Unlocking the value of Internal Audit

The current and future state of Internal Audit in Indonesia

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KPMG Siddharta Advisory
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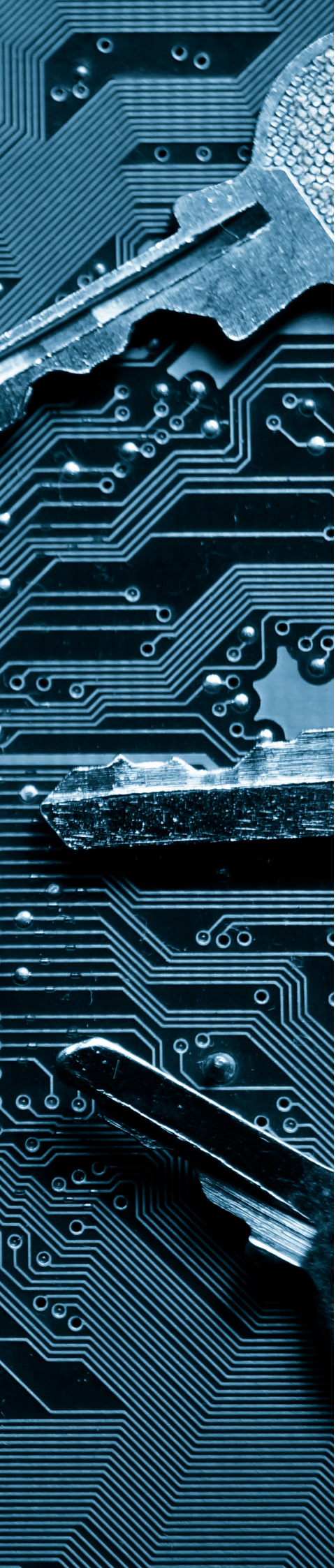

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Foreword

Internal Audit (IA) has long been relied on as the 'third line of defence' or independent assurance provider for the Board i.e. the Board of Commissioners (BoC), Audit Committees (ACs), Board of Directors (BoD) and Management. Yet, expectations placed on internal auditors have risen in recent years as organizations face the challenges of a rapidly changing environment with emerging risks, new regulations and digital disruption.

Today a wider scope of coverage means that corporate governance, risk management, fraud, cyber security, operations, strategy and culture have been added on to the usual business process and Information Technology (IT) audits.

This means an increasing focus on internal controls and risk management, placing greater responsibility on the risk and compliance functions but, in particular, the IA function given its independence.

While the state of IA has been evolving since its introduction, with the Financial Services (FS) sector seen to be leading the way spurred by stricter regulations and regulatory scrutiny, there are opportunities to drive more value from the IA function.

KPMG in Singapore conducted a joint survey of the IA profession with the Asia Centre of Excellence for Internal Audit (ACEIA) of the Singapore Accountancy Commission (SAC) in 2013 called 'Taking the Pulse: A survey of internal audit in Singapore 2013'. This found that more could be done to enhance the position of IA in terms of mandate, organizational structure and aligning stakeholder expectations regarding scope, IA experience and process efficiencies.

In addition, the KPMG Global Audit Committee Institute (ACI) conducted a survey of over 1,500 AC members in 2014, which included a selection of Indonesian participants. When the AC was asked, how satisfied are you that your company's IA function delivers the value to the company that it should, only 31% of Indonesian AC's were very satisfied, 59% were somewhat satisfied and 10% were not satisfied.

These results prompted KPMG Indonesia to conduct a survey across different IA stakeholders groups and industries to identify the drivers of value in IA and highlight the strengths and areas for improvement. The survey centred on the KPMG IA Quality Assurance Framework: Positioning, People and Processes (the 3Ps).

The survey identified areas of strength across the 3Ps, particularly in relation to risk based auditing, experience of IA personnel and general respect for IA. However, as technological advancements in business continue and organizations continue to remain cost conscious, the survey identified opportunities for improvement in relation to clarifying roles and responsibilities for risk and control functions, investing in IA skills sets and training (particularly IT, cyber security and risk management), increasing the use of data analytics and optimizing the IA resourcing model.

The time is right for IA to rise to the fore, as the Board becomes increasingly reliant on IA for the assurance that the company's internal control and risk management system is adequate and effective.

We hope you find this report of interest and welcome any questions and comments you may have.

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Executive Summary

Overall

While IA in Indonesia is well established as an independent provider of assurance, there are inconsistent views as to whether the IA function is adding value to the organization. This result could be caused by a number of factors relating to how well the IA function is positioned in the organization, the skills, experience and capabilities of the IA people or the effectiveness and efficiency of the IA processes.

The key observations have been identified in relation to these areas with opportunities for improvement identified throughout the report that will enhance the adequacy and effectiveness of the IA function to deliver more outcomes to enhance the risk and control environment.

Positioning

The IA mandate is considered sufficient by AC members and IA executives to deliver on the IA objectives set by the organization. IA is generally well respected and is viewed as independent in practice.

However, there were areas for improvement identified that could enhance the position of IA in the organization including:

- Ensuring IA has unfettered access to all personnel, records and documents to enable IA to provide a complete and independent perspective on the risk and controls
- Aligning IA priorities and areas of focus to ensure there are no expectation gaps between the AC and IA function
- Reviewing the functional and administrative reporting lines of the IA function to ensure IA reports directly to the AC which is another enabler of independence
- Adopting a more integrated and coordinated approach to risk and assurance to clarify roles and responsibilities and maximize the assurance coverage.

People

The IA function is generally resourced with experienced IA personnel (> 10 years of experience). The AC is generally aware of and approves the IA training and recruitment budget and most IA functions have established career development programs for their IA personnel.

However, there were areas for improvement identified that could enhance the capabilities within the IA function including:

- Reviewing the size and structure of the IA function to deliver effective coverage across the organization, in particular areas requiring specialized skills and knowledge (such as IT)
- Increasing the number of IA personnel that have deep business knowledge to supplement IA technical knowledge, either through recruitment or talent development and rotation strategies
- Establishing a more structured approach to training for the IA function, particularly in relation to IT security (including cyber security), data analytics and enterprise risk management
- Maintaining visibility of the IA people requirements (budget, career development, training, recruitment, retention, succession planning) at the AC level is required for the AC to oversee the function effectively.

Process

The IA function is viewed as concentrating on the higher risk areas with the annual IA plan being developed in accordance with the key risks identified at Group level. The IA plan is generally reviewed on a regular basis (twice a year or quarterly), although this is not consistent.

However, there were areas for improvement identified that could enhance the IA processes in the organization including:

- Establishing a more dynamic process for reviewing the IA plan (at least twice per year up to quarterly) to reflect the rapidly changing business environment
- Reviewing the IA processes to identify factors that may impact the timeliness for closing out the IA reporting process
- Formalizing the IA stakeholder feedback mechanisms across all organizations to ensure valuable feedback is captured for IA to continuously improve
- Developing a business case for investing in IA technology enablers (such as data analytics) to enhance the scope, coverage and efficiencies in the IA processes.

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Survey Background

Indonesia's Code of Good Corporate Governance 2006 ("the Code") indicates that "publicly listed companies, state-owned enterprises, province and region-owned companies, companies that raise and manage public funds, companies of which products or services are widely used by public, and companies with extensive influence on environment, shall have an internal control function or unit". The Code then goes on to outline the role of the internal control function: "to assist the Board of Directors in ensuring the attainment of objectives and business sustainability by:

i Evaluating the implementation of the company's program

ii Providing recommendations to improve the effectiveness of the risk management process

iii Evaluating the company's compliance with company's regulations, implementation of the Code and the laws and regulations

iv Facilitating sound coordination with external auditor".

Since the Code was introduced, the existence of IA across Indonesian organizations has continued to increase and the level of sophistication of the IA functions has also improved.

In mid-2016 KPMG Indonesia conducted a survey to assess the current and future state of the IA function in Indonesia. In developing the survey questions, hypotheses were created on the state of IA in Indonesia, taking into account improvements in global practices, key regulatory requirements, and key roles and responsibilities outlined in the KPMG '4 Lines of Defence' model.

