A Reputation on the Rise

An Insider's Guide to Professional Practices Groups for Internal Audit in Large Financial Institutions
Introduction

The core focus of professional practices groups (PPGs) is managing the business of internal audit. As internal audit functions of financial services industry (FSI) organizations come under increasing pressure to keep pace with the growth of the business, PPGs are busily pursuing initiatives, addressing challenges and planning future innovations designed to enhance internal audit performance.

As regulations, regulatory expectations, industry requirements and professional guidelines have increased, the size, prominence and value of professional practices groups for internal audit have also expanded. Today is therefore an ideal time to take a deeper dive into the role professional practices groups play within the financial services industry.

The observations in this paper are based on interviews with internal audit and PPG leaders within large, U.S.-based financial services companies (those with assets under management of greater than $50 billion). These insights center on four key facets of PPGs:

01 Roles and Responsibilities

02 Structure

03 Challenges

04 Current and Future Initiatives
This research indicates that the stature of PPGs is rising in the eyes of the chief audit executive (CAE), the senior executive team and the board of directors. Individual findings from Protiviti’s qualitative survey also shed new light on the specific obstacles and opportunities PPGs contend with while ensuring that the internal audit function meets all relevant standards. Key findings include:

- **A staffing divide:** The size of PPGs staff within the largest financial services companies is significantly larger than PPG staff in banks with less than $500 billion in assets under management. The largest FSI companies staff more than 80 full-time PPG professionals, while smaller banks typically employ seven to 40 PPG professionals.

- **Talent is a top focus:** Talent management represents top priority and a growing challenge. PPG leaders strive to recruit and develop new internal audit skill sets and knowledge, including but not limited to data analytics, cybersecurity, anti-money laundering and Comprehensive Capital Analysis and Review (CCAR). Once these skills and talent are in place, PPG leaders must find ways to retain professionals with these highly marketable skills.

- **Board reporting can be enhanced:** PPG leaders indicate that the process of reporting internal audit’s performance results to the board can be improved by data analytics and more automation, which enhances their value and insights.

- **Analytics also apply to internal audit’s performance:** While most internal audit functions are focused on deploying data analytics to perform their work more efficiently, leading PPGs are looking to mine data to help manage the entire internal audit function more effectively.

- **Future innovations are underway:** Leading PPGs have started developing new capabilities. These include holistic issue identification and evaluation; deeper collaborations with other risk management functions within the first and second lines of defense, IT security and other new organizational partners; and new approaches to ensuring global audit coverage is sustained in a unified manner.

Given the continuing regulatory burden placed on financial services firms, as well as the expansion and transformation of the current operating environment, combined with the issues and the insights shared by PPG leaders in this survey, it is very likely that the business of internal audit will become far busier in the coming years.
Professional practices groups are responsible for setting internal audit strategy, priorities, methodologies, policies and procedures, and standards. Highly effective PPGs are distinguished by their overarching and systematic approaches by adding value in several areas, including relationship management and the implementation of best practices.

Interviews with business leaders portray PPGs as independent, integrated and aligned with the organization’s overall strategy and risk profile, and highly focused on enabling and improving the business of the internal audit function. Teams within PPGs commonly focus on seven functional areas: strategy/methodology, quality assurance, training, talent management, reporting, technology support, and data analysis. PPGs conduct work in these areas through a combination of guidance, training, performance metrics, scheduling and the use of a range of tools (including technological tools).

The most effective PPGs favor a systematic approach and an overarching reach. These groups have developed a detailed understanding of the entire audit lifecycle, ranging from governance and methodology, to resources and technology, to ensuring that the function adheres to all relevant requirements and standards while operating as efficiently as possible.

Effective policies, procedures and foundational methodologies support this systematic approach. Leading PPGs also tend to pinpoint which data to monitor — and which measures to track — for the purpose of helping the internal audit function continuously improve. Although specific performance metrics vary by company and PPGs, these measures typically focus on three areas:

1. Audit execution, including coverage of material risks
2. Talent and other resources
3. Quality.

The final area of roles and responsibilities that define leading PPGs relates to how they add value through several activities, most notably managing relationships with key stakeholders and implementing best practices. From a relationship management perspective, this means nurturing and sustaining constructive, trusting collaborations with a number of areas, including:

- **Second lines of defense**: PPGs work with risk management and compliance partners to ensure that the internal audit function’s view of risk is aligned and integrated with the second line’s view of risk. Leading PPGs ensure that the function leverages risk assessment results from the second line functions and that a common risk taxonomy underlies all of its activities.

- **The audit committee of the board and other internal stakeholders**: PPGs understand audit committee expectations and ensure that the internal audit function’s policies, procedures, resources and board reporting are fulfilling those expectations. While the chief audit executive is primarily responsible for managing the audit committee relationship, PPGs play a key role supporting CAEs in those efforts.

