

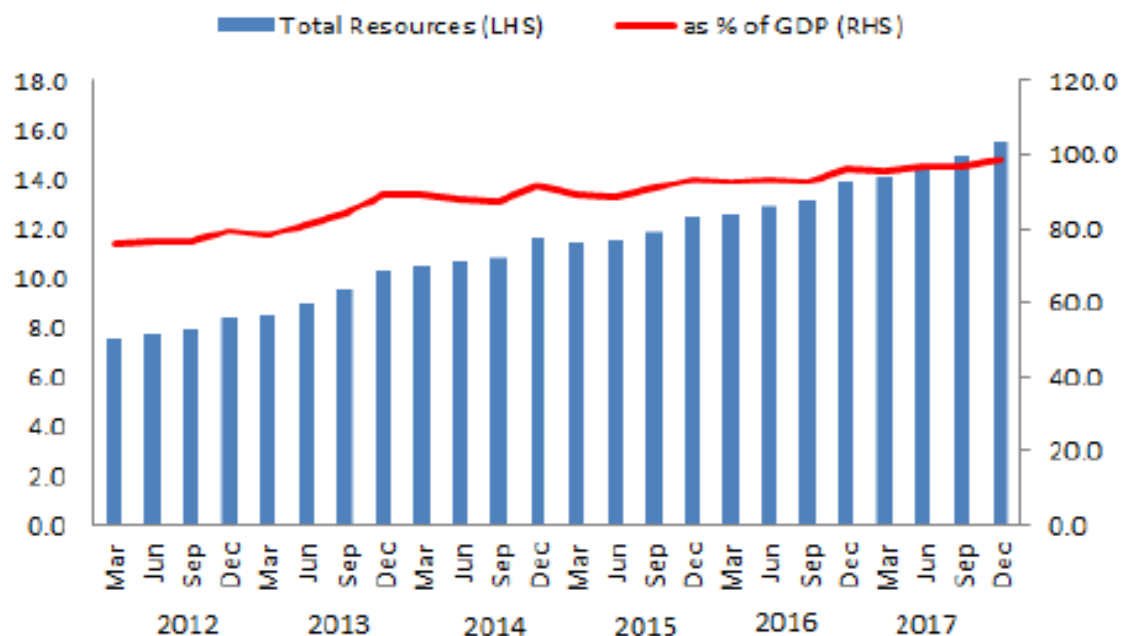
All views, thoughts, and opinions that I will express in this talk are within my personal capacity, and do not necessarily reflect the views, thoughts, and opinions of the Bangko Sentral ng Pilipinas.

Universal Opportunities and Challenges of Internal Auditing in the Banking Industry

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Positive Performance of the Philippine Banking System

Chart 10. Total Resources of the Banking System
levels in trillion pesos; share in percent



Source: BSP

11.5%↑ Asset Expansion
(PHP15.5 trillion, end-December 2017)



LOANS AND DEPOSITS

19%↑ UKBs Loan Expansion
(end-December 2017)

11.4%↑ Increase in Deposits
(PHP9.2 trillion, end-December 2017)



1.7% Non-performing loans ratio

15.0% Capital Adequacy Ratio
(end-September 2017 on solo basis)

Source: Bangko Sentral ng Pilipinas' Report on Economic and Financial Developments Q4 2017



6,080 BSP Supervised/Regulated Institutions

21 UBs/ 22 KBs/ 462 RBs/ 25 Coop Banks

Source: Supervisory Data Center, Supervision and Examination Sector of the Bangko Sentral ng Pilipinas (as of 10 April 2018)



SALARY REPORT 2017

JUNIOR EXECUTIVES

Employees with 1 to less than 5 years' experience



IT-RELATED

₱ 37,304



**LAW/LEGAL
SERVICES**

₱ 29,430



**TRAINING AND
DEVELOPMENT**

₱ 27,253



**BANKING/FINANCIAL
SERVICES**

₱ 27,188



**ACTUARIAL SCIENCE/
STATISTICS**

₱ 27,604



**PUBLIC RELATIONS/
COMMUNICATION**

₱ 26,948



**HEALTHCARE
RELATED**

₱ 26,655



**JOURNALIST/
EDITOR**

₱ 26,542



**CUSTOMER SERVICE
RELATED**

₱ 24,755



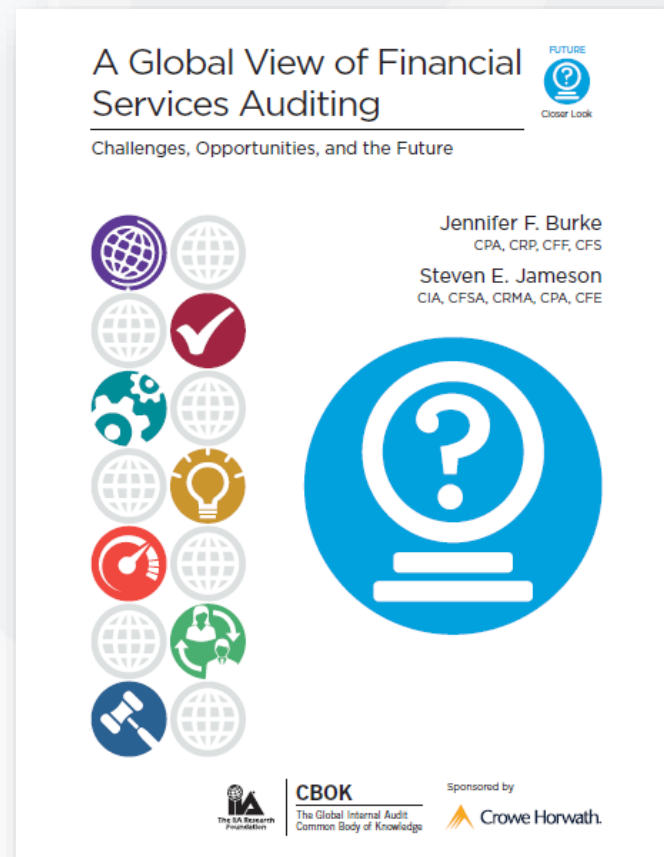
**ADVERTISING/
MEDIA PLANNING**

₱ 24,314

A Global View of Financial Services Auditing: Challenges, Opportunities, and the Future

By
Jennifer F. Burke
and
Steven E. Jameson

***With permission from the Director, Publishing
& Retail Operations, Internal Audit Foundation,
The Institute of Internal Auditors Global
Headquarters to be used as a resource material
for the purpose of the breakout session of
Internal Auditing Youth Summit 2018, ADB
Headquarters, Manila, Philippines***



About The IIA Research Foundation

CBOK is administered through The IIA Research Foundation (IIARF), which has provided groundbreaking research for the internal audit profession for the past four decades. Through initiatives that explore current issues, emerging trends, and future needs, The IIARF has been a driving force behind the evolution and advancement of the profession.