KPMG's '4 Lines of Defence' model

KPMG's '4 lines of Defence' model, as outlined in Figure 1 below, can serve as a useful basis to further understand the key elements and roles within the overarching risk governance and assurance structure, and where IA fits. This model highlights that management is the first line of defence in identifying and mitigating risks by establishing policies and implementing operational and financial governance.

Additional risk management and compliance functions and activities (such as setting and overseeing the risk and compliance framework) form the second line of defence, while IA and other independent assurance functions form the third line of defence. Finally, the BoC, BoD and board committee structures form the fourth line of defence.

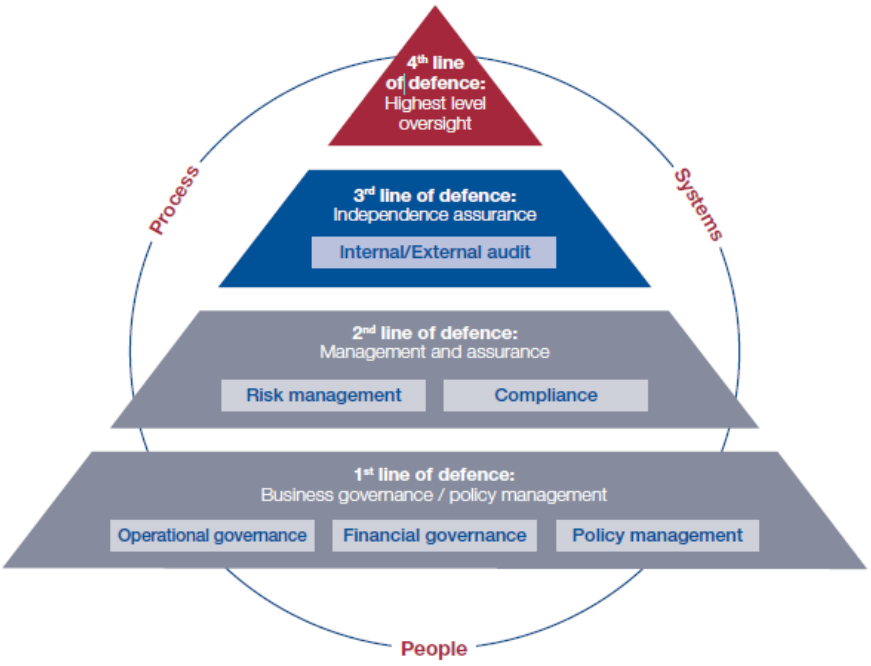

Figure 1: KPMG's '4 Lines of Defence' Model

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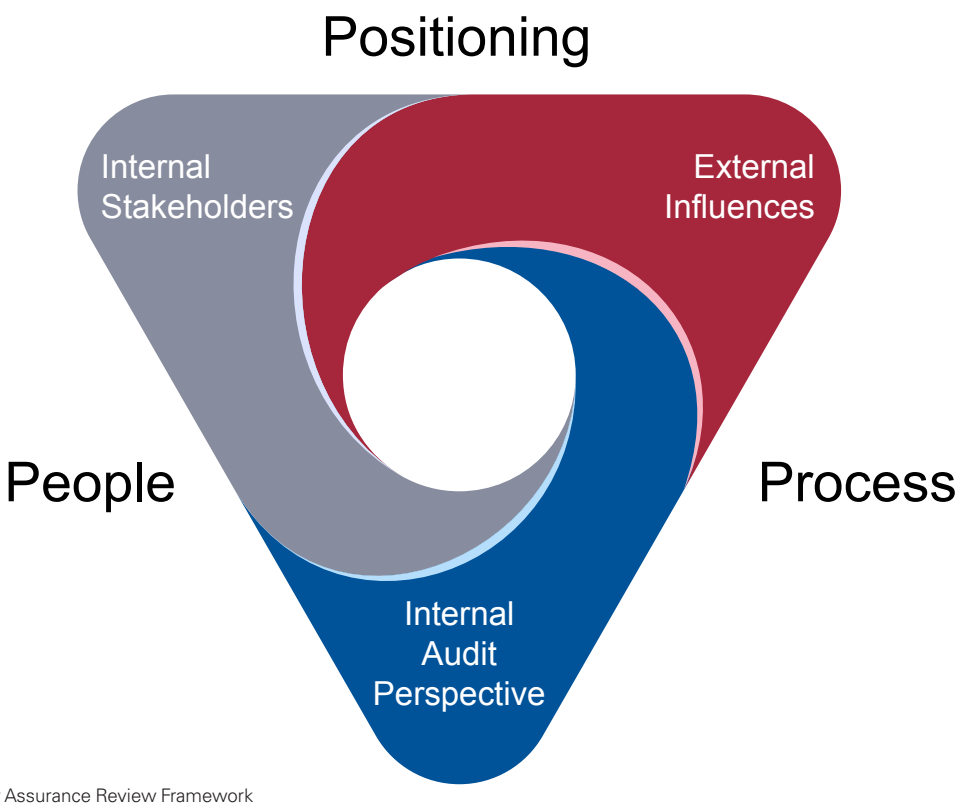

Figure 2: KPMG's IA Quality Assurance Review Framework

KPMG's IA Quality Assurance Framework

The third line of defence has a critical role to provide the assurance required by the Board to satisfy the Code requirements and evaluate the adequacy and effectiveness of the organization's risk management and internal control system, which is in line with global and regional better practices.

Adequacy refers to whether the risk management and internal control system was designed appropriately for the size, nature and complexity of the organization and industry in which it operates.

Effectiveness refers to whether the risk management and internal control system was operating as intended.

This is often a demanding task for the IA function, and the levels of assurance and effectiveness with which audits are performed are largely dictated by their Positioning, People and Processes (3Ps), as highlighted in the KPMG's IA Quality Assurance Review Framework (QAR Framework) - refer to Figure 2.

Positioning refers to whether the IA function is sufficiently structured and well placed (in terms of organizational structure and seniority) to enable it to contribute to business performance. In this context positioning refers to having an appropriate mandate to access information and the respect of other departments across the organization.

People refers to whether the IA function has the right staffing strategy, including qualifications, experience and capabilities of resources to deliver upon agreed objectives.

Process refers to whether the IA function's processes enable achievement of its objectives and enable responsiveness to changing business needs (i.e whether they are efficient and effective in practice).

The QAR Framework also indicates the importance of considering the current and future state of IA by taking into account internal stakeholder perspectives (such as the AC and business unit representatives), external influences (such as regulatory drivers or macro-economic factors) and the IA perspective as a self-reflection of the function.

Coupled with the Board's expectations, the Chief Audit Executive (CAE) or outsourced internal audit provider must manage the scope of the audit and the competency of the auditors, often with a limited budget. This can create tension, and may at times result in less depth or coverage than desired, despite the increasing demand for scrutiny and disclosure from a legislative perspective.

Our survey examined the performance of IA in Indonesia against the 3Ps, and the key findings are outlined in section 5 of the report. A majority of the results are presented on an overall basis, but where there were divergent views between the AC and CAE or between the Financial Services (FS) and non-FS sector, the results have been highlighted.

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Demographics

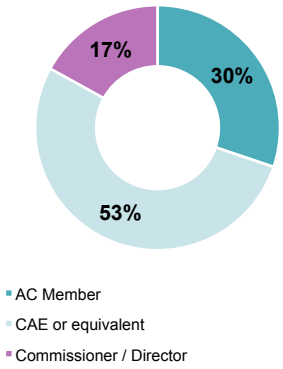
Overall there were 53 survey participants, comprising 53% of CAEs (or Heads of Internal Audit) and 47% comprising Board level members (AC, BoC, BoD) – refer Q1 (Chart 1).

The participants were from a range of company sizes – refer Q2 (Chart 2), with:

1. 55% coming from relatively large organizations (i.e. more than 1000 employees)
2. 17% from organizations with 500-1000 employees
3. 28% from organizations with less than 500 employees

Overall, 51% of survey participants were from the FS sector, with 49% from non-FS – refer Q3 (Chart 3).

