Leadership and Rising Stakeholder Expectations

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A World of Turmoil

Consider the operating environment of our key stakeholders
Top Business Challenges (1)

- Uncertainty
- Globalization
- Innovation
- Regulation
- Technology
- Diversity

- Complexity
- Information Overload
- Supply Chains
- Problem Solving

Our stakeholders face increasing challenges, and that impacts Internal Audit.

(1) BMGI “Top Ten Problems Faced by Business”
Rising Expectations

“As we continue to meet the challenges thrown at us every day, the expectations bar ratchets higher and higher.”

Carolyn Saint
Vice-President, Internal Audit
7-Eleven

“Audit committees and management expect more from internal audit, providing a huge opportunity for internal audit functions to be relevant contributors to protecting stakeholder value and the business from the most critical risks.”

Jason Pett
US Internal Audit Services Leader
PricewaterhouseCoopers
55% of senior management do not believe IA adds significant value to their organization.

30% of board members believe IA adds less than significant value.

Only 49% of senior management and 64% of board members believe internal audit is performing well at delivering on expectations.

Where do your stakeholders put you?
Rising Expectations (cont’d)

Survey respondents indicate that the top risks which audit committees and executive management are focusing on are...

<table>
<thead>
<tr>
<th>Rank</th>
<th>Audit Committees</th>
<th>Executive Management</th>
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<tbody>
<tr>
<td>1</td>
<td>Strategic Business Risks</td>
<td>Strategic Business Risks</td>
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<tr>
<td>2</td>
<td>Operational</td>
<td>Operational</td>
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<tr>
<td>3</td>
<td>Compliance/Regulatory</td>
<td>Compliance/Regulatory</td>
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<td>4</td>
<td>Information Technology</td>
<td>Information Technology</td>
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<td>5</td>
<td>Risk Management Effectiveness</td>
<td>Cost/Expense Reduction</td>
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Survey respondents reported that strategic business risks are the top priority for audit committees (28%) and executive management (46%).
Three critical topics affecting the internal audit profession:

- The Application of the Three Lines of Defense Model.
- Information Security and the Board.
- The Career Path to CAE.

“Our success as a profession is contingent upon not only securing the resources and talent needed to address key risk areas, but also gaining the trust from stakeholders that our contribution is focused at the right areas and is valued by them.”

Richard Chambers
IIA President and CEO
“Three Lines of Defense” has helped articulate internal audit’s role/value.

Encroachment between 2nd and 3rd lines of defense is occurring.

Audit/oversight fatigue presents challenges and opportunities.

Internal audit can be a leader in coordinating key players.

Information Security

Internal audit needs to be prepared to respond to increased concern about information security risks.

Talent management in this area is critical to meet stakeholder expectations.

Be creative when acquiring talent:
- Use guest auditors.
- Leverage a co-sourcing relationship.
- Outsource IT functions.

64% say the board’s perception of cybersecurity risks have increased significantly.

CAE Career Path

Shouldn’t IA provide these benefits as well?

“Audit committees and CEOs are under increasing pressure to steer organizations on a legal, ethical, and risk-aware course—while at the same time containing costs and increasing growth and profits. Not surprisingly, they are looking to the CAE for unprecedented leadership and contribution to overarching strategy. Old-line CAEs who have been entrenched solely in internal auditing may no longer fit the profile that corporate boards seek; over the past several years, many have been the victims of attrition. Today, it’s estimated that within the Fortune 500, new CAEs are recruited from outside internal auditing almost half the time. Simply put, a new set of skills is required.”

The Korn/Ferry Institute
License to Lead: Seven personal attributes that maximize the impact of the most successful chief audit executives
Key Question for Internal Auditors

Per the Bureau of Labor Statistics, five industry sectors are projected to have decreases in employment from 2012 to 2022:

- Manufacturing (549,500)
- Federal government (407,500)
- Agriculture, forestry, fishing, and hunting (223,500)
- Information (-65,200)
- Utilities (-56,400)

Whether due to technology, skill obsolescence, or other factors, the key lesson is “the cost ultimately exceeded the value”.

You can be impacted whether you are the best auditor in a declining industry, or an average auditor in a non-declining industry.
The Future of Internal Audit

Your leadership’s expectations of you and your costs are increasing.....

.....therefore, your value must rise faster.....

.....or you risk your job disappearing.
Top Imperatives for This Decade

1. Enhancing and leveraging a continuous focus on risks
2. Providing assurance on risk management effectiveness
3. Enhancing our proficiency with data mining and analytics
4. Securing a “seat at the table” for operational and strategic discussions
5. Solidifying our expertise to address key risks

These relate directly to top business challenges

So How Do We Overcome And Exceed Expectations?

