

Finding True North

Canadian banking industry highlights from the 2015 State of the Internal Audit Profession Study

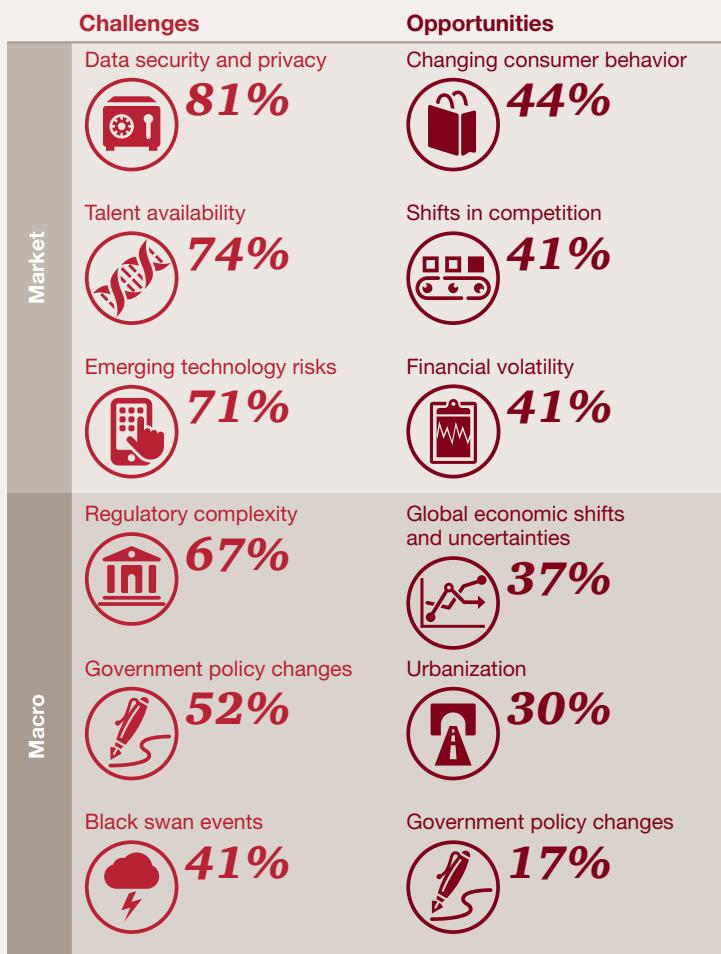
Canadian banks continue to be very widely regarded in the global marketplace. In fact, in 2014 the World Economic Forum ranked them as the soundest in the world for the seventh year in a row.¹ But in a world that is evolving rapidly, Canadian banks know they can't rest on their laurels. That's why most are constantly evaluating and addressing risks to their operations, from the rise of new technologies to the impact of shifting regulatory expectations.

Internal audit functions have a critical role to play in the long term sustainability of the Canadian financial services industry. That's why we've delved into the Canadian results of our *2015 Global State of the Audit Profession Study* to highlight the issues that matter most to the internal audit functions at Canadian Banks.

Technology is the top challenge

It's a risky world out there. Even with the historical success of Canadian banks, 77% of financial services respondents² to the *State of the Internal Audit Profession Study* believe the risks faced by their businesses are increasing, compared to 64% of Canadian respondents from all industries. Most concerning are issues related to technology (i.e. data security and privacy, emerging technology risks). Banks recognize that maintaining the trust of their stakeholders is reliant on how well they protect the financial information of their customers and how quickly they evolve as technologies evolve.

Figure 1: Top challenges and opportunities for financial services respondents



Time to re-evaluate business models and governance

Given how fast the world is changing, it's not surprising that almost 60% of financial services respondents are realigning their business model in response to new challenges and opportunities, while 56% are reviewing and making adjustments to their corporate governance structures. Complementary to these structural changes are a high focus on cost reduction or lean initiatives and the revisiting of pricing strategies.

Figure 2: How are respondents changing to address key challenges and opportunities?



