

In collaboration with:



Internal Audit transformed: Future of work, emerging risks and trends

May 2021



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Joint foreword

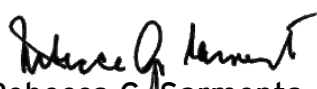
The impact of the COVID-19 pandemic on the economy and company business functions has been significant and widespread. Organizations are under increased pressure to identify and assess emerging risks and ways to effectively manage them, thus highlighting the role of Internal Audit (IA). We at the Asian Confederation of Institutes of Internal Auditors (ACIIA) see this as an opportunity for the IA function to re-evaluate its existing role and transform its structure and operations to sustain stakeholder trust and add greater value to organizations.

This survey report explores the current state of IA in the Asia-Pacific region, how it has been affected by the pandemic and other factors, and how it needs to transform in the future. It discusses the readiness of internal auditors to adapt to emerging technologies and address the risks of rapid digitalization. It also covers the required skillsets in the IA profession and the future work environment of internal auditors.

We are grateful to collaborate with SyCip, Gorres, Velayo & Co. (SGV) for this report. SGV's Consulting Team conducted further research to contextualize the survey's findings. They also provided valuable insights on how the IA function can evolve to address and respond to changing business needs.

We would also like to extend our gratitude to the participants of our survey for taking the time to share your knowledge and insights with us. We look forward to discussing the survey's findings with you and hope that it will help you and your organizations navigate today's disruptive business landscape.




Rebecca G. Sarmenta
President, ACIIA

Joint foreword

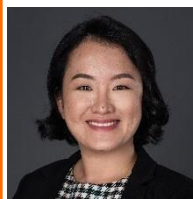
The latest economic disruptions have presented Internal Audit (IA) with the unique opportunity to reshape and refocus its organizational functions to provide further support beyond internal control and risk management. This survey aims to determine the trends and emerging risks in IA and understand how IA is shifting its focus and operating model to address emerging risks. It also discusses the necessary skills to meet the demands in a post-pandemic organization, including practices to enhance mobility and improve employee well-being.

We are grateful to the ACIIA for the opportunity to work with them on this survey. As we continue to address the issues caused by the latest disruptions, we believe that the report from this survey may prove to be a valuable resource and support the long-term growth of your IA function and the resilience of your organization.



Joseph Ian M. Canlas
Consulting Partner, SGV

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Christiane Joymiel Say-Mendoza
Consulting Partner, SGV

A stylized, handwritten signature in black ink, featuring a prominent vertical stroke and several loops.

Executive Summary

Internal Audit (IA) plays a key role in adding value to an organization. As mentioned in an IIA article titled “The Audit Committee: Purpose, Process, and Professionalism,” IA provides reasonable assurance that internal controls in place are adequate to mitigate risks, that governance processes are effective and efficient, and that organizational goals and objectives are met.¹ But with the constant changes in the business landscape, we need to determine the current state of IA and how it will evolve in the future.

Based on our analysis, we segmented the survey into two main points to understand better the state of IA in the Asia-Pacific (APAC) region.

Emerging Role of IA in the Organization

Technological advancements have changed the way we do business. Many companies have explored and adapted the use of new technologies such as artificial intelligence and data analytics to stay ahead of the competition. Furthermore, the risks that organizations are facing keep evolving. This section aims to understand how the IA mandate has changed, and identify the areas that IA functions are expected to focus on in the future. We will discuss how prepared the IA function is in addressing escalating risks. We will also explore how they are engaging with other areas of the organization such as the first and second line of defense in driving trust amidst disruption.

Internal Audit's Future of Work

Organizations will continue to explore new business models and technologies to drive better business outcomes. Key stakeholders will also expect IA to keep up with the pace of change and transform as a trusted business advisor to the organization. In this section, we discuss the competencies required for the Internal Audit of the future. Specifically, we will explore skills internal auditors should have, as well as where and how they will work in the future. Lastly, we discuss employee well-being and how it is becoming a factor for an effective IA function.

¹The Audit Committee: Purpose, Process, and Professionalism
https://global.theiia.org/about/about-internal-auditing/Public%20Documents/Aud_Comm_Brochure_1_.pdf

About the Survey

Survey Background

This survey aims to understand how internal auditors from different industries across the APAC region view the transforming role of IA in addressing escalating risks that the organization is facing; gather insights on how IA is shifting its focus and operating model; identify changes in mobility; and determine how IA will address employee well-being as an area of focus.

We gathered a total of 376 responses from senior audit executives and stakeholders including Heads of Internal Audit, Chief Audit Executives, Partners, and other senior management professionals across the APAC. Most of the respondents are members of IIA China (173), IIA Japan (58), and IIA Philippines (57). Other respondents were from IIA Australia, IIA Fiji, IIA Hong Kong, IIA India, IIA Indonesia, IIA Korea, IIA Malaysia, IIA New Zealand, IIA Singapore, IIA Sri Lanka, IIA Taiwan and IIA Thailand.

The participants in the survey came from various industries (refer to Figure 1). Overall, the respondents are mostly from the finance and insurance (78), manufacturing (70), management of companies and enterprises (33), construction (31), and utilities (23) industries.

Most respondents came from large companies which have an estimated annual revenue of over US\$1B with 128 respondents.

There were also many respondents who came from organizations with an annual revenue of US\$100M to US\$500M (66 responses), and an annual revenue of less than US\$5M (49 responses). Other respondents are from companies with 5M-10M, 10M-50M, 50M-100M, and 500M-1B estimated annual revenue (in US\$).

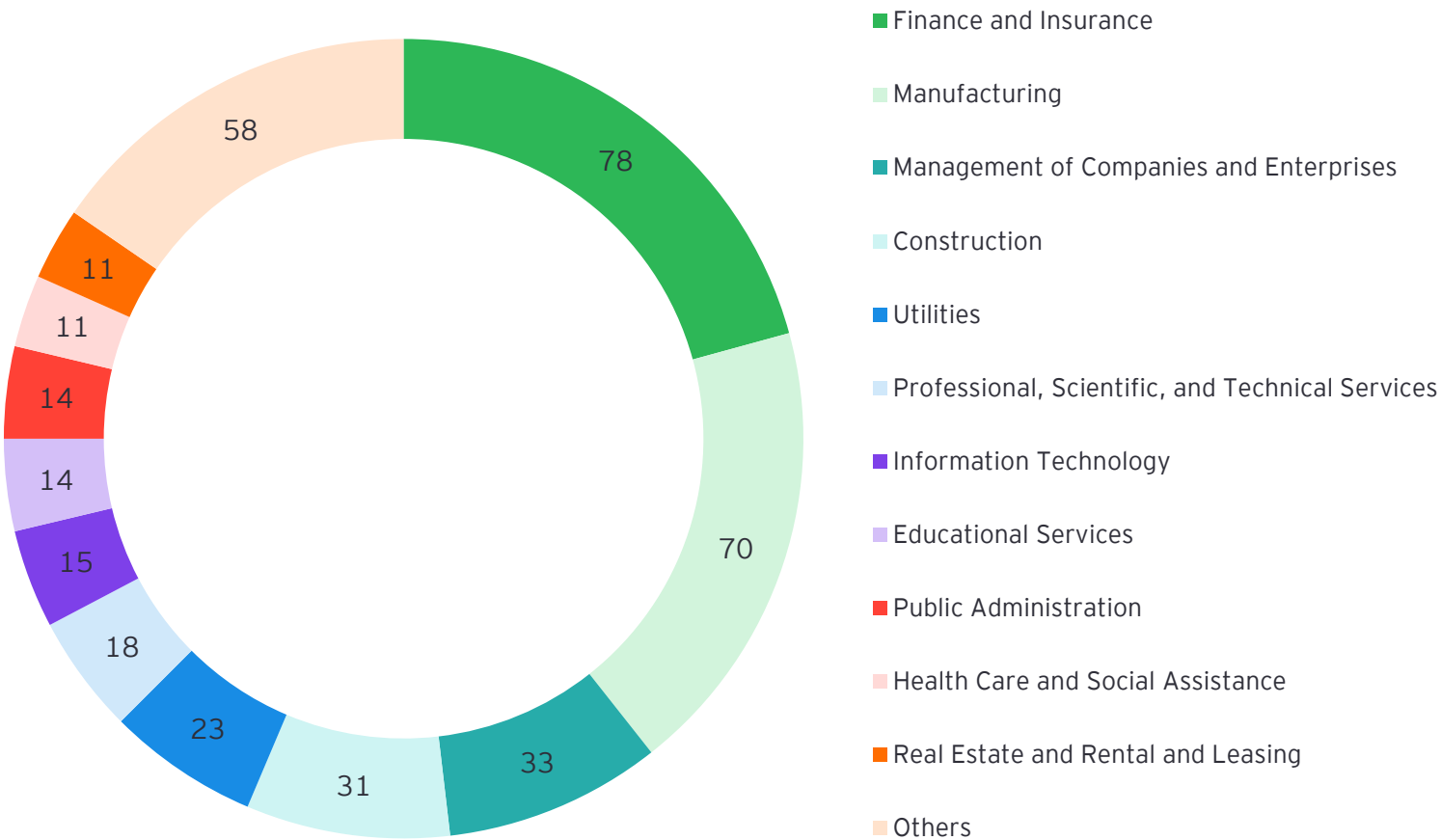
IA Structure and Composition of Respondents

Most respondents answered that the IA structure for their organizations is a separate department composed of permanent employees (302 responses). Only a few organizations have answered that either they are fully outsourced (19 responses) or applying a hybrid approach to resourcing (55 responses).

