



**Institute of Internal Auditors
– 9th Annual Super
Conference**

**Audit's Role in the
Face of Uncertainty
and Rapid Change**

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Introduction



Jessica Roos
Chief Auditor, Citi

Jessica joined Citi Internal Audit in March 2014 and was appointed Chief Auditor in April 2019. She is responsible for the Internal Audit department, which includes the delivery of audit assurance on governance, risk management and the control environment across Citi.

Jessica brings a wealth of knowledge to the team with over 20 years of experience. She joined Citi Internal Audit in March 2014 and was previously the Chief Auditor for the Institutional Clients Group (ICG). Before Citi, she was a partner at PricewaterhouseCoopers in their Banking and Capital Markets' practice. She led audit engagements for some of PwC's largest and most complex capital markets engagements and developed due diligence and audit plans for the acquisitions of target companies. She evaluated complex financial instruments for appropriate accounting treatment and also has assessed the methodologies and assumptions for valuing financial instruments and reserving for loan losses.

Jessica worked in a number of environments to assess processes and procedures, determine appropriate controls, provide control gap analysis and make recommendations for remediation. She worked with senior management to create board and business level policies related to risk and reserving practices. In the private wealth market, she managed a team, as a controller, for a regional private wealth management firm. Jessica is a Certified Public Accountant and a Member of the AICPA.

Agenda

1. Navigating Uncertainty and Change
2. Staying Abreast of Emerging Risks
3. Harnessing the Power of Innovation
4. The Importance of Culture, Conduct and Ethics
5. Q&A

Navigating Uncertainty and Change

Internal Audit's Response to COVID-19

The Citi Internal Audit response to COVID-19 focused on 3 main areas:

1. Our People

- **Transitioned to remote work promptly and smoothly**, as health and safety were the top priority
- **Focused on engaging our teams**, supporting them with training and communications around remote work, staying connected, and being resilient leaders
- **Reimagined recruiting**, with new virtual and social media efforts

2. Our Plan

- **Implemented a 30-day audit BAU pause** to concentrate on critical priorities, provide real-time feedback, and provide audit relief to stakeholders
- **Reevaluated audit plan priorities** for 2020 and beyond, focusing on areas of highest risk
- **Presented changes to the Audit Committee**

3. Our Partners

- Provided our Citi stakeholders with **support through real-time procedures**
- **Seconded audit team members** to help with certain business functions / processes
- **Provided enhanced business monitoring** to further mitigate upcoming risks