For more information, visit:
www.theiia.org/Research

CBOK 2015 Practitioner Study

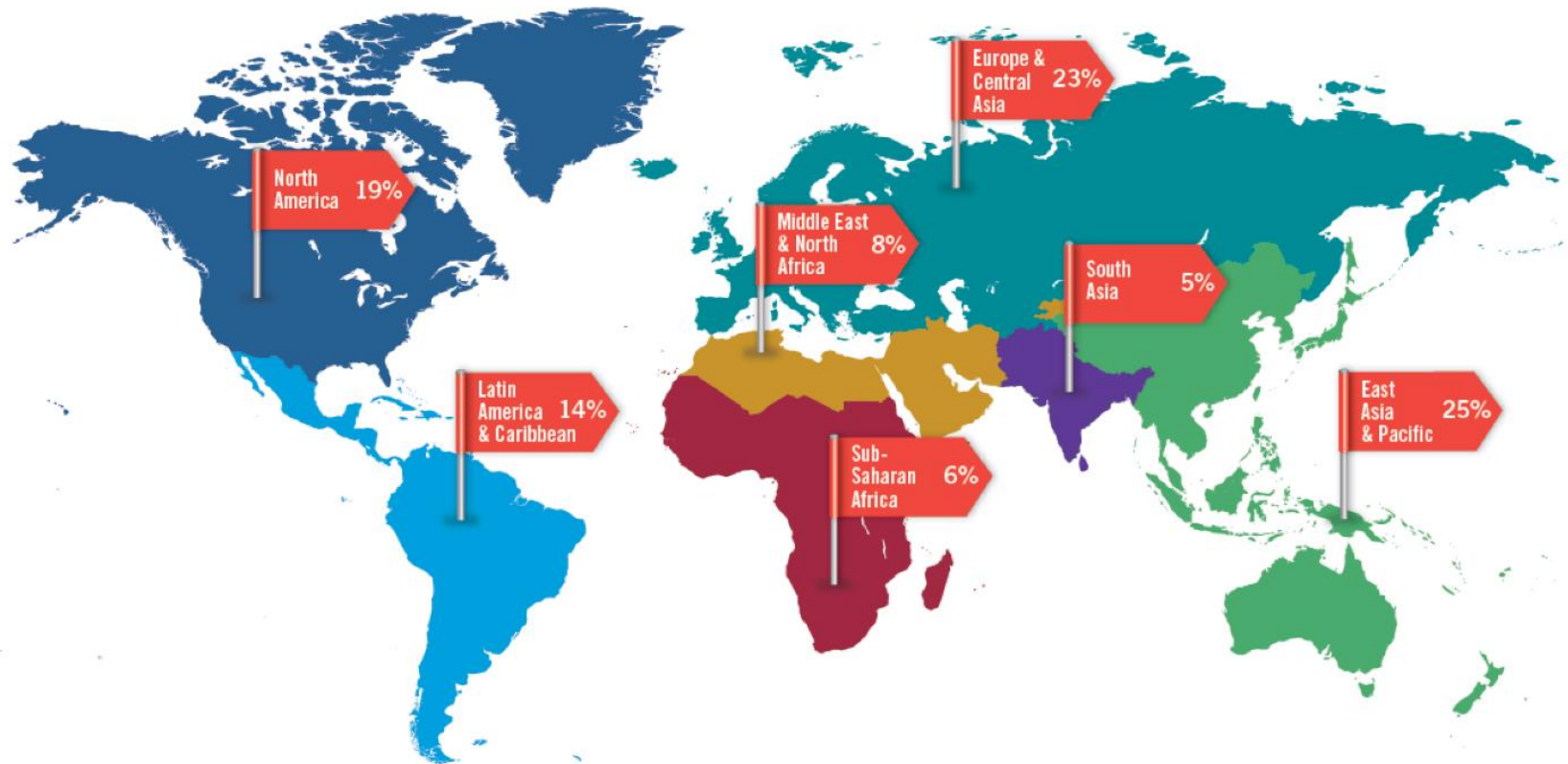
- CBOK is the Global Internal Audit Common Body of Knowledge:
 - The global practitioner survey is the largest ongoing study of internal audit professionals in the world.
 - More than 25 free reports about practitioners and the profession will be released from July 2015 to July 2016.
 - Download free reports from the CBOK Resource Exchange at The IIA website at any time (www.theiia.org/goto/CBOK).

CBOK 2015 Practitioner Survey

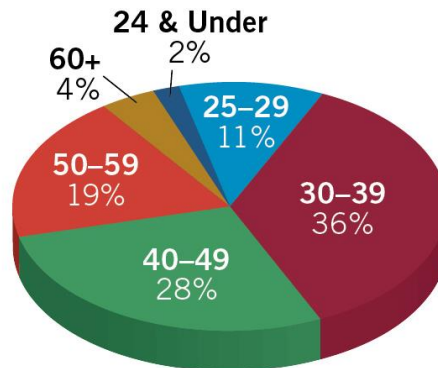
- Practitioner Survey Results
 - Survey completed April 1, 2015
 - 14,518 usable survey responses
- Participation Levels
 - 100% representation from IIA institutes
 - Responses from 166 countries
 - 23 languages

CBOK 2015 Practitioner Study

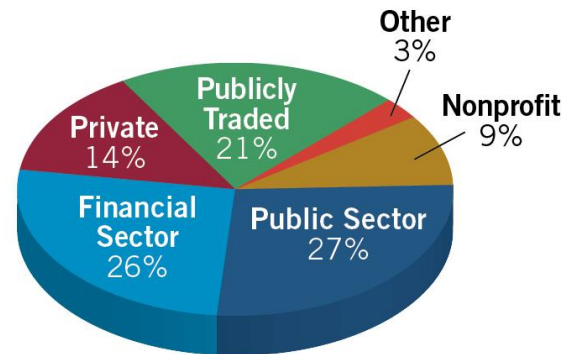
CBOK 2015 Practitioner Survey: Participation from Global Regions