Chart 1 : Please specify your role in your organization



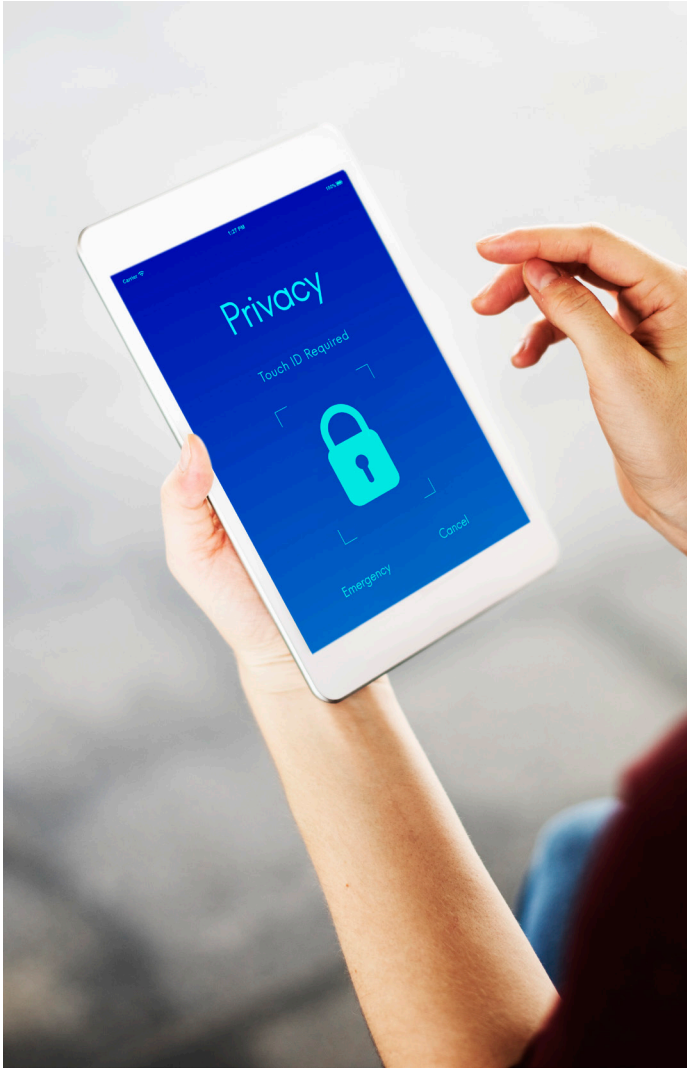


Chart 2 : Approximately how many employees (full-time equivalents) do you employ in Indonesia?

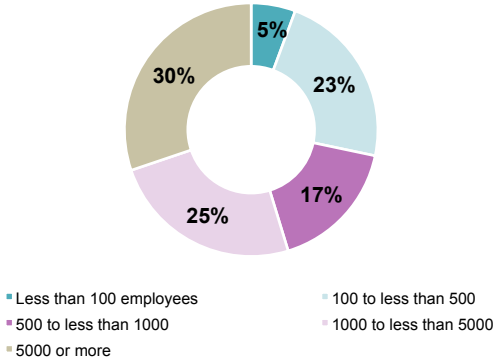
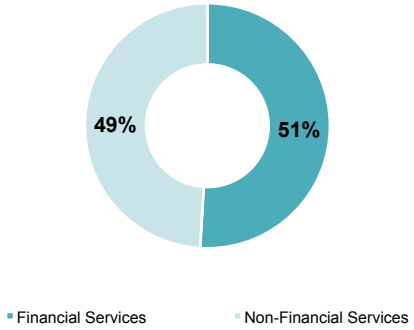


Chart 3 : Analysis of sector representation



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Key Findings

Overall

The survey results indicate there are mixed views as to whether IA is adding value to the organization. This result is consistent with the results from the KPMG in Singapore joint survey with the ACIEW for the SAC in 2013 and the KPMG Global ACI Survey in 2014.

While 76% indicate that IA contributes to improving the quality and effectiveness of governance, risk management and internal controls, 24% indicate that IA is only somewhat effective (Chart 4).

Furthermore, 62% indicate that IA adds value to the organization beyond compliance, however, 38% indicate that IA only moderately does so (Chart 5).

While the results are reasonably favourable towards IA, it is important to note that the responses indicate that there are some opportunities for improvement to enhance IA effectiveness. Yet, understanding the root causes for what are driving the results is key. The results could be impacted by challenges in IA positioning, people and/or process. These factors are explored in more detail in the following sections.

Chart 4 : In your view, does Internal Audit contribute to improving the quality and effectiveness of governance, risk management, and internal control processes?

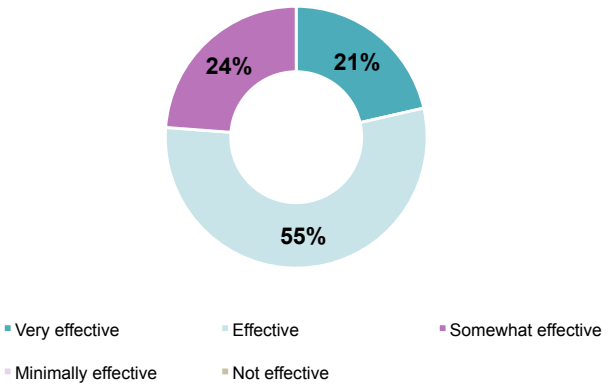
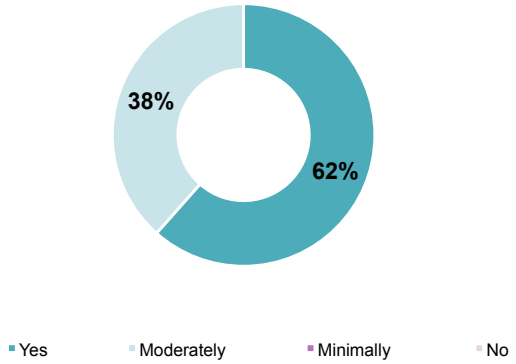


Chart 5 : Does Internal Audit add value to your organization beyond compliance (e.g. enhancing control environment to mitigate high risk areas, improving efficiency in business process, providing practical recommendations on procedural matters, etc.)?



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Positioning

The IA mandate appears sufficient, but some challenges may exist in executing this in practice

There is a consistent view (i.e. 94% of responses) that IA has been given sufficient mandate to fulfil its responsibilities (Chart 6).

To ensure that the IA mandate remains current and up-to-date, many organizations review the IA Charter on a regular basis with 65% reviewing it at least annually (up to quarterly) (Chart 7). In addition, 95% indicated that IA supports the AC in fulfilling their mandate (Chart 8). This result is consistent between the Board and CAE indicating a strong alignment in views that the Board feels and is supported by IA in fulfilling its mandate.

Chart 6 : In your opinion, has Internal Audit been granted sufficient mandate to assist you in the fulfillment of its responsibilities?

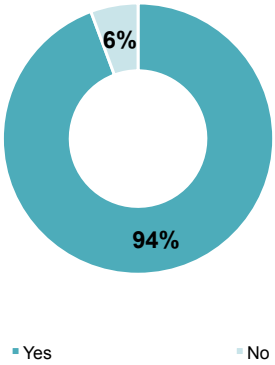


Chart 7 : In your opinion, how often is Internal Audit's charter evaluated to determine its appropriateness and alignment with established corporate governance guidelines and other regulations?

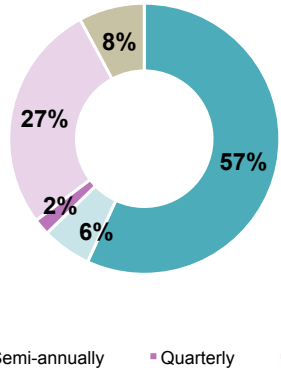
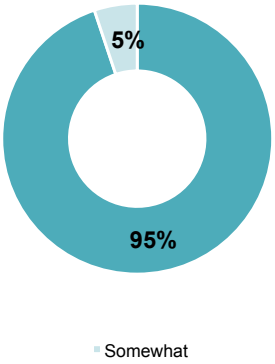


Chart 8 : In your view, does Internal Audit support the Audit Committee in fulfilling their mandate?