In the Philippines and Japan, their IA structure consists of either permanent or partially outsourced employees, and there were no responses on the IA structure being fully outsourced for these countries.

Regardless of the organization's revenue, most of our respondents have an IA team composed of less than 10 people (221 responses) - this was a common response across countries.

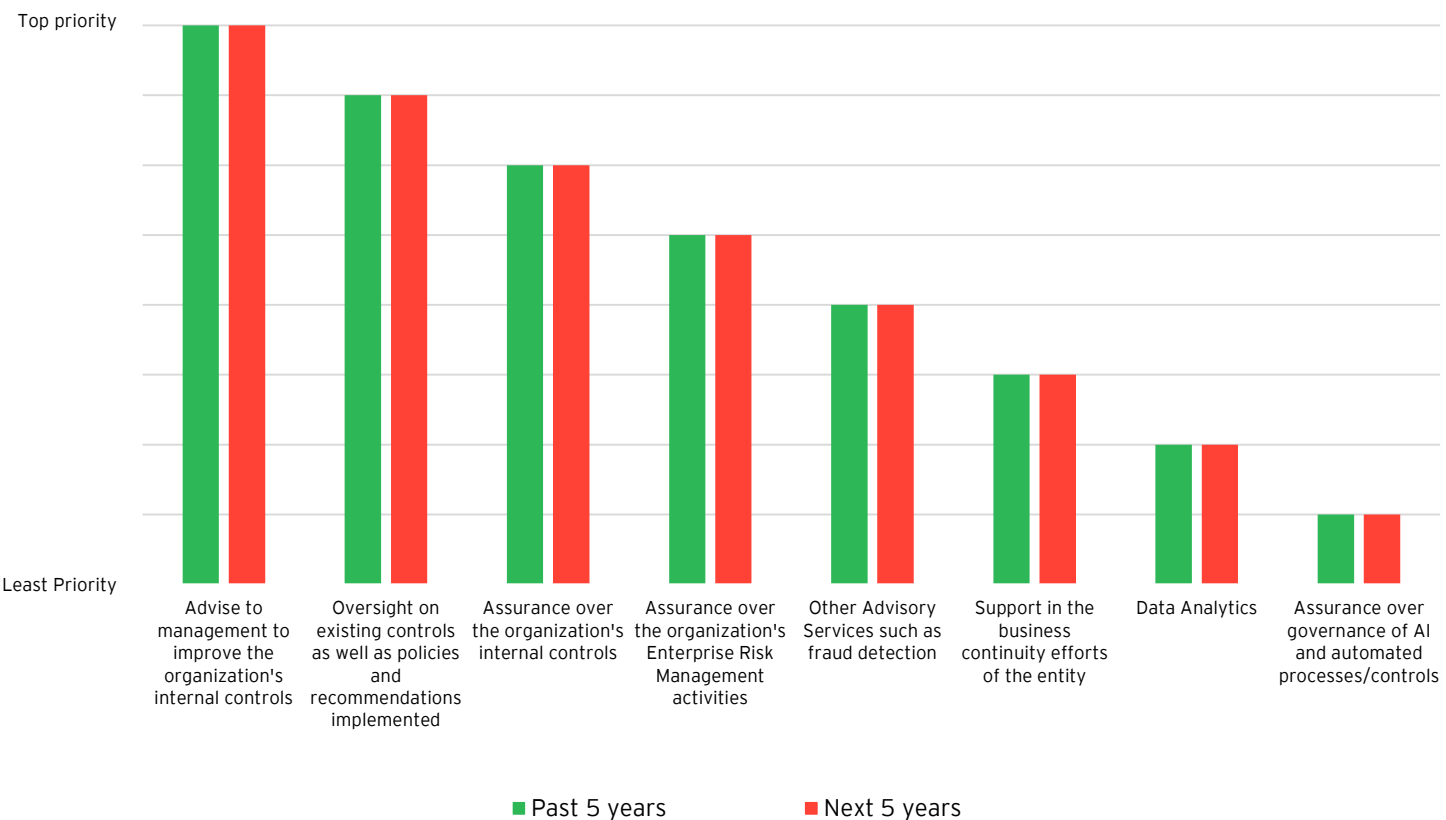
Figure 1. Respondents' Industry Profile



Emerging Role of IA in the Organization

At present, the IA function of most organizations perform services related to Compliance Audit (e.g., assessment of compliance to regulatory requirements), Operational Audit (e.g., assessment performed to identify improvements in an organization's efficiency and effectiveness), and Financial Audit (e.g., evaluation of internal controls over financial reporting, due diligence for deals and mergers & acquisitions, review of specific accounts and balances). In line with this, we asked the respondents about their organization's primary mandate in the past five years and in the next five years.

Figure 2. IA Organization's Primary Mandate - Past 5 Years to Next 5 Years (Overall)



In the last five years, the primary mandate of most organizations on IA are (1) to advise management on improvements on the organization's internal controls; (2) to evaluate existing controls, policies and recommendations implemented; and (3) to provide assurance over the organization's internal control. While participants ranked the mandate differently when asked how it will change in the next 5 years, the impact was not significant to affect their overall ranking. Hence, most IA organizations continue to expect no change on their primary mandate in the next 5 years.

Most IA teams expect that they will continue to be involved in advising management and providing assurance over internal control and fraud detection while providing assurance over enterprise risk management and business continuity. There is also common expectation in using analytics to address the emerging areas of focus.

There were specific industries or IIA affiliates which showed a different result. The following are some exceptions that are specific to a certain industry or IIA affiliate:

Key Industries:

Finance and Insurance

IA teams from Finance and Insurance industries are expecting a shift to data analysis, governance on automated processes, and controls and IT related reviews.

Construction

The construction industry gave a different response compared to most industries. In the last five years, it placed importance on other advisory services, such as fraud detection, and will continue to do so in the next five years. Support in the business continuity efforts of the entity will be given a slightly higher importance than assurance over the organization's internal controls.

Management of Companies and Enterprises (Holding Companies)

Support in the industry's business continuity efforts of the entity is expected to be given high

importance in the next five years. Most also gave slightly higher importance to (a) advise to management to improve the organization's internal controls; and (b) assurance over the organization's Enterprise Risk Management activities. There also seems to be less focus on (a) oversight on existing controls, policies and recommendations implemented; (b) assurance over the organization's internal controls; and (c) other advisory services.

Information Technology

IA Teams in the IT Industry are giving higher importance in (a) supporting in the business continuity efforts of the entity; (b) using data analysis; and (c) providing assurance reviews over governance of AI and automated processes/controls.

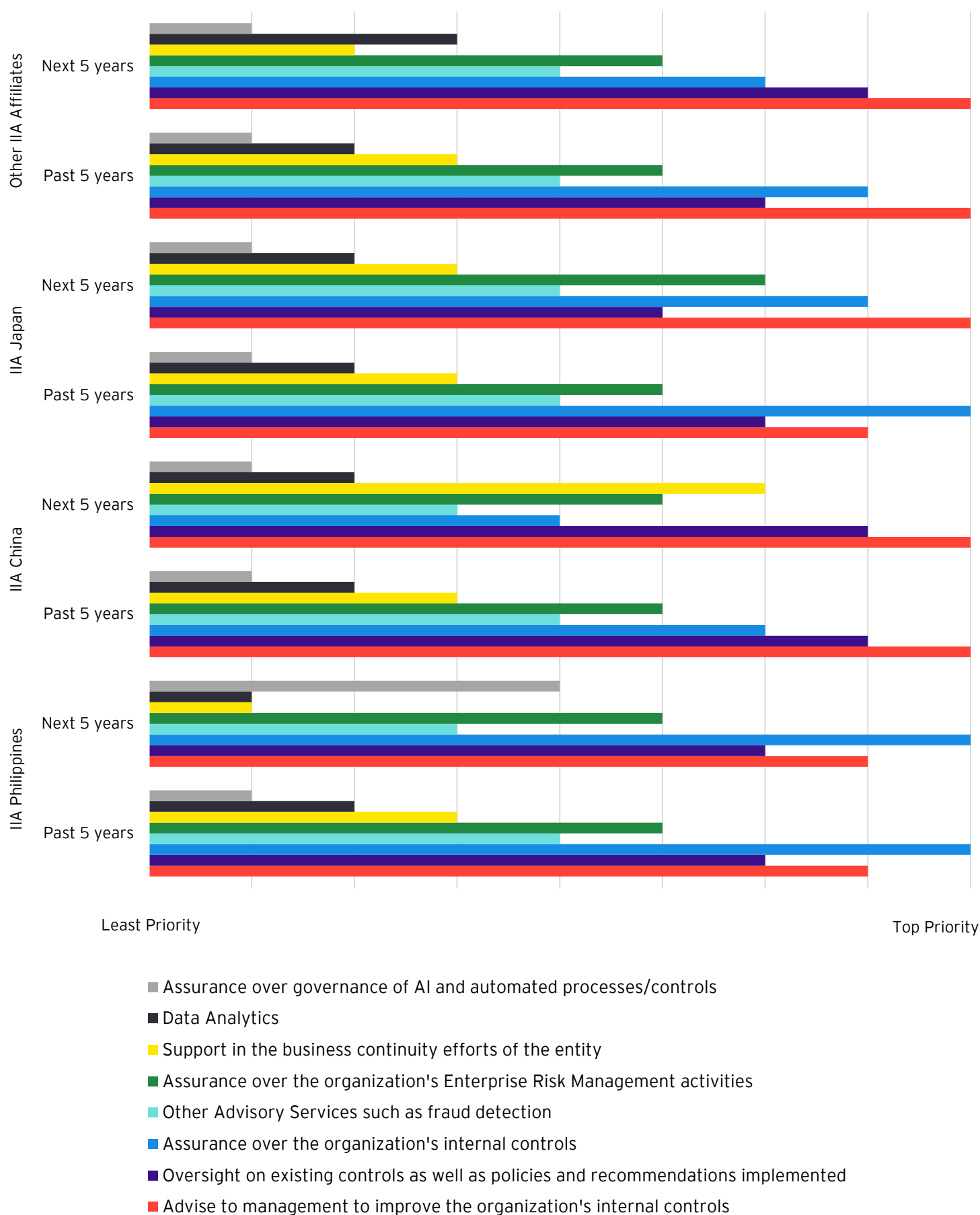
Affiliates:

For IIA Philippines, their mandate is aligned with the overall response, except for an uptick on assurance reviews over governance of automated process and controls.