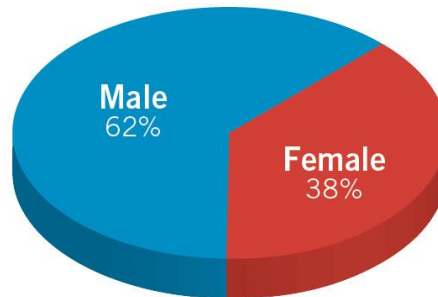
CBOK 2015 Practitioner Study



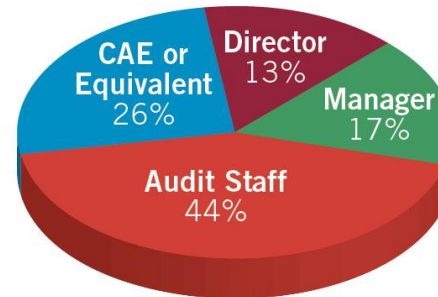
Age



Organization Type



Gender

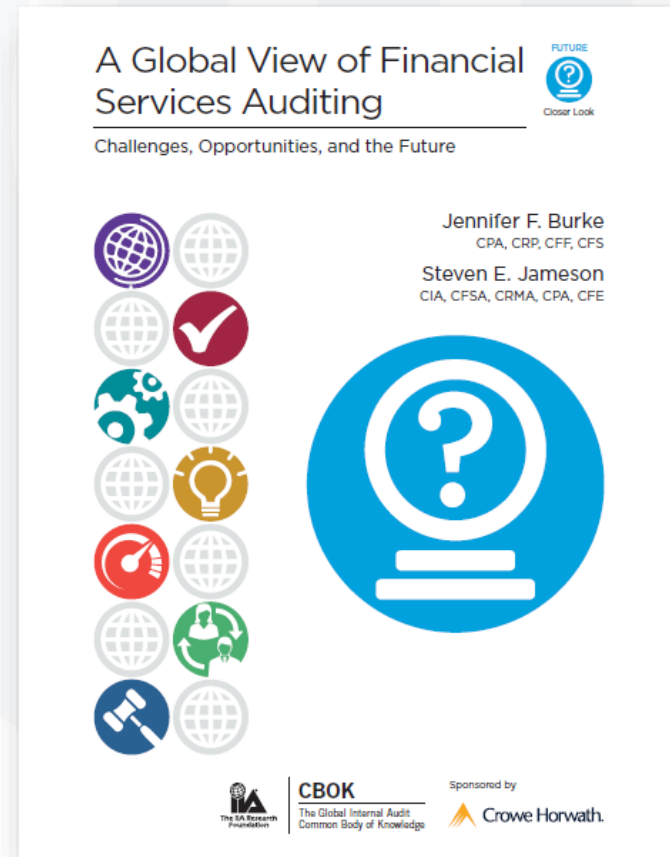


Staff Level

Age was obtained from 12,780 respondents; Organization Type was obtained from 13,032 respondents; Gender was obtained from 14,357 respondents; Staff Level was obtained from 12,716 respondents.

Six Key Challenges Facing Internal Auditors at Financial Institutions

1. Regulatory Challenges for Financial Services Internal Auditors
2. Crowded Audit and Risk Committee Agendas
3. Challenges Due to Elevation of Internal Audit
4. Increased Technology Risks
5. Three Lines of Defense
6. Internal Audit Resources



Regulatory Challenges

Exhibit 1 Risk Areas CAEs Plan to Focus on in 2015

Risk Area	Percentage Response
Compliance/regulatory	83%
Operational	78%
Risk management assurance/effectiveness	68%
Information technology	67%
Strategic business risks	53%

Note: Q66: Please identify the top five risks on which your internal audit department is focusing the greatest level of attention in 2015. CAEs only. Filtered by financial sector. $n = 582$.

Exhibit 2 Risk Areas Comprising Highest Percentage of 2015 Audit Plan

Risk Area	Percentage of Audit Plan
Operational	25%
Compliance/regulatory	16%
Risk management assurance/effectiveness	14%
Information technology	11%
Strategic business risks	10%

Note: Q49: What percentage of your 2015 audit plan is made up of the following general categories of risk? CAEs only. Filtered by financial sector. $n = 558$.

- Compliance/regulatory and operational risks were top risk areas CAEs intend to focus on in 2015 and comprise highest % of 2015 audit plan.

Regulatory Challenges

- New regulatory agencies have been created.



BANK OF ENGLAND
**PRUDENTIAL REGULATION
AUTHORITY**



CBOK
The Global Internal Audit
Common Body of Knowledge



Regulatory Challenges

- Laws/regulations have been enacted with ever-increasing volume and frequency (“regulation by enforcement”).



BANGKO SENTRAL NG PILIPINAS

OFFICE OF THE GOVERNOR

CIRCULAR NO. 963

Series of 2017

Subject: Bank Responsibility for the Generation and Timely Submission of Required Reports to the Bangko Sentral

The Monetary Board, in its Resolution No. 963 dated 8 June 2017, approved the following amendments to the Manual of Regulations for Banks (MORB) setting forth the Bangko Sentral's expectation on banks to establish an effective reporting system with an appropriate governance process that enables the generation and timely submission of reports that are in accordance with the Bangko Sentral's reporting standards.

Section 1. A new Section shall be added to the MORB, which shall read as follows:

Section X184. Governance Process on the Quality of Bank Reporting.

