Transforming Internal Audit at HP

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June 6, 2011
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TODAY HP IS THE LARGEST TECHNOLOGY COMPANY IN THE WORLD—COMMITTED TO USING OUR PRODUCTS AND SERVICES TO UNLEASH NEW POSSIBILITIES AND HAVE A MEANINGFUL IMPACT ON BUSINESS AND LIFE

- Fortune 10 – U.S.
- Fortune 26 – Global
- Doing business in approximately 170 countries
- 304,000 employees
- 145,000 sales partners
- 210,000 service partners
- 88,000 retail locations
THE WORLD’S LARGEST TECHNOLOGY COMPANY

FY10 revenue: $126B

REVENUE BY SEGMENT

- Imaging & Printing Group: 21%
- Personal Systems Group: 32%
- HP Services: 27%
- Enterprise Storage & Servers: 17%
- HP Financial Services and other: 1%
- HP Software & Solutions: 2%

REVENUE BY REGION

- Americas: 44%, up 6% Y/Y
- Asia Pacific: 18%, up 7% Y/Y
- EMEA: 38%, FLAT Y/Y
PUTTING TECHNOLOGY TO WORK
HP solutions are making life easier in ways you’ve probably never considered

HP manages over 200 data centers, 380,000 servers, and 5.4 million desktops

We process over 3.5 billion credit card transactions annually
We book 500 million travel reservations every year
We process nearly 1 billion U.S. Medicaid claims a year
Our solutions stop 1.7 billion spam messages monthly
LEADERSHIP BEYOND THE PORTFOLIO

#18 Barron’s 500 Best Performing Companies in 2009

#16 Most Innovative in 2010

#10 Most Innovative in 2010

#2 Green Company in 2010

#1 Corporate Citizen in 2010
INTERNAL AUDIT MISSION

Internal Audit (IA) is an independent, objective, assurance and consulting function. IA helps HP achieve its objectives by systematically evaluating and improving the effectiveness of risk management, control, and governance by implementing best practices through a process of open communication, professionalism, and trust.
GLOBAL TEAM – 250 PROFESSIONALS

- Palo Alto, CA – 7 staff
- Plano, TX – 30 staff
- Houston, TX – 28 staff
- Guadalajara, Mexico – 20 staff
- United Kingdom – 8 staff
- Poland – 21 staff
  - Warsaw – 10
  - Wroclaw – 11
- Bangalore, India – 37 staff
- Cyberjaya, Malaysia
- Singapore – 13 staff
- Beijing, China – 3 staff
- Herndon, VA – 9 staff
- Houston, TX – 28 staff
- Guadalajara, Mexico – 20 staff
- Plano, TX – 30 staff
- Palo Alto, CA – 7 staff
IA TRANSFORMATION: THE OBJECTIVE

**From**
- Doing audits
- Risk driven audit schedule
- 38 audits per year
- Inspection focus
- Pyramid shaped staffing model
- All auditors
- Arms length independence

**To**
- Providing assurance
- Coverage model, risk driven scoping
- 200+ audits per year
- Analytic focus
- Reverse pyramid shape
- Non-audit support teams
- Active engagement and partnering in mitigation

HP Internal Audit

HP Audit and Assurance Services
IA TRANSFORMATION: THE OBJECTIVE

Transformation Goals and Objectives

Goals
A Coverage Model that allows for the review of every Auditable Business Unit at least once every three years by FY12 without a significant change in resources.

- Build a “world-class” progressive and highly optimized internal audit function
- Implement a fully developed Continuous Controls Monitoring program
- Promote an integrated compliance community with assurance providers
- Build a rigorous internal audit technical training program that produces well rounded and talented professionals
- Develop an enterprise-wide issue database
IA TRANSFORMATION: THE OBJECTIVE

A Foundation for Improvement

To accomplish our objectives, we defined five foundations for improvement:

- **Streamline Processes**
  - Audit Lifecycle Processes (Planning, Fieldwork, Reporting)
  - 6-Week Audit Cycle
  - Scoping & Planning Risk Assessment
  - Review and Revise Roles and Responsibilities of Managers and Leads

- **Leverage Technology and Knowledge**
  - Audit Resource Center (Knowledge Mgmt.)
  - CCM and Data Analytics
  - Paisley Optimization
  - Standard Audit Guides
  - Subject Matter Experts

- **Partnering**
  - Other Assurance Providers
  - Self-Reported Issues
  - Sponsoring VP

- **Performance Management**
  - Transformation Dashboard
  - Department Metrics and Performance Monitoring
  - Report Delivery Monitoring

- **Best Practices / Benchmarking**
  - Leverage best practices wherever possible
  - Aim to establish a world-class department that sets the standard for our industry
IA TRANSFORMATION
THE JOURNEY
IA TRANSFORMATION: THE JOURNEY

Progress since 2007

- Internal Audit performance has steadily improved, experiencing significant advances in FY10.