Challenges Audit Faced During the Crisis

Citi Internal Audit Facing a Pandemic

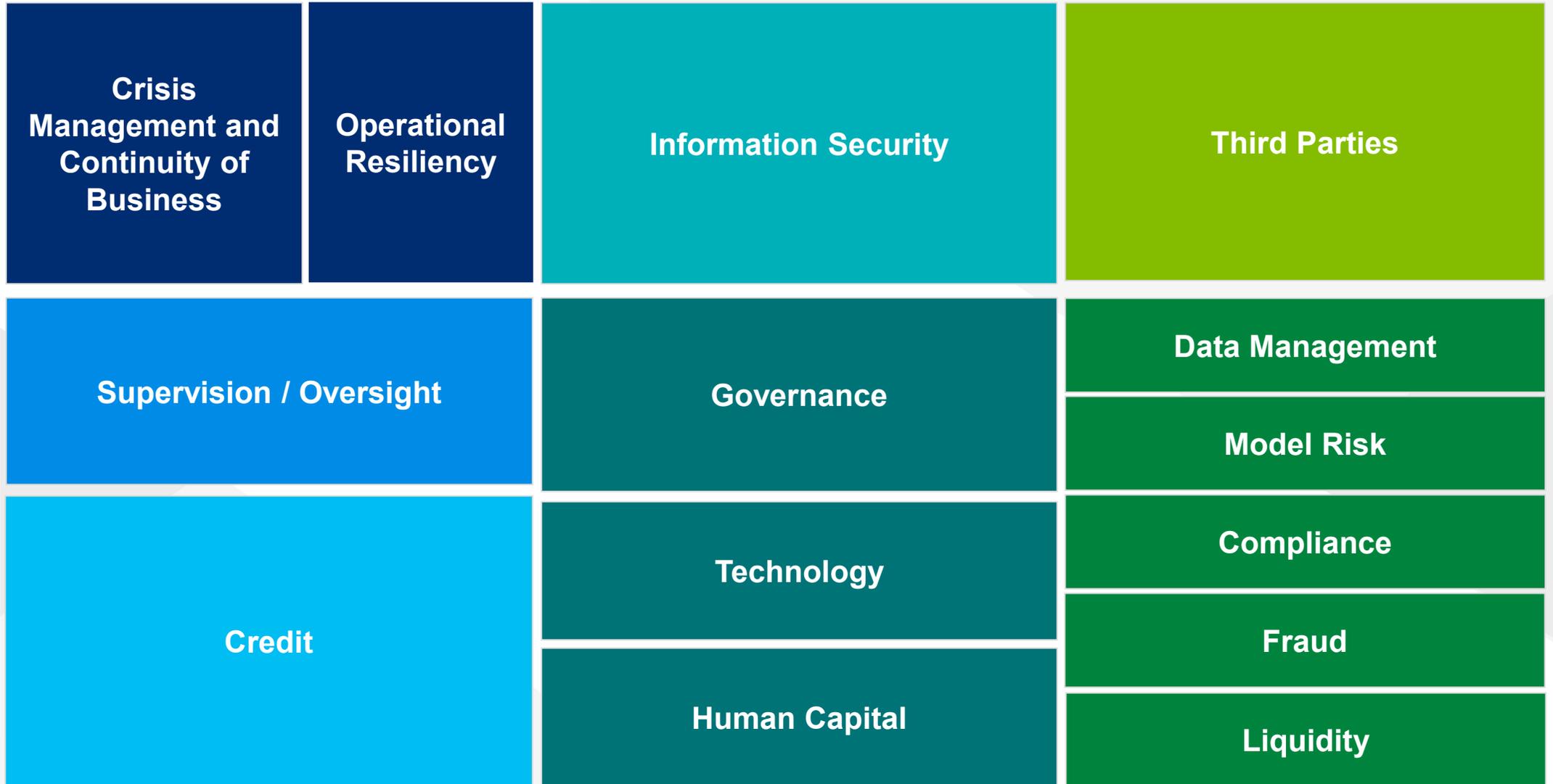
- The new normal also brought about many challenges, which if left untreated would hinder the audit team's success and the overall success of the organization.

- Technology and connectivity issues as teams transitioned to remote work
- Keeping teams engaged and morale up
- Conducting audits in a fully remote capacity
- Employee burnout and additional work/life balance needs
- Increased workload to respond to increasing and emerging risks such as fraud detection, information security and other COVID-19 related risks

IA Response to COVID-19 – Focus Areas

Citi Internal Audit Facing a Pandemic

The Citi Internal Audit function continues to monitor changes to the control environment, and focuses efforts on areas of heightened risk. This includes adjusting the audit plan to include additional Risk Based Audits, Business Monitoring and Governance activities.



Staying Abreast of Emerging Risks

Staying Abreast of Emerging Risks

What is an Emerging Risk? A risk to the organization that is new or increasing, which is difficult to measure and could have an adverse impact to the control environment

Why does it matter? Now more than ever, it's key for audit teams to be proactive and prepared when it comes to assessing emerging risks and potential responses



Emerging Risks Watch List:

- Continued COVID-19 related risks
- Climate change
- Technology risks (including Cyber and Information Security)
- Regulatory changes
- Geopolitical risks

Citi Internal Audit Emerging Risks

- Now more than ever, it's key for audit teams to be proactive and prepared when it comes to assessing emerging risks and potential responses.

Staying Abreast of Emerging Risks – Citi Audit Team & Process

Citi Internal Audit Emerging Risks

- Internal Audit formed an Emerging Risks Team that is responsible for identifying and monitoring risks to the bank, as well as audit's response.



