine:

1. The Cloud strategy
2. Evaluation of Vendors
3. Implementation of the Model
4. Vendor monitoring
5. Security

Fully Integrated, end-to-end audit management system



Embrace technology to make the Internal Audit process more efficient, using an Audit Management System to monitor every aspect of the audit process

# Technology Allows more Effective Testing

## Use Data Analytics

The results indicate that, similar to our prior year results, a majority of analytics functions are at a relatively immature state. While many internal audit functions are making some progress in growing their analytic capabilities, there is more work to do.

*Source: Protiviti's 2018 Internal Audit Capabilities and Needs Survey*



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& Control Services**

### KEY FACTS\*



Internal audit departments  
with analytics champions



Internal audit departments with a  
dedicated data analytics function

- • • On a scale of 1 to 10, where "10" is a high level of value and "1" is little or no value, rate the level of value that the internal audit department receives from utilizing data analytics as part of the audit process:



All organizations  
performing analytics



Organizations with  
analytics champions



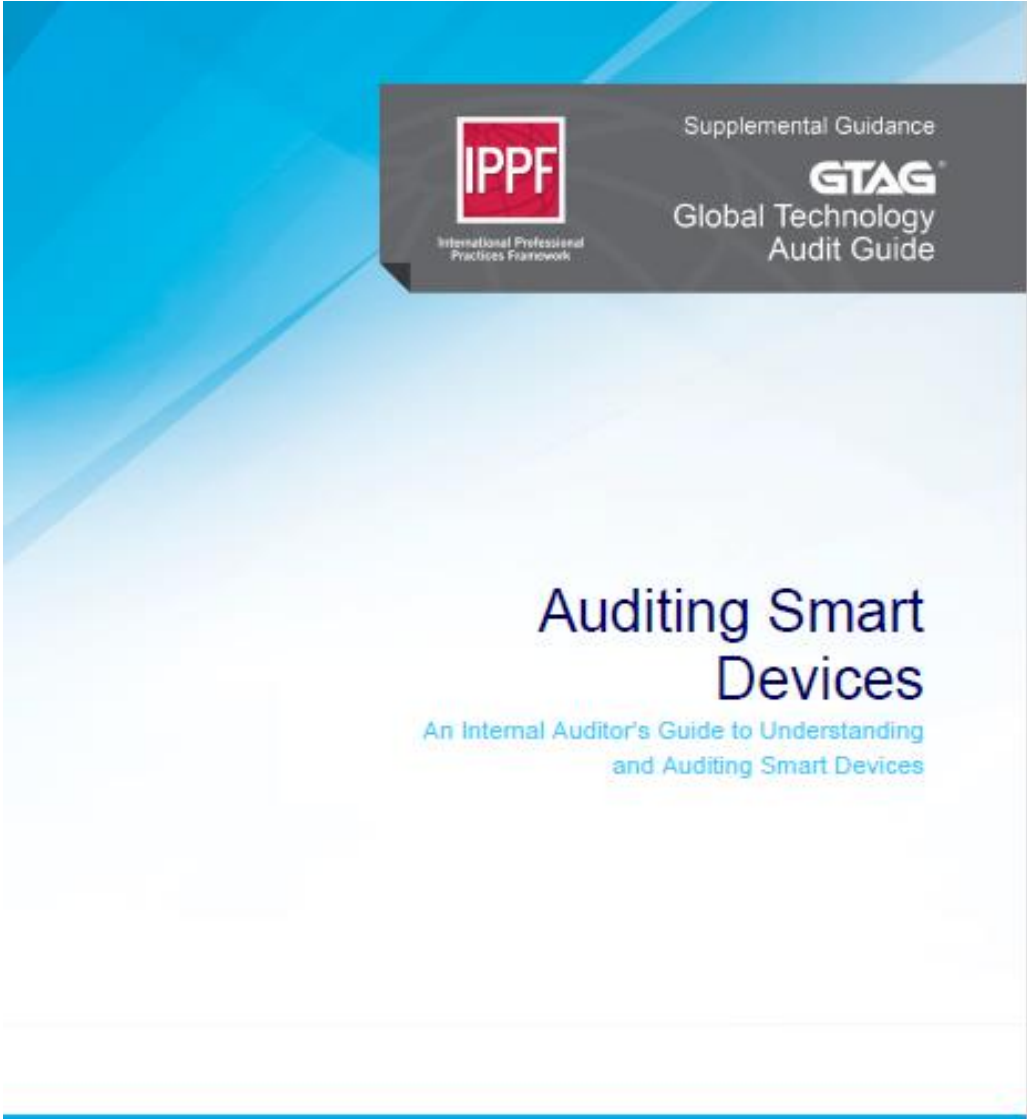
Organizations with dedicated  
data analytics function