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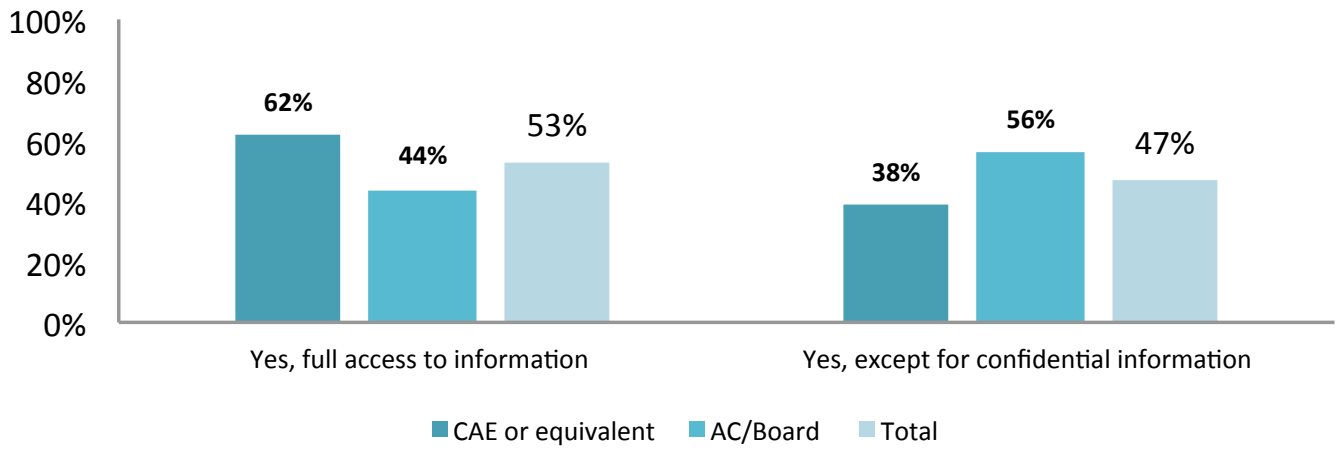
However, while it is encouraging to see that IA has a sufficient mandate to fulfil its responsibilities, this may be challenging to deliver in practice. While 53% believe that IA has full access to information across the company, 47% believe that IA has access, except for confidential information. More CAEs believe they have full access to information compared to the Board which indicates there could be a communication gap between IA and the Board to reassure them they are not impeded in their IA activities. IA should have unfettered access to all company documents and personnel to ensure that key internal controls can be reviewed in their entirety (Chart 9).

Chart 9 : In your opinion, does Internal Audit have unrestricted access to information across the company?



Clarity of IA priorities going forward is critical

The current IA priorities reflect the focus of the IA profession in recent times. The increasing regulatory requirements globally and locally have increased the role of IA to focus on compliance audits. The primary role of IA is to review internal controls and risk management. More recently, corporate governance is an area that IA is getting more involved in due to recurring lapses in governance and supervisory controls resulting in reputational damage to many corporates globally.

The future priorities indicate a shift that reflects the changing business environment. While the focus of IA will remain on internal controls and risk management, the role of IA in reviewing corporate governance is expected to increase, along with IT. This is not surprising given the heavy dependence on technology and increasing risks associated with cyber security.

When examining the results between the CAE and Board level, there is a general alignment in terms of the current focus areas of IA (Chart 10). However, it should be noted that more CAEs have indicated they have a current focus on consulting and IT areas.

However, there was a slight shift and variance in priorities when considering what IA should be focused on going forward (Chart 11). The CAE views their future priorities as risk management, consulting services, internal controls and IT. Whereas, the Board views the IA future priorities as corporate governance, internal controls and risk management.

Current IA priorities	Future (3-5 years) IA priorities
1. Regulatory Compliance	1. Internal Controls and Risk Management
2. Internal Controls and Risk Management	2. Corporate Governance
3. Corporate Governance	3. Information Technology

Figure 3 : Top 3 current and future IA priorities

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Chart 10 : Please identify the top three areas on which Internal Audit in your organization is currently focusing:

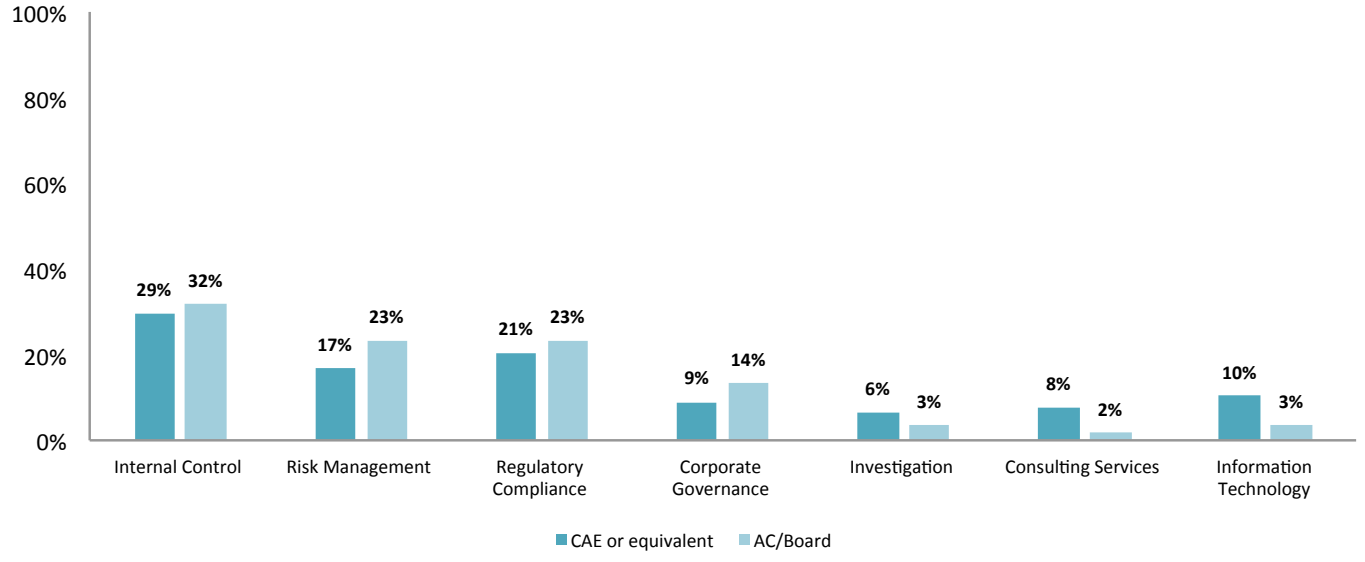
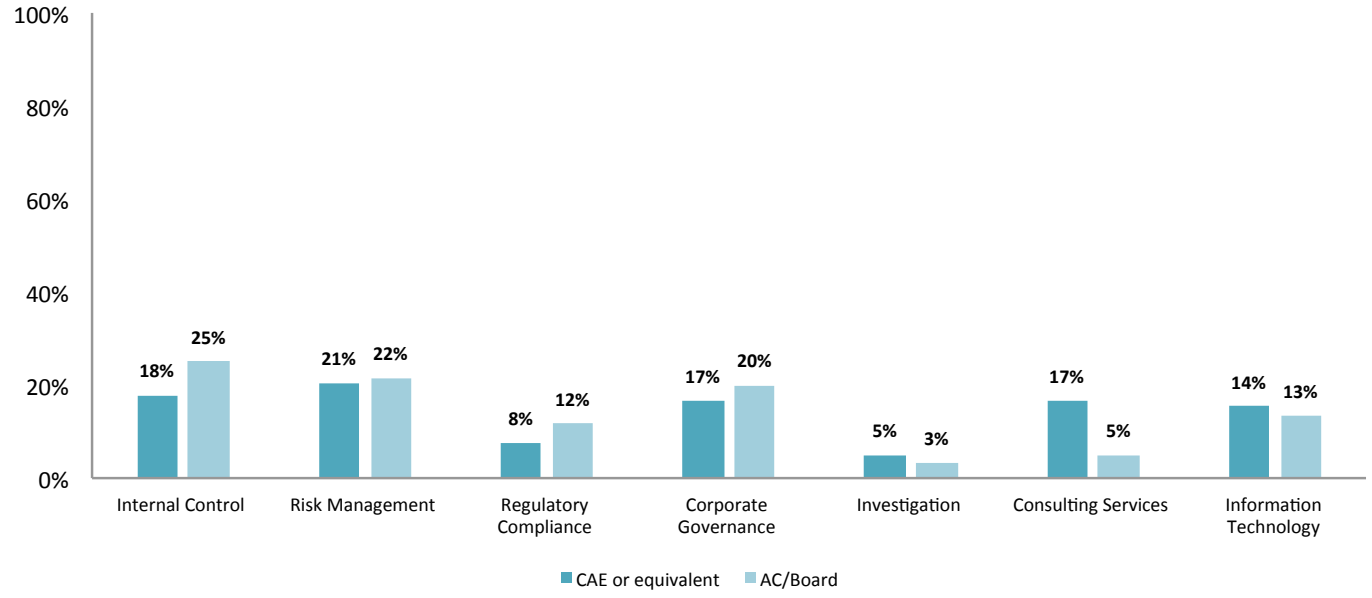


Chart 11 : Please identify the top three areas on which Internal Audit in your organization is going to focus on in the next 3-5 years:



The results indicate that more communication about current and future focus areas could be warranted to ensure all key stakeholders are supportive of the IA plans and direction.