“Within Canada, the push is to higher level [activities]—from testing controls to taking more of a governance approach. Internal audit is moving into new territory with governance [and] emerging risk areas such as vendor risk and crisis management.”

Chief Auditor, Canadian Big 6 bank

Strong risk management—but still room to improve

Canadian banks appear to be leading the field when it comes to risk management. Of Canadian financial services respondents, 74% believe their company is managing risks well or very well, compared to 65% of all Canadian respondents. That's not to say there's not room for improvement. Only 63% believe their company anticipates risks well or very well, a number equal to the Canadian total.

When it comes to long term sustainability, risk anticipation is critical. The more Canadian banks can anticipate risks in addition to managing them, the more likely they will be able to keep their leading industry position.

“Internal audit is involved in areas such as M&A. IA looks at the deal model, due diligence efforts...”

Chief Auditor, Canadian Big 6 bank

The role of internal audit is changing

Canadian banks understand that the risk landscape is changing. All bank functions need to be more proactive when it comes to risk identification and management—especially internal audit. That's why it comes as no surprise that respondents to the survey suggest a major shift is coming when it comes to the future value and role of internal audit. From a more transactional and process driven function today, internal audit is expected to become more proactive, forward looking and strategic within the next five years.

Figure 3: How is internal audit changing?

Which statement best matches your definition of internal audit's value?

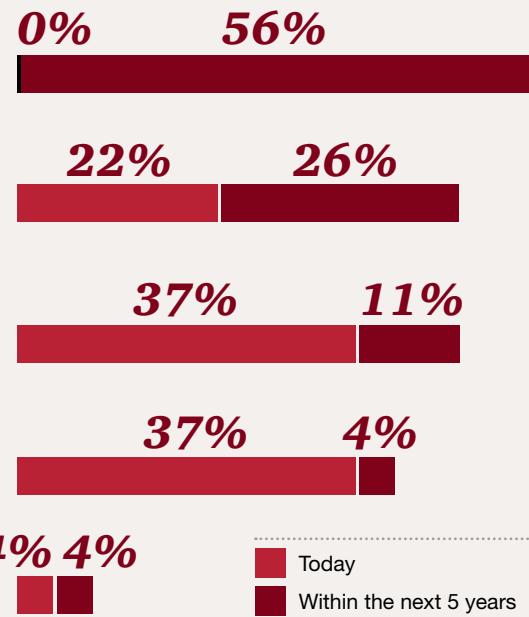
Internal Audit is proactive, provides value-added services, and prospective strategic advice on risk to the business well beyond the effective and efficient execution of the audit plan

Internal Audit takes a more proactive role in suggesting meaningful business improvements and risk assurance beyond executing effective and efficient specific audits

Beyond executing effectively and efficiently on the audit plan, Internal Audit brings analysis and perspective or root causes of issues identified in audit findings to help business units take corrective action

Internal Audit executes effectively and efficiently on the audit plan and communicates findings accordingly

Don't know



1. Canadian Banks 2015. PwC Canada.

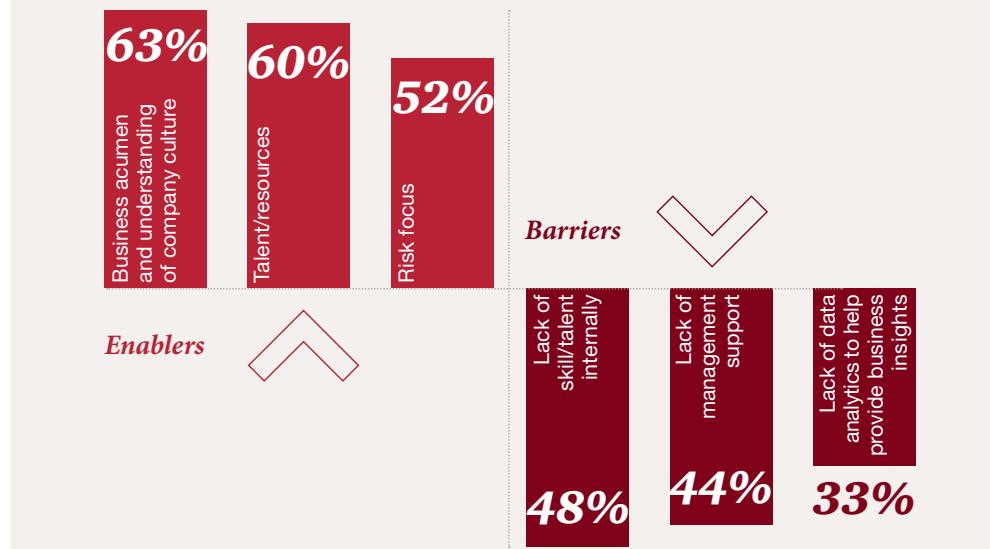
2. The Financial Services subset includes 28 Canadian respondents from the banking, capital markets, insurance, and asset management industries. All charts and data sets throughout the publication are for the Financial Services subset, unless otherwise stated.