2020 Efforts in the Emerging Risks Space:

- Developed inventory of emerging risks using top down/bottoms up risk identification approach across teams and geographies. Examples include:
 - Climate Risk
 - Operational Resiliency
- Partnered with product/function audit teams to identify and assess emerging risks arising from the current environment/COVID-19
- Developing Emerging Risk Framework/Methodology covering identification, risk assessment, audit strategy and monitoring and reporting (including processes, templates, KRIs, etc.)
- Continuing to partner with the Risk Identification and Operational Risk Team in the emerging risk space

Staying Abreast of Emerging Risks – Citi Audit Response

Citi Internal Audit Emerging Risks

- IA provides coverage of Emerging Risks through multiple mediums
- Extent of coverage is determined by leveling criteria and in consultation with Product/ Function IA teams

Audit Response

- Determine organization areas impacted by emerging risk. IA's coverage of each emerging risk is designed by the risk owner(s) and is sourced by each product, function and regional audit teams' plan.
- Assign accountability for monitoring and reporting these emerging risks.
- Ongoing monitoring of quantitative and qualitative key indicators performed periodically, and results reviewed by the Emerging Risks Working Group and IA Strategy & Emerging Risks Team centrally.
- Design audit responses giving consideration to the risk level, KRIs, judgment, management response and so forth.
- Document planned audit response in the Emerging Risks coverage reporting template.
- Discuss proposed audit response(s) and guidelines (to share with audit teams) with the Emerging Risk Working Group and review for adequacy of coverage.
- Coverage is to be reviewed by risk type and not in silos.
- Each audit response is tailored to meet the complexity of the underlying emerging risk.



Harnessing the Power of Innovation

Introduction to Audit Innovation – What’s the Mission?

The Innovation Mission

Overview

- IA Innovation’s mission is to take more forward, proactive approaches to providing greater assurance and strengthening the control environment.
- IA Innovation aims to expand Internal Audit’s impact and influence by providing tools to identify emerging risks and issues, utilize data and integrated platforms to uncover hidden patterns, and improve the auditor journey.

Smarter Auditing – significantly improve the control environment and assurance through large population testing, anomaly detection, and new techniques



Smarter Testing

- ✓ Deeper testing through **automation** and **full population testing**
- ✓ Use of multiple solutions to help **identify thematic patterns across countries and entities**



Insightful Risk Assessment

- ✓ Identifying emerging risks and issues to **drive insights** and **connect the dots**
- ✓ Using data and integrated platforms to uncover **hidden patterns** and develop new hypotheses



Improving the Auditor Journey

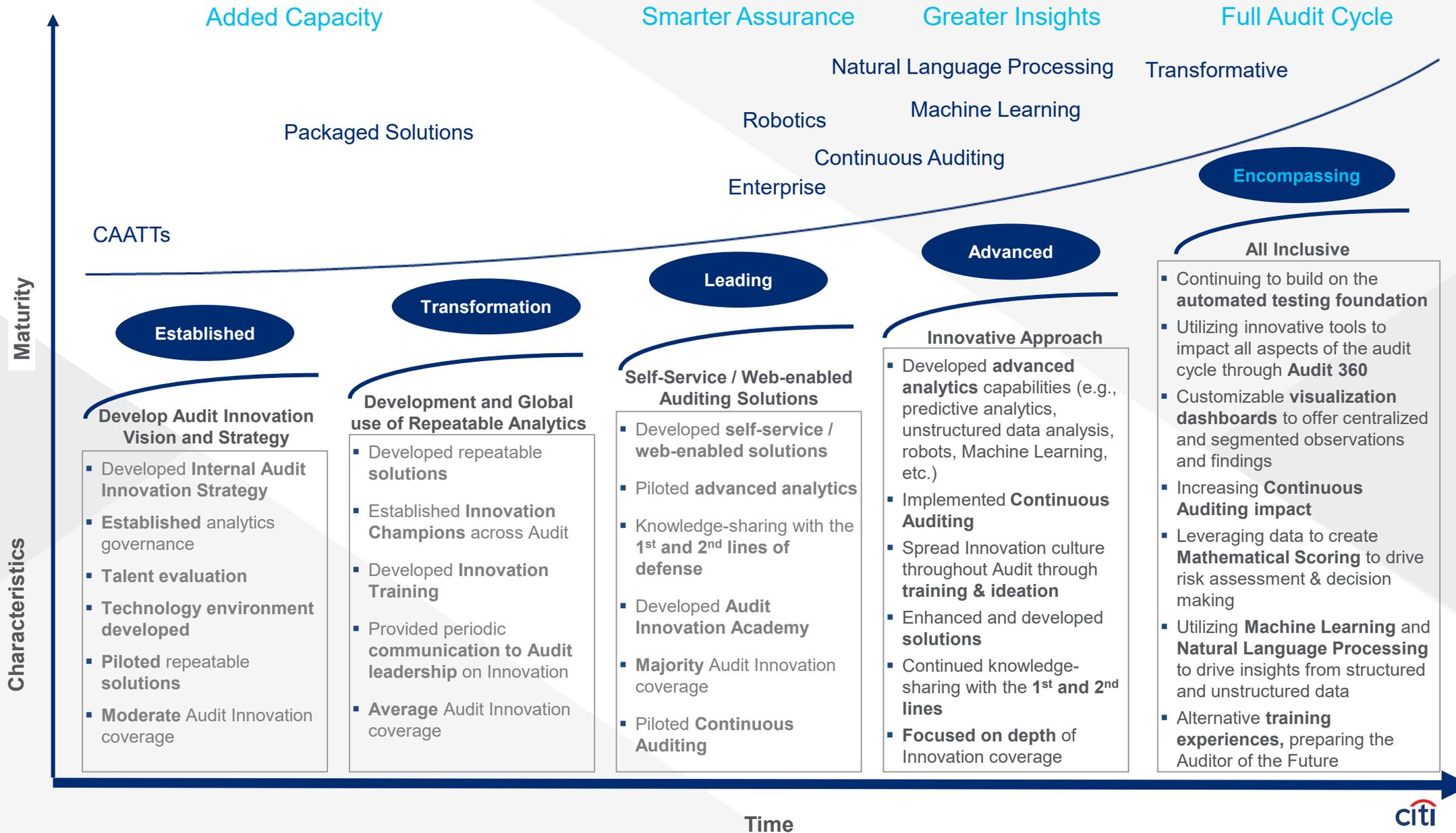
- ✓ Using technology and innovation to support the **auditor of the future**
- ✓ Sharing **subject matter expertise**, yielding insights and popularizing a **data driven mindset**



Our Journey from Audit Analytics to Advanced Innovation

Citi Internal Audit Innovation Journey

- Our Innovation journey demonstrates our continuous improvement process.
- IA Innovation embraces transformative change – moving beyond our original focus on testing to encompassing and transforming many aspects of the full audit cycle.



The Overall Impact of Innovation – Benefits to Each Group

Citi Internal Audit

Impact of Innovation

- The benefits of innovation can be seen across groups from auditors and stakeholders to the board and regulatory agencies.

Auditor

- ✓ Reduction of error rates and added assurance by testing full population
- ✓ Auditors are more empowered from the utilization and exploration of data, augmenting their decision-making and creating the auditor of the future
- ✓ Auditors can identify emerging risks and issues to connect the dots and drive strategic conversations with stakeholders

Stakeholder

- ✓ Real-time escalation of thematic issues
- ✓ Widespread use of data helps gain an understanding and strengthening of entire control environment, providing thematic insight
- ✓ Timely identification of issue themes and root causes enhances business controls

Board

- ✓ To demonstrate that Internal Audit is a positive change agent for the organization
- ✓ Assurance that Internal Audit has the subject matter expertise to audit new and emerging analytical tools and technology
- ✓ To further enhance the control environment and demonstrate that Internal Audit is using new tools and techniques to stay ahead of risks

Regulatory Agencies

- ✓ Reduced risk of non-compliance to regulatory requirements
- ✓ Increased depth of coverage using full populations
- ✓ Increased frequency of coverage from continuous auditing

Innovation and the Audit Lifecycle

Citi Internal Audit

Audit Lifecycle

- IA Innovation will continue to impact every phase of the audit lifecycle

Issue Validation

Enterprise and packaged solutions are utilized to validate issues (e.g., EUC solution, used as part of the CAP Validation process to test management's attestations of EUC controls)

Audit Reporting

SMART Audit Report Rating Scoring feature, driving transparency, consistency, and standardization.