- Performance improvement based on a number of factors, including:
  - Less hours on SOX
  - Smaller audits
IA TRANSFORMATION: THE JOURNEY

- Reengineered Audit Lifecycle Processes
- Self-Reported Issues
- Standard Audit Programs
- Other Assurance Providers
- Subject Matter Expert Program
- Macro Assessment
IA TRANSFORMATION: THE JOURNEY

Reengineered Audit Lifecycle Processes

• Reengineered audit lifecycle processes and procedures to gain greater efficiency, including revising roles and responsibilities of Managers and Leads

• Reduced cycle time from 12 weeks to 6 weeks in Q3 FY11 (pilots starting in Q2 FY11) and reduced our average audit size from 1,800 hours to 960 hours

• Developed and implemented a formal scoping and planning risk assessment process to determine key areas of focus within each audit – “right sizing our audits”

• Risk Assessment training provided to all Leads and Managers in December

• Created recruiting plan to hire 40 additional FTEs to achieve coverage objective
IA TRANSFORMATION: THE JOURNEY

Key to Transformation – “Right Sizing” Audits

1,000 HOUR AUDIT with SAME AUDIT SCOPE AS 2,000 HOUR AUDIT DOES NOT WORK

1,000 HOUR AUDIT with RISK-BASED SCOPE
Self-Reported Issues

• Encourages auditees to be transparent in reporting risk and control issues within their organizations during the scoping and planning phase of the audit

• Audit will evaluate SRI’s to determine if additional investigation is warranted or may even exclude covering an area that the auditee has already identified as having an issue

• SRI’s are acknowledged in the final audit report, failure to report known issues eliminates management’s ability to claim prior knowledge of the problem
IA TRANSFORMATION: THE JOURNEY

Standard Audit Programs

• Reviewed and uploaded 45 standard audit guides
• Standard audit guides provide a “guide” of typical risks and controls for specific processes and areas
• These guides serve as a starting point within Paisley upon which the auditor can further refine and tailor the risks and controls for their specific audit
• A report that lists the status of the various Standard Audit Guides is available on the transformation portal
IA TRANSFORMATION: THE JOURNEY

Other Assurance Providers

- Developed and communicated the program vision and roadmap to broad HP assurance community in FY10
- Program designed to build robust partnering relationships with other assurance provider organizations to coordinate and leverage collective efforts and share results to minimize duplication of auditing efforts and achieve greater coverage
- Currently three participants: Global Trade, GBS Business Controls, US Public Sector Compliance
IA TRANSFORMATION: THE JOURNEY

Subject Matter Experts

• Program rolled out in late FY10 with 41 SMEs currently enrolled covering 24 subjects

• Program is designed to encourage auditors to gain mastery of a specific subject (e.g., process, business, regulatory requirement, etc.) and then serve as the internal knowledge leader for matters relating to that subject

• SMEs will play a crucial role in developing the knowledge for the upcoming Audit Resource Center
IA TRANSFORMATION: THE JOURNEY

Macro Assessment

- Developed initial program framework and infrastructure to support Macro Assessments including configuration of an enterprise issues tracking tool in FY10
- Macro Assessments report on key areas of interest across multiple audits and compliance organizations by leveraging outputs from many sources including planned audits, SOX testing, work of Other Assurance Providers, and Self Reported Issues
- These outputs are compiled within an Enterprise Issue Tracker providing sufficient data to render meaningful enterprise level assessment on strategic critical areas
IA TRANSFORMATION:
THE CHALLENGES
IA TRANSFORMATION: THE CHALLENGES

• People:
  - Training
  - Pipeline of talent
  - Roles/responsibilities (the right mix)
  - Management of change

• Processes:
  - Increased coverage: monitor quality / quality balance
  - Consideration of strategic risks versus strictly transaction/compliance-based audits.

• Systems:
  - Effective use of Paisley
  - Continuous controls monitoring / Data analytics
IA TRANSFORMATION: NEXT STEPS....

- Program Implementation
- Audit Resource Center (ARC)
- Paisley Optimization
- Data Analytics and Continuous Monitoring
QUESTIONS?