Talent and executive support barriers to enhancing value of internal audit

While Canadian banks see the value and role of internal audit becoming more proactive over the next few years, a number of barriers could hinder the transition. Almost half of respondents believe the lack of internal talent with the right skill sets is a significant barrier, while 44% and 30% respectively see lack of management support and lack of stakeholder or audit committee support as barriers. Lack of data analytics capabilities was also seen as a stumbling block by 33% of respondents.

But at the same time, talent was also identified as a key enabler to internal audit transformation within the financial services sector—60% of respondents feel that the right talent/resources are going to help them enhance the value of the internal audit function. Good business acumen and understanding of company culture, and a risk focus, are other enablers of success.

Figure 4: Barriers and enablers for enhancing the value of internal audit



“For capabilities, the push is on critical thinking, inquisitiveness, looking outside, professional skepticism, curiosity and leadership.”

Chief Auditor, Canadian Big 6 bank

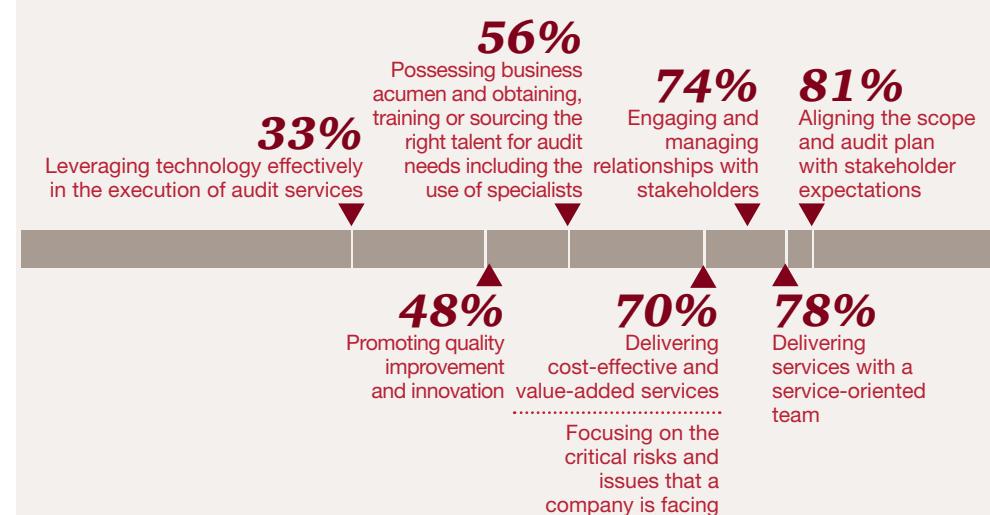
Internal audit needs to bridge the technology gap

When it comes to traditional activities (e.g. aligning the scope and audit plan with stakeholder expectations, delivering services with a service-oriented team), high percentages of respondents believe their internal audit is performing well or very well. But, given the focus on evolving technologies and technology issues as a key risk to banking organizations in Canada, only 33% of financial services respondents believe their internal audit function does well at leveraging technology effectively in the execution of audit services.