- **Regulators and standard-setters**: PPGs also strengthen the internal audit function’s understanding of regulatory expectations by meeting with regulators and by working with them during annual internal audit exams and other mandated exercises, such as the horizontal reviews conducted by the U.S. Federal Reserve and the Office of the Comptroller of the Currency (OCC).

### Roles and Responsibilities Table

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Professional practices groups report directly to the CAE with an inherent link to the board of directors; this means that PPGs support audit chiefs in the fulfillment of their audit committee duties. Staff sizes vary considerably. These staffing variations are based on several factors, including but not limited to complexity of the organization and assets under management.

A dramatic drop-off in full-time headcount is quickly apparent when comparing the largest (by assets under management) financial institutions to the rest of the pack. This gap marks one of the most notable findings in our research.

Banks with more than $500 billion in assets under management employ 40 to 80+ plus full-time professionals. Larger PPGs tend to exist within internal audit functions whose headcounts exceed 1,000 professionals. PPGs within companies with less than $500 billion assets under management operate in a much leaner fashion, typically employing anywhere from seven to 40 full-time staff members. In some instances, banks with less than $75 billion in assets under management may have a PPG staff of two. Smaller PPG staffs also mean that the group’s capabilities and capacity for supporting the internal audit function are diminished.

Besides assets under management, several other factors appear to drive PPG headcount up or down. One of these factors includes the bank’s complexity, which is influenced by its risk profile as well as the geographic scope of its operations and regulatory expectations. The scope of the PPG’s roles and responsibilities also affects staff size. If a large internal audit function has its data analytics function report to the PPG, that reporting structure increases headcount by as many as a dozen or so professionals. The financial institution’s progress with regard to meeting regulatory expectations also can affect staffing levels. If an internal audit function is addressing several matters requiring attention (MRAs) and/or consent orders (CO) from the OCC, that work can require increases to PPG headcount, via full-time hires and/or co-sourcing arrangements.

The internal audit function’s overall structure also affects PPG staffing levels. Larger internal audit functions that have created shared services approaches for data analytics, issues tracking and other processes, can maintain smaller PPG staffs, for example.

**Structure**

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Challenges

When asked to identify the challenges their functions are addressing, PPG leaders commonly identify three areas: people, data and performance. The last challenge involves two components — tracking audit plan execution and reporting internal audit’s performance to the board — and it represents a major improvement opportunity across most professional practices groups.

Discussions with leaders highlighted the ways PPGs are addressing each of these issues:

1. **Resource Management/People Retention:** This challenge centers on the question of how internal audit functions can improve how they recruit, develop and retain talent. Regulators expect audit functions to operate with the capabilities and capacity necessary to address their organization’s material risks. An organization’s risk profile should drive staffing talent management decision-making in the internal audit functions, so PPGs need to ensure that talent processes align with the organization’s risk profile. As this risk profile changes — in response to sudden market and business shifts, the emergence of disruptive technology, and other disruptive forces — internal audit’s talent mix needs to change in response. A detailed understanding of regulatory expectations along with skills related to risk assessment methodologies, quality assurance, and data analytics, as well as clear and concise writing, represent competencies that are in high demand right now. Additionally, many FSI internal audit functions have experienced a growing need for cybersecurity skills, CCAR knowledge and financial technology, or fintech, expertise. The increasing application of distributed ledger technology (i.e., blockchain) in the industry will likely intensify demand for such expertise in the near future. Implementing these talent management changes requires an agile mix of recruiting, training and development, and retention activities. Retention often becomes a significant challenge when the demand for a certain skill set suddenly spikes. To address this and other people-related challenges, some larger PPGs have hired full-time talent management professionals who are dedicated to internal audit staffing.

2. **Analytics and Methodologies:** Compared to internal audit departments in other industries, FSI functions are ahead of the curve in identifying how to leverage data to execute audits in a more efficient manner. While PPG activities related to technology support and talent management can help the function increase its use of data and auditing automation, PPGs are also challenged to deploy data-management tools and techniques to help the overall function operate more effectively and efficiently. In the survey interviews, PPG leaders expressed a desire to use analytics to make the function’s risk assessment process more efficient as well as more responsive to business changes and to quickly evolving risks. PPG leaders also want to develop ways to analyze the data across all audit reports to track trends that would help identify overarching function-level issues before they develop into larger problems.

3. **Reporting:** Addressing the analytics challenges described above would help strengthen reporting activities by equipping PPGs with more precise and relevant key performance indicators (KPIs) and key risk indicators (KRIs). PPG leaders want to track these indicators as a means of more effectively monitoring the function’s overall performance. That monitoring informs the performance reporting the CAE shares with the executive team and the board. Currently, this reporting is highly manual in most cases. PPGs tend to track performance on a spreadsheet-based scorecard. PPG leaders want to make this reporting more automated by deploying dashboards populated with KPIs and KRIs. To date, however, relatively few PPGs have fulfilled this widespread objective.
Given the hectic pace within FSI internal audit functions, it is unsurprising to find PPGs conducting a full slate of current initiatives. More unexpected is the fact that PPGs leaders are carving out time to lay the groundwork for an innovative set of future initiatives. These plans are designed to improve the function’s performance through process improvements, technology deployments and deeper collaborations with a range of internal and external stakeholders.