(1) Richard Chambers, President and CEO – Institute of Internal Auditors
Exceeding Stakeholder Expectations

Common sense applies:
– Audit the right things at the right time
– Be a valued business partner
– Put the success of the organization first
– Always do the right thing
– Be a great communicator
– Have a highly motivated and knowledgeable team with the right skills for the task

Easier Said Than Done, So Let’s Discuss How
Audit the Right Things

Conduct robust continuous risk monitoring

– Help enhance your organization’s risk assessment processes, then leverage
– Host periodic meetings with leaders of the 2nd line of defense functions
– Help develop data analytics (e.g., revenue, costs), then leverage
– Participate in strategy/operating reviews at all levels
– Research what your key customers should be worried about (even if they are not)
– Monitor the global economic, political and regulatory environment (e.g., cyber, sustainability)
Be Valued

Leverage your cross-organizational view and data analytics to provide greater insight

Obtain approval and budget for special projects
- Participate on initiatives (e.g., conflict minerals, cost reduction)
- Loan staff out

Use Six Sigma and Lean to improve audited processes

Network and build relationships with organization leaders outside of audits
- Get to know each other personally; starts with listening
- Have informal lunches and coffee
- Develop trust before the tough conversation
Organizational Success First

Be a change agent
- Be flexible - it is about change, not reports
- Spark dialogue about emerging risks
- Collaborate Share with other risk functions

Be the risk management expert
- Risk management is increasingly a key organizational success factor
- Audit and improve your organization’s risk management processes, not just their controls

Give credit where credit is due

Lead inclusiveness efforts to enhance overall employee engagement
Do the Right Thing

Follow IPPF
  – Align your methodology
  – Reassess your charter annually
  – Perform a Quality Assessment Review

Embrace COSO 2013

Practice unimpeachable ethics
  – Review the IIA Code of Ethics as a team

Be courageous

Always treat others with respect
  – We don’t always agree with those we are auditing, but we should always demonstrate through our words and actions that they have been heard and their words considered.
Be a Great Communicator

Issue effective, timely reports
  – Succinct: an unread report is worthless
  – Write for your reader, and avoid “auditese”
  – Use peer reviews at all levels
  – Create a broad distribution list

Hone your public speaking skills

Contribute internal knowledge (e.g., internal blogs)

An internal auditor cannot be effective by simply developing information and formulating insights. He or she must be effective in communicating the information and insights.
Have a Great Team

Adjust your team hiring to provide the assurance your organization needs – not just finance anymore

Motivate and retain your team through challenge
  – Empower ownership of product line risks and annual audit plan responsibilities
  – Team activities (e.g., listen to earnings release as a team)
  – 100% Certified Internal Auditors

Build future business leaders
  – Analytical and critical thinking skills are must haves
  – Use the team to recruit from the business

Say “thank you”
Thoughts of the IIA Leader

- Auditors should have the skills needed to provide the new kinds of assurance their organizations require.
- Continuous audit gets all the attention, but continuous risk assessment is the real key to success for internal audit.
- Internal audit’s job is to provoke thinking about the unthinkable and ensure we have a plan.
- Poorly defined scope can lead to delays and inefficiencies.
- Highly prized CAEs have the ability to anticipate, or “see around corners,” and adjust quickly to what will be needed.

Source: Lessons Learned on the Audit Trail by Richard F. Chambers
Thoughts (cont’d)

- Mutual recognition is an essential condition of effective relationships.

- If we’re going to comment on internal controls within other functions or businesses, we must make sure that our own internal controls are effective and that our function is well-managed. A strong and effective quality assurance and improvement program is one means of assessing the resiliency of our glass houses.

Source: Lessons Learned on the Audit Trail by Richard F. Chambers
The Importance of Brand

What one word describes how others perceive You?

• Think and act like a business

• How many businesses in history with one product and one customer have been successful over the long term?
  – One product – Yourself
  – How many customers do you have?

• What is your product strategy?
  – Research & Development
  – Marketing and Networking

Does Your Brand Create An Opportunity…Or A Risk?
The IIA is Here to Support You

The IIA’s Core Purpose:
To advance the profession and its value around the world.

The IIA’s Overarching Goal:
Internal audit professionals will be universally recognized as indispensable to effective governance, risk management, and control.

Pulling Together in the Same Direction
Summary

If stakeholders don’t value your internal audits, eventually they won’t value internal auditors either.

It is a challenging business environment for our stakeholders, which creates challenges and opportunities for internal audit. The recipe for your success is simple, but requires your leadership and effort to execute.

– Audit the right things at the right time
– Be a valued business partner
– Put the success of the organization first
– Always do the right thing
– Be a great communicator
– Have a highly motivated and knowledgeable team with the right skills for the task

Richard Chamber’s thoughts

Is your brand what you want it to be?
Contact Information

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