In IIA China, IA organizations are seeing a shift in focus from assurance over the organization's internal controls to supporting the business continuity efforts of the entity.

IA organizations in Japan on the other hand, view that management will continue to expect IA to provide advice on internal controls and sound guidance on the organization's Enterprise Risk Management initiatives.

Figure 3. IA Organization's Primary Mandate - Past 5 Years to Next 5 Years (Per IIA affiliate groups)





While chief audit executives do not foresee changes in the IA mandate, it needs to evolve. IA needs to extend beyond providing assurance services and broaden its focus to address escalating risks.

Hot topics for Internal Auditors – Areas of escalating risks

Organizations continue to be disrupted by various forces (technology, globalization, environment, etc.) and this has become more evident as everyone is aiming to thrive amidst the impact of the pandemic. While these forces continue to evolve, so are the risks that organizations face. In this section, we explore the areas of escalating risks that internal auditors within the APAC region consider significant.

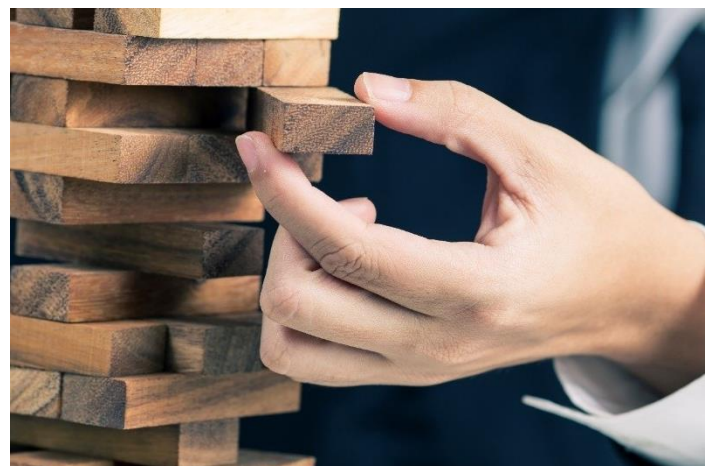
Overall, most of the responses show that cybersecurity risk, IT risk, and financial risk are the areas that will most likely escalate in the next years. Although this is true across countries, industries, and revenue groups, the responses from respondents in IIA Philippines, IIA China, and IIA Japan show a different perspective. This may be attributable to the nature of the industry that the respondents belong.

Respondents from Philippines and Japan consider business continuity risk more significant as compared to financial risk. On the other hand, respondents from China consider strategic risk as more significant as compared to financial risk. From an industry perspective, the responses show that for management of companies (holding companies), strategic risk is more significant as compared to cybersecurity risk.

Sustainability/environmental risk, third-party risk, and community/stakeholder relations risk are areas considered to potentially escalate in the long-term. While this is the case, third party risk will be an area of growing concern as more organizations continue to look for more efficient and effective ways of working by focusing on their key strengths and delegating non-core activities to third and fourth parties. Similarly for sustainability risk, there is also an evolving requirement from investors and regulators for organizations to disclose their efforts on sustainability, which include management of environment, social and governance (ESG) risks.

This is a common response across countries, industries and revenue groups, except for IIA China and IIA Japan who identified reputation risk as an area whose significance is expected to grow at a later time.

Each company also has its own unique responses in order to mitigate these risks. In the next sections, we evaluated (1) the preparedness of IA in terms of responding to the corresponding risks; and (2) the role IA plays in helping the company mitigate these risks and achieve its business objectives (refer to Figures 4 and 5).



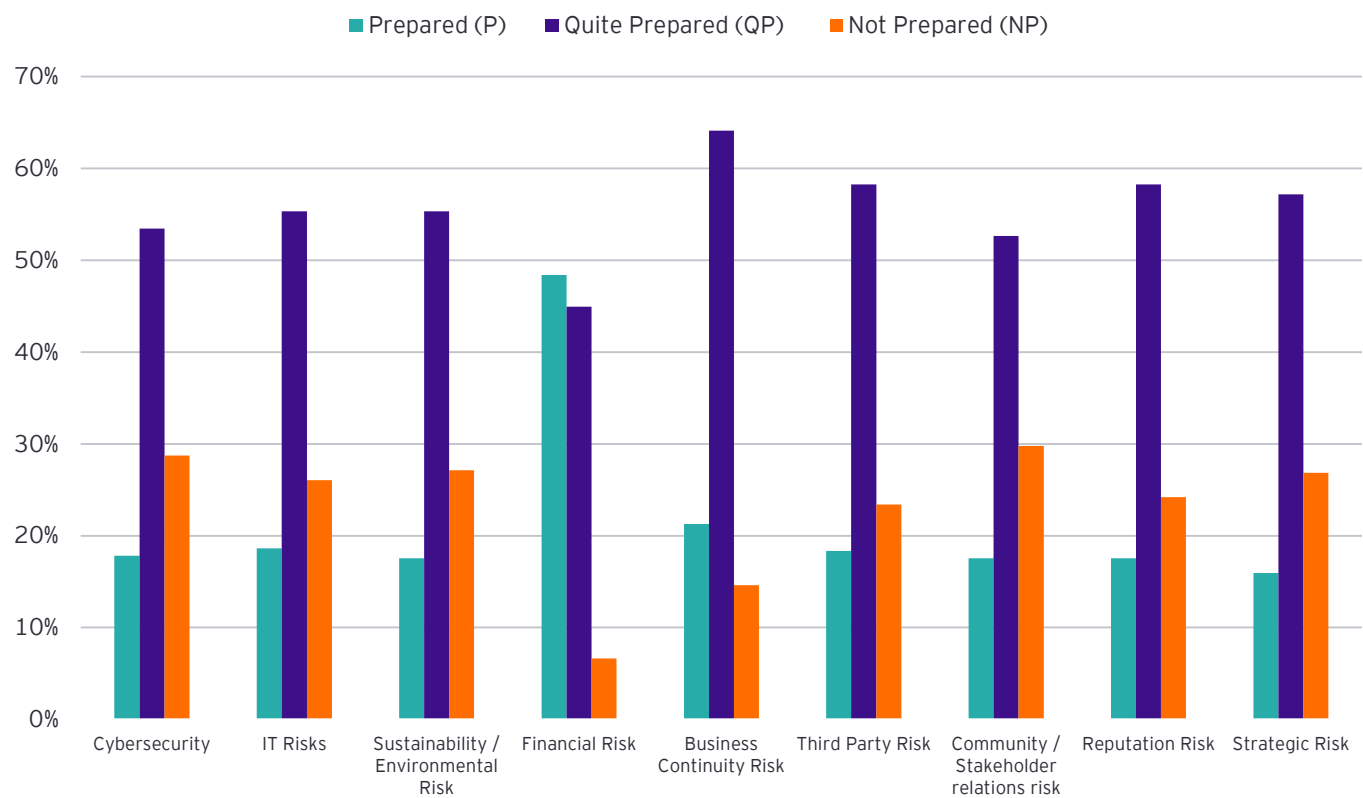
Preparedness of IA on Escalating Risks

We evaluated the preparedness of IA in terms of responding to the corresponding risks. The results show that the IA function today is generally prepared in areas related to financial risk but needs to continue to develop its capability, tools and methodology on emerging areas.

The table below shows the options that can be selected by each of our respondents. Figure 4 summarizes IA’s preparedness for areas of escalating risks:

Scale (Preparedness)	Description
Prepared	Internal audit has the capability, capacity, tools and methodology in place to address these risk areas.
Quite Prepared	Some improvements needed in one or two of the areas (capability, capacity, tools and methodology).
Not Prepared	Improvement needed in most of the areas (capability, capacity, tools and methodology).

Figure 4. IA Preparedness for Areas of Escalating Risks



Cybersecurity Risk

Cybersecurity risk pertains to threats perpetrated by a malicious threat actor using a digital communication channel which could disrupt the company's digital assets². The responses show that the IA of most of the companies of the respondents are quite prepared (53% of the total responses) in terms of addressing the risk associated with cybersecurity and privacy.