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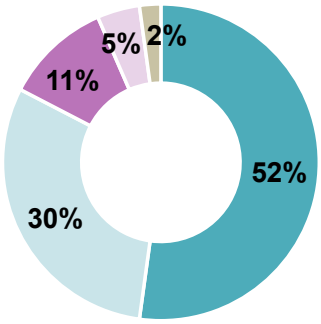
The IA function is generally well respected by the organization, with mixed views from across the organization

Slightly more than half (52%) of respondents indicated that IA is well respected by all levels of senior management in a majority of organizations, with 30% stating it is well respected by most senior management and 11% of respondents indicating that IA was only well respected in some quarters (Chart 12).

This inconsistent view of the importance of IA could be due to 'tone at the top' challenges or levels of engagement that IA has with all facets of the organization. As a matter of priority, IA should identify the key stakeholders across the business and develop a formal and regular communication and engagement plan with them to learn more about the business and their priorities, but also to keep them appraised of IA activities and focus areas.

Chart 12 : In your view, how well respected do you think Internal Audit is within the organization?



The IA function is viewed as independent, however, the direct reporting lines may impact this in practice

There is a strong and consistent view that IA is independent of the activities it reviews where 100% of respondents asserted that IA was independent (Chart 13). However, organizations may need to keep on top of this where the IA function is combined with other functions such as compliance and risk management.

In addition, the functional (direct) reporting lines vary for IA in practice which could impact the independence of IA (Chart 14a). Functionally, IA should report to the AC – but only 39% do so. A majority of IA functionally report to the management level which could impair independence (i.e. CEO, CFO, Legal) where there is a risk that budget, scope and assessment of ratings could be influenced.

The survey also found that more IA functions report to the management level (75%) from an administrative perspective (which captures the day-to-day running of the function, excluding budget allocation, IA scope/plan approval and approval of final IA findings) although 19% also report administratively to the AC (Chart 14b).

Chart 13 : Is Internal Audit independent of the activities which it audits?

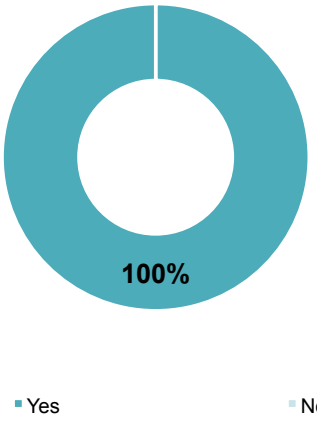


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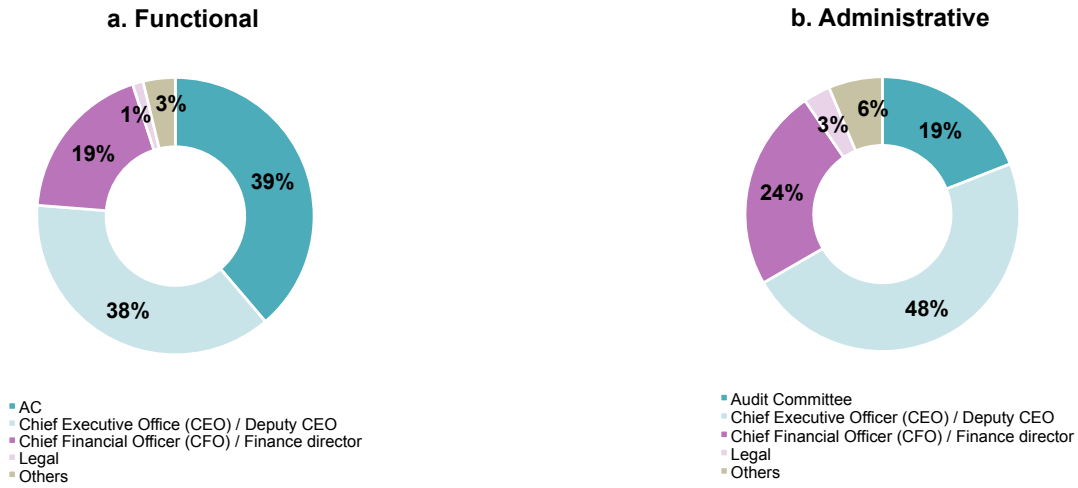
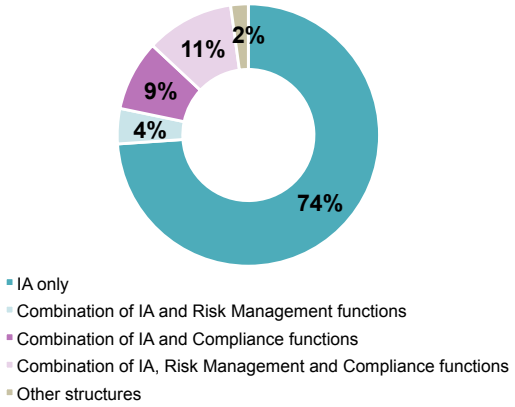
Chart 14 : To whom does the Chief Audit Executive in your organization report functionally and administratively to?



The structure and set up of the IA function could also impact the ability of IA to be operating in a truly independent and effective manner.

While it is most common for IA to be a stand-alone function with 74% indicating this as the model, 24% of organizations indicated that they adopt a combined model responsible for conducting IA, risk and compliance activities which could impact the ability of each function to fulfil its roles and responsibilities (blurring of the 'Lines of Defence') (Chart 15). A combined model can create challenges with the perception of IA independence where for instance, they are perceived to develop the risk management framework and are then required to audit against it to identify gaps and lapses.

Chart 15 : If your company has an in-house Internal Audit function, what is its structure?



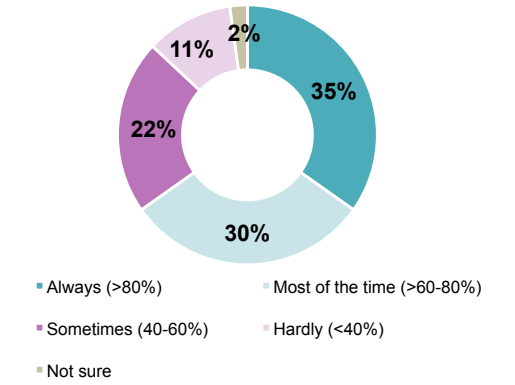
Adopting a more integrated and coordinated approach to risk and assurance is necessary

While 65% indicate that IA and EA coordinate well together most of the time to always, 22% indicate that they only coordinate sometimes, with 13% indicated they hardly coordinate well together (Chart 16).

While 82% indicate that IA, Risk and Compliance coordinate well together most of the time to always, 18% indicated that they only coordinate sometimes or hardly at all (Chart 17).

There is an opportunity for IA to more consistently coordinate activities with other functional areas or assurance providers (such as EA, risk and compliance). This could include adopting a common risk assessment framework, coordinating regular meetings with the business to understand the risk and control environment, planning audits to avoid duplication and minimize impact on the business.

Chart 16 : In your opinion, does Internal Audit coordinate well with the external auditors?



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Approximately 75% of respondents indicated that they were subject to at least one additional audit conducted by the regulatory/self-regulatory organizations with some indicating they were subject to 7 or more additional theme-based audits (Chart 18).