Statement of Policy

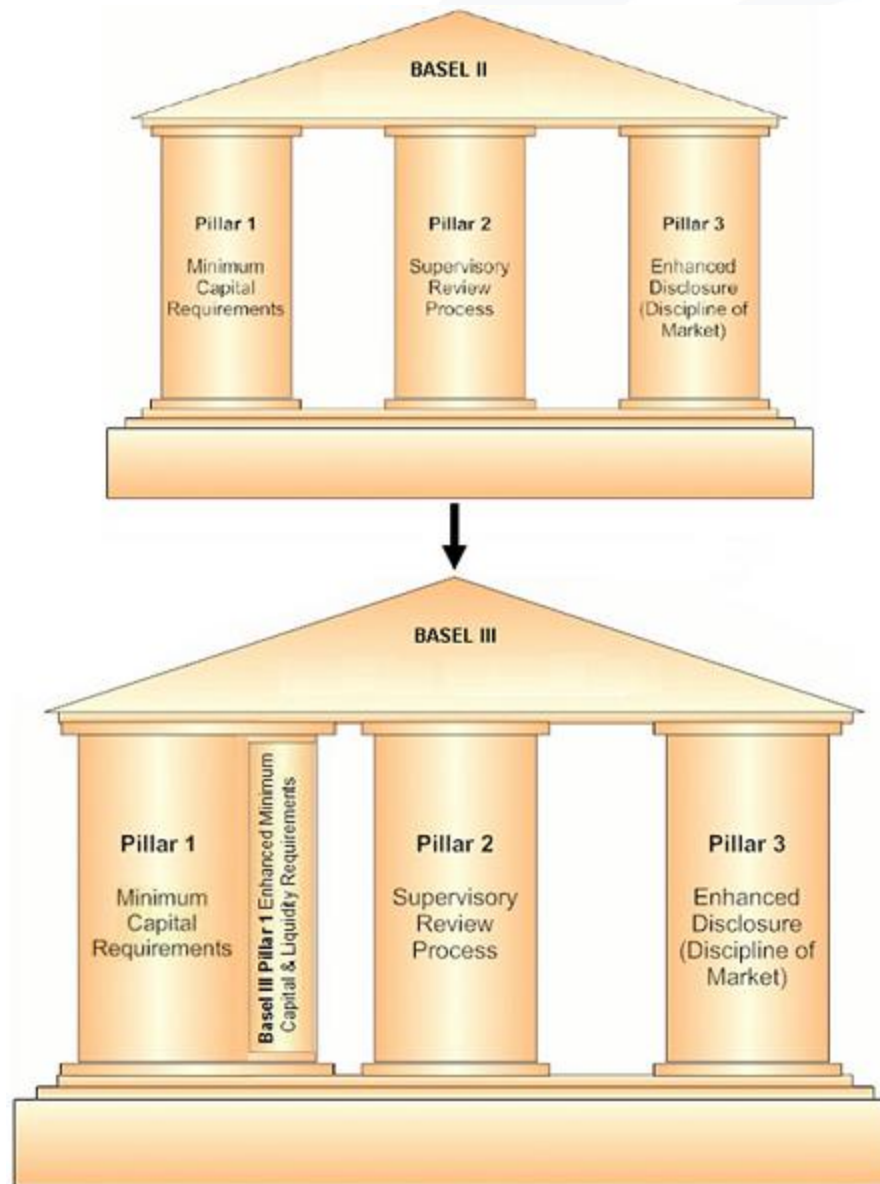
The proper conduct of monetary policy and effective banking supervision are core mandates of the Bangko Sentral. These mandates are facilitated by the accurate and timely submission of required information concerning a bank's financial condition and results of operations. At the same time, high quality individual bank reports contribute to the preparation of aggregate statistics that enable banks to make better informed business decisions.

It is incumbent upon the Board and Senior Management to implement an effective reporting system to generate complete, accurate, consistent, reliable and timely reports to the Bangko Sentral. Banks are expected to capitalize on available information technology in establishing an effective reporting system that is appropriate for their size and complexity of operations. The Bangko Sentral shall prescribe reasonable reporting standards which shall consider the cost of reporting relative to the expected benefits.

Subsection X184.1. Reporting Standards.

Reports submitted to the Bangko Sentral must be complete, accurate, consistent, reliable and timely to be considered compliant with the Bangko Sentral reporting standards. It follows that the report shall conform to the relevant submission and validation guidelines as prescribed by the Bangko Sentral. Likewise, reports with incomplete schedules or attachments shall be considered non-compliant with the reporting standards. As such, said reports should have been reviewed and validated by the bank prior to submission to the Bangko Sentral to ensure its completeness and correctness. Adequate internal controls should likewise be in place to ensure adherence to the reporting standards.

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Regulatory Challenges

- Record penalties
- More focus on compliance issues by internal audit

“Due to scrutiny of banks, regulators are increasing their reliance on internal audit and hence many banks are considering creating specific audit teams to concentrate only on regulator requests.” –
Jenitha John, CAE, FirstRand, South Africa

“Wall Street banks and their foreign rivals have paid out \$100 billion in U.S. legal settlements since the financial crisis...” –
FinancialTimes.com, 3/25/14

Crowded Audit and Risk Committee Agendas

- Agendas are expanding.
- Shareholder and investor expectations continue to grow.
- Regulatory expectations show no signs of diminishing.
- Boards rely on audit/risk committees to help satisfy fiduciary responsibilities and provide some protection against lawsuits and regulatory actions.

Exhibit 3 Average Number of Formal Committee Meetings Per Year

Type of Institution	Average Number of Meetings
Financial sector (privately held and publicly traded)	6.7
Publicly traded (excluding financial sector)	6.4
Not-for-profit organizations	6.2
Public sector (including government agencies and government-owned operations)	5.9
Other organization types	5.6
Privately held (excluding financial sector)	5.3

Note: Q78: Approximately how many formal audit committee meetings were held in the last fiscal year? CAEs only. $n = 1,894$.