IT Risk

IT risk pertains to the company's technology strategy which contribute to the company's operations. The responses show that the IA of most of the companies of the respondents are quite prepared (55% of the total responses) in terms of addressing the risk associated with IT while others are not prepared (26% of the total responses).

Sustainability/Environmental Risk

Sustainability/environmental risk pertain to adherence to health, safety, and environment requirements in which noncompliance could lead to fines, prosecution, or reputational damages.² This also includes the company's initiatives in sustaining critical operations during uncontrollable events. The responses show that the IA functions of most of the companies of the respondents are only quite prepared (55% of the total responses) in terms of addressing the risk associated with sustainability/environmental risk.

Financial Risk

Capital structure, market, accounting and reporting, and tax are some of the components of financial risks. The responses show that the IA functions of most of the companies of the respondents are prepared (48% of the total responses) in terms of addressing financial risks. As for IIA Japan, the responses show that the IA function of companies are quite prepared in terms of addressing financial risk. The respondents who are prepared (45% of the total responses) to address financial risk consider IA as a trusted advisor (52% of the total responses).

Strategic Risk

Strategic risk pertains to the company's processes regarding governance, planning and resource allocation, market dynamics, communications and investor relations. The responses show that the IA functions of most of the companies of the respondents are quite prepared (57% of the total responses) in terms of addressing strategic risk.

Business Continuity Risk

Business continuity plan and business resumption strategies are the key areas of business continuity risk. The responses show that the IA functions of most of the companies of the respondents are quite prepared (64% of the total responses) in terms of addressing the risk associated with business continuity.

² Risk Universe (EY Presentation)

Third-Party Risk

Third-party risks pertain to the company's processes regarding contracted third-party service providers. The responses show that the IA functions of most of the companies of the respondents are quite prepared (58% of the total responses) in terms of addressing the risk associated with third parties.

Community/Stakeholder Relations Risk

Community/stakeholder relations risk pertain to the risks faced by the company in making decisions and processes that affect its key stakeholders. The responses show that the IA functions of most of the companies of the respondents are quite prepared (53% of the total responses) in terms of addressing the risk associated with community/stakeholder relations.

Reputation Risk

Reputation risk involves the company's processes in place to manage reputational threats perceived by members, customers, key stakeholders, among others.²

The responses show that the IA functions of most of the companies of the respondents are quite prepared (58% of the total responses) in terms of addressing the risk associated with reputation.



² Risk Universe (EY Presentation)

Role of IA on Emerging Risks

For each respondent who evaluated that their IA function is prepared to respond to identified emerging risks (averaging between 16-21% of total participants), we identified the role their IA functions play in helping their organizations mitigate these risks and achieve their business objectives. The table below shows the description for each option that can be selected by each of our respondents. Figure 5 summarizes IA's role in addressing emerging risks for prepared organizations:

Scale (Role / involvement)	Description
Trusted advisor	IA consistently guides management and/or affected departments to address key risk areas and to improve the company's various initiatives.
Consultant	IA periodically provides advice on how to address key risk areas.
As needed/Ad-hoc	IA provides advice and evaluates relevant risks and controls only when sought by management.

Figure 5. IA's Role in Addressing Escalating Risks



IA as a Trusted Advisor

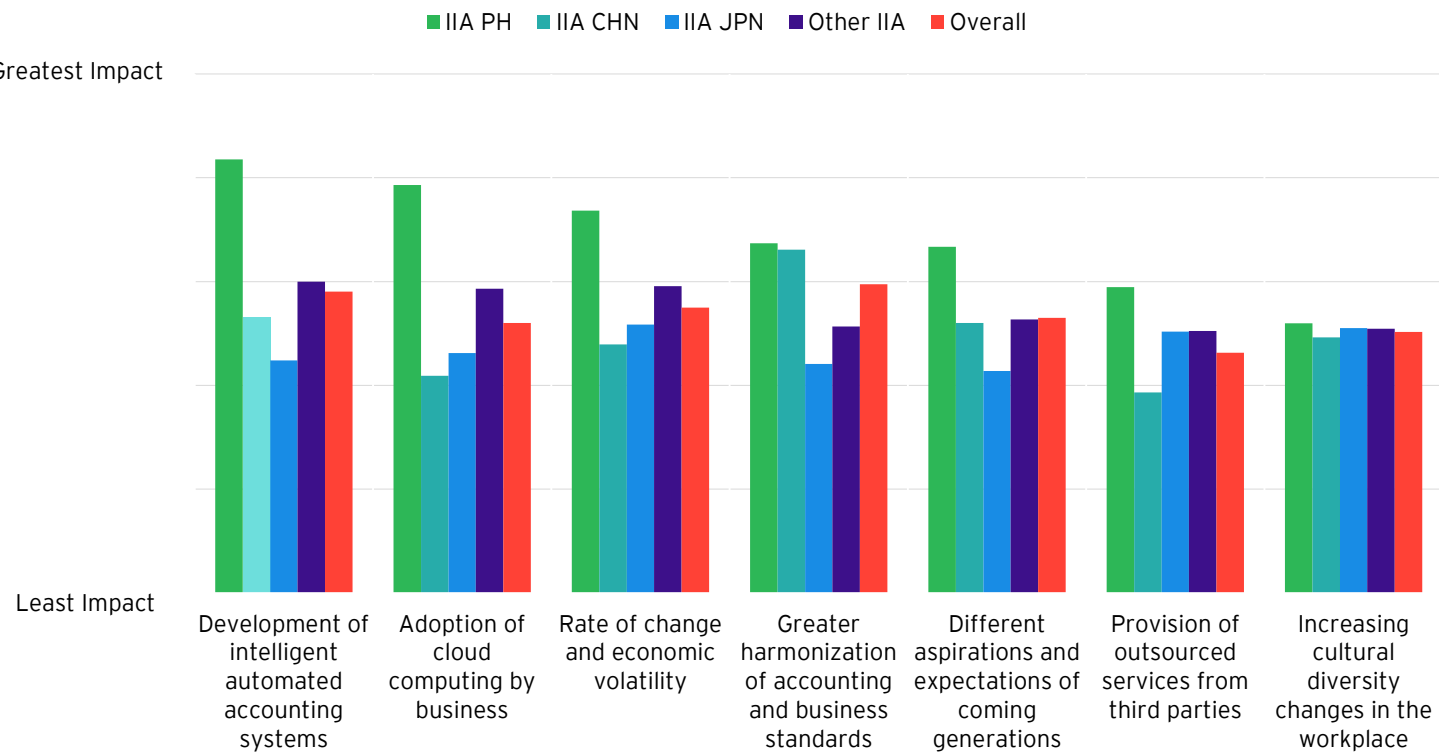
Organizations' reliance on IA to provide insights on risks that matter continue to increase. IA functions are in the spotlight as stakeholders expect IA to help deliver more strategic value. This is consistent with the responses gathered - IA functions considered as trusted advisors show that they put more focus and emphasis on areas meaningful to the organization such as strategic, IT and business continuity risks. With the changing business environment accelerated by the pandemic, organizations that were gradually automating their processes had to fast-track digitizing overnight. Everyone was forced to work remotely in a digital environment that not everyone is prepared for. An IA function perceived as a Trusted Advisor is an IA positioned to help organizations evolve from these escalating challenges, making sure that processes remain controlled, compliant and efficient. IA as a transformation agent needs to be agile, digitally enabled and risk based if it wants to keep up with the strategic needs of the organizations it serves. ³

³ COVID-19: How CAEs can shape the future of internal audit
<https://go.ey.com/3IGVpSg>

Shift in IA focus

In this section of the survey, we explore several factors that internal auditors consider to have the most impact on their businesses.

Figure 6. Factors which impact the current state of the IA function



Compliance remains an area of focus

Organizations continue to expect IA to extensively monitor regulatory changes and proactively engage with business to properly align existing standards and practices.

IT and Cybersecurity vulnerabilities on the rise

With threats relating to IT and cybersecurity becoming more sophisticated, IA is expected to expand its coverage beyond assurance to cover and assist the organization in monitoring a broader set of risks brought about by technological advancements. ⁴

⁴ How does security evolve from bolted on to built-in? <https://go.ey.com/2Dx0tHf>