Organizations at a  
Managed/Optimized state  
of analytics maturity

# Look for Guidance

Audit Smart  
Devices in the  
same way  
that you used  
to audit  
Computers



IIA GTAG / Auditing Smart Devices

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# So what to Audit

If an Organisation relies upon its Strategy to determine the path to meeting its objectives

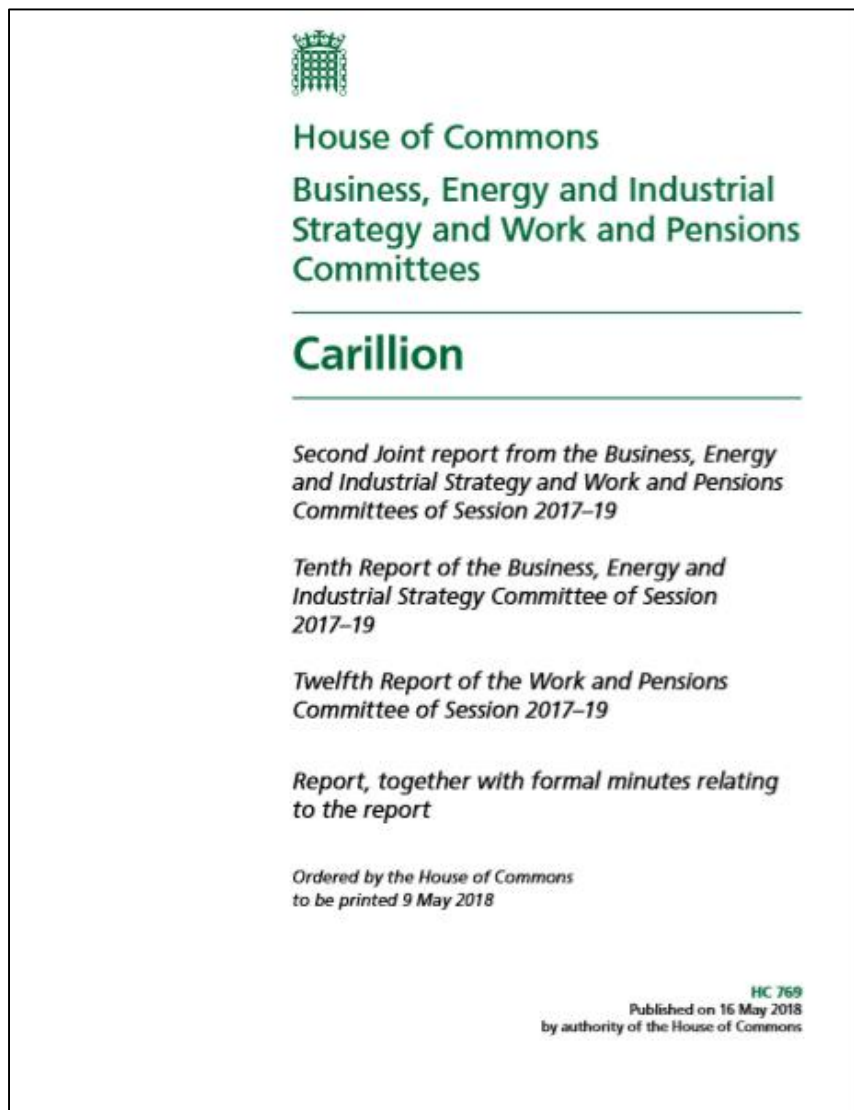
If Culture eats Strategy for Breakfast

If Internal Audit's role is to ensure that the mechanisms are in place for the organisation to meet its objectives

**Then Culture needs to be audited**



# Culture – The Outsourcing Firm



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'A board of directors too busy stuffing their mouths with gold'



"The company's delusional directors drove Carillion off a cliff and then tried to blame everyone but themselves. Their colossal failure as managers meant they effectively pressed the self-destruct button on the company."