This highlights the importance of ensuring a coordinated approach to assurance across the business to ensure no duplication of effort and to minimize the impact on the business. Adopting an integrated assurance framework could assist with this in practice. This type of framework takes a co-ordinated view of the different levels of assurance afforded by all the assurance providers (e.g. external and internal audit, compliance, risk management etc.) to provide a holistic or aggregate view of risk assurance.

Chart 17 : In your opinion, does Internal Audit collaborate well with the Compliance and Risk Management functions in managing the company's risks?

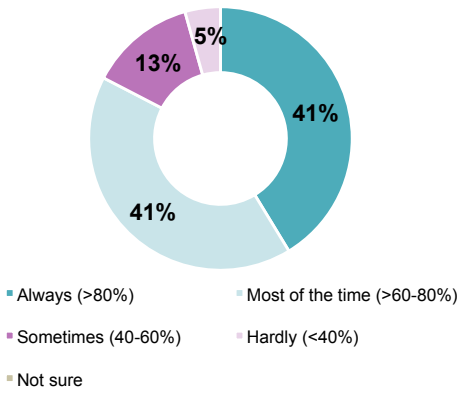


Chart 18 : How many times within the past two years has your company been subject to an audit by the regulator/Self-Regulatory Organizations?

People

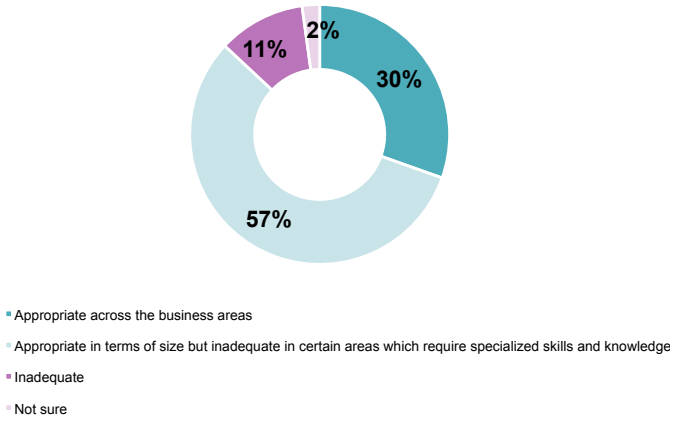
Investment is required to enhance the skills and experience of the IA function

The survey found that while 30% indicated that the IA size and structure is appropriate, 57% indicated that IA was appropriate in terms of size but inadequate in certain areas which require specialized skills and knowledge (Chart 19).

While the IA function contained relatively experienced personnel with 47% having more than 10 years of experience in IA, a significant majority (93%) lack the business experience with no years of experience in the relevant industry (Chart 20).

In this situation it can be beneficial to have a structured program of rotating personnel with business experience into IA and IA people into the business for discrete periods of time.

Chart 19 : In your opinion, is the size and structure of Internal Audit appropriate for effective audit coverage across the business areas?



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The survey identified the critical competencies needed for IA to deliver on its mandate (Chart 21). In ranked order, the following competencies were considered the most important:

1st : Problem identification and solution skills

2nd : Communication skills

3rd : Business understanding

4th : Keeping up to date with industry and regulatory changes

5th : IT-related skills

Chart 20: How many years of IA experience does IA have in IA and relevant industry?

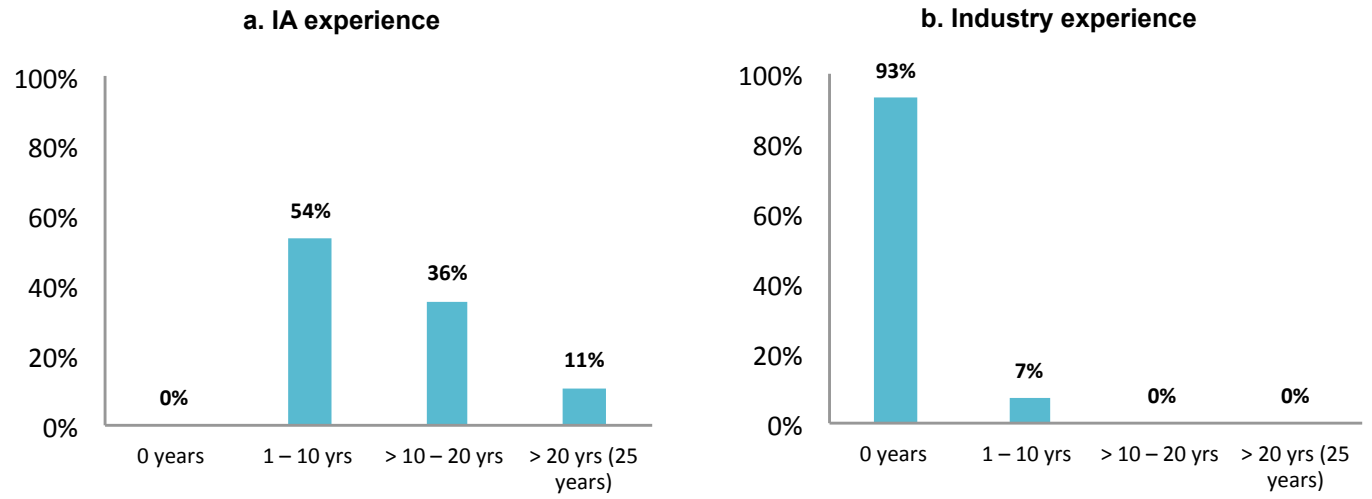
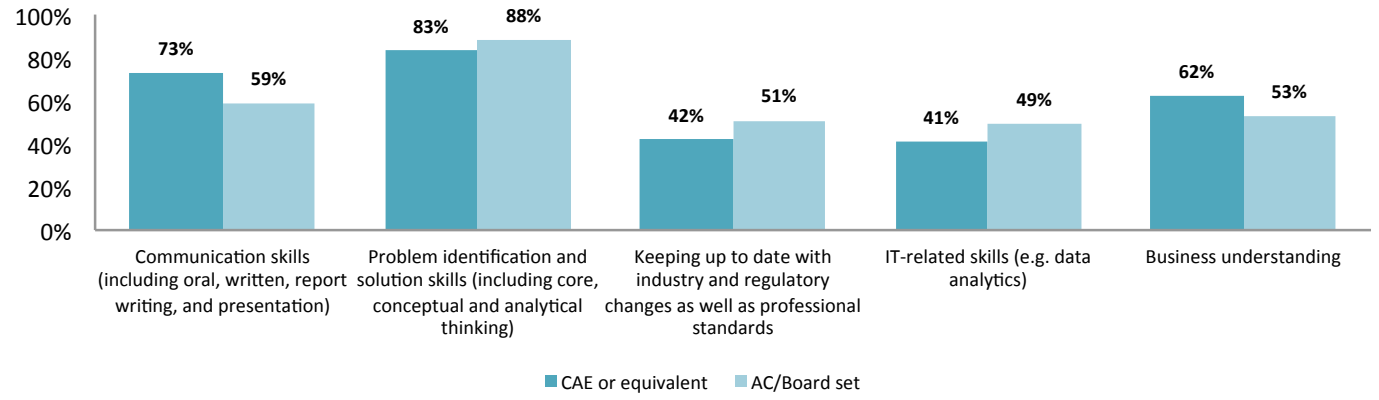


Chart 21 : Please rank the following core competencies in your preferred order of importance for internal auditors (1 being the most important and 5 the least important) :



Despite indicating some gaps in skill sets within the current IA function, very few organizations currently outsource or co-source their IA activities with nearly all respondents indicating they had in-house IA personnel (between 1-10 people) with a significant majority choosing not to outsource - refer to Chart 22.