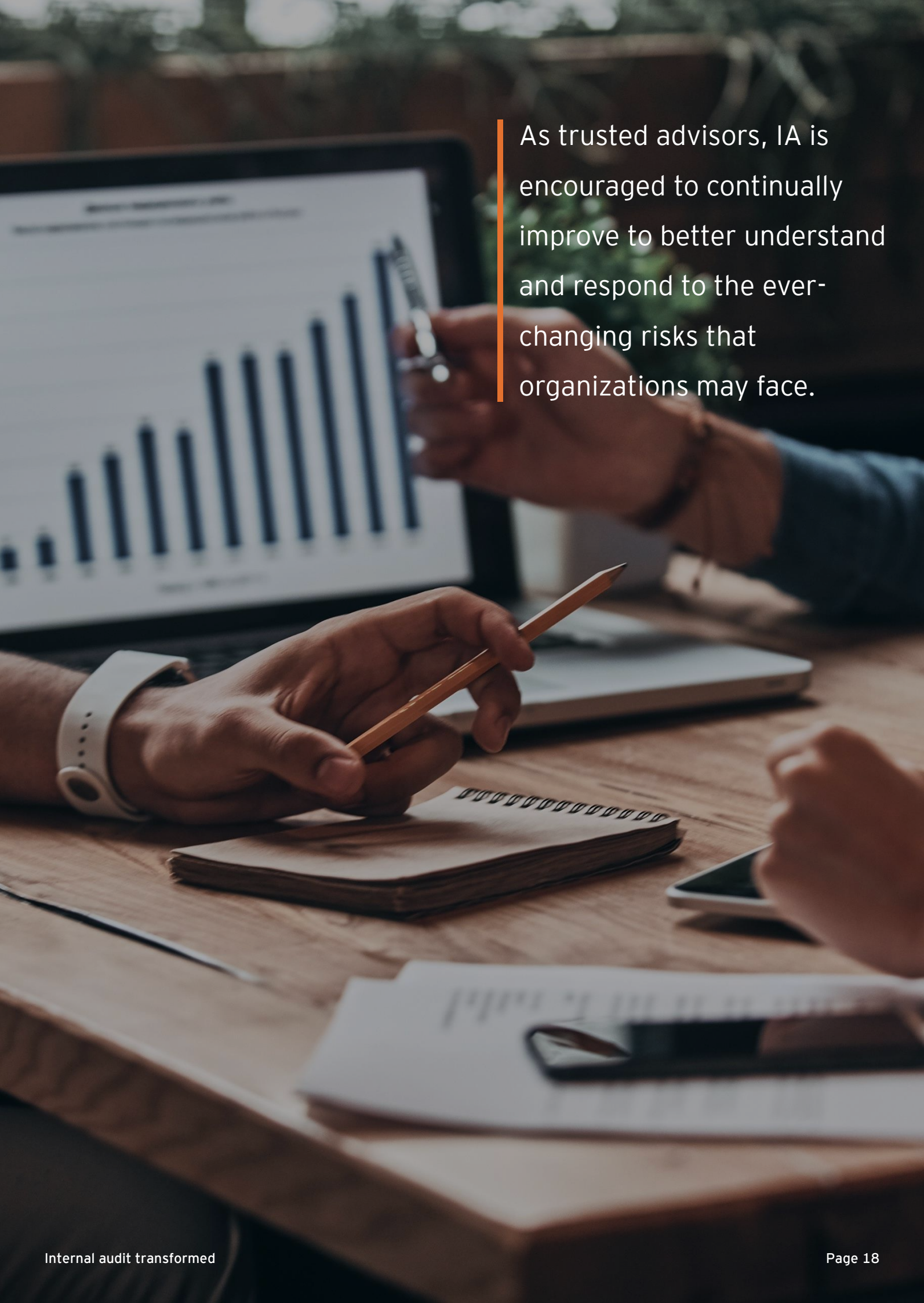
⁵ Diversity and Inclusiveness https://www.ey.com/en_gl/diversity-inclusiveness

Need for better understanding of Third party risks

The IA function is expected to broaden their understanding on how their organizations are relying on third parties to be able to guide them in properly governing the processes assigned to these third parties.

Diversity and Inclusiveness in the workplace as an evolving topic

Diverse and inclusive teams offer more innovative approaches. Putting diversity and inclusiveness at the center of the IA function allows IA as an organization to respond better to evolving resource needs and leverage on each individual's differences to accelerate transformation. ⁵

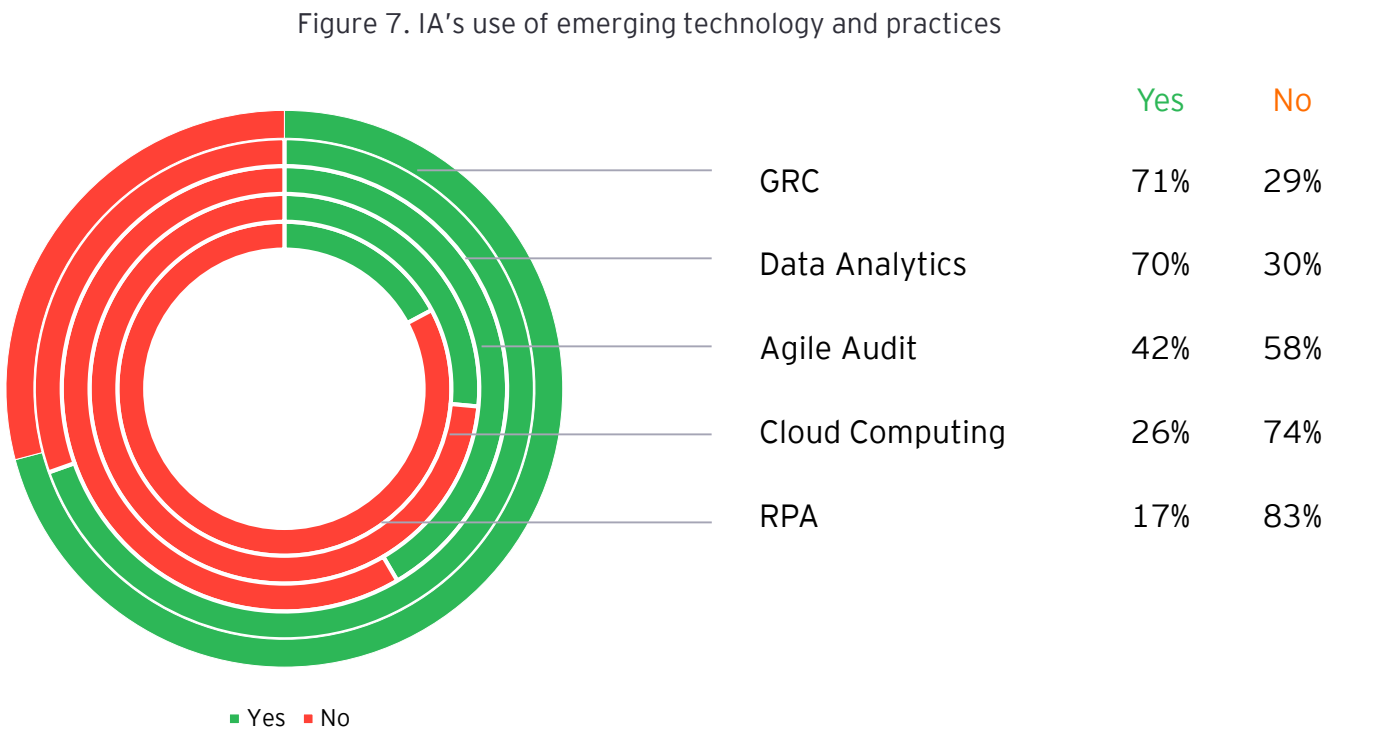
A close-up, shallow depth-of-field photograph of a person's hands working at a wooden desk. The left hand, wearing a white wristband, holds a wooden pencil over a spiral-bound notebook. The right hand holds a silver pen, positioned near a laptop screen that displays a bar chart with several vertical bars of increasing height. In the foreground, there are some papers and a black object, possibly a stapler or a small container. The background is softly blurred, showing green foliage and a wooden fence, suggesting an outdoor or semi-outdoor setting.

As trusted advisors, IA is encouraged to continually improve to better understand and respond to the ever-changing risks that organizations may face.

Emerging Trends and Technologies in IA

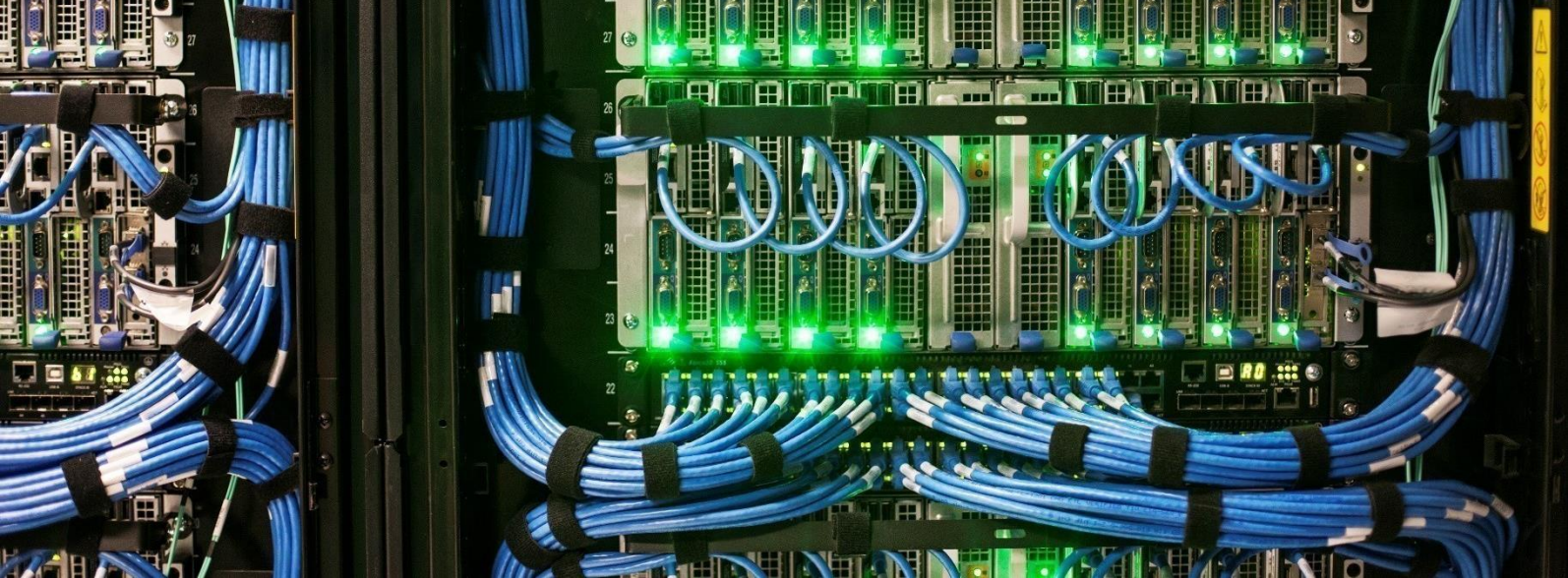
It is apparent in the survey responses that there has been a significant initiative to digitalize the business in the past five years. Most participants also believe that the shift to digital will not stop and will continue in the next years. With this in mind, IA should also take the momentum to transform its ecosystem to become a digitally enabled, agile and efficient function in the organization.