Challenges Due to Elevation of IA

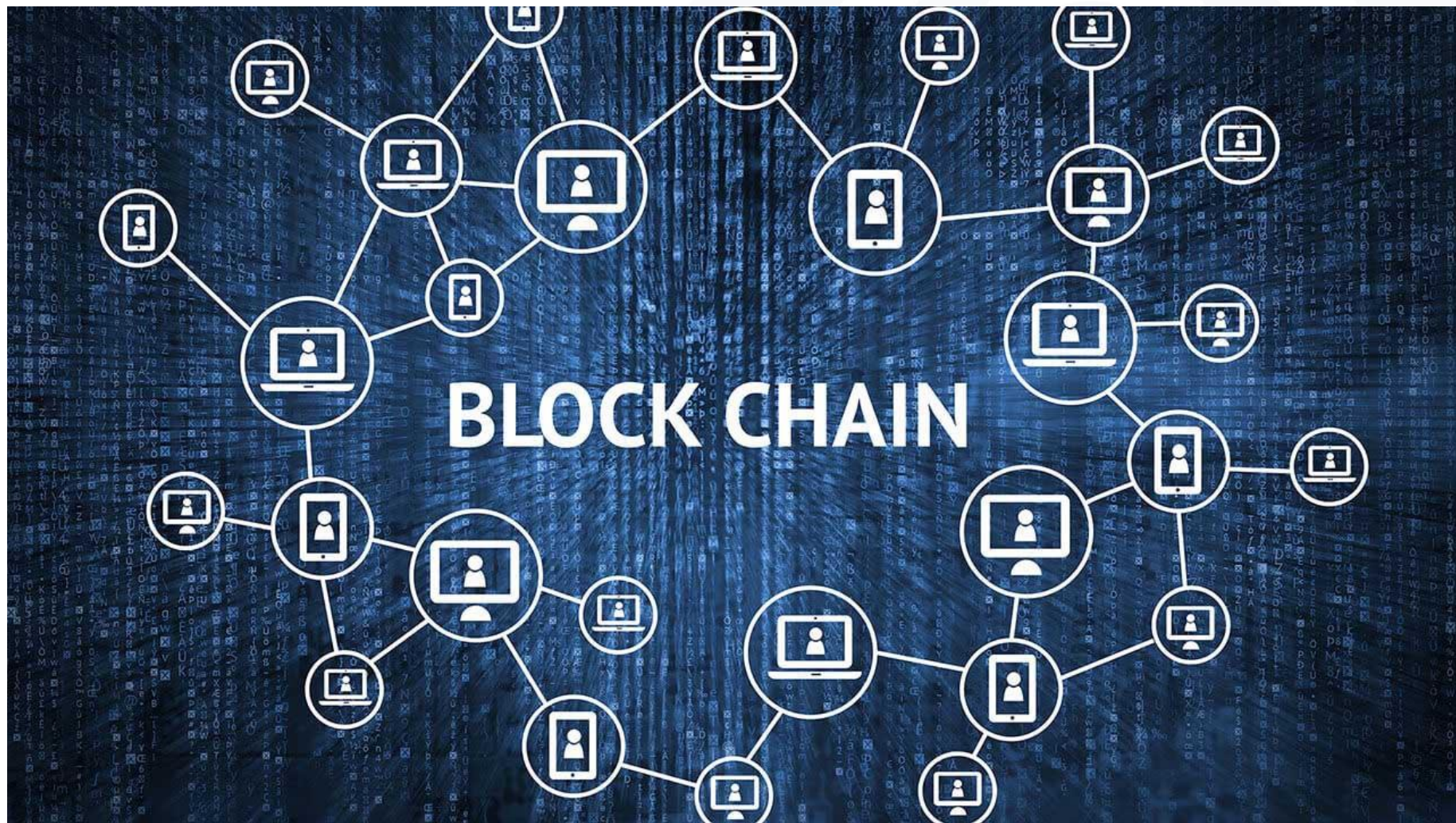
- Good news: IA is increasingly elevated in stature and recognition
 - Increased weight and importance assigned to audit recommendations
 - More interaction with executives and board members
 - First-hand knowledge of and input to strategic initiatives
- Bad news: IA is increasingly elevated in stature and recognition—be careful what you ask for!
 - Expectations of management, directors, regulators and external auditors have raised the bar
 - Stakeholders are often at odds, resulting in inconsistent expectations
 - Compliance with IIA *Standards* is no longer enough
 - More assistance provided to external auditors and regulators
 - Regulatory expectation for IA to “challenge” management

69% of financial services internal auditors report to the audit committee; 54% across all industries

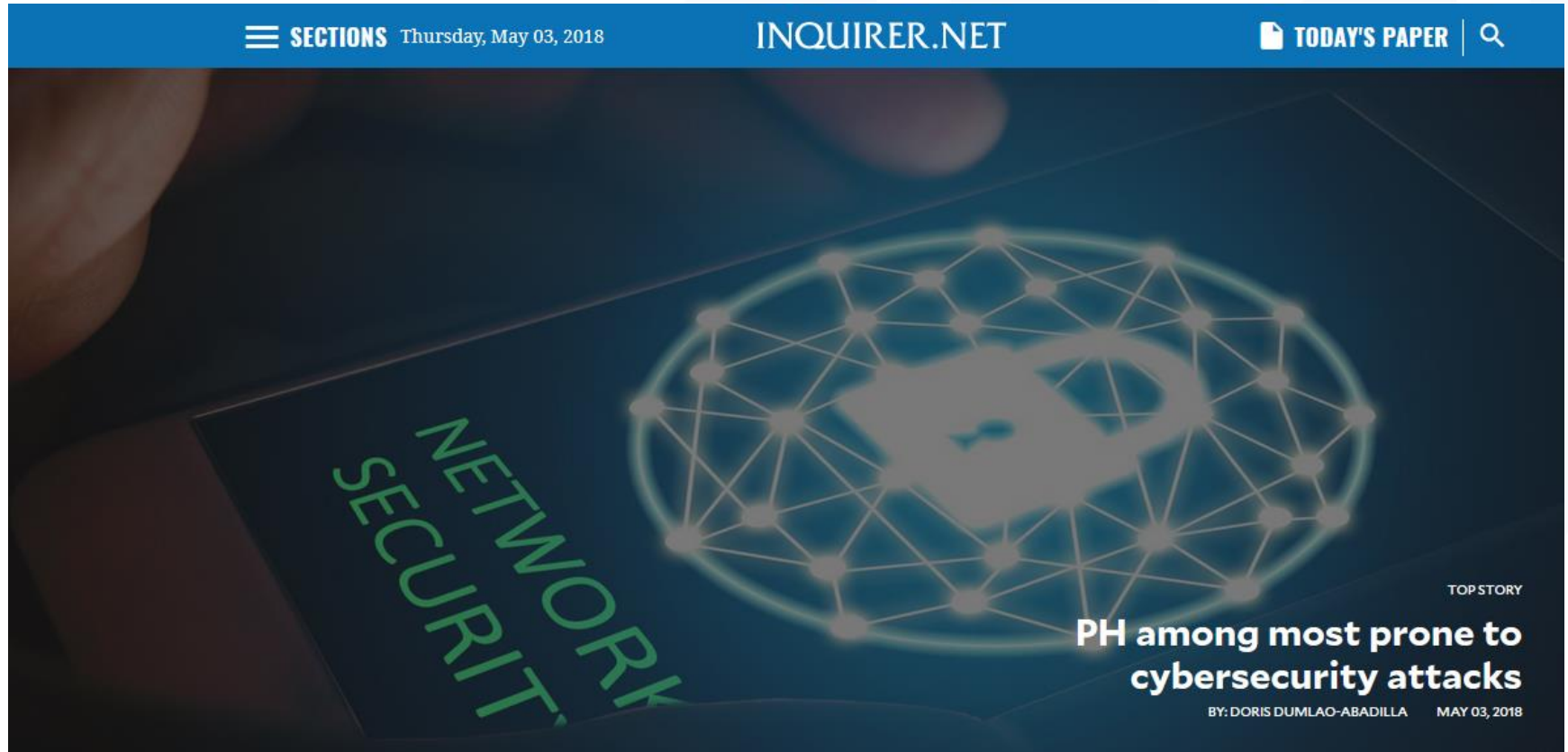
Increased Technology Risks

- **Technological capabilities are growing faster than organizations can digest, interpret, assess, and control.**