Rachel Reeves MP

House of Commons Business, Energy and Industrial Strategy Committee





# Culture – The Banking Firm

“

I was bullied and retaliated against for reporting sales integrity issues.”

Heather Brock,  
fired Wells Fargo employee



## SALES TARGETS DRIVING THE WRONG BEHAVIOUR

WELLS  
FARGO

Wells Fargo - Bank employees opened millions of credit-card accounts customers hadn't approved in order to hit profit targets

As of October 1, 2016 the bank eliminated product sales goals for its retail banking team. It also appointed a new community banking chief, and fired about 5,300 employees connected to the scandal,

“

There would be days where we would open 5 checking accounts for friends and family just to go home early.”

— Anthony Try,  
former Wells Fargo employee



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# Toxic Culture – Legal Fallout



## Volkswagen in meltdown after faked diesel tests

Drivers face mass recall as share price crashes

Robert Lee/Associated Press  
Transport Correspondent

Hundreds of thousands of Volkswagen drivers in Britain are facing a mass recall of their vehicles after the world's largest car manufacturer admitted faking diesel emissions tests.

The German company admitted that 11 million of its cars worldwide were affected by a scam in which a dishonestly cheated the testing of its diesel models for toxic emissions.

VW Group suffered a heavy blow on the Frankfurt stock exchange, with shares falling by 20 per cent for the second consecutive day. A total of £2.5 billion has now been wiped off the value of the company since the start of the week.

Marion Winkler, VW's chief executive, admitted his earlier decision to delay the recall was "wrong" and that the company was "sorry" for the deception.

On Friday, the US Environmental Protection Agency said that VW diesel cars had much higher emissions than they had suggested and that vehicles in several diesel cars could double emissions. VW's shares fell by 10 per cent in New York.

The New York attorney-general has announced an investigation into the scandal. In Britain, the Department for Transport has called on the V5 to open an inquiry, and has said that other manufacturers should be alerted to the problem.

The European Commission, led by Ursula von der Leyen, has also announced an investigation into the scandal. In Britain, the Department for Transport has called on the V5 to open an inquiry, and has said that other manufacturers should be alerted to the problem.

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## WH Smith is forced to end hospital shop 'rip-off'

Larry Greenman, head of action

WH Smith will cut the cost of selling goods in its hospital shops after a complaint that patients and visitors were often charged more than on the high street.

Carwell's cars were sold at the highest levels at British Road Information for nearly twice as much as a high street car would be. In a complaint to the Motorists' Association, it was said that the cars were sold at 120 per cent of the high street price.

The association has argued that prices should be checked to ensure that the difference between identical items in hospital and high street shops is no more than 1-2 per cent.

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## VW exec arrested during Miami vacation over emissions scandal

E-mail showed Oliver Schmidt discussing whether VW should be "honest" or not.

MEGAN GEUSS - 1/10/2017, 2:38 PM

94



On Saturday night, the FBI arrested Oliver Schmidt, a former emissions compliance executive for Volkswagen Group, as he waited to catch a plane back to Germany at Miami International Airport in Florida. The arrest is a major setback for VW Group, which has thus far been able to shelter most of its high-level executives from individual prosecution by US authorities.