As banking technologies and risks grow more complex and the amount of available data continues to proliferate, internal audit functions at Canadian banks must look to technology as not just an option, but as an imperative. The right technologies, tools, talent and training can give internal audit functions the ability to not only execute their responsibilities more effectively, but also to provide more proactive and consultative support to the business.

Figure 5: How well is internal audit performing key tasks?

Respondents who answered well or very well only



Data analytics: Focus for the future

When it comes to proactively managing enterprise risks, there's little doubt that data is essential. Of stakeholders in the financial services sector, 65% agree that a more holistic view of their company's risk landscape would make them more confident and assertive in their decisions, while 55% agree that having an aggregated view of risks would make their company more resilient to risk events.

“Data analytics [should be] considered in all audits. Well ahead—in the planning process.”

Chief Auditor, Canadian Big 6 bank

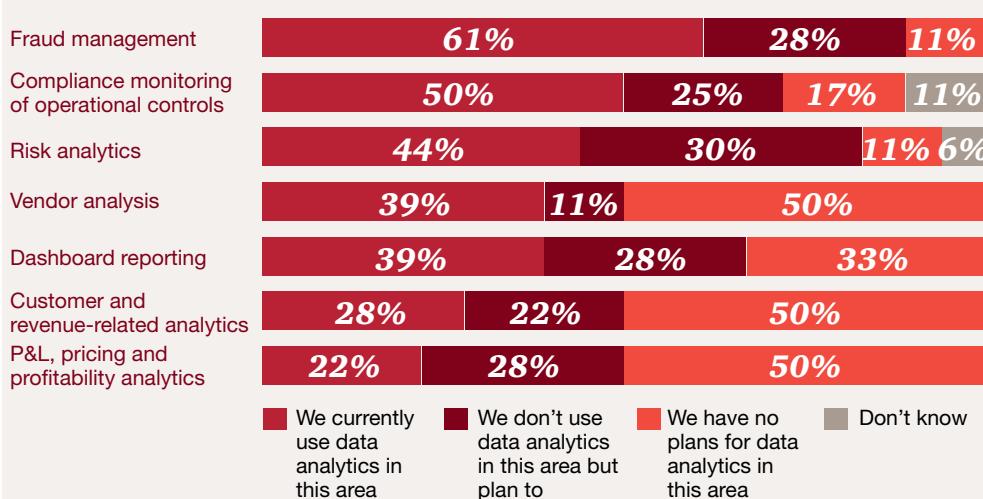
At the same time, only 25% of respondents agree that they are able to see how risks are interconnected and cascade across their company. The challenge is that risks rarely arise in a vacuum—a technology risk could cause numerous additional risks to a bank, from privacy and data security risks to risks to the bank's reputation.

It's readily apparent from the survey results that there's a big opportunity for the internal audit functions within Canadian banks and other financial services organizations to use data analytics more effectively. Currently, while 61% of respondents are using data analytics to support fraud management and 50% to support compliance monitoring of

operational controls, less than 50% are using data analytics to support other key activities (e.g. risk analytics, dashboard reporting, vendor analysis).

Fortunately, financial services organizations appear to see how important data analytics is becoming. In fact, a significant percentage of respondents plan to use data analytics across a range of activities in the future. Complementary to this, when it comes to building capabilities, the focus for the future appears to be squarely on data analytics; over a quarter (26%) of respondents plan to build data analytics capacity internally, while 7% said they will build capacity through the use of third parties.

Figure 6: In which areas does internal audit currently use data analytics?



Finding True North in the Canadian banking sector

In a world where the very concept of business is changing, the internal audit function has never been more important. Canadian banks are marching through unfamiliar and constantly changing territory, so their internal audit functions must think beyond just the standard objectives and deliverables in order to guide them through the journey.

The internal audit functions within Canadian banks need to be proactive when it comes to managing risks and opportunities. To bring about the change that's required and become strategic partners to the business, internal audit leaders need to focus on three key areas:

- building management support for taking on a more strategic role within their organizations
- having the right talent and skills on their team to carry out an enhanced mandate
- making investments in the data analytics tools and technologies they need to support their evolution

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