We asked the respondents if they have applied or used any of the following emerging trends and technologies:



40% of our respondents have seen significant digitalization in the last 5 years and

76% anticipate their organizations to do more.



RPA

While majority of the respondents have seen significant technology advancements in the last 5 years, very few have seen the use of RPA. For those who have, the use is limited to certain areas of the process such as checking completeness of data and validating data entry.⁶ The usage of robotics introduces opportunities and risks. When applied to business process, IA should look at the development life cycle of these BOTs. When considering to embed RPA in the audit process, clear objectives should be set and application is better done in iterations. RPA can be a great help to IA specially in completing routine activities. Examples would be on evidence collation, reporting and controls testing.

Cloud Computing

Only a few (26%) of the respondents use Cloud. Cloud is used mainly for data storage, availability and security. As usage of Cloud is becoming more apparent, one of the

challenges faced by IA is defining the right procedures to enable them to assess controls in a cloud environment. Subject Matter Resources (SMRs) are usually involved in instances where deep IT function knowledge is needed to understand procurement, operation, integration and security over these cloud computing audits.

Agile Audit

Agile has been a buzzword for quite some time. It has surfaced more specially as organizations respond to the unprecedented impact of the pandemic. Nearly half (41%) of the total respondents mentioned they integrate agile in their procedures, and half of the users who implement agile audit also incorporate data analytics. While there is no “one right way” for IA to implement Agile, it should not be confused with Agile as a project management term. Agile means applying flexibility in audit response and to some extent analytics to proactively identify focus areas.

⁶ Internal Audit RPA (EY Presentation)

Governance, Risk, and Compliance (GRC)

Most of our respondents (71%) value the importance of implementing a robust GRC process that allows timely alignment of activities across functions and maintains independence while improving collaboration across teams. Technology can play a critical role in enabling an efficient and effective GRC function. As one of its users, the IA function will benefit from GRC to facilitate a risk-based audit approach and focus on areas in need of more attention. IA's use of GRC systems will also increase efficiency in their organization's operations by reducing redundancies performed by both the organization's second and third line of defense.

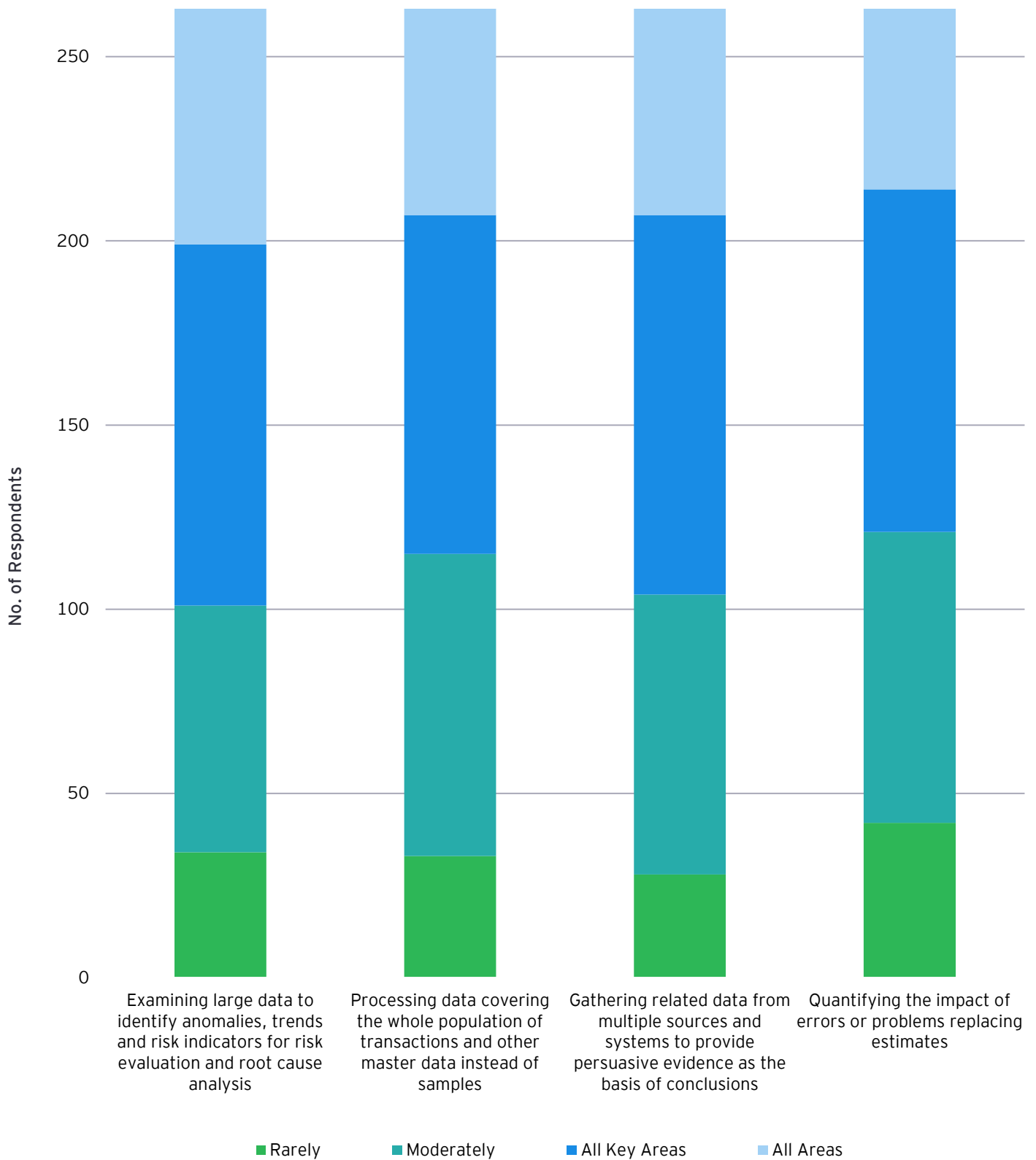
Data Analytics

Our world is increasingly becoming digital and the pandemic even accelerated it. With vast amount of information available online, this poses an opportunity for IA to leverage data to drive activities in its life cycle such as risk assessment, audit planning and execution, and reporting and monitoring.

Seventy percent (70%) of the respondents have done so specifically leveraging data analysis in identifying anomalies, trending, root cause analysis and quantifying impact of errors (refer to Figure 8). With this shift, we will further explore if there is a change in competencies needed for an internal auditor.