In a Monday appearance in US District Court in Miami, a Justice Department lawyer said that an attorney for Schmidt "had alerted government lawyers that the executive would be in Florida for vacation," according to the *Wall Street Journal*.



indout/Getty Images





# Adding Value – Audit Culture

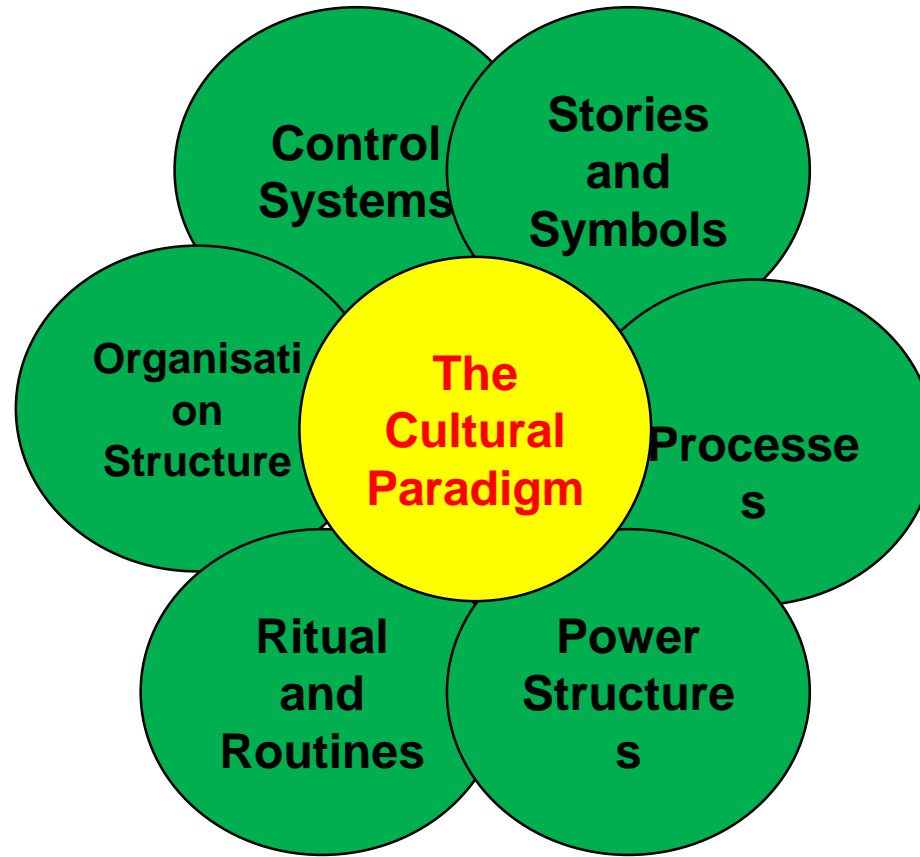
## CEOs and CFOs See Culture As Critical

- Over 90% believe culture is important
- 92% believe improving their culture would improve value of the company
- Over 50% believe culture influences:
  - Productivity
  - Creativity
  - Profitability
  - Firm value and growth rates
- **Yet, only 15% believe their corporate culture is where it needs to be**

Source: “Corporate Culture: Evidence from the Field,” Graham, Harvey, Popadak, and Rajgopal; Duke University, 2015



# What is audited in Culture



We have to learn to audit the culture of the company using the areas making up the Paradigm

