Risking It All

Presented by:
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Forensic Services
Agenda

1. Case Study: Risking It All
2. The Role of Internal Audit
3. The Investigation Lifecycle
4. Conclusion and Questions
Two weeks ago the CEO of CL Group suspended senior management of a material subsidiary following the discovery of bribes paid to government officials in order to win contracts. In addition, four contracts at the subsidiary have improper revenue recognition.

The Audit Committee Chair confirms that the company’s law firm has been investigating the allegations, including whether there was any knowledge of the bribes by corporate management. This same law firm is also currently working on a prospectus for a new stock offering for the company.
# Meet the Characters

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
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<tr>
<td>Alistair Chisholm</td>
<td>CL Group Audit Committee Chair</td>
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<td>Michael Brindley</td>
<td>CL Group Audit Committee Member</td>
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<td>Gordon Carey</td>
<td>CL Group Audit Committee Member</td>
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<td>Graham Harris</td>
<td>CL Group Chief Executive Officer</td>
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<td>Eric Merchant</td>
<td>Legal Counsel, Bradman &amp; Ellis</td>
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<td>Bill Crawford</td>
<td>Independent Auditors, Partner</td>
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<td>Caroline Barre</td>
<td>Independent Auditors, Manager</td>
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Video
Group Discussion

1. If you were the Head of Internal Audit in this situation, how and where would you inject yourself into this situation? What steps would you take?

2. Which fact pattern gives you the most cause for concern? Which would you most aggressively pursue?

3. What would you recommend be the immediate next steps to be taken by the Audit Committee and CFO? How could Internal Audit support these next steps?

4. How would you manage the need or desire for further investigation with the upcoming earnings release and secondary offering? How would you recommend managing the balance of financial/market implications with completeness of investigation?

5. What are the risks to non-action?
The Reality...

- Widespread revenue issues not isolated to one subsidiary
- CFO involvement is much greater, constituting management fraud
- Financial statement restatements
- Major regulatory investigation

Disaster!
Video
Who Typically Investigates?

- Federal Agencies
- State Agencies
- Company Management
- Boards of Directors and Audit Committees
- All of the Above
Parties Involved in Investigations

- Attorneys
- Forensic Accountants / Consultants
- Private Investigators
- Internal Security Departments
- Internal Audit
Investigation Life Cycle – Phase I: Preliminary Investigation

Multiple Source Origination

- Incident Claim Capture
  - Evaluate? (Yes/No)
    - Yes: End
    - No: Consider coordinating investigation with internal resources.
  - No: Consider concluding investigation with internal resources.

- Senior management implication
  - Yes: Independent Investigation Conducted
  - No: Document Protection

- Likelihood of problem that is more than inconsequential
  - Yes: Independent Investigation Conducted
  - No: Consider coordinating investigation with internal resources.

- Do issues identified relate to potential: (a) Illegal acts, (b) Restatement, or (c) Misbehavior by senior management
  - Yes: Independent Investigation Conducted
  - No: Consider concluding investigation with internal resources.
Phase I: Preliminary Investigation Key Issues

- Is there a problem?
- Who is involved?
- How high up does it go?
- What else like this is out there?
- What communication should be made to third parties?
- Consider public relations impact.
Investigation Life Cycle – Phase II: Independent Investigation

Independent Investigation Conducted

Sizing and dating of problems

Information Gathering:
- Interviews
- Document Gathering
- E-media

Communication Strategy:
- Audit Committee
- Auditors
- Regulators

Investigation team

Re-scoping and additional procedures

Phase III
Investigation Life Cycle – Phase III: Reporting and Remediation

- Suggest remediation recommendations
- Develop Investigative Report (oral or written)
- Preservation of investigation documentation
- Respond to client and third-party inquiries
- Follow-up of investigation findings with Management, Audit Committee, and/or Independent Accountants
Group Discussion

1. What specific recommendations would you make to the CL Group CEO and AC on how to improve the Control Environment of the company.

2. How did this get past Internal Audit? How and where should Internal Audit have been more engaged or involved before this ever occurred or became systemic?

3. What relationship do you, as Internal Audit, have with your legal counsel today? How are you involved in investigations today? How should you/could you be involved?
Video - Epilogue
Questions?

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