Figure 8. Application of Data Analytics in IA activities

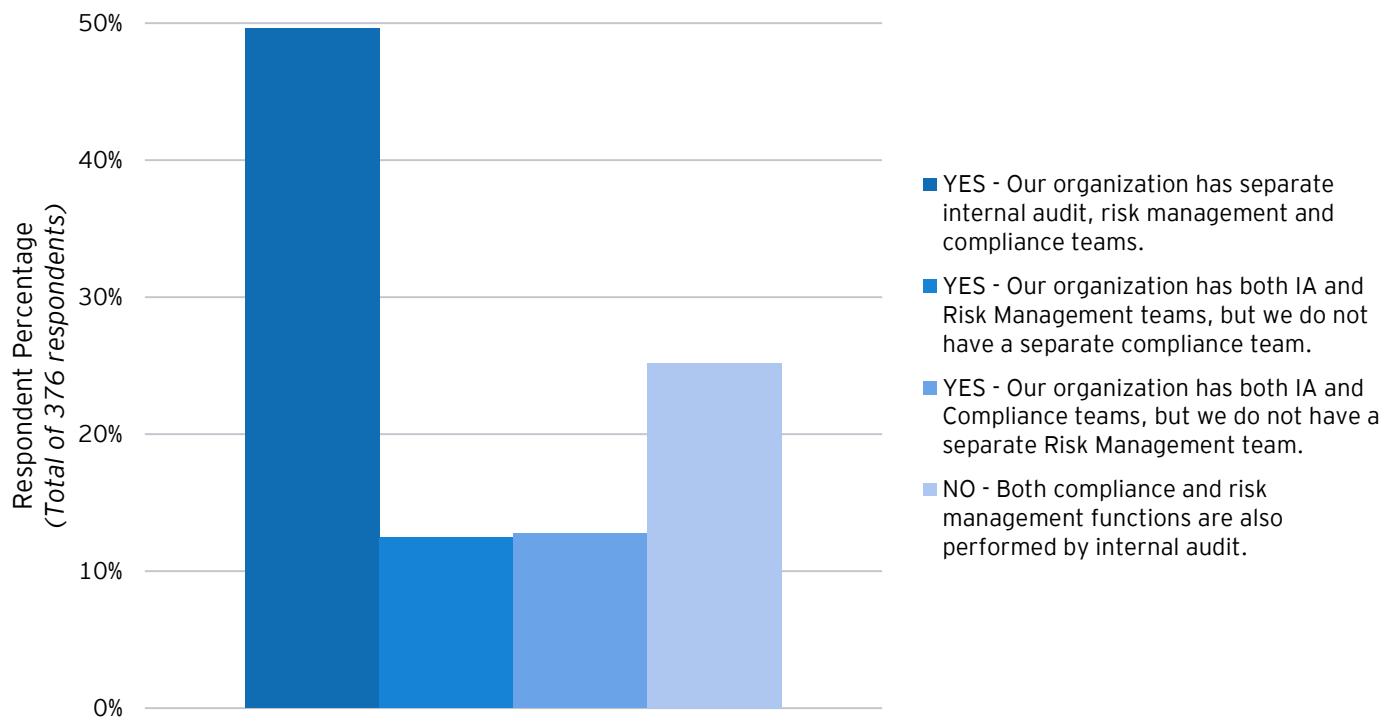


Interaction among the components of the Three Lines Model

According to an article released by the IIA regarding an update on the Three Lines of Defense, this model helps organizations identify structures and processes that best assist the achievement of objectives and facilitate strong governance and risk management.

We asked our respondents if their organizations have risk management and compliance teams which are separate from the Internal Audit team.

Figure 9. Interaction within the Three Lines Model.



Based on Figure 9, most of our respondents are part of organizations that have adapted the Three Lines Model by establishing separate risk management, compliance and internal audit functions. This is aligned with the recommended structure by IIA where the second line role provides complementary expertise, support, monitoring and challenge on matters related to risk management and the third line role, which is independent of management and is responsible for providing independent and objective assurance and advice on the effectiveness of governance and risk management.⁷

⁷ The IIA's Three Lines Model
<https://na.theiia.org/about-ia/PublicDocuments/Three-Lines-Model-Updated.pdf>

There is a need to reinforce clear communication and understand the roles and responsibilities of the three lines of defense and how these lines can work together to maximize the efforts of these key roles. Interaction among these roles can be further improved through integrating the GCR process to enhance shareholder value through better monitoring and meaningful Decision-making.

While some respondents noted that they do not have separate compliance and risk management functions in their respective organizations, they have implemented safeguards and initiatives to maintain independence. These are discussed in the succeeding sections.

Only 50% of respondents noted that their organizations have separate Internal Audit, Risk Management, and Compliance teams. Thirteen percent responded that their organizations have both internal audit and compliance teams but with no separate Risk Management team, while 12% have both IA and Risk Management teams but with no separate compliance team.

The revenue of a company may be related to whether its organization has separate IA, Risk Management, and Compliance teams. Most of the respondents from organizations with an annual revenue of 10M to over 1B have separate IA, Risk Management and Compliance teams. Whereas, 33% of the respondents from organizations with less than 5M annual revenue and 44% from companies with an annual revenue of 5M-10M only have an IA team to perform both compliance and risk management functions.

Respondents without Risk Management and Compliance teams

While 25% of the respondents have no separate Compliance and Risk Management teams, countermeasures are often implemented to ensure the objectivity of the internal auditor is not compromised.



Any conflicts or perceived conflicts are declared at the Audit and Risk Committee. Utilization of a co-sourced audit party to provide independence.

Educational Services, IIA Australia

Respondents with separate Risk Management teams

Most of the time, the IA team interacts with the organization's Risk Management team when it comes to monitoring of risk across the business, reporting related to risks, and facilitating management response to risks. Furthermore, they often interact regarding the development of the risk management strategy and establishment of Enterprise Risk Management as a function/process. However, the IA and risk management teams rarely interact when facilitating risk workshops. Collaboration between risk management and the internal audit function is necessary to further improve organizations' risk management process.

Respondents with separate Compliance teams

The results revealed that interaction between the IA team and the compliance team happen when monitoring the internal processes, controls, risks, and policies; and assessing and reporting risks identified in the organization. In addition, they often interact in determining the impact of non-compliance of certain business activities and in establishing a culture of control and compliance within the organization. Apart from the interaction between the IA team and the Compliance team, these two teams play separate roles.

“

Internal Audit cross pollinates with the [Enterprise Risk Management] ERM function to provide their insights on business risks arising from assurance reviews, while also gathering business and strategic risk insights from the ERM function. This enables a holistic understanding of enterprise risks which impacts business objectives and also fosters a focused assurance review.

Manufacturing, IIA India

“

Compliance monitoring stays with the compliance team while IA assesses the compliance process performed by the compliance and business units.

Finance and Insurance, IIA Philippines

Internal Audit as an agent of trust amidst disruption

Internal audit executives are expected to have foresight to prepare the organization on how to respond to perceived threats and disruptions. IA must work strategically (smarter use of technology and analytics) and maintain trust within the organization. IA is relied upon to protect the organization from disruptions by providing insights, advice, and reasonable assurance as a Trusted Advisor. IA can build and maintain trust among its various stakeholders in several ways. Our survey (refer to Figure 10) shows:

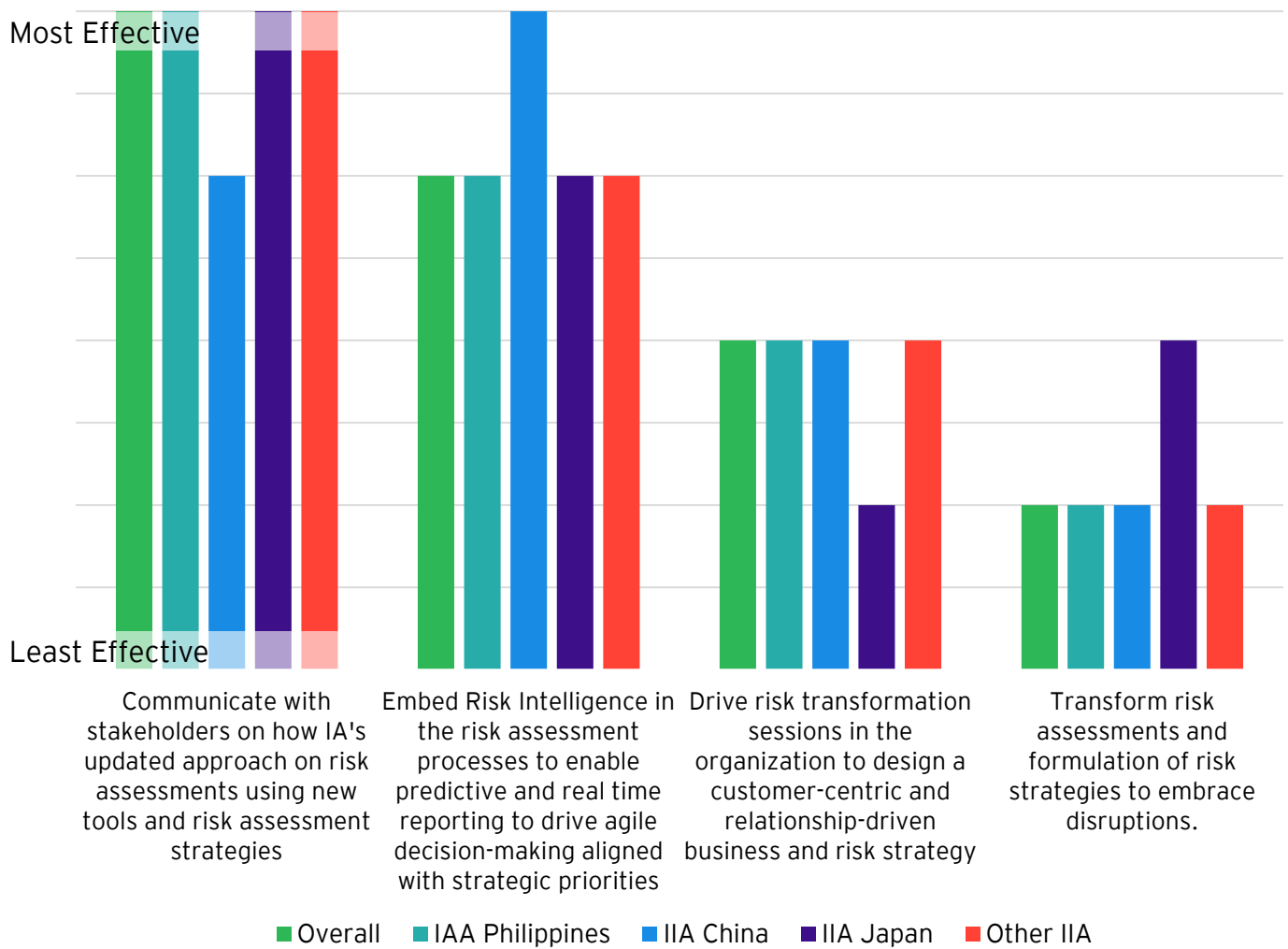
- 46%** consider that the most effective way is to communicate to stakeholders the IA's updated approach on risk assessments using new tools and risk assessment strategies.
- 27%** consider that the most effective way is to embed Risk Intelligence in the risk assessment processes to enable predictive and real time reporting to drive agile decision-making aligned with strategic priorities.
- 14%** consider that the most effective way is to drive risk transformation sessions in the organization to design a customer-centric and relationship-driven business and risk strategy.
- 13%** consider that the most effective way is to transform risk assessments and formulation of risk strategies to embrace disruptions.