PPG leaders identified a total of 12 different current activities that they classified as “key initiatives” (See “Current Key Initiatives”). Among these initiatives, PPG leaders point to several that qualify as priorities. These priority lists tend to vary based on company size. Among the largest FSI organizations, PPGs appear particularly focused on the following initiatives:

• Reliance strategy in the first and second lines of defense
• Staffing/talent management
• Expanding/enhancing quality assurance programs
• Enhanced management and board reporting
• Streamlining audit processes/simplifying execution.

Among banks with less than $500 billion of assets under management, PPG leaders emphasize the current importance of a different set of key initiatives, including:

• Assessing/meeting heightened regulatory standards
• Expanding the quality of assurance programs
• Dynamic/continuous risk assessment.

Given the high number of initiatives currently underway, PPGs must address two pressing questions, regardless of which activities top their priority lists: How can we implement this effectively and efficiently? Do we currently have the skill sets we need to do so?

Addressing these questions is driving many internal audit functions, particularly at the largest banks, to concentrate on streamlining and simplifying processes wherever possible. PPG leaders say they want to meet a changing set of requirements in a more efficient manner. PPGs that can do so have more resources to dedicate to higher-value initiatives — today and further into the future.

When asked to describe future initiatives they would like to pursue, PPG leaders identify three activities:

1. **Holistic issue identification and evaluation:** This capability extends beyond internal audit, and it involves consistently subjecting issues identified in one area of the business (and by one line of defense) to a methodology that determines if a similar issue exists in other parts of the enterprise.

2. **Horizontal partnering with other assurance and consulting partners:** PPG leaders plan to deepen their team’s collaboration with other areas of the bank whose work also covers assurance and consulting. Potential partners include second line functions focused on enterprise risk, compliance and regulatory risk or IT risk management, and various front line units that may be focused on vendor risk management and model risk management, among others. The purpose of such collaboration is to establish a consistent view of risk across the organization as the basis for aligning risk controls and assessments that help minimize operational risks in a coordinated manner.

3. **Global audit coverage by a unified team:** PPGs leaders within banks with multinational operations say they want to implement a range of mechanisms to ensure global auditing teams, with co-sourcing providers and other relevant external partners, audit and manage risks in a consistent fashion. Leaders say they want to replace a silo-based approach with a consistent, more holistic auditing mind-set and approach.
Professional practices groups have focused on the business of internal audit in the financial services industry for a long time. While their future existence appears assured, their ability to make the international audit function more effective and efficient is less certain due to ongoing regulatory and economic volatility, along with the growing impact of technological disruptions and other external impacts to the business and industry. The surest way for PPGs to strengthen their function’s performance is by continuously evolving and improving — achievements that will further enhance their rising stature. There are signs that this is already in process in some firms, since the survey demonstrated that some PPGs are embracing new technologies, specifically in data management, to help streamline internal audit processes and foster greater efficiencies with the first and second lines of defense. This is a trend that will only increase as PPGs continue to drive forward with their goal of simplifying process, which ultimately depends on how well they continue to be resourced and staffed.
How Protiviti Can Help

Internal Audit and Financial Advisory

Our Internal Audit & Financial Advisory solution helps companies move away from focusing solely on detection of business-control breakdowns to providing solutions for business-control improvement. Organizations typically approach us as they need to enhance processes to meet heightened expectations of internal and external stakeholders.

We work with audit executives, management and audit committees at companies of virtually any size, public or private, to assist them with their internal audit activities. This can include starting and running the activity for them on a fully outsourced basis or working with an existing internal audit function to supplement their team when they lack adequate staff or skills.

Protiviti professionals have helped with the redesign and transformation of internal audit organizations, including performance of current state analysis and gap assessments, assistance with transformation project management, and implementation of audit initiatives. Protiviti’s depth of audit expertise assists organizations in the build-out of robust quality assurance programs, the design and evaluation of risk assessment approaches, and the design of more efficient and impactful audit reporting tools and processes.

Among the services we provide are:

- Internal Audit Outsourcing and Co-Sourcing
- Internal Audit Transformation
- Internal Audit Quality Assurance Reviews and Leading Practice Assessments
- Audit Committee Advisory
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Protiviti is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independently owned Member Firms provide consulting solutions in finance, technology, operations, data, analytics, governance, risk and internal audit to our clients through our network of more than 70 offices in over 20 countries.

We have served more than 60 percent of Fortune 1000® and 35 percent of Fortune Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

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