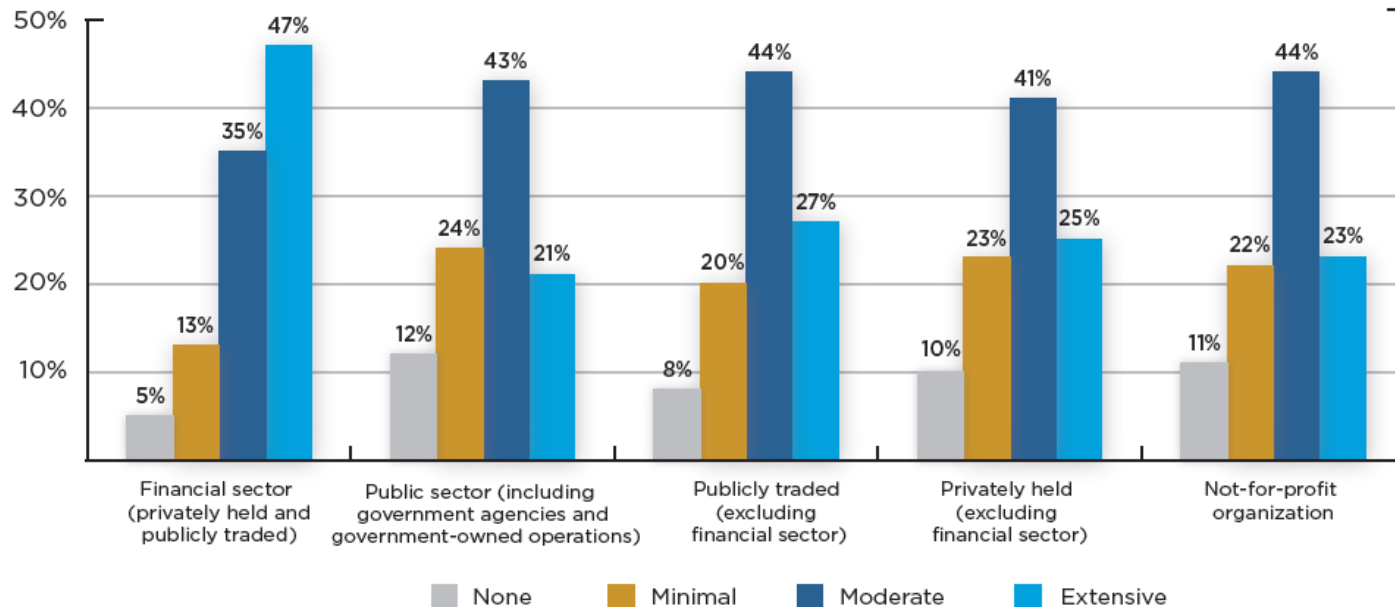
- Today's bank robbers come armed with technology instead of guns 24/7/365 from anywhere.



Increased Technology Risks

- Internal auditors in financial sector have much higher levels of activity for general IT risks.

Exhibit 6 Internal Audit Activity for General IT Risks

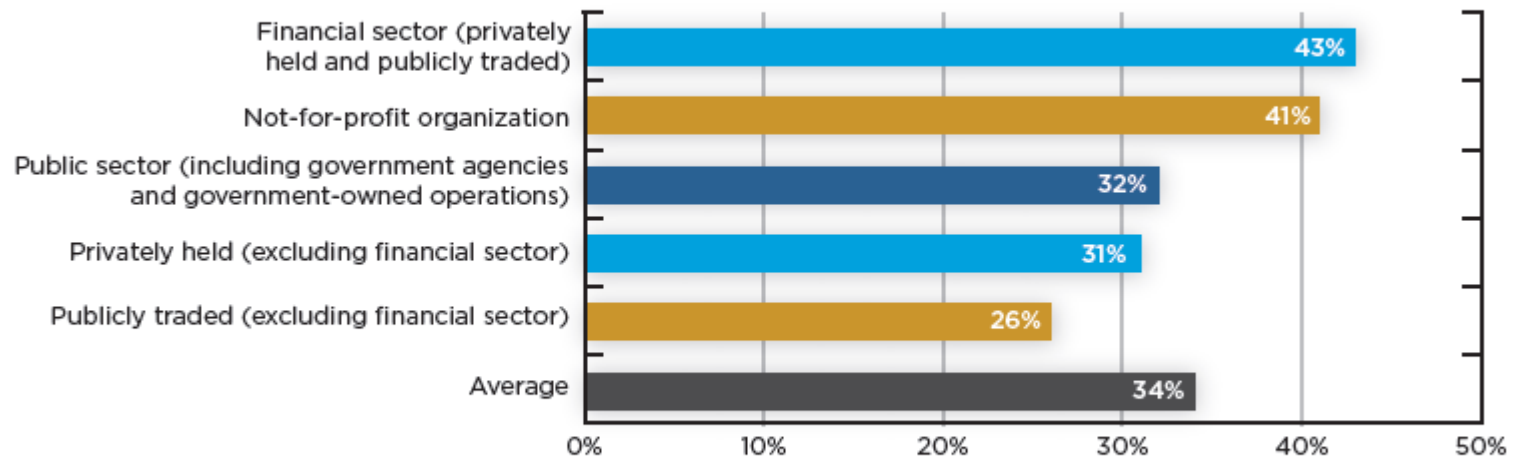


Note: Q92: For information technology (IT) security in particular, what is the extent of the activity for your internal audit department related to the following areas? Topic: General information technology (IT) risks. $n = 9,747$.