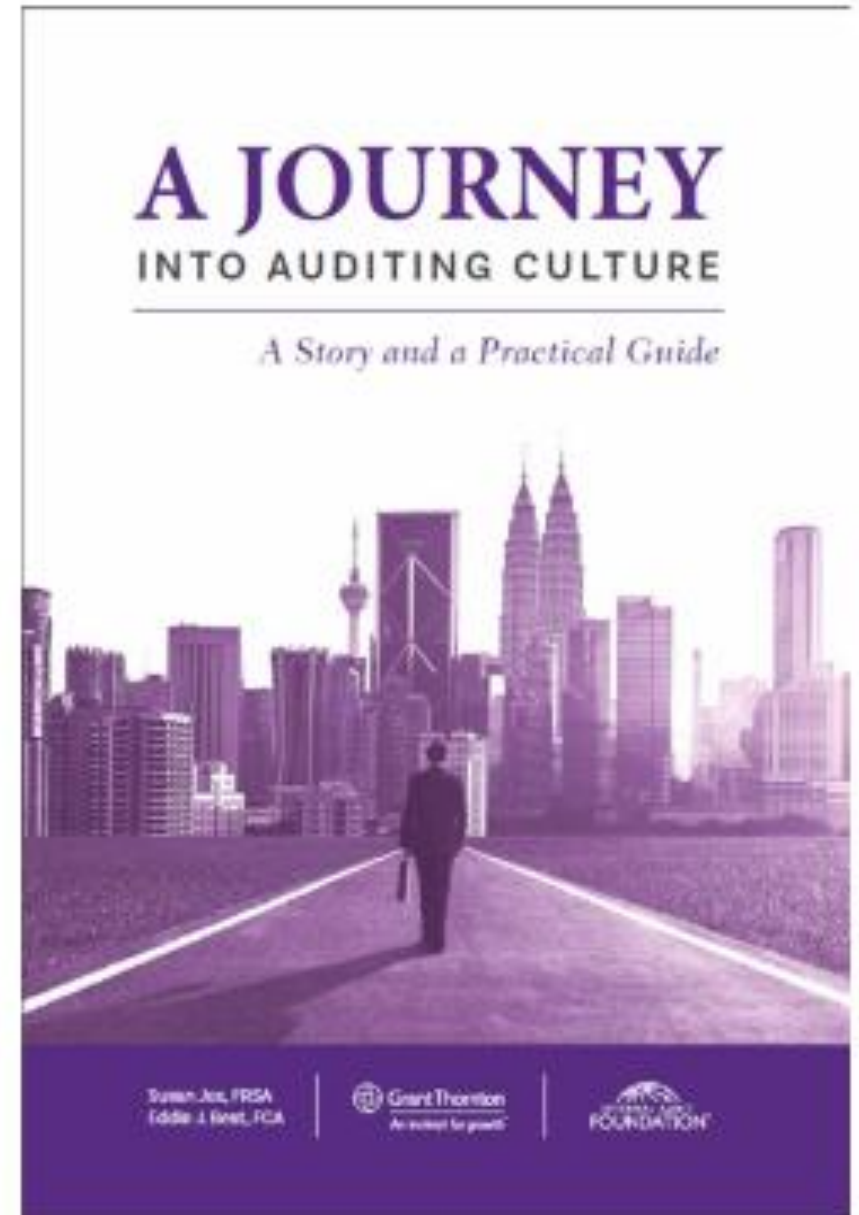


# What is audited in Culture

Available from the IIA  
Bookstore



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# CONCLUSION





# Agility

To respond to the Generation and Business changes and the pace at which they occur, Internal Audit must be Agile, ready to embrace new techniques and practices at the earliest opportunity



Tarling Assurance Risk  
& Control Services

Source:  
2018 Pulse of North American Internal Audit  
IIA



.....

of **CAEs** consider  
their internal audit  
functions to be  
**very or extremely  
agile.**

.....

# What Does Agility mean?

“Agile focuses on continuous improvement, scope flexibility, team input, and delivering essential products, whether applied to software development or audits.

This involves close collaboration across audits and function members, auditee collaboration (whilst maintaining independence), and responding to changing requirements during audits and the delivery of audit plans.”



# Adding Value by an Agile Audit

The IIA recommends:

1. Change in mindset
2. Prepare to quickly refocus on disruptive risks & opportunities
3. Prioritise work on what matters most
4. Create teams with the right blend of skills
5. Coordinate with other resources in the organisation



# Conclusion

To be future proof  
Internal Audit  
needs processes in  
place to **tackle** the  
changing  
environment

**T**echnology – be aware of technology trends and harness technology to provide an improved customer service

**A**gile – be able to react quickly to changing circumstances

**C**ulture – audit Culture

**K**nowledge – be knowledgeable about business processes, risks, profitability and internal control

**L**istening – listen to what your customers want, learn and, if appropriate, deliver

**E**xpectations – understand what your customers expectations are and resolve differences between expectation and delivery





# Thank You

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& Control Services