How to Build a World Class Internal Audit Function

Michael P. Loftus, CPA, CFSA, FLMI
Vice President & General Auditor
Global Indemnity plc
May 15, 2014
Session Overview:

• My Background
• Getting Starting
• Knowing Your Stakeholders
• Establishing an Ethics Hotline
• Consider Audit Tools
• Identifying the Audit Universe
• Performing a Risk Assessment
• Creating the Audit Plan
• Resources to Assist You
• Building your Team
• Executing the Plan
• Communicating Results
• Seeing It Through
• Questions?
• Biography
• Contact Information
How to Build a World Class Internal Audit Department

Background:

College: Villanova University – BS in Accounting

Public Accounting – 2 years at KPMG

Private Industry – 2 years with a client – Special Projects

Private Industry - Audit Experience – 9 years with Cigna Internal Audit

Director of Internal Audit – Delphi Financial Group, Inc. – 5 years

General Auditor – Mutual Risk Management, Ltd. (Bermuda) – 3 years

General Auditor – PMA Capital Corporation – 3 years

General Auditor – Global Indemnity plc – 9 years
How to Build a World Class Internal Audit Department

Background:

Developed a Niche –

• General Auditor for small publicly traded insurance companies

• Building departments from scratch

• Developing all aspects of the department
Building a Department – Getting Started:

• Develop a Charter and Mission Statement

• Establish Reporting Relationship – Extremely Important
  
  ➢ Administratively - CEO, CFO, General Counsel?
  ➢ Functionally - Audit Committee – A MUST!

▪ Need a Diversified Skill Set
  ➢ Strong Technical Skills (Accounting & Auditing)
  ➢ Industry Knowledge (Important & Adds Value)
  ➢ Sales & Negotiating (Getting Your Points Across)
  ➢ Marketing (Push Visibility of Your Department)
Learn your Stakeholders:

• Who Are They?

  ➢ Audit Committee and the Board of Directors
  ➢ CEO
  ➢ Chief Risk Officer
  ➢ Senior Management
  ➢ Auditees
  ➢ External Auditors
  ➢ Regulators
Learn your Stakeholders:

• And **WHAT** Do They Want and What is **IMPORTANT** to Them?

- SOX or MAR Testing
- Controls Consulting
- Risk Management (ERM, Solvency II, RMORSA, etc.)
- Client Assistance Work
- Financial Audits
- Operational Audits
- Compliance Audits
- Value Added Audits
- Due Diligence
- Fraud Investigations
- Training Ground for Employees
Establish an Ethics Hotline:

- Mandatory for SOX and many other regulatory bodies
- Sets good corporate governance tone
- Sends a message throughout the organization
- Make sure it is independent – not a phone extension in Legal
- Work with General Counsel to make it happen
- E.g. Navex Global’s ValuesLine
How to Build a World Class Internal Audit Department

Consider Audit Tools:

- ACL Software or IDEA for Analytics
- Automated Workpaper Tools
- Risk Assessment Tools – Leverage ERM
- Audit Recommendation Tracking
Audit Universe:

- Identify your universe – where to begin?
  - Organization Charts
  - General Ledger and Trial Balance
  - Meetings with Business Leaders
  - Understand how the Stakeholders look at the business and how they want you to look at it
  - Ultimately, carve the organization into auditable areas
How to Build a World Class Internal Audit Department

Risk Assessment:

- Review your organization and audit universe and risk rate it. Many ways:
  - Qualitative
  - Quantitative
  - Surveys
  - Interviews
  - Tools
Audit Plan:

- What can you accomplish?
- What do you HAVE to accomplish?
- Use your risk assessment
- Survey Stakeholders – AC, CEO, Management, External Auditors – what do they think and want?
- Last time audited, new issues, recent problems, etc.
- Factor in available time
Resources:

• IIA has great resources. [www.theiia.org](http://www.theiia.org)

• AuditNet – Great site for audit programs. [wwwauditnet.org](http://wwwauditnet.org)

• External Auditors – great resource – YOU are their client.

• Network, Network, Network!

• Industry Groups

• Insurance Internal Audit Group (IIAG). [www.iiag.net](http://www.iiag.net)
Build a Team:

• May be on your own for a while

• Benchmark studies (IIA GAIN Survey, industry benchmarks, etc.).

• Educate Stakeholders – what can be done with limited resources
Execute the Plan:

- Start with low hanging fruit.
- Pick an audit that adds value and will get positive attention.
- Quantify results and identify ways to improve the situation.
- Dollar savings DO matter!
Communicate Results:

• Timely Reports
• Fact Based.
• Recommendations
• Distribute to Stakeholders
Be a resource and see it through:

- Assist Management in implementing your recommendations
- Don’t Point and Run.
- Don’t “Bayonet the Wounded.”
- Be part of the solution
Questions?
How to Build a World Class Internal Audit Department

Biography

Mike is currently the Vice President and General Auditor for Global Indemnity plc, a specialty insurance and reinsurance company domiciled in Ireland, with operations in the United States and Bermuda. Mike has over 28 years of insurance internal audit experience, the last 20 years as a General Auditor. In this capacity, Mike was responsible for establishing the strategic plan, managing and setting the audit scope and approach, and reviewing and communicating audit results with management and the Audit Committee. He was also responsible for coordinating the annual independent audit of the Company's financial statements and the related audit arrangements with the external auditors, as well as the Sarbanes-Oxley compliance process.

Mike is a CPA and a member of the Institute of Internal Auditors, the American and Pennsylvania Institute of CPA's, and served as a past state chairman of the PICPA's Committee on Internal Audit. Mike is also on the Board of Directors of the Insurance Internal Audit Group, where he chairs the Chief Audit Executives Group, and is a past President of the Group. In addition, he has earned the designation Fellow, Life Office Management Association (FLMI). Mike is also a Charted Financial Services Auditor (CFSA).
Contact Information:

Michael P. Loftus, CPA, CFSA, FLMI
Vice President & General Auditor
Global Indemnity plc

Email: mloftus@global-indemnity.com

Phone: 610-660-6882