Increased Technology Risks

- Heavily publicized data breaches increase reputation risk—a matter of “when” you are breached, not “if” you are breached.
- **Financial sector sees risk of data breach as more extensive than other sectors (43% vs. 34%).**

Exhibit 7 Risk of Data Breach Described as “Extensive”



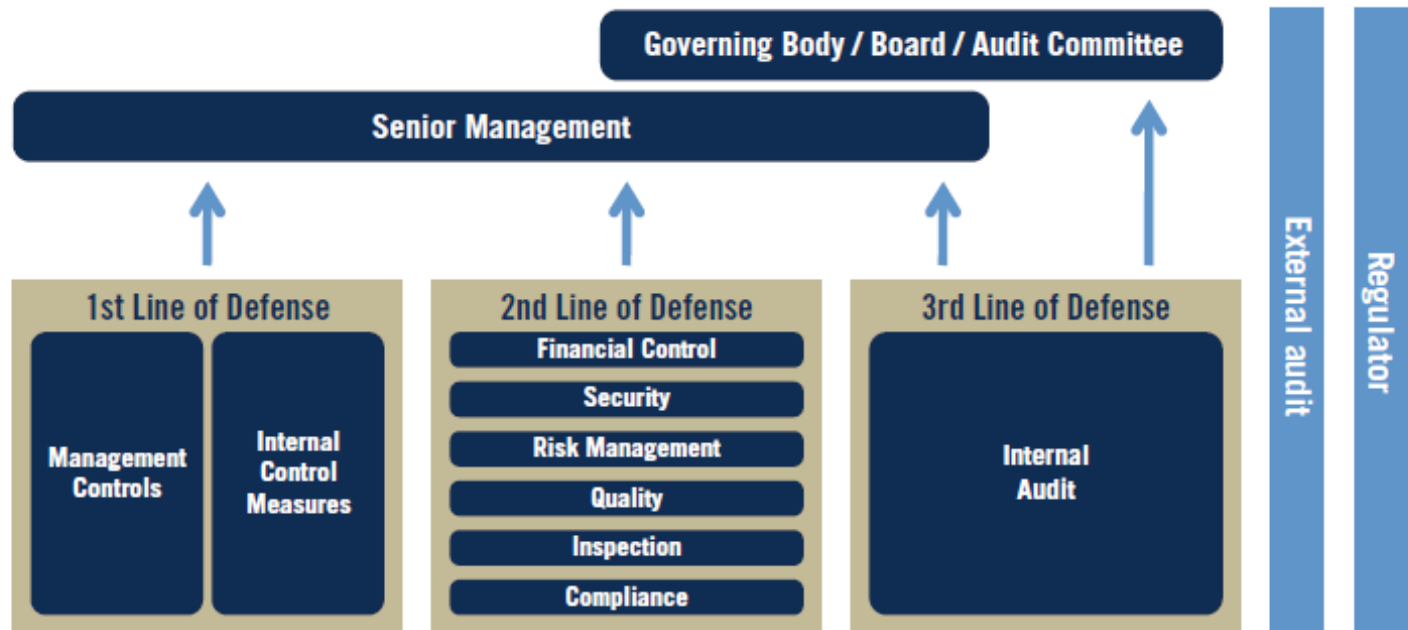
Note: Q93: In your opinion, what is the level of inherent risk at your organization for the following emerging information technology (IT) areas? Topic: Data breaches that can damage organization's brand. $n = 9,426$.

Increased Technology Risks

- Big data must be stored, managed, and protected.
- **Connectedness—controlling access is no longer limited to locking down workstations.**
- Having internal expertise on staff to address ever-changing technology risks is challenging.

