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THE 1ST RISK & REGULATORY OUTLOOK 2021

VIRTUAL SEMINAR

INTERNAL AUDIT TRENDS - FOCUSING ON THE RIGHT EXPOSURES

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THE INSURANCE
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What do Internal Auditors do?

ROLE

Internal auditing is **an independent, objective assurance and consulting activity** designed **to add value** and **improve** an organization's **operations**. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to **evaluate and improve** the effectiveness of **Governance, Risk Management and Control (GRC) processes**.

Adapted from the definition by the Institute of Internal Auditors ("IIA")

GOAL

The Internal Audit Department (IAD) goal is to **help the Entity achieve its goal and business objectives** in an ethical, legal, and well-governed manner.

What should Internal Auditors Focus On?

GOVERNANCE

Internal Auditors (IA) must understand the structure of the Entity and evaluate whether:

- The Audit Committee (AC)/Board are executing oversight duties (Tone at the Top)
- AC is communicating and meeting with Management and IA on a regular basis (Monthly/Quarterly)
- AC is reviewing Management and IA reports, asking questions and holding persons accountable
- Key matters are noted on reports to the Audit Committee/Board

The Board and CEO fully supports the IA as an independent service to the Board and Management.

FOCUS ON/KEY RISKS:

- **Oversight/Structure/Roles** - authority, influence
- **Culture** - beliefs and behaviors of employees/management
- **Reporting, Information & Communication**
- **Sustainability** - environment and people along with financial prosperity. (SDG) 16 - Peace, justice, and strong institutions. Effective rules of law and good governance.

What should Internal Auditors Focus On?

RISK MANAGEMENT

The Internal Auditor (IA) is the third line (formerly the third line of defense).

IA is part of, and cooperates with, the management team in a joint effort to ensure the Entity achieves its goals.

- **Assess/Review** business units to determine whether risks are identified and managed.
- Provide **Consulting Assistance**:
 - Provide advice, facilitate workshops on risk framework/risk registers
 - Support management in identifying ways to mitigate risks (what could go wrong)

Inappropriate IA Roles

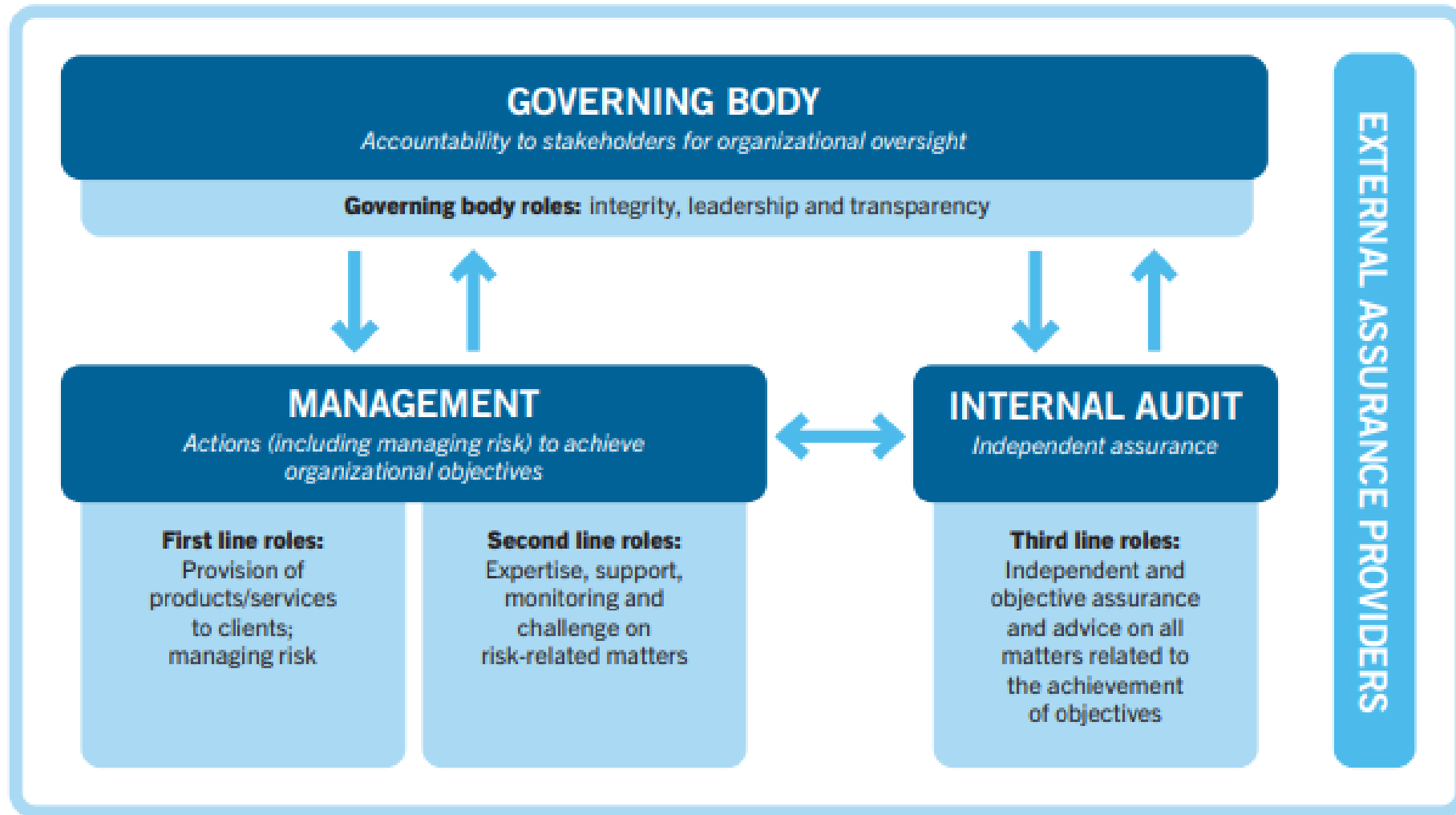
- Should not set risk appetite
- Should not be responsible for risk management decisions

