

Auditing at the Expectation of Generation Z - Adding Value

IIA Kenya National Conference

07-09 May 2019

Mombasa



Tarling Assurance Risk
& Control Services



Presenter



IIA Global Chairman – 2012-2013
ECIIA President 2010-2011
IIA UK and Ireland President 2005-2006

Holder of the CIA, CMIIA, CRMA, QIAL qualifications

33 years experience in Internal Audit
28 years at managerial level

IA Project Expert for the EC and the OECD

Experience in the Public and Private sectors, including spells as:

- VP Capability & Head of the Centre of Internal Audit Excellence - Huawei
- Head of Internal Audit for a number of Health organisations in the UK
- Head of Internal Audit for the UN Special Tribunal for the Lebanon
- Head of Internal Audit for the UN War Crimes Tribunal for Bosnia Herzegovina
- Project Manager for EC funded projects in Poland, Romania, Turkey
- Project Manager for Development Agency funded projects in Kenya, South Africa and Botswana
- Project Expert for EC/OECD funded projects in Croatia, Kosovo, Serbia, Hungary, Latvia, Estonia, Lithuania, Czech Republic, Macedonia



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

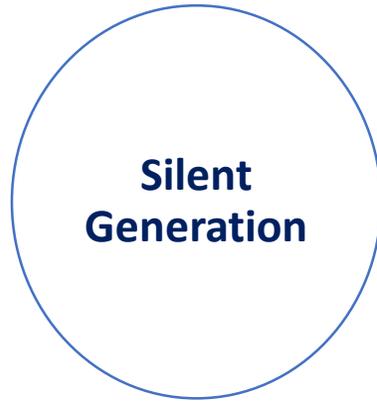




Generation Z & their Expectations

Generation Z & their Expectations

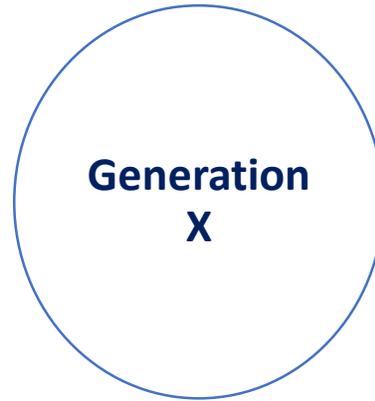
Who are they?



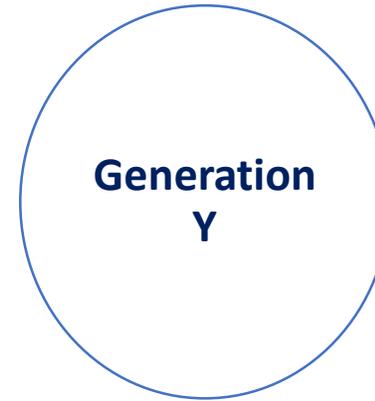
1925-1945



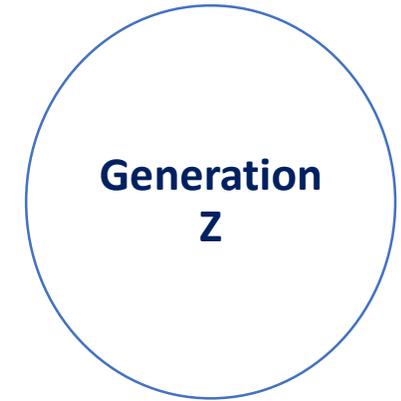
1946-1963



1964-1978



1979-1995



1996-2010



Generation Z & their Expectations

	Baby Boomer	Generation X	Generation Y	Generation Z
<i>Strengths & 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 'impostor 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.



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



**Tarling Assurance Risk
& Control Services**

1st line:
Business
Management

Centre forward

Centre forward

2nd line:
Risk Mgt / Compliance /
Others

Left midfield

Centre midfield

Centre midfield

Right midfield

Left-back

Centre-back

Centre-back

Right-back

3rd line:
Risk Based Internal Audit

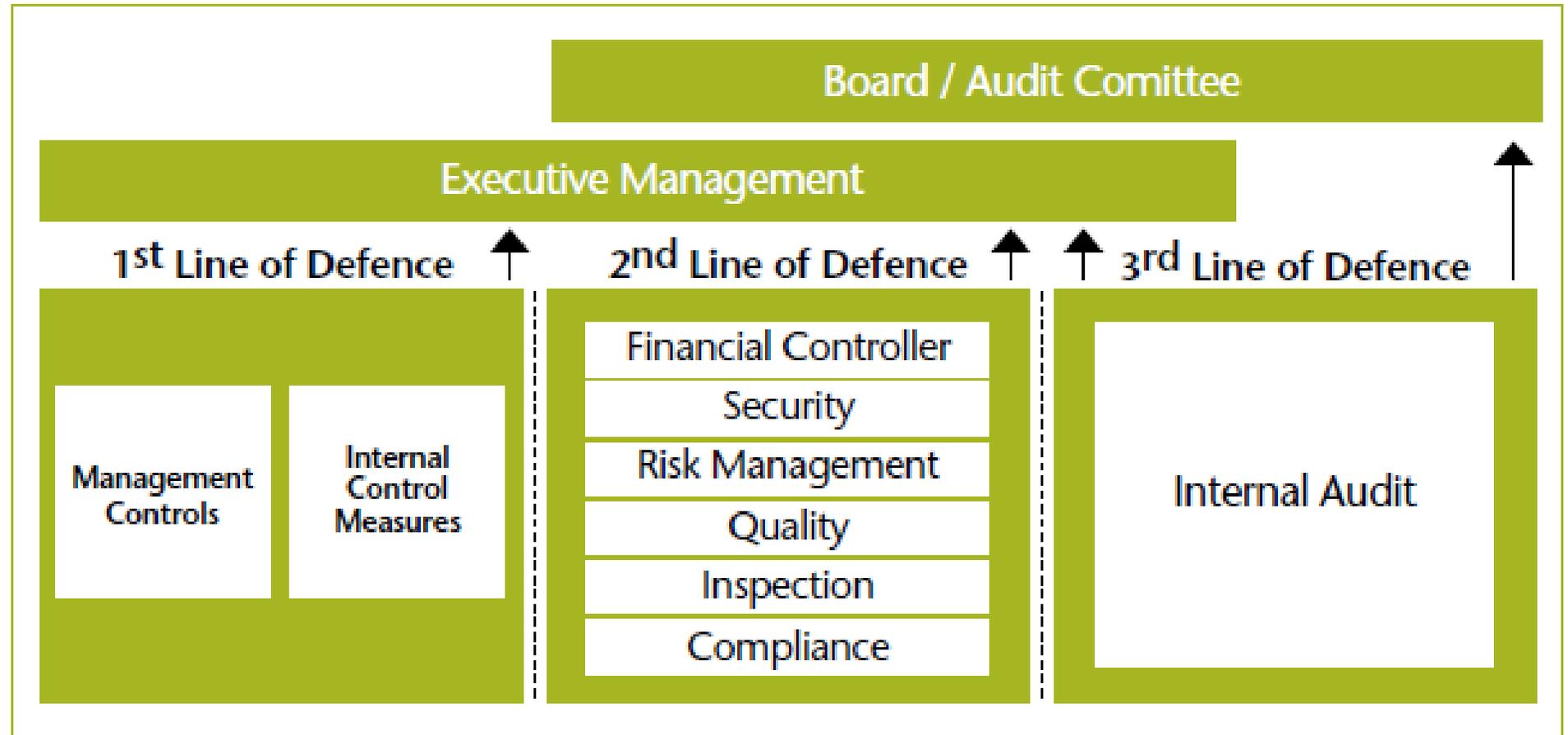
Goalkeeper



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.