Three Lines of Defense

Exhibit 8 The Three Lines of Defense Model

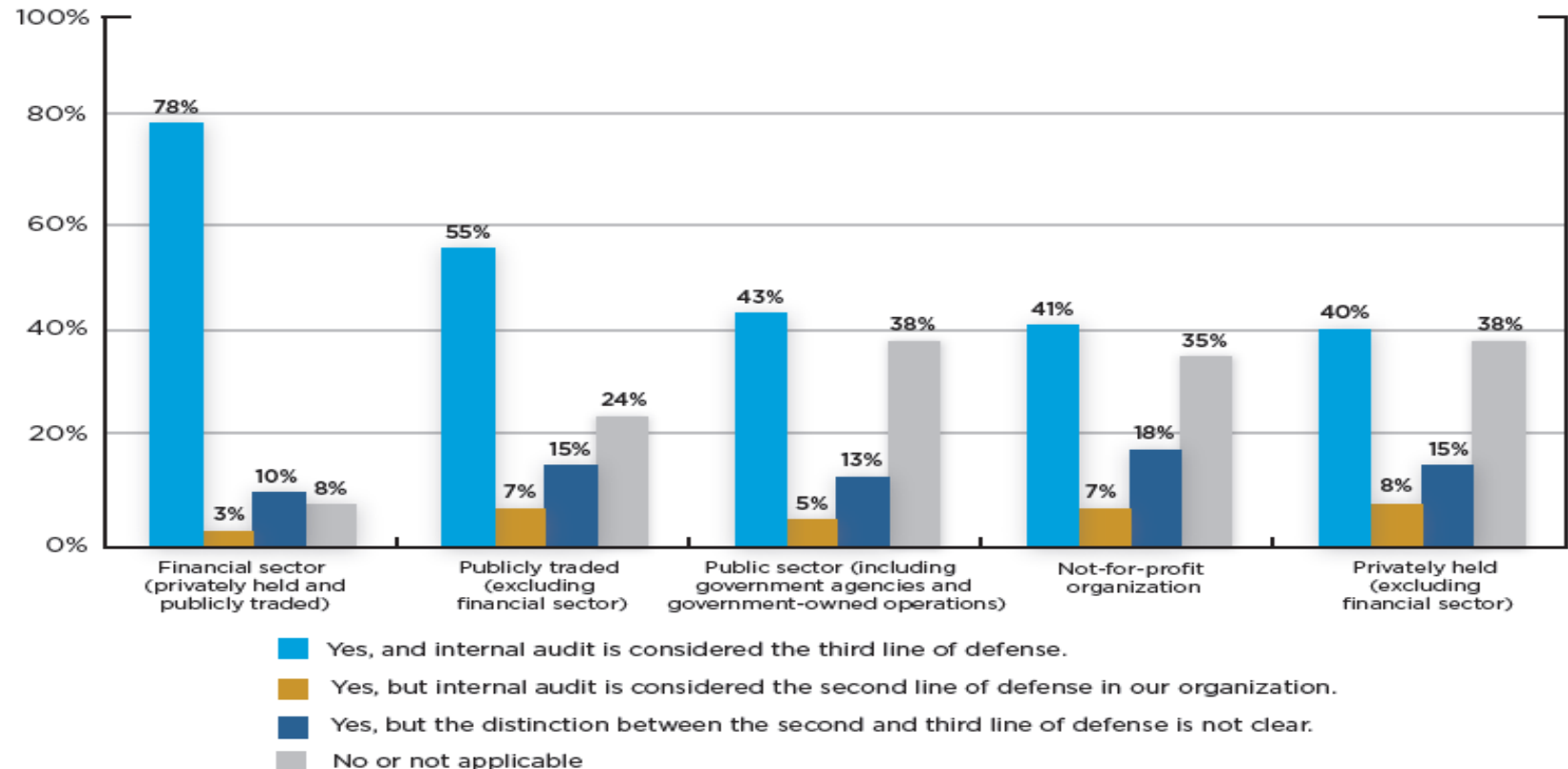


Note: Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41, as shown in The IIA's Position Paper, The Three Lines of Defense in Effective Risk Management and Control, January 2013.

Three Lines of Defense

- 78% of financial sector worldwide follow model.

Exhibit 9 Usage of the Three Lines of Defense Model

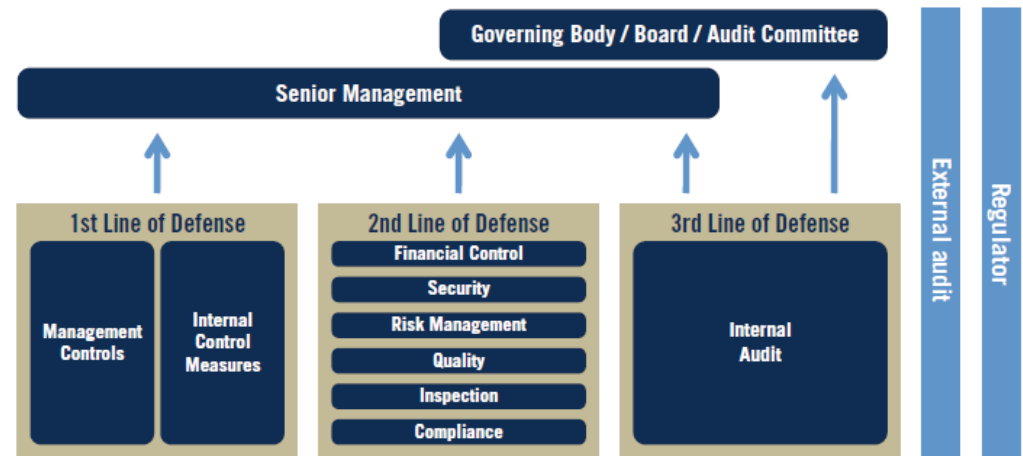


Note: Q63: Does your organization follow the three lines of defense model as articulated by The IIA? Those who responded "I am not familiar with this model" were excluded from these calculations. Due to rounding, some totals may not equal 100%. $n = 9,093$.

Three Lines of Defense

- All lines should exist—strongest when separate and clearly defined.
- When blended approach exists, apply safeguards:
 - Report to AC directly.
 - Communicate and document potential risks of combining lines.
- Consider an executive to whom all internal assurance groups report directly.

Exhibit 8 The Three Lines of Defense Model



Note: Adapted from ECIIA/FERMA Guidance on the 8th EU Company Law Directive, article 41, as shown in The IIA's Position Paper, The Three Lines of Defense in Effective Risk Management and Control, January 2013.

Internal Audit Resources Challenges

- Knowledge expectations are broader for IA today:
 - Technology
 - Business Ops,
 - Financial Services
 - Communications
 - Regulatory Compliance
 - Cybersecurity Privacy
 - Vendor Management
 - Business Continuity
 - Legal Matters
 - Quantitative Analysis...

Internal Audit Resources Challenges

- Unemployment numbers for auditors and accountants in North America are at an all-time low.
- Fewer students are electing degrees in accounting.
- Generational differences:
 - Work and life balance considerations rate higher for younger generations.
 - Flexible work schedules and more generous leave time are becoming more common.
- Rotational CAE approach, while providing benefits, may result in continuity and/or independence issues.

Internal Audit Resources

“In light of financial services audit functions’ need to evolve their focus from financial risks to more operational risks, the backgrounds of those we are recruiting are also evolving...” —Mark Howard, SVP and CAE, USAA, San Antonio, TX

Exhibit 10 Top Skills Financial Sector CAEs Seek for Staff

Skill	Financial Sector	Nonfinancial Sectors	Gap
Analytical/critical thinking	66%	64%	2%
Communication skills	52%	51%	1%
Risk management assurance	48%	41%	7%
Industry-specific knowledge	45%	33%	12%
Information technology (general)	43%	37%	6%
Accounting	36%	45%	-9%
Data mining and analytics	32%	31%	1%
Finance	30%	21%	9%
Business acumen	26%	27%	-1%
Fraud auditing	21%	23%	-2%
Cybersecurity and privacy	16%	13%	3%
Forensics and investigations	13%	15%	-2%
Legal knowledge	10%	12%	-2%
Quality controls (Six Sigma; ISO)	4%	8%	-4%
Other	3%	4%	-1%

Note: Q30: What skills are you recruiting or building the most in your internal audit department? (Choose up to five.) CAEs only. $n = 3,288$.

Summary

- Times are more challenging than ever
- Workloads have expanded
- Elevated roles have led to heightened expectations
- Technology is expanding quickly
- New defense models
- Staffing challenges

Key Take Aways

Internal auditors who step up and effectively address the challenges can demonstrate their positive contributions.

They will:

- Be recognized as **effective leaders** and continue to **elevate their stature and reputation** in the workplace
- Likely get **additional challenges** as their role continues to grow in importance

To Be Successful: Strive for improvement through innovative techniques and practices, professionalism, continual development, and dedication to the profession.

Thank you!