Management must remain responsible for Risk Management!

FOCUS ON/KEY RISKS:

- **Role as Third Line**
- **Updating Audit Plan**
- **Consulting/Training** on Risk Mgmt/Risk Registers
- **Regulatory/Compliance**

The IIA's Three Lines Model



KEY:



Accountability, reporting



Delegation, direction, resources, oversight



Alignment, communication coordination, collaboration

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What should Internal Auditors Focus On?

INTERNAL CONTROLS

Internal Auditor (IA) performs...

- **Assess/Review** business units to determine whether **internal controls** are efficient/effective.
- **Provide recommendations** to improve the internal controls.
- **Report to Management** and the Audit Committee/Board on controls.

AUTHORITY

- **All systems, processes, functions and activities** are subject to an evaluation.
- **Unrestricted access** to all information, documents, property and personnel.

IA is not authorized to:

- **Perform any operational duties** for the Entity
- **Initiate or approve accounting transactions** external to the IAD

FOCUS ON/KEY RISKS:

- **Operations/Third party contracts**
- **IT/Cybersecurity threats**
- **Business Continuity** prepare/respond to challenges: pandemic, hurricane, succession
- **Talent Management/HR Policies** acquire/upskill/retain the right talent
- **Fraud**

Top Risks for Internal Audit in 2021

1. **IT/Cybersecurity threats**-cyber threats that cause disruption, reputational harm/financial losses.
2. **Data Privacy**- management of data: its collection, use, storage, security, and disposition.
3. **Business Continuity**-prepare/respond to challenges (pandemic, hurricane, power outage, succession).
4. **Operations/Third party Contracts**-maintain healthy relationships with service providers/vendors.
5. **Governance/Culture**- directed and managed; The tone, incentives and actions that drive behavior; assists/hinders achievement of objectives.
6. **Reporting/Information/Communication**-regulators, investors, and boards place great reliance on the information for decision-making.
7. **Talent Management**- acquire, upskill, and retain the right talent to achieve their objectives.
8. **Sustainability**- awareness of environmental, social, and governance concerns; influence decision-making.



THANK YOU!

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