IA should have a deep understanding of the organization's operations and industry to provide an outside-in perspective considering not only downside risks that offer negative impact; but also the upside risks that offer benefits. ⁸

In addition, they need to consider an approach that is more integrated and holistic, which is way beyond compliance or traditional reviews. It will need to transform risk by instilling a risk optimization and innovative mindset to turn risk into trust by leveraging fresh and transformative tools and methods to drive greater efficiency, effectiveness, and value.

⁸ How Internal Audit is helping organizations build trust
<https://go.ey.com/2Pc3HCD>

Figure 10. IA in building trust among various stakeholders



Disrupt or be disrupted

IA can be an agent of trust who will help organizations prepare to respond to disruptions. IA as a function needs to progress its skills to be able to address this expectation. IA may need to be fluid in its approach and may need to review its talent, technology and its operating models.

Internal Audit's Future of Work

Companies are aggressively embracing new technologies to transform their business models, drive growth and improve efficiency. An organization's processes and controls may be efficient and effective today, but it may be irrelevant tomorrow. IA must be flexible to help management understand the risks and their impact on the organization.

In this section, we explore what constitutes the "Internal Auditors of the Future" – the skillsets they should possess, their future work environment and how they operate, and the different factors that affect their well-being.

Skillsets of the IA Team

As the IA function continues to evolve and accelerate, the portfolio of skills and attributes that determine professional success also transforms. Technical skills remain necessary, but they are no longer sufficient on their own. Internal auditors of the future should possess a broad range of non-technical and behavioral attributes in addition to deep technical expertise. In our survey, our respondents assess the level of importance of the given list of technical, non-technical, and behavioral competencies to the IA function in the next five years.

Deep technical and business expertise

Results show that for technical competencies, understanding the business ranked first as 58% of the respondents considered it to be very important. Seen in the future as more of business partners, internal auditors should establish credibility to enable business performance.

Critical Thinking and Data Analysis

Following technical and business expertise, critical thinking powered by data analysis are also highly regarded skills for the internal auditor of the future. This includes:

- ▶ Data collection and analysis tools and techniques
- ▶ Risk analysis and control assessment techniques
- ▶ Business Process Analysis
- ▶ Use of IC/ITC and tech-based audit techniques

Soft skills

Furthermore, results show that communication skills topped the list of non-technical/soft skills as 72% of the respondents considered it to be very important. However, with the increasing supply of organizational data and information, the nature of organizational communications is changing which places new demands and expectations on IA professionals.

Mobility and work environment for the Internal Auditor

Specially with the recent crisis, organizations were forced to shift their operating model to adapt to the 'new normal.' The result of the survey shows that the operating model will be flexible. The IA workforce may consist of a mix of full-time employees and third-party service providers. Most of the respondents were also keen on leveraging internal rotation platforms to grow IA's business understanding and industry knowledge.

63% considered rotating resources from other departments to leverage company and process knowledge.

57% considered having both full-time resources and utilizing third-party service providers.

54% said that they will include full-time personnel independent from other departments.

While this is true across IIA Japan and other APAC affiliates, respondents from IIA China seemed to have a very different approach:

62% opted for the "just in time" (JIT) resourcing

28% opted for IA to fully outsource repeatable work to third-party service providers

While the JIT resourcing approach may provide short-term benefits such as cost effectiveness and agility, companies should also consider its long-term impact such as knowledge retention and overall employee engagement.

We also asked respondents about the future work environment of internal auditors in the next five years. Majority believe that IA will continue to have flexible work arrangements - balancing between work from home or working onsite, either in the office or in the client's premises.

62% expected that auditors will have a distributed work arrangement (i.e., be assigned in the office space of the department they are auditing)

56% believed that they will be more accustomed to a work-from-home environment

47% suggested that audit teams should rely more on the use of coworking spaces in the office

This is consistent among affiliates across the APAC region, except for IIA China where resources will still be expected to report physically to work but will apply a hoteling approach to managing the physical workplace.

79% recommended the use of a hoteling system

34% considered fully utilizing office spaces at work and will continue to work in the office

Accordingly, where the IA function considers these options, it is critical that IA considers critical areas when creating contracts with third parties (e.g. confidentiality clauses, privacy). At the same time, IA should be supported with technology that can enable a virtual working set up and protect the organization data from potential breaches.



Employee well-being becoming a focus

Companies need to understand that employee well-being encompasses much more than just physical health as it extends to other factors such as employee duties and expectations, stress levels, and working environments which contribute to their overall health and happiness.

The survey presents the importance of employee well-being to IA as an organization. Majority of the respondents (48%) give utmost importance to their employee's well-being even beyond working hours. While 38% give great importance to employee well-being and said that it is rarely neglected or sacrificed because of work. Some respondents (13%) said that sometimes employee well-being is neglected or sacrificed because of work. And a few (1%) said that it is neglected or sacrificed because of work most of the time; while others (1%) view that employee well-being will contribute significantly less to the improvement of the organization.

In addition, the survey presents items that IA can consider in addressing employee well-being:

- 80%** greatly believe in providing a flexible work schedule and work arrangement
- 53%** believe that financial assistance and improving medical benefits could also support employee well-being
- 43%** also considered transforming their organizations' approach to focus more on employee mental health

Mental health needs to be recognized and supported. Whether it is by adding a Chief Mental Health Officer or revisiting an organization's benefits to include mental health support, IA as part of an organization should take necessary steps to recognize the mental needs of employees.

There should be management support for IA to engage in real transformation.

IA can only be effective if it is provided with the right level of support and resources to pivot its role in alignment to the organization's objectives.

On the other hand, IA needs to articulate their case for change clearly and define how it can be a tool to help transform the organization.



Conclusion

Internal auditors play a critical role in helping organizations manage and anticipate risks. As we move forward to a future with significant uncertainty, the IA function has to evolve by recalibrating its methodology, operational model, technology and talent to flexibly address the rapid changes in business environment.

At present, most IA functions are confined to the traditional assurance mandate of their organizations. While this mandate continues, key stakeholders will expect IA to broaden their coverage to help them anticipate escalating areas of risks. IA should continue to immerse themselves in understanding the business environment where the organization operates, find new ways of working to improve efficiency and recalibrate existing skillsets that are more aligned with the needs of the organization as a whole.

With the fast-paced move to digital and virtual setup, IA plays a critical role in defining the right level of control to manage risks associated with the use of technology. That being said, IA should keep up with the skills required to stay relevant. Use of subject matter resources, experts, data analysts/scientists - building an ecosystem to support a fluid approach, may be considered in areas where specific experience may be necessary, (e.g. cyber audits, cloud audits, blockchain, RPA). Additionally, creativity, strong communication and data visualization skills are becoming a necessity and basic expectation.

Technology plays an important role for IA to be future ready. Having a tool that can integrate with the business operations and allow a flexible audit response will enable IA to conduct broad analysis of data while at the same time execute audits and deliver meaningful reports in a more timely and agile manner.

There is also growing attention and recognition on employee well-being especially as the world shifted to a remote environment quite abruptly in response to the crisis. It is important to accept that this topic will continue to evolve and will stay. This way, IA as a function, will be able to respond more proactively to the needs of its workforce.

IA will also need to work collaboratively with the first and second lines of defense to properly prioritize and identify focus areas and remain an efficient function in the organization. This can be supported by implementing a GRC technology that allows integration across functions.

As the complexity in the business landscape continues to increase, IA has a huge opportunity to be a trusted advisor to the organization. IA is in the best position to challenge and advise on the risk landscape that business leaders should consider. IA's role is vital and the momentum to transform should start now.

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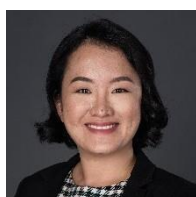
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ACIIA is a confederation of seventeen (17) IIA affiliates in the Asia Pacific region comprising IIA Australia, IIA China, IIA Hong Kong China, IIA India, IIA Indonesia, IIA Japan, IIA Korea, IIA Malaysia, IIA Mongolia, IIA New Zealand, IIA Papua New Guinea, IIA Philippines, IIA Singapore, IIA Sri Lanka, IIA Chinese Taiwan, IIA Fiji and IIA Thailand.

The establishment of ACIIA dated back to March 1999 when one of its founder members, IIA Hong Kong, hosted a meeting which was attended by representatives of the ten affiliates in Hong Kong. This meeting was then named the Asian Summit of Internal Auditing. Subsequently, over the years the affiliates continued to gather on an annual basis to share and exchange knowledge on Internal Audit related initiatives undertaken by the respective affiliates. The subsequent meetings were held in conjunction with the Asian Regional Conferences which were organised annually by the affiliates on a rotation basis.

At a meeting held in conjunction with the 2001 Asian Regional Conference, IIA Malaysia was selected as the secretariat for ACIIA. The official registration of ACIIA with the Registrar of Societies Malaysia convened in 2005 and as at 24 February 2006, ACIIA registration was officially approved.

ACIIA shall maintain the IIA's motto "Progress Through Sharing" and shall strive to achieve its vision through the spirit of sharing among its affiliates.