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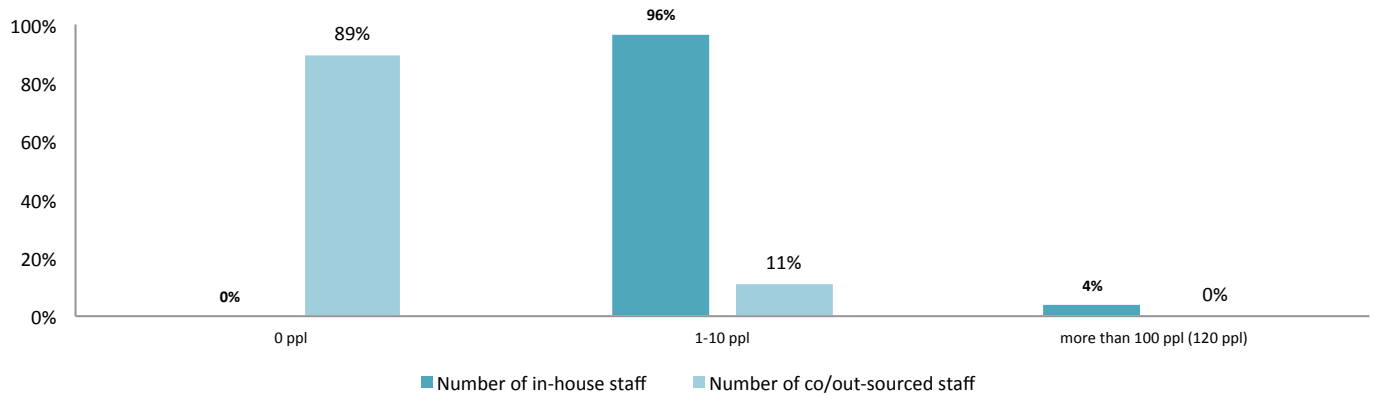
Chart 22 : Number of IA personnel



To enhance the coverage of IA projects on critical control areas such as IT, organizations should review the optimum resource model/structure (including the need to supplement existing skill sets through co-sourcing arrangements) to support them in the achievement of IA objectives.

A more structured approach to training for the IA function is required

Critical to the retention of talent in the IA function is the need to adopt a structured approach to IA training. The following areas were identified as most critical to build up the IA capabilities and capacity (Chart 23):

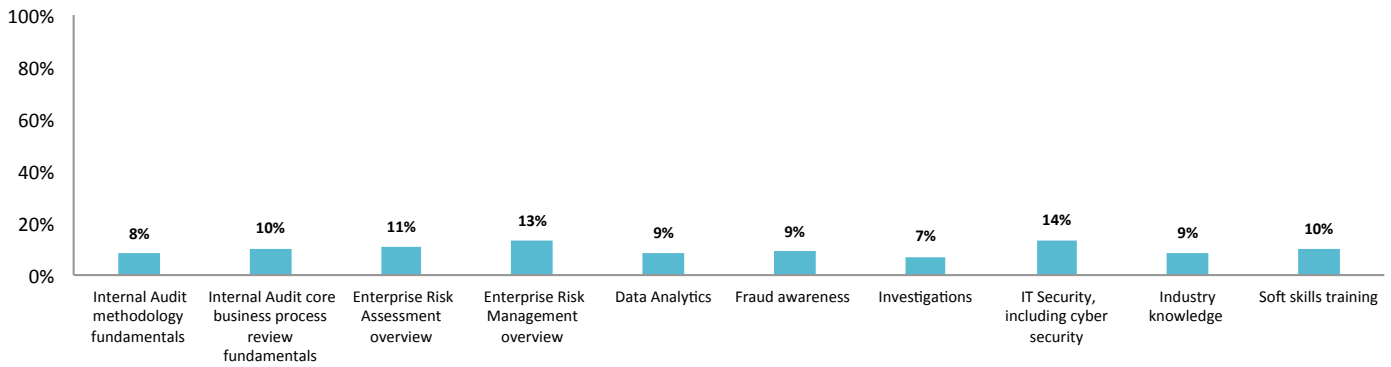
Topic 1 – IT security, including cyber security (14%)

Topic 2 – Enterprise risk management (13%)

Topic 3 – Enterprise risk assessment overview (11%)

Given these are highly specialized areas, and in the case of cyber security, rapidly changing, each IA function will need to weigh up the costs and benefits of training staff in these areas versus engaging external specialists as required.

Chart 23 : Please select the training topics that you believe are critical to build up your Internal Audit capacity. You may choose more than one training topic below:



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While 57% indicated that the AC is aware of and approves the training and recruitment budget for IA, 34% indicated that the training and recruitment budget is not presented to the AC. Increased awareness is required to ensure that IA receives sufficient and relevant training to continue to develop their skills and retain key personnel (Chart 24).

More awareness of IA career progression plans is required

A key role for the AC is ensuring that IA is adequately resourced including the need to attract and retain key talent. Ensuring IA personnel have a clearly defined career progression pathway is one of the ways in which organizations can secure and retain key personnel.

Chart 25 shows 65% indicated that career progression programs have been established for its team members, 35% indicated they were either unsure whether such a program existed because either it was not their direct responsibility (21%), they had not seen it (9%) or there was no program (5%). More visibility and awareness of IA career development opportunities is required in order to attract and retain the calibre of staff required.

Chart 24 : Does Internal Audit continually invest in its people, ensuring that it is adequately staffed to meet its demands?

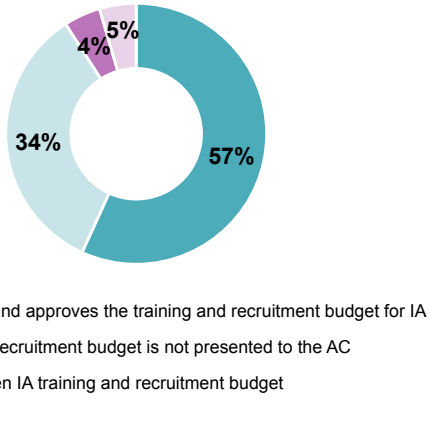
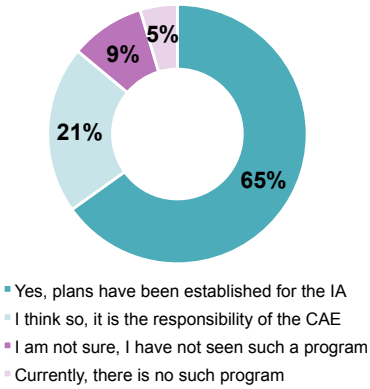


Chart 25 : Has Internal Audit established a career progression program for its team members?



Process

Risk based internal auditing is well established

Risk based internal auditing provides a structured approach that ensures IA resources are focused on the most critical areas and controls.

The survey found that 93% indicated that IA work is concentrated on higher risk areas which is encouraging (Chart 26). In addition, 91% indicated that the IA plan is developed in accordance with the risks identified at Group level (Chart 27).

An area for improvement for some organizations is to ensure that the AC is kept appraised of the risk assessment results and the linkage between risk and the IA plan. While a majority (89%) of ACs indicated that the risk assessment results are shared before the IA plan is approved, 12% indicated this was not necessarily the case (Chart 28).

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Chart 26 : Is Internal Audit work concentrated on higher risk areas?

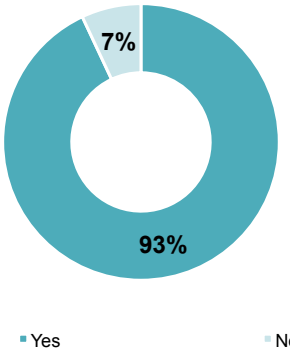
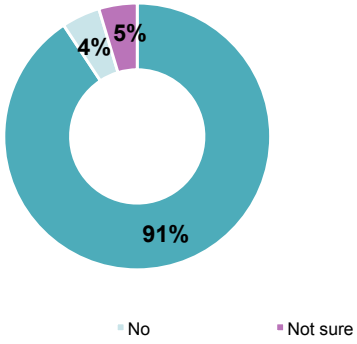


Chart 27 : Is the annual Internal Audit plan developed in accordance with the risks identified at Group level?



The review and approval of IA plans could be more dynamic in nature

Given the extent of changes in the external and internal risk environment in which companies are operating, the IA plan should be reviewed on a regular basis (at least twice a year or as required where significant changes occur).

The survey found that while a majority of responses (70%) indicated that the IA plan was reviewed and approved either quarterly or at least twice per year (indicating a fairly dynamic review process), 30% indicated that the IA plan was not reviewed on an annual basis (indicating a fairly static approach) (Chart 28).

Also, while 70% stated that IA briefed the AC and management sufficiently on the areas to be covered in the annual audit work plan, 30% indicated this was done most of the time or only sometimes (Chart 29).

