IIA Seattle/Bellevue Chapter

Upleveling Internal Audit: How to Stretch the Internal Audit Role and Deliver Strategic Value

February 16, 2017
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Presenters

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Agenda

• Why Does Internal Audit Exist?
• How to Operate
• What to Focus On
Why Does Internal Audit Exist?
Sound Familiar?

- The last thing I need is another finding.
- I need another finding like a hole in the head.
- If you are going to give me findings, then at least give me practical solutions.
Golden Circle
Golden Formula (P³C)
How to Operate
Keys to Success

A VALUE-ADDING APPROACH

- PROVIDE PRACTICAL SOLUTIONS
- WORK COLLABORATIVELY & CONSTRUCTIVELY
- FOCUS ON DELIVERING VALUE
Focus on Delivering Value

- Do internal audit results sometimes fall short of expectations?
- Start with clear audit objective(s). Identify initial areas of focus for reducing risks, strengthening controls, and improving performance improvement, follow your nose to determine other opportunities for improvement that will provide value, and define how to measure improvement and track and report return on investment.
Provide Practical Solutions

• Have you ever seen findings that are accompanied by general recommendations?

• Internal auditors should leverage best practices from other organizations to bring recommendations to life and support implementation of robust policies and procedures, streamlined processes, and enhanced productivity.
Collaborative & Constructive

• Are collaboration and independence mutually exclusive? Can poor messaging inhibit acceptance?

• Without collaboration, an internal auditor’s ability to drive improvements is inherently limited. Through collaboration, internal auditors can gain insights from their organization, verify facts, and test the practicality of recommendations.

• Provide objective, constructive findings and recommendations that are reflective of your organization’s unique environment, history, and trajectory and messaged in a way that inspires action.
What to Focus On
Transforming our Focus

- Change our Image/Perception
- Get a Seat at the Table
- Expand our Vision and Reach
- Change our Communication
- Start Small, Start Now
Change our Image/Perception

- How are we viewed by the organization? Let’s assess...

<table>
<thead>
<tr>
<th>Image/Perception</th>
<th>Negative</th>
<th>Positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hindsight vs. Foresight</td>
<td>Reporting on the past</td>
<td>Shaping the future</td>
</tr>
<tr>
<td>Enforcement vs. Business Partner</td>
<td>Aha, caught you; sense of surprise</td>
<td>Role in correcting or developing</td>
</tr>
<tr>
<td>Controls vs. Process</td>
<td>Accountants like controls (sometimes)</td>
<td>Business people value the process</td>
</tr>
</tbody>
</table>

- Goal: Evaluate our image and perception
  - How do we view ourselves?
  - How do we conduct ourselves?
  - How do we present ourselves?
Get a Seat at the Table

- Progression of C-Suite

CEO
Get a Seat at the Table

- Progression of C-Suite

CEO  CFO
Get a Seat at the Table

- Progression of C-Suite

CEO  CFO  COO
Get a Seat at the Table

- Progression of C-Suite

CEO  CFO  COO  CIO  CMO
Get a Seat at the Table

• Progression of C-Suite

<table>
<thead>
<tr>
<th>Past Positions</th>
<th>Current Positions</th>
<th>Future Positions*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>Chief Compliance Officer</td>
<td>Chief Ecosystem Officer</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>Chief Administrative Officer</td>
<td>Chief User Experience Officer</td>
</tr>
<tr>
<td>Chief Operating Officer</td>
<td>Chief HR Officer</td>
<td>Chief Automation Officer</td>
</tr>
<tr>
<td>Chief Information Officer</td>
<td>Chief Privacy Officer</td>
<td>Chief Data Officer</td>
</tr>
<tr>
<td>Chief Marketing Officer</td>
<td>Chief IT Officer</td>
<td>Chief IP Officer</td>
</tr>
</tbody>
</table>

• Goal:
  • Consistent with the progress in the C-Suite, internal audit needs a CAE
  • Internal audit also needs relationships across the C-Suite

Expand our Vision and Reach

- Our typical view on risk

<table>
<thead>
<tr>
<th>Risk Factors</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Level</td>
<td>Level of uncertainty</td>
</tr>
<tr>
<td>Likelihood</td>
<td>Probability of a negative event occurring</td>
</tr>
<tr>
<td>Impact</td>
<td>Level of significance should a negative event occur</td>
</tr>
<tr>
<td>Risk Trajectory</td>
<td>Direction of where risk is headed in the future</td>
</tr>
<tr>
<td>Condition</td>
<td>Causes and impacts of identified risk</td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td>Actions and projects</td>
</tr>
<tr>
<td>Residual Risk</td>
<td>Remaining risk if take mitigating action</td>
</tr>
</tbody>
</table>
Expand our Vision and Reach

• The business’s view of risk

• Goal: Evaluate our vision (risk, relationships, role)
Change our Communication

- Shift our communication to the underlying business, for example ROI
- Open items tracking example:

<table>
<thead>
<tr>
<th>Audit</th>
<th>Findings</th>
<th>Completed</th>
<th>Validated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit 1</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Audit 2</td>
<td>38</td>
<td>21</td>
<td>11</td>
</tr>
<tr>
<td>Audit 3</td>
<td>8</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Audit 4</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Audit 5</td>
<td>13</td>
<td>9</td>
<td>6</td>
</tr>
</tbody>
</table>
Change our Communication

- Shift our communication to the underlying business, for example ROI
- Open items tracking example:

<table>
<thead>
<tr>
<th>Project</th>
<th>Costs</th>
<th>Potential Savings</th>
<th>Potential ROI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project 1</td>
<td>$50,000</td>
<td>$0</td>
<td>n/a</td>
</tr>
<tr>
<td>Project 2</td>
<td>$100,000</td>
<td>$95,000 - $369,000</td>
<td>1/1 to 3.5/1</td>
</tr>
<tr>
<td>Project 3</td>
<td>$25,000</td>
<td>$50,000 - $100,000</td>
<td>2/1 to 4/1</td>
</tr>
<tr>
<td>Project 4</td>
<td>$30,000</td>
<td>$30,000 - $60,000</td>
<td>1/1 to 2/1</td>
</tr>
<tr>
<td>Project 5</td>
<td>$55,000</td>
<td>$174,000</td>
<td>3/1</td>
</tr>
</tbody>
</table>
Change our Communication

• ROI-Based Approach
  • Program Cycle
  • Identifying Opportunities
  • Estimating Potential ROI
  • Tracking/Reporting
  • Leveraging Performance Metrics

• Goal: Evaluate how we communicate across all levels
Start Small, Start Now

• Leverage shift in mindset across your department

• As part of your ongoing audits:
  • Identify operational improvement areas
  • Identify areas of business change
  • Develop short risk heat map in any area audited

• Goal: Push these changes internally and externally
Closing Thoughts
In Closing

By transitioning to the **why** of what we do, we will be able to define our vision and mission and, in doing so, **partner** with departments to consultatively address current and **future** strategic and **operational** risks.
Questions
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