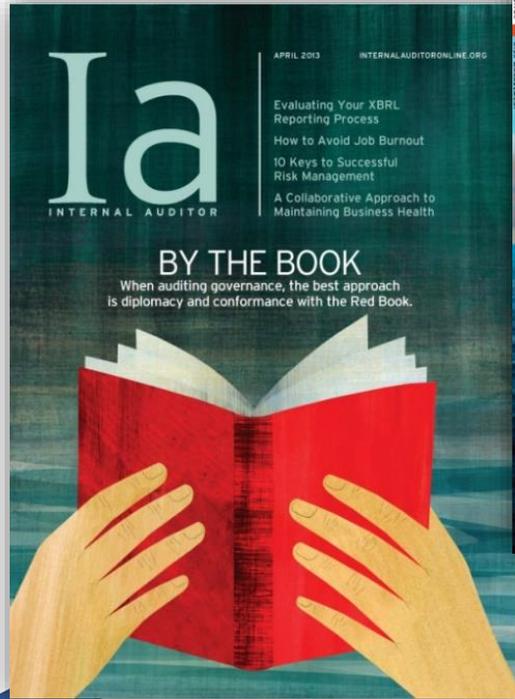
The auditor is then in a position to evaluate the business process not only to ensure that risks are being managed but also that the process is the best it could be.



A dark blue, irregularly shaped graphic with a splatter effect, containing white text. The graphic is centered on a white background and has a rough, hand-painted appearance with various shades of blue and white splatters around its edges.

Its all about
Adding Value

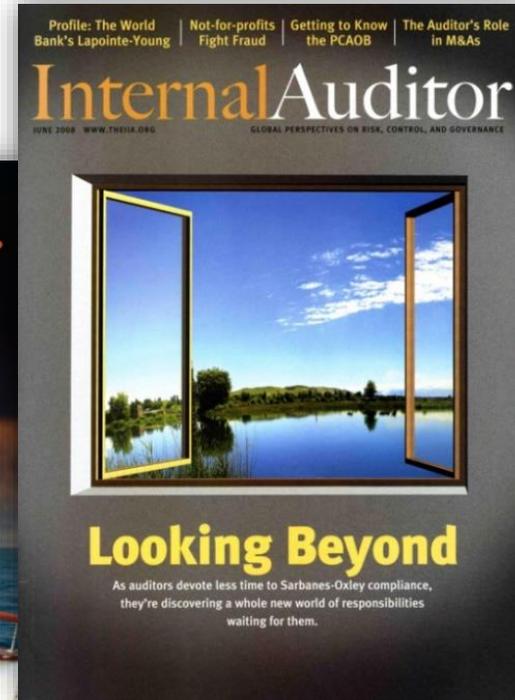
Adding Value



Hindsight



Insight



Foresight



Adding Value?

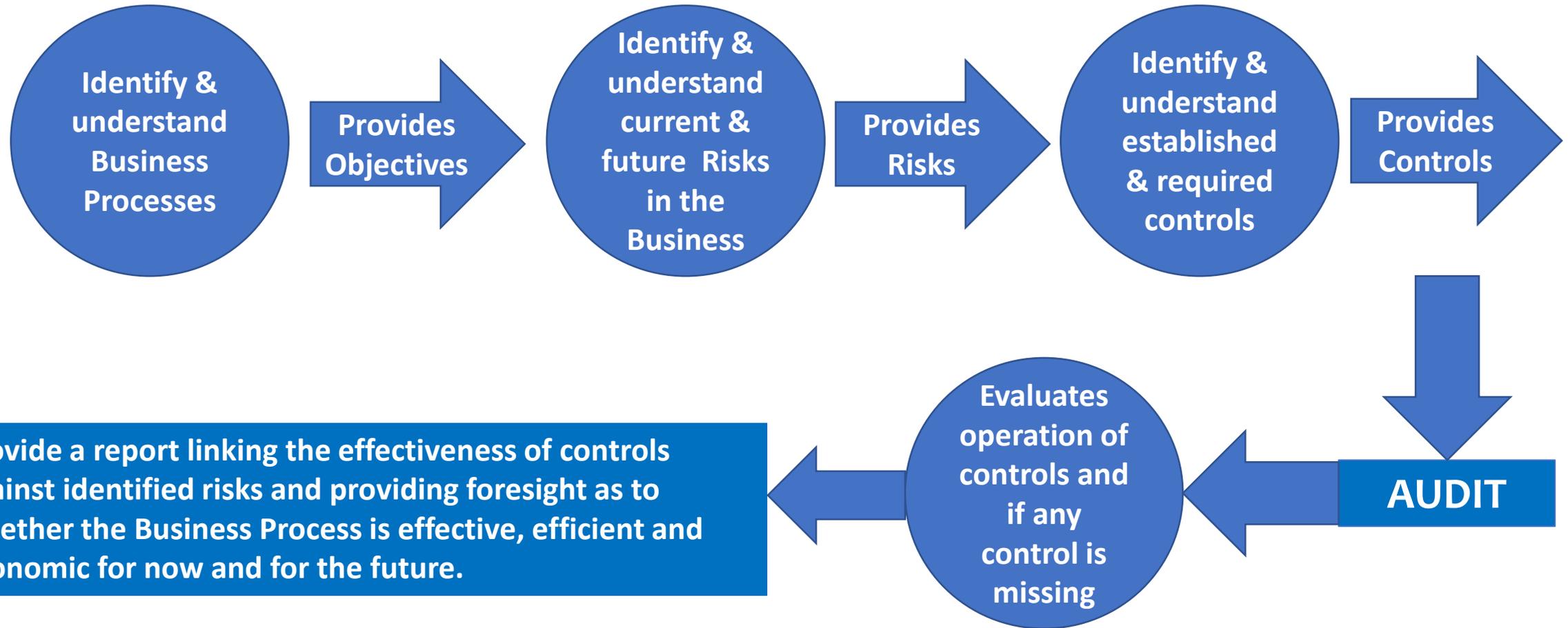
IPPF definition, from Glossary

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 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?

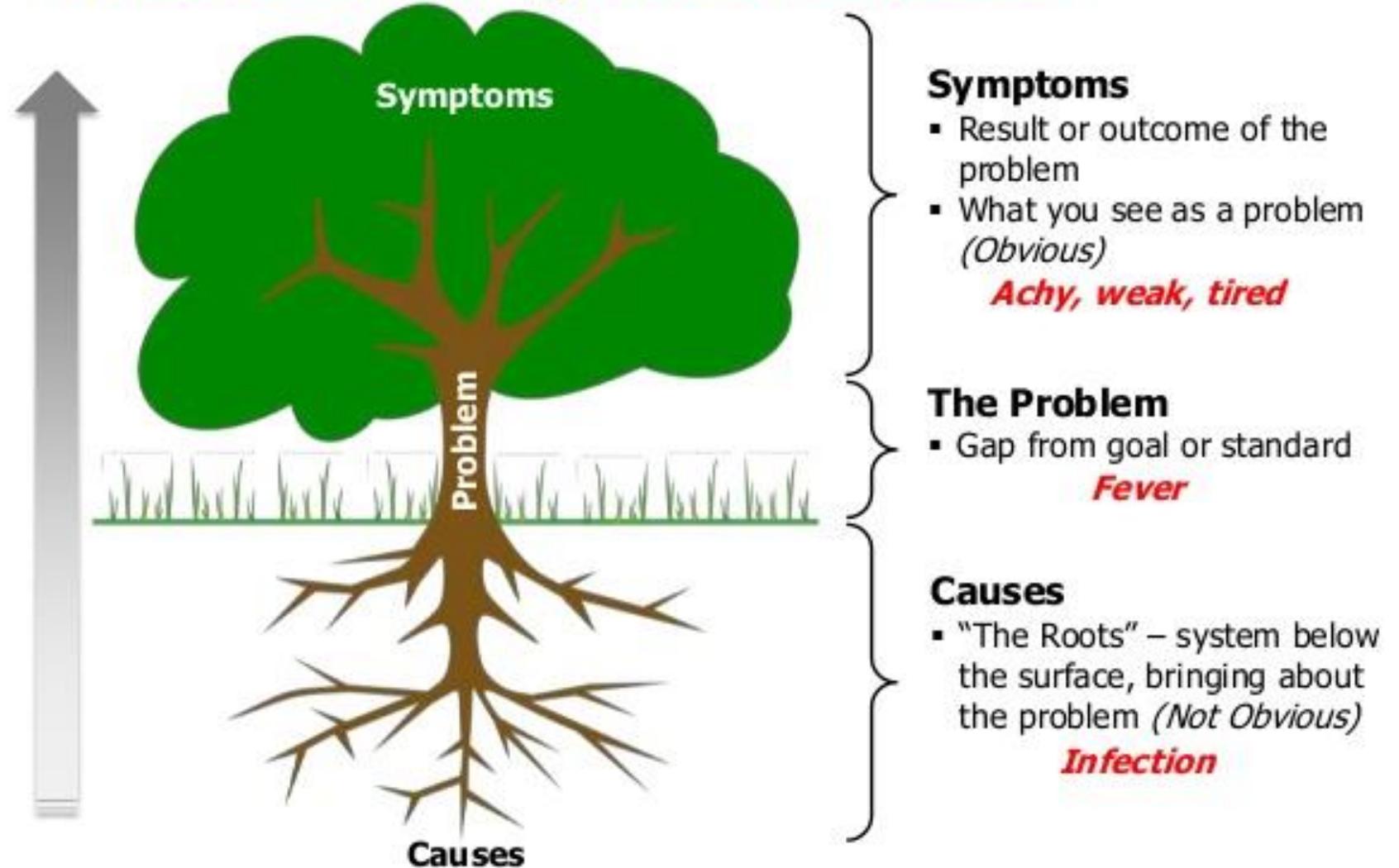
Why did it occur?



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.



Going that one step further - Audits to Consider

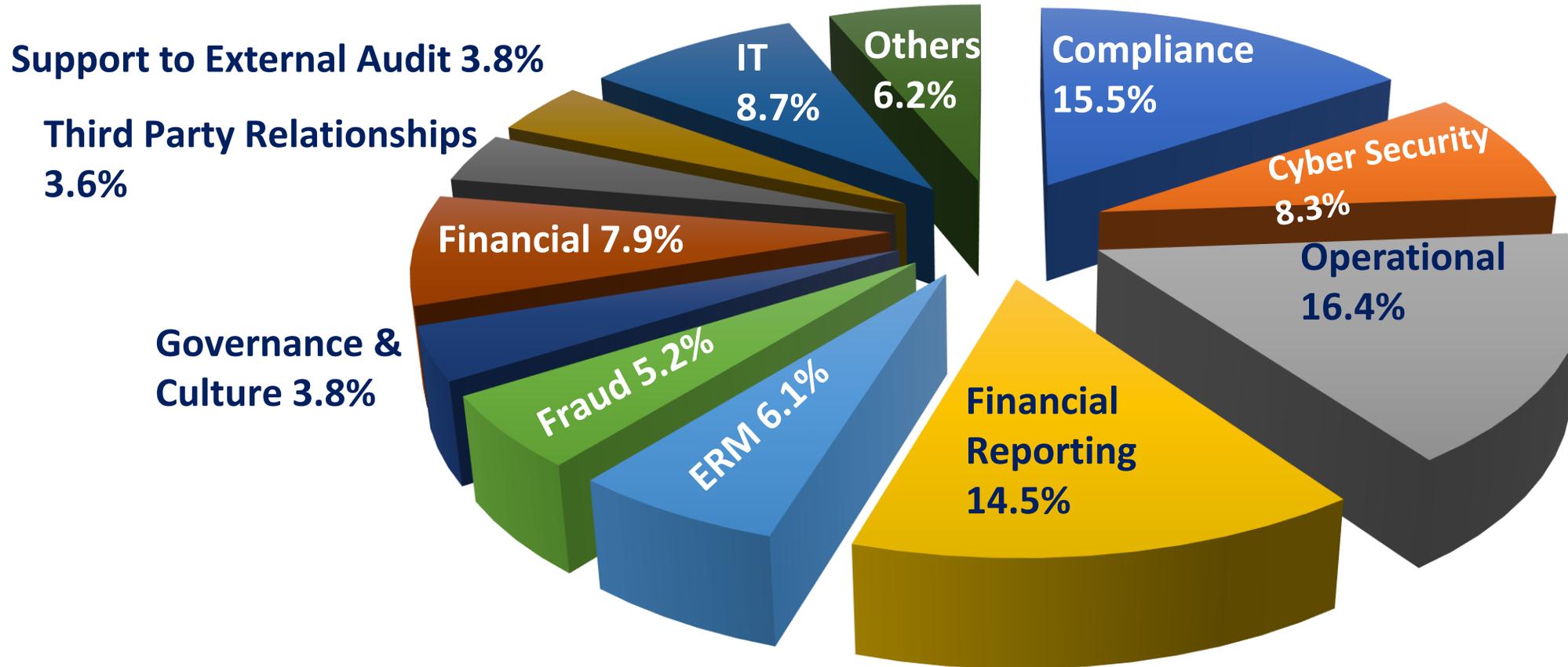


Tarling Assurance Risk
& Control Services



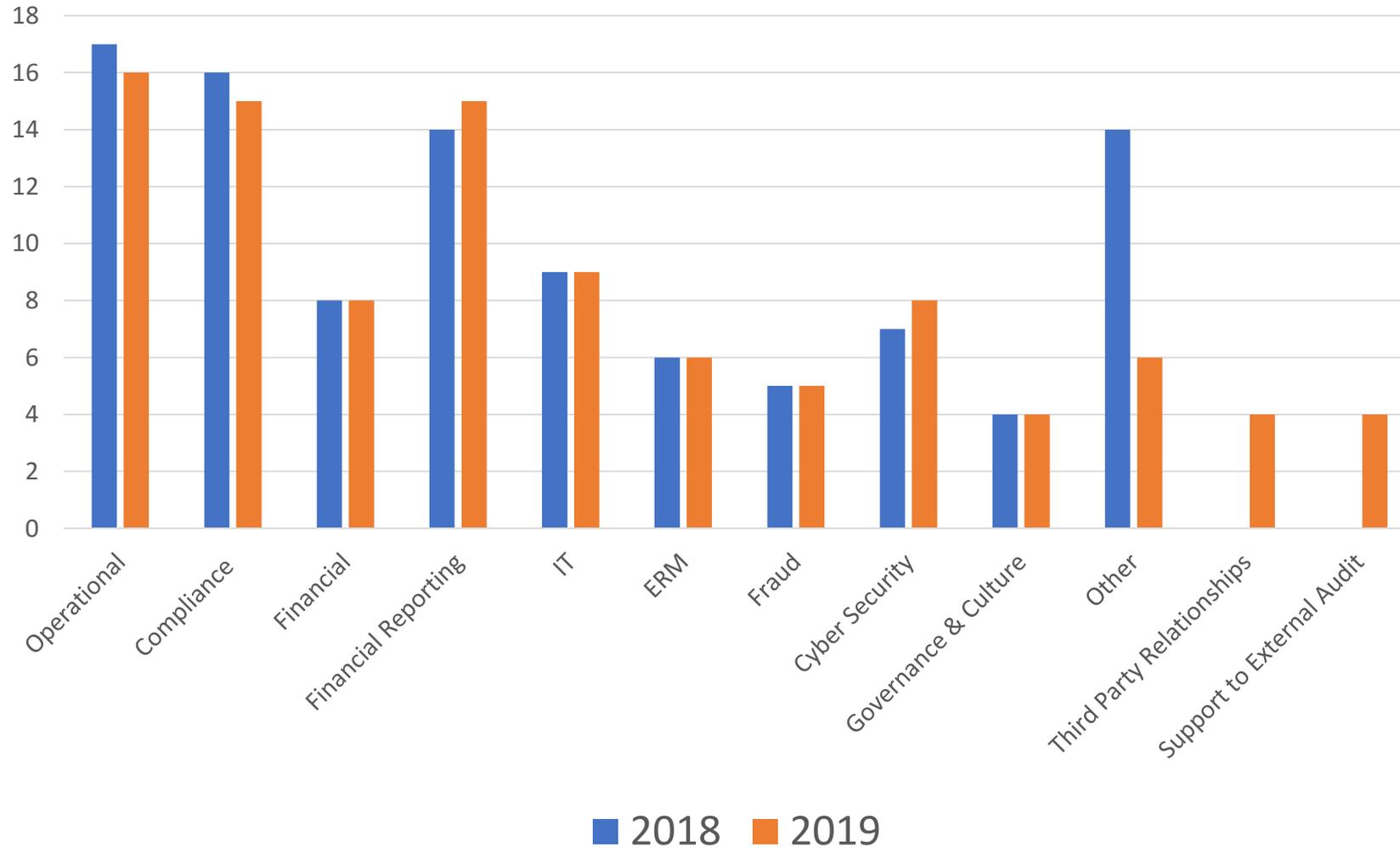
Audits being undertaken

Areas of Audit – Pulse of the Profession North America 2019



Audits being undertaken

Areas of Audit – Change from 2018 to 2019



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 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



Tarling Assurance Risk
& Control Services

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.

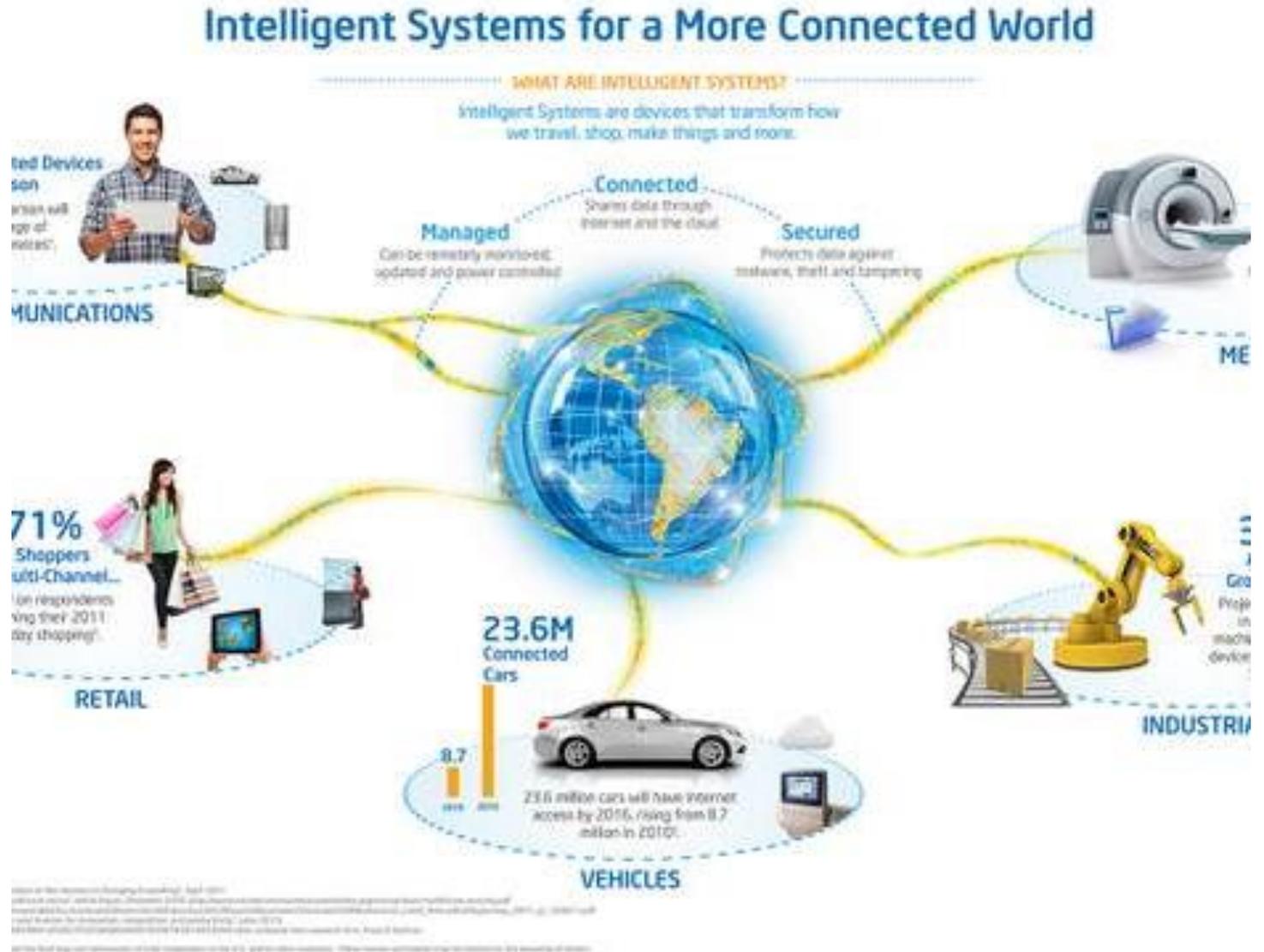


CAEs report a 36% **gap between actual vs. desired assurance** over readiness and response to cyber threats.

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



Phone: 9601, 944, 791 | Fax: 9337 No. 25 | F | Facsimile: 25, 9437 No. | Yearly: \$100 | Website: www.thedailystar.com | Tuesday, June 27, 2017 | Dhaka: 1000, 1000, 1000 | To: 12:00



Rising Tigers primed for World T20

By [Name]

It would be a bit of a surprise to see Bangladesh as the host of the T20 Cup but the Tigers are all smiles. What they need is a good team to play against. The ICC World Twenty20 is being held in India where they would be able to take part in the qualifying round. Thus, the Bangladesh national cricket team will...

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 [Name]

Reserve Bank of Bangladesh officials said the people involved in the hacking of around \$100 million (Tk 740 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 was sent back to suspended Chinese banks on February 3, they 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 said the daily star reported that a small portion of the stolen money has already been recovered from Sri Lanka. But the amount, which is in the...

Philippines, was not recovered.

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

The BB has around \$20 billion in foreign currency reserves. Simply one-third of the amount 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 worldwide.

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.

[Name]



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

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
& Control Services

Figure 1: Top 10 Risks for 2018

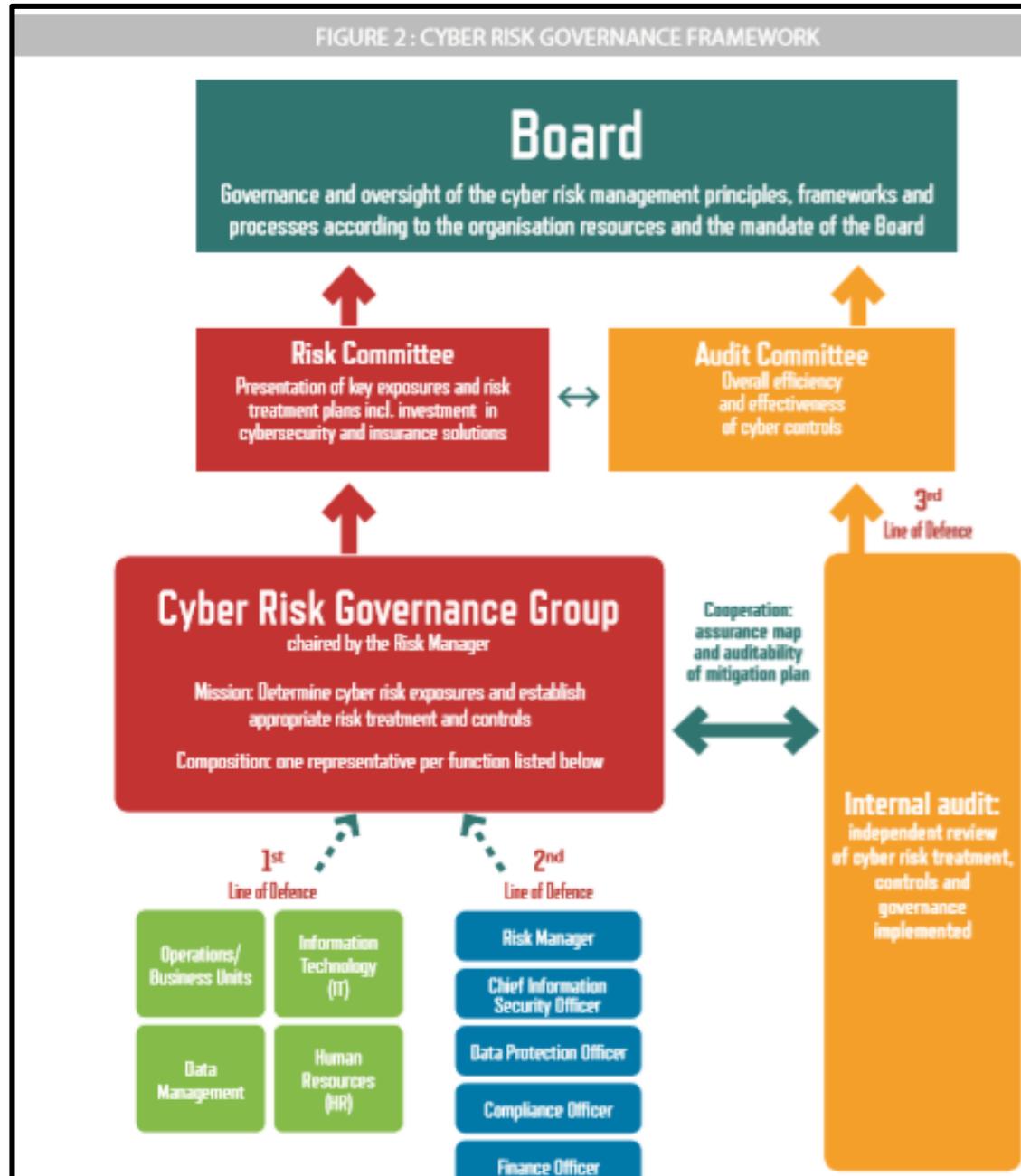


This has been a consistently rated risk over the past three years

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.

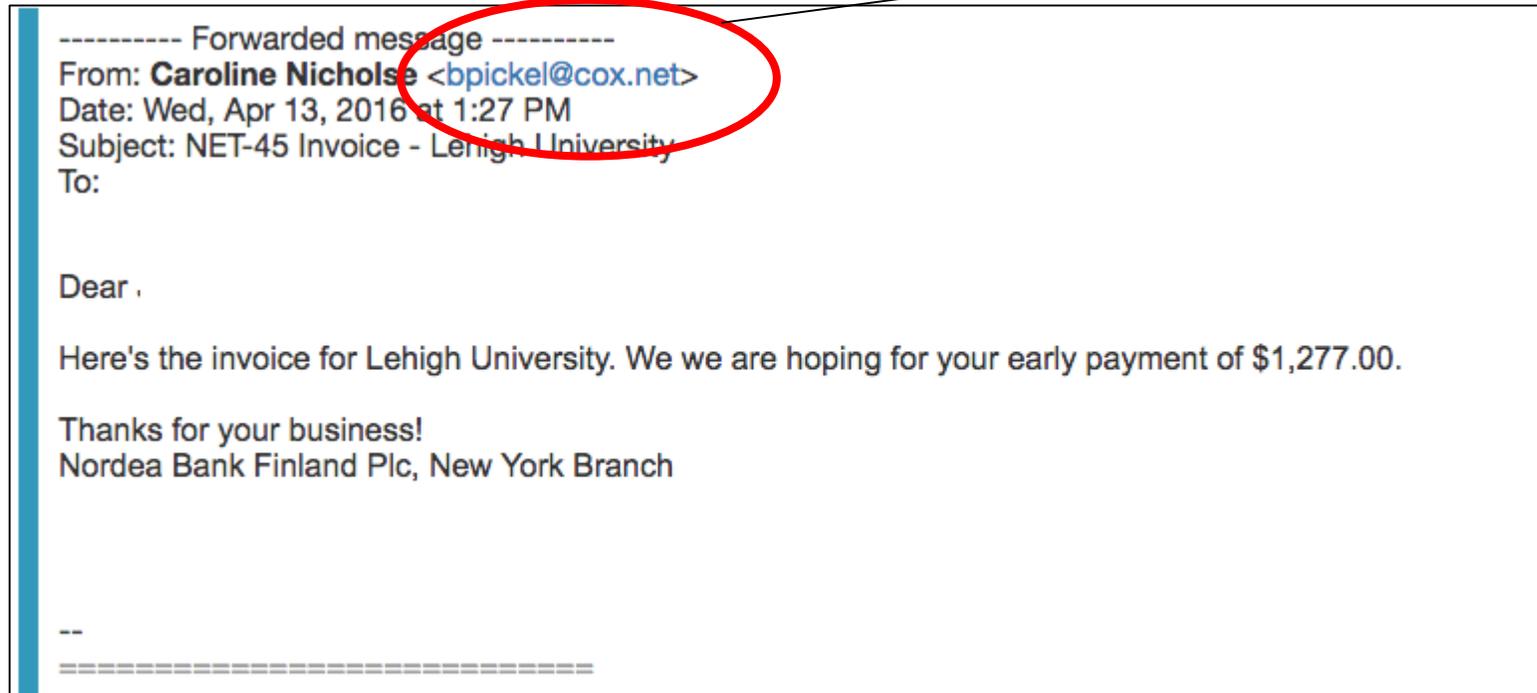
It should provide at least an annual health check to the Board on the state of that programme.



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

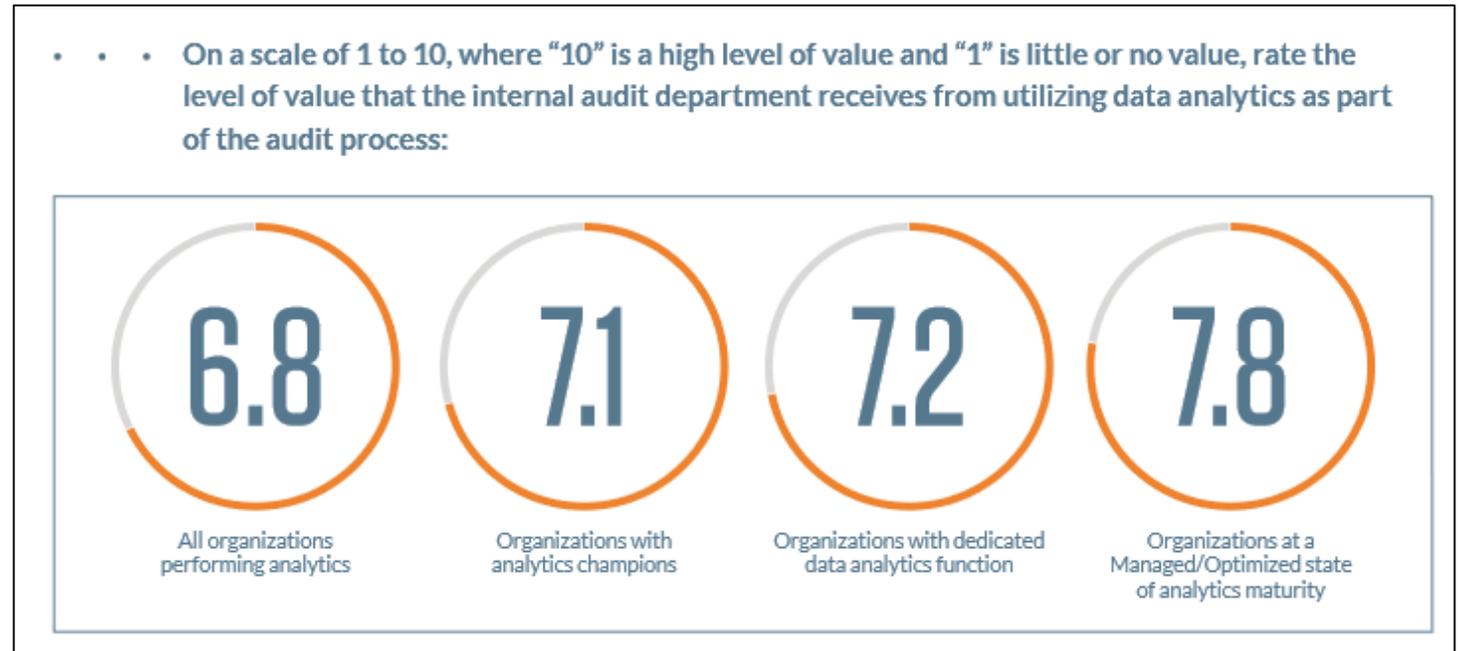
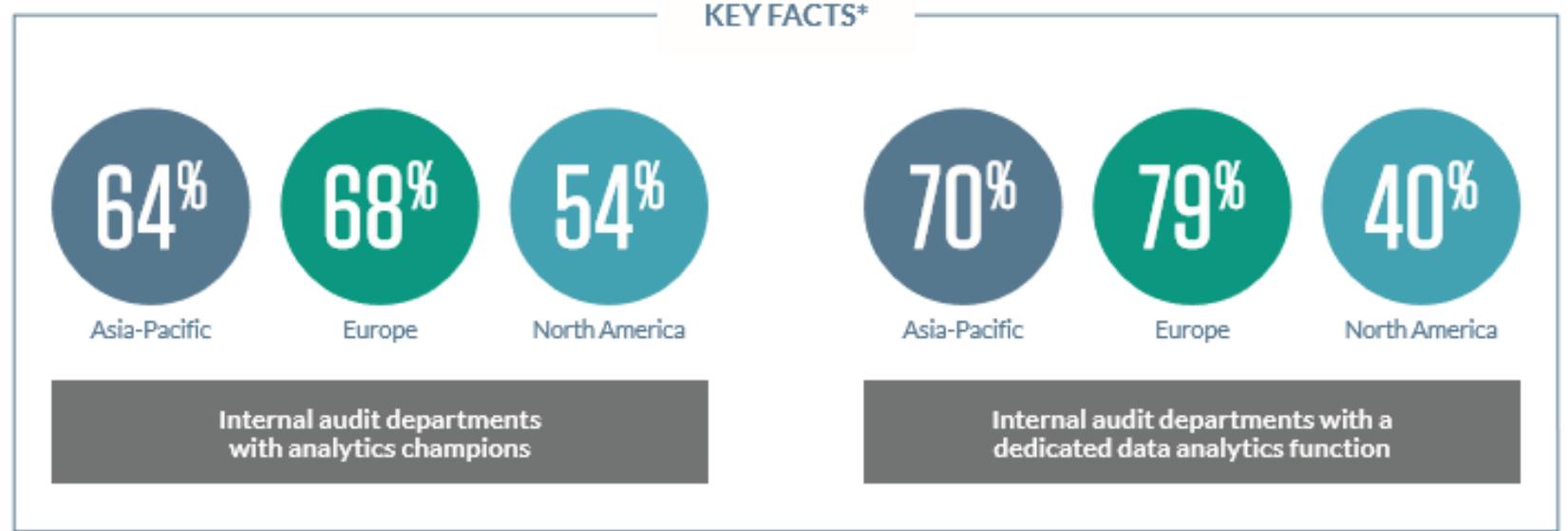
Use Data Analytics

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

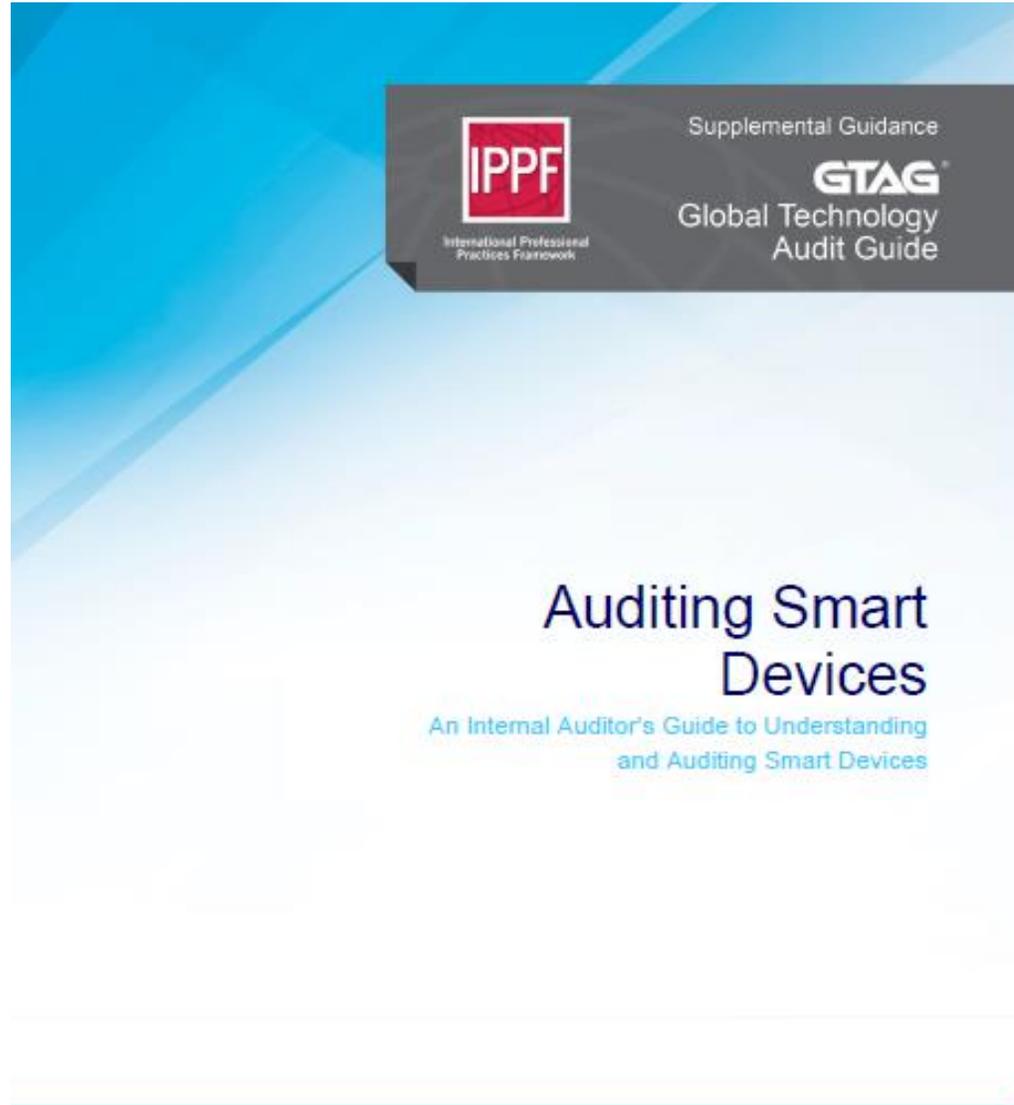


**Tarling Assurance Risk
& Control Services**



Look for Guidance

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

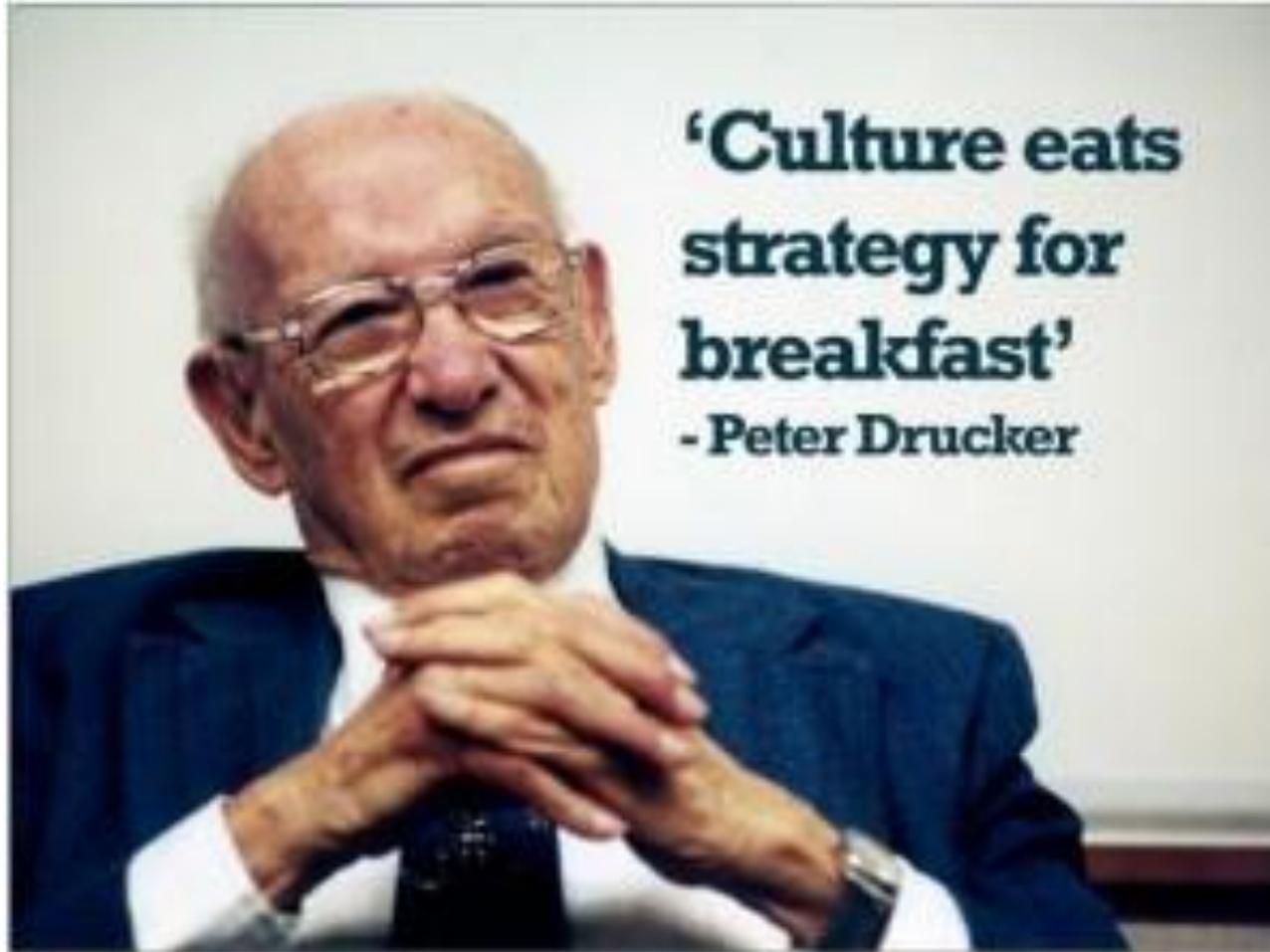


IIA GTAG / Auditing Smart Devices

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**'Culture eats
strategy for
breakfast'
- Peter Drucker**

So what to Audit

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

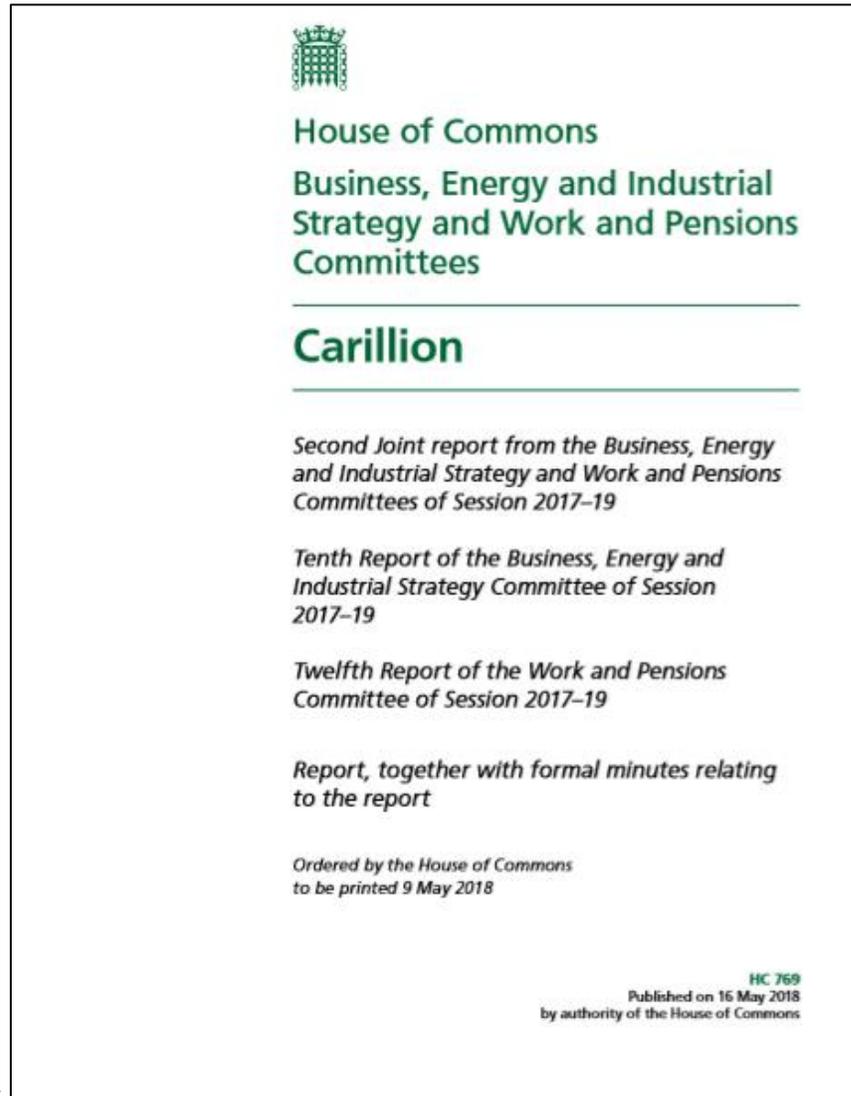
If Culture eats Strategy for Breakfast

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



Rachel Reeves MP



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



Toxic Culture – Legal Fallout



Volkswagen in meltdown after faked diesel tests

Drivers face mass recall as share price crashes

Robert Lee (London Editor) and James Pridmore (Transport Correspondent) report on the Volkswagen scandal. The article details how the company's share price has plummeted and the implications for consumers and investors. It mentions that VW's share price has fallen by more than 50% since the scandal broke, and that the company's market value has evaporated. The article also discusses the potential for a mass recall of affected vehicles and the impact on VW's reputation.



