Risk Considerations for Internal Audit

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Agenda

• Internal Audit: Call to continuing focus on value
• Risk considerations for internal audit
• Summary
• Open discussion / Q&A
Hot Topics in Internal Audit

Data Classification
To assist in security efforts, auditors need to understand how their organization goes about determining what types of information it most needs to protect.

A Sharper Focus
Heightened stakeholder expectations are pushing audit departments to put greater emphasis on the key elements of internal auditing.

Raising the Stature of Internal Auditing
A combination of efforts may help practitioners gain recognition and expand their influence throughout the organization.

Auditing Sustainable Development
Internal auditors can add value by assessing their organization’s sustainability management system.
The evolution of Internal Audit – strategist and advisor/facilitator

The IA function is moving to higher maturity levels…

<table>
<thead>
<tr>
<th>Risk focus</th>
<th>Governance</th>
<th>Role</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rotational (Financial and Compliance)</td>
<td>IA as Advisor/Facilitator</td>
<td>Enterprise Risk Advisory</td>
<td>Consultative Approach</td>
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<tr>
<td>Limited to No involvement</td>
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<td>Assurance on compliance with Policies/ Procedures</td>
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<td>External Assessment</td>
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Optimizing the internal audit function

**Protect enterprise value**
- Financial, compliance and general IT risks
- Balance sheet orientation
- Exception reporting and problem identification
- Inherent risks and rotational coverage

**Enhance enterprise value**
- Operational, organizational and strategic risks
- Risk Intelligence orientation
- Proactive reporting and solutions development
- Focus on emerging risks and trends

Independent and objective assurance with value-added advice
## Internal Audit Maturity & Value Continuum

Where is your IA function now, and where do you want to be in the future?

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Basic</th>
<th>High Value</th>
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<tbody>
<tr>
<td>Competency</td>
<td>Financial</td>
<td>Financial and Operational</td>
</tr>
<tr>
<td>Governance</td>
<td>No Involvement</td>
<td>Limited Involvement</td>
</tr>
<tr>
<td>Charter/Role</td>
<td>Financial Controls and Compliance with Policy/ Procedures</td>
<td>Financial Controls and Operational Effectiveness</td>
</tr>
<tr>
<td>Risk Focus</td>
<td>Financial and Compliance</td>
<td>Financial and Operational</td>
</tr>
<tr>
<td>Methods</td>
<td>SOX Controls and Compliance Checklists</td>
<td>Process and Controls Internal Audit Programs</td>
</tr>
<tr>
<td>Reports</td>
<td>Minor Financial and Compliance Issues</td>
<td>Process and Operational Improvements</td>
</tr>
<tr>
<td>Style</td>
<td>Corporate Police/Reporter</td>
<td>Consultative</td>
</tr>
<tr>
<td>Perspective</td>
<td>Historic/Reactive</td>
<td>Current</td>
</tr>
<tr>
<td>Technology</td>
<td>Limited</td>
<td>Automated Work Papers</td>
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Shift from assurance provider to strategist and facilitator of risk management

Achieving strategic performance in these four areas enables internal audit to serve as more of a “strategist” — attending more to those tasks demanding strategic thinking and less to those that are purely transactional in nature.

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Description</th>
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<tbody>
<tr>
<td>Risk Focus</td>
<td>IA focuses on enterprise risks — strategic, operational, financial, and regulatory — and takes a proactive and forward-thinking focus. IA assists the organization in keeping its risk and reward picture in balance by taking a holistic approach to the management of risks across the enterprise.</td>
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<tr>
<td>Flexibility</td>
<td>IA has the leadership, skills and experience to be proactive to changing business strategies and market conditions.</td>
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<tr>
<td>Effectiveness</td>
<td>IA enhances the organization’s governance, risk management, and controls processes.</td>
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<tr>
<td>Efficiency</td>
<td>IA identifies opportunities in a collaborative and consultative manner before they become costs or issues. This includes timely reporting and forward-thinking and proactive solutions. IA also aligns and/or coordinates with other assessment and compliance related activities. IA leverages use of technology, including data analysis and continuous monitoring techniques.</td>
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# Accelerating internal audit

Supplementing your internal audit methodology with accelerators that allow you to more efficiently and effectively identify and realize the tangible and intangible benefits from your internal audit activities

## IA Accelerator Examples

<table>
<thead>
<tr>
<th>Accelerating the identification and handling of emerging risks</th>
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<tr>
<td>• Use of IA Diagnostics, or specialized audit programs specifically designed to quickly address emerging risks — such as vulnerability management, data privacy, COBIT capabilities and maturity, extended enterprise, etc. — and help quickly identify issues that may require further attention or consultation</td>
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<tr>
<th>Accelerating your response to regulatory, stakeholder, and marketplace drivers</th>
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<td>• Deployment of a risk catalog that allows business units to develop and maintain risk and control profiles for each of their core business systems, including processes, applications, and infrastructure</td>
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<th>Accelerating the execution of audits and the transfer of knowledge to new team members</th>
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<tr>
<td>• Leveraging of Internal Audit starter programs for testing specific business and IT processes and systems, supplemented by common scope documents, common risks, etc.</td>
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<thead>
<tr>
<th>Accelerating the use of data analytics for greater efficiencies and effectiveness in audit execution</th>
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<tr>
<td>• Use of testing tools containing the forms, templates, and scripts needed for common data analytics performed on a business cycle – i.e., expense</td>
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<tr>
<th>Accelerating project management to better plan, integrate, and manage the project to meet expectations within scope, cost, and time</th>
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<tr>
<td>• Leveraging project management templates, such as an IA Project Management Dashboard for reporting project information; Onboarding tools to quickly familiarize new team members; Project Wrap-up Checklists for more consistent and complete wrap up of IA projects in line with the IA function’s protocols; etc.</td>
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Risk Considerations for Internal Audit
What is Risk?

Risk is the potential for failure (i.e., loss, harm or the sub-optimization of gain) to achieve the organization’s mission and strategic objectives.

- Failure is an unacceptable difference between actual and expected performance.

Risk may be caused by an event (or series of events) that can adversely affect the achievement of the mission and strategic objectives.

Organizations should strive to:

- protect the value of its existing assets, and
- create new or future value in order to support its mission and strategic objectives

Internal Audit plays a key role in assisting organizations in governance and risk management.
Third Party Relationships

Risks associated with the “Extended Enterprise”:

• Supply chain risks (sourcing, supplier business interruptions)
• Contract risk and compliance
• Foreign Corrupt Practices Act risk considerations (e.g. distributors, third-party agents)
• Data security and privacy
Corporate Responsibility / Compliance

Increased focus on areas that impact the organization’s reputation and brand/image:

- Corporate governance
- Environmental, health and safety issues
- Regulatory requirements (e.g. Conflict Minerals)
- HR compliance issues
Impact of Globalization of Operations

With opportunities presented by globalization, attendant risks arise:

- Global mobