

## UOB INTERNAL AUDIT'S TRANSFORMATION JOURNEY

*Daniel Ng, Head of Group Audit, UOB*

As banks transform to stay relevant to their customers' needs, their Internal Audit (IA) functions also need to raise their standards and ensure that they remain an effective third line of defence. The advent of big data, prevalence of data analytic tools and advances in audit approaches are some developments that have been redefining the IA function and changing the way auditors perform their work.

Against this backdrop, UOB's IA function embarked on a series of transformation initiatives under its Three-Year Transformation Plan, investing in innovative tools and methods to automate processes such as performing audit tests and reporting. The transformation process has enabled the function to drive internal cultural change, to sharpen our capabilities in core activities such as audit testing, audit reporting and quality assurance and to stay relevant to the Bank's needs. The function is now also more effective in dealing with challenges amid a more dynamic risk landscape and more stringent regulatory requirements, as it taps the use of emerging technologies, such as artificial intelligence (AI), application programming interface (API), blockchain and cloud computing.

A further challenge arose in 2020 in the form of large-scale work-from-home arrangements triggered by the COVID-19 pandemic. The benefits of earlier investments to gain direct access to more bank systems and data, and greater use of data analytics to support audit work were clear to the IA function.

## Factors Affecting IA Functions

***Advent of big data and the prevalence of data analytics tools:*** Some organisations have invested in sophisticated data infrastructure and many have set up big data teams and adopted big data tools and methods.

***Emerging technology:*** Artificial intelligence, blockchain, FinTech collaborations and digital banking are becoming commonplace for banks.

***Advances in audit approaches in IA functions:*** Leading banks are finding new ways to prepare themselves for the future and some have adopted agile auditing.

***Higher expectations from audit committees and regulators:*** IA functions are expected to adopt advanced technology and auditing methods.

## UOB IA's Three-Year Transformation Plan

There are three pillars to UOB IA's Three-Year Transformation Plan, namely Enhanced Audit Methodology, Aligned Assurance, and Innovation and Decision Science. The plan was supported by a Data Analytics (DA) roadmap for the adoption of advanced data analytics methods and an Innovation and Decision Science (IDS) team was also formed to drive the DA implementation. With the DA foundation in place, IA was able to roll out enhancements to its audit methodology and to step up efforts on its collaboration with the first and second lines of defence to achieve more closely-aligned assurance. The use of DA also supports greater experimentation with data science methods. In addition, the IDS team identified areas for automation, including core IA activities such as performing audit tests, audit reporting and quality assurance.



## (A) Enhanced Audit Methodology

Under the first pillar of Enhanced Audit Methodology, UOB IA introduced an Enhanced Risk Assessment Framework, a Continuous Auditing (CA) method and a Digital Risk Audit Framework.

### (a) Enhanced Risk Assessment Framework

Our Enhanced Risk Assessment Framework ensures a robust risk assessment approach to deepening our internal auditors' business insights and risk management competencies, enabling better deployment of audit resources to areas that require attention. Under the framework, we have also further strengthened our audit effectiveness and efficiency, reducing the intensity for audit of lower-risk entities while increasing coverage and intensity for higher-risk entities.

### (b) Continuous Auditing

The CA approach taps Data Analytics to enable the assessment of key controls within a shorter timeframe. It provides a more up-to-date view of risks and continual assessment of control effectiveness.

### *(c) Digital Risk Audit Framework*

The Digital Risk Audit Framework provides guidance to internal auditors on how to carry out audits on digital initiatives effectively. It is accompanied by a set of audit testing programmes for topical areas in emerging technologies such as AI and machine learning, API, automation and robotics, blockchain and cloud computing.

## **(B) Aligned Assurance**

Under the Aligned Assurance pillar, IA leverages its CA process to deepen the collaborative efforts across and to strengthen the effectiveness of the Three Lines of Defence (3LOD) functions in the Bank. The aim is to align even more closely the assurance processes and to reduce duplication of assurance activities. Following the completion of a 3LOD diagnostic project, the Bank set up a 3LOD Working Group in 2019 that is currently overseeing the progressive roll-out of alignment initiatives. The goal is to achieve a set of standardised and consistent risk methodologies, risk management toolkits, information, reports and dashboards across the UOB network.

## **(C) Innovation and Decision Science**

As part of the transformation, innovation became a core element of UOB IA's methodology, with decision science as a key enabler. New ideas and ways have been introduced in UOB IA to improve functional efficiency and effectiveness across its core activities. Data science methods have been introduced and advanced DA has been adopted to support different types of audits. As a result, we are now able to achieve better data-driven insights.

## Looking ahead

### (A) Elevating Audit Competencies



To sustain our transformation process, UOB IA has developed a Competency Framework to identify the skills and knowledge required of auditors and supplemented that with a targeted training roadmap for our colleagues. We also set up a training academy to offer a series of training programmes covering topics such as audit methodology, digital risk and advanced analytics so that our colleagues are equipped for the future.

### (B) Further Methodology Enhancement



As part of our next stage of audit methodology enhancements, UOB IA will incorporate behavioural science as a required skillset for our colleagues. The aim is to develop a behaviourally-informed approach to auditing, which will in turn enable us to meet the new regulatory requirements on auditing behaviour and culture.

*Photo credit: Yong Phui Wan (UOB Malaysia), Anna Maria Katerina Pandiangan (UOB Indonesia)*

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Over more than eight decades, generations of UOB employees have carried through the entrepreneurial spirit, the focus on long-term value creation and an unwavering commitment to do what is right for our customers and our colleagues.

We believe in being a responsible financial services provider and we are committed to making a difference in the lives of our stakeholders and in the communities in which we operate. Just as we are dedicated to helping our customers manage their finances wisely and to grow their businesses, UOB is steadfast in our support of social development, particularly in the areas of art, children and education.

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