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

Larry Greenman, head of justice

WH Smith will end the controversial practice of selling its hospital shop at a high profit margin after it emerged that patients and visitors were often charged more than on the high street. The company has agreed that prices will be checked to ensure that the difference between identical items in hospital and high street shops is no more than 2-3 per cent. The move is seen as a significant step towards ending the practice of 'rip-off' pricing at hospital shops.

IN THE NEWS
Early death warning Women are expected to die earlier in Britain than in almost any other country in western Europe, according to a study by the World Health Organization. Page 4
Flying visits to end Visits to the sick and elderly being in Britain have been used only in a rare package that includes hospital care and visits with patients. Page 8
Pressure on Corbyn Labour's Corbyn could be forced to do as much as the Conservatives over the issue of the Labour conference next week. Page 12
Migrant quota rift Germany and France could support the revision of a Brussels deal to push Hungary's quota that will force them to accept thousands of migrants. Page 25
Panic in the markets Share prices fell sharply and moved lower than a sell-off in Asia could spark global panic. Concerns were also fuelled by uncertainty over US interest rates. Page 26
Rugby bombshell The England fly half George Horne has been left out of the squad that will face Wales in the World Cup on Saturday. Owen Farrell and Iwan Tuk will start the game. Page 28

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

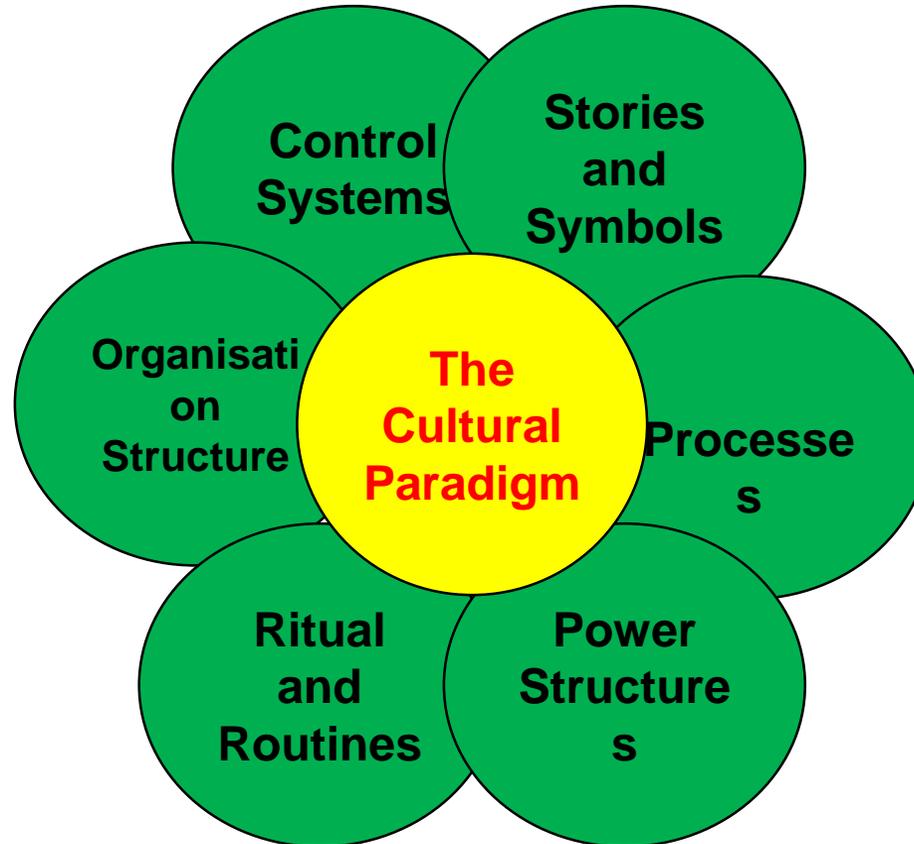
CEOs and CFOs See Culture As Critical

- 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

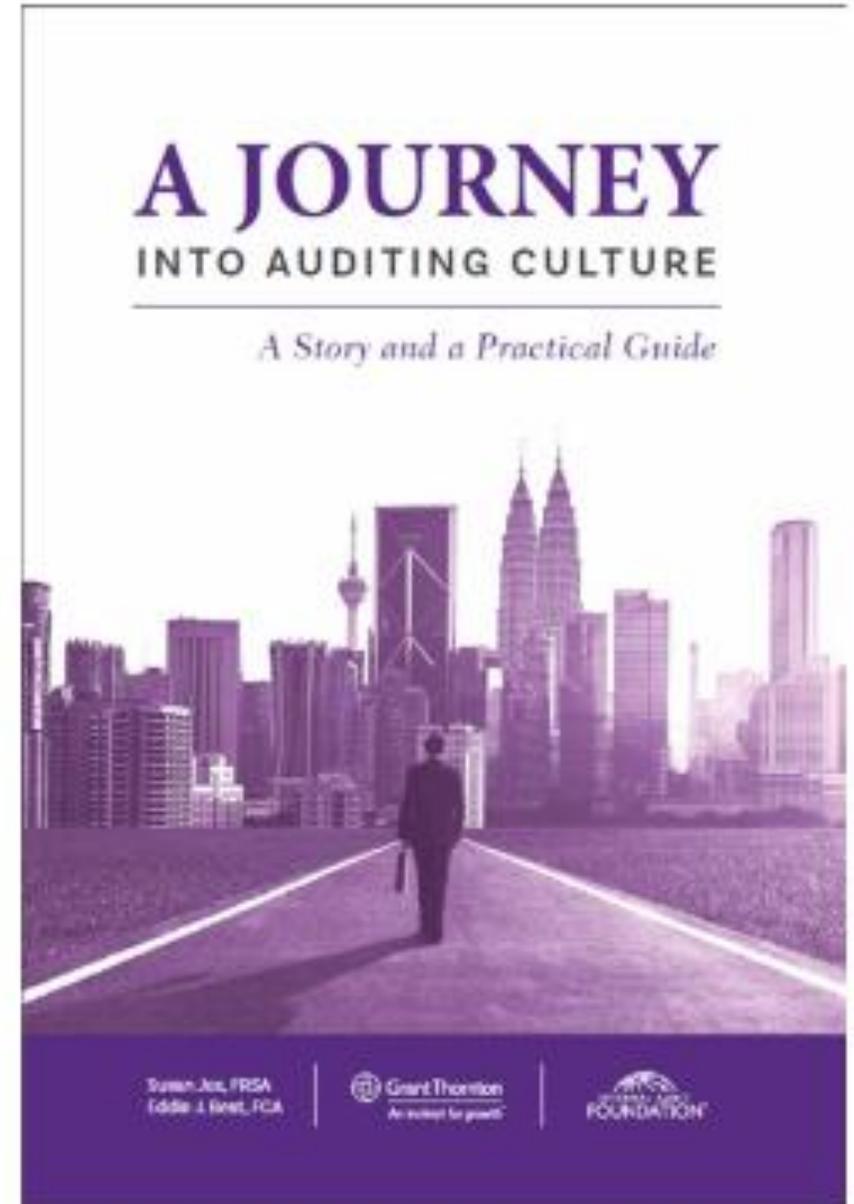


What is audited in Culture

Available from the IIA
Bookstore



Tarling Assurance Risk
& Control Services



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



.....

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

Technology – be aware of technology trends and harness technology to provide an improved customer service

Agile – be able to react quickly to changing circumstances

Culture – audit Culture

Knowledge – be knowledgeable about business processes, risks, profitability and internal control

Listening – listen to what your customers want, learn and, if appropriate, deliver

Expectations – understand what your customers expectations are and resolve differences between expectation and delivery



Thank You

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Tarling Assurance Risk
& Control Services