Greater communication of the IA annual work plan and regular checks to ensure relevance and focus is critical for IA to continue to deliver value adding assurance in the right areas.

Chart 28 : Is the Internal Audit plan and key changes to the plan, including deferment of audits into the next work year, presented to the Audit Committee for approval?

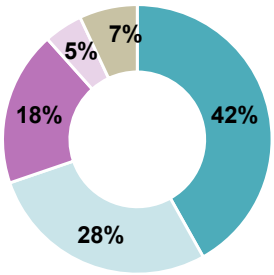
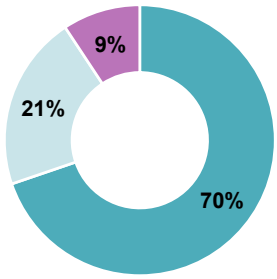


Chart 29 : Does Internal Audit ensure that the Audit Committee and management are sufficiently briefed and understand the rationale for the areas to be covered in the annual audit work plan?



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Efficiency and effectiveness of IA could be enhanced through more timely completion and proactively seeking stakeholder feedback

The timely completion of IA projects is a key performance metric to measure that IA is sufficiently resourced, capable and receiving sufficient support when conducting IA projects. 42% indicated that the IA work plans were completed on time with a further 9% stating the AC approval was obtained for changes to work plan, 49% indicated that occasionally some IA activities could not be completed on time (Chart 30). The IA function should ensure that there are processes to capture the underlying reasons for why IA projects are not completed on time and report these to the AC to enable them to oversee and evaluate the effectiveness of IA.

Proactively seeking stakeholder feedback is also an important aspect of continuously improving the IA function to ensure stakeholder expectations are met. While a majority (81%) of IA functions seek feedback from auditees and stakeholders, 19% do not (Chart 31).

Chart 30 : Are the annual audit work plans completed on time?

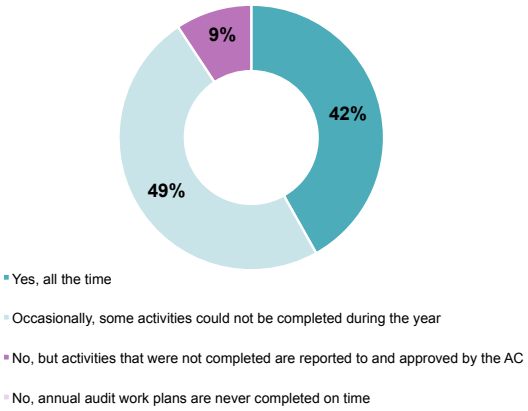
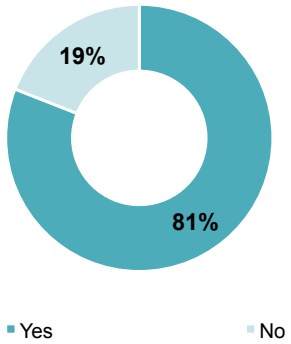


Chart 31 : Does Internal Audit seek feedback (either informally through discussion with key stakeholders or formally through Internal Audit customer satisfaction surveys) on its activities from auditees and stakeholders?

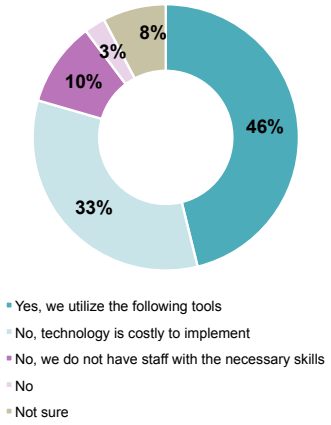


Technology is still not being leveraged sufficiently by IA

IA functions are increasingly looking at ways to incorporate technology, especially the use of data analytics, into the way they analyze larger data samples and exceptions.

The survey found that while 46% indicated that IA is leveraging technology, 54% indicated that they do not leverage technology as it is too costly to implement or they don't have staff with the necessary skill sets. However, it was encouraging to see that this skill set gap was recognized as an area of focus going forward (Chart 32).

Chart 32 : Does Internal Audit leverage on technology (such as data analytics) to increase audit effectiveness and efficiency, and enhance productivity?



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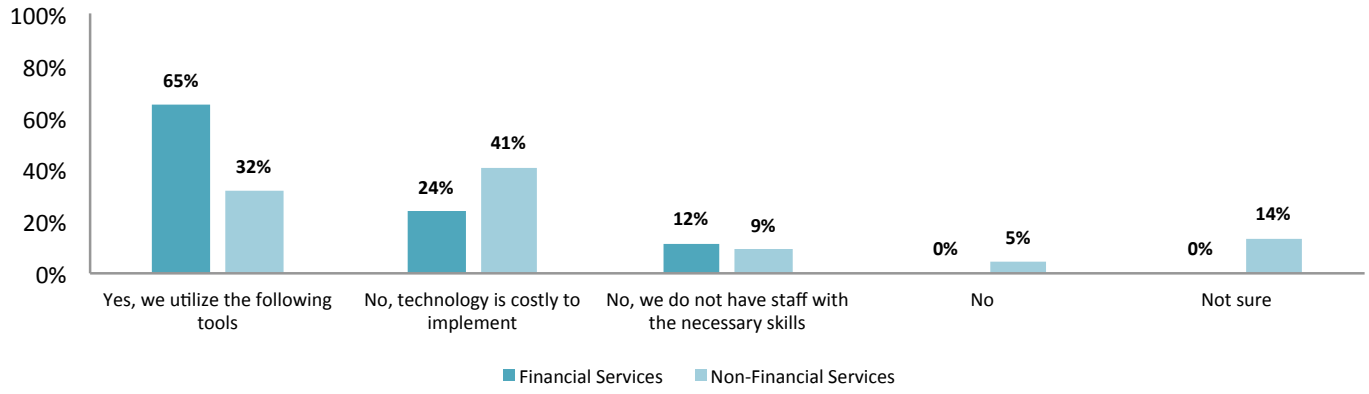
Interestingly, there was a significant difference between the split for FS and non-FS organizations (Chart 33). 65% of FS companies used data analytics, compared to 32% for non-FS - 41% of whom found that data analytics was too costly to implement.

This result has been driven by the increased regulatory requirements for FS organizations and the subsequent need for IT systems to capture significant volumes of data (particularly in relation to market, credit and operational risks). FS organizations have developed mature approaches to data analytics as a fundamental part of their business and IA programs. Non-FS organizations are increasingly identifying opportunities to deploy data analytics across all IA projects. While the quality of the data may not be a structured as the FS environment, non-FS should take the time to invest in skills, training, processes and technology as this is the way forward for a significant majority of IA functions, particularly to obtain the depth and coverage required to satisfy stakeholder expectations.

Chart 33 : Does IA leverage on technology (such as data analytics) to increase audit effectiveness and efficiency, and enhance productivity?



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Conclusion

Our analysis of the state of IA in Indonesia indicates that there is a solid base: IA appears to be highly regarded throughout organizations, the majority of internal auditors have significant IA experience and risk-based auditing is well established. However there is still scope for improvement and the following areas of focus were noted for the Board and CAEs to focus on:

- Establish regular communication between IA and key stakeholders to firm up key focus areas, including the allocation of IA resources across key priorities (such as risk management and internal controls, corporate governance, IT and compliance)
- Consider the optimal structure and resourcing model for the IA function to deliver a sufficient coverage in terms of breadth and depth of projects
- Enhance the skills and experience of the IA function (by considering rotating personnel with business experience into IA, increasing IA training opportunities and establishing formal career development plans)
- Develop a business case for investing in technology (such as data analytics) to enhance the depth of analysis and coverage
- Establish better coordination across the providers of assurance (internal and external assurance providers/auditors).

As the level of maturity of IA in Indonesia continues to develop, companies should focus on investing in the appropriate tools and training to enable IA to move to the next stage. In the short term, the result of our survey indicate now may be an appropriate time to perform a Quality Assurance Review over the IA function to identify current challenges and areas for improvement which will enable the organization to move to the next level. In the long term, organizations should consider an integrated assurance framework across the four lines of defence which could offer a robust approach to resolving some of the current issues, and improving overall standards of internal control and risk management across an organization.

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