Continuous Auditing testing, and thematic reporting and analysis.

Utilizing digitized data to drive insights

Audit Fieldwork

Addition of new solutions and connecting the dots framework to draw out increased risk themes and patterns across the control environment

Business Monitoring

Enhanced Business Monitoring Dashboard to include additional KRIs and KPIs supported by NLP & Machine Learning alerting

Risk Assessment

Bringing SMART reporting to Risk Assessments systemically enhanced through data driven calculations inclusive of BM and audit finding triggers

Audit Planning

Bringing SMART reporting to the Audit Planning Memo allowing for source data feeds, informed decisioning, and insightful visualizations



The Importance of Culture, Conduct and Ethics

Culture, Conduct and Ethics – The Heartbeat of the Organization

The right company culture can make or break an organization and many have been put to the test with the onset of the crisis this year. A culture that embraces change, flexibility, transparency and encourages staff to challenge the status quo is one that is best positioned to respond to the crisis and navigate changes due to shifts.

For Citi Internal Audit, supporting our people through the unprecedented changes and uncertainty has been of utmost importance. We quickly transitioned to a fully remote work environment and supported our team members as follows:

- **Increased our communications**
 - Developed global email campaign around being “in this together” to share tips and best practices around remote work, share photos on new quarantine hobbies and learn from one another on what was working best or not
 - Increased communication and frequent touchpoints between leaders and their respective teams
 - Worked closely with Citi’s global and regional teams to provide consistent messaging to audit teams
- **Increased our engagement and collaboration practices**
 - Hosted frequent game nights, scavenger hunts, happy hours and team touchpoints on Zoom
 - Provided added incentives around recognition to ensure we maintain engagement and boost team morale
- **Increased flexibility, empathy and flexible work arrangements**
 - Implemented more flexibility around hours and days working, as well as where team members could work from (at home, in office or in another location across the region or globe)
 - Encouraged staff to take time off to rest and reset (booster vacation day for 2021, extra day off in May in U.S.)

- In an ever-changing environment, it’s key to keep your finger on the pulse when it comes to the employee base.
- This underpins all other risks, transformations and goals your organization may have and has a direct impact to the organization’s reputation.

Culture, Conduct and Ethics – Auditing Your Stakeholders

Auditing Culture, Conduct and Ethics is a relatively new “hot topic” and essential to the audit plan given the new normal, growing regulatory concerns and the team’s evolution. Auditing Culture, Conduct and Ethics requires a unique approach, which we explore below:

3 Stages to Auditing Culture, Conduct and Ethics



1. Behavior Assessments

- Assess Firm’s desired outcome which will be used to drive controls testing
- Facilitate management / leadership discussions
- Ethical Culture Voice of the Employee survey results
- Stakeholder interviews
- Structured surveys
- Assess “Tone at the Top”; “Middle”; and “Echo from the Bottom”

2. Testing of Controls

- Test key governance packages
- Review sample of substantiated breaches, incidents and HR performance
- Compensation, claw backs and promotions
- Consequences of misconduct are appropriate and consistent
- Review the Code of Conduct and other culture trainings
- Review controls for setting, measuring, accountability for goals (sales, P&L)

3. Measuring Outputs, Monitoring & Metrics

- Breaches and disciplinary actions
- Employee and customer complaints
- Regulatory/audit issues & self assessments issues
- Risk limit and tolerance overages
- Compliance surveillance and incident trends
- Operational breaks and trading errors
- Operational, legal, and fraud incidents & losses
- Employee satisfaction & termination trends
- Goals benchmarking & reasonableness assessments

Citi Internal Audit

Culture, Conduct & Ethics

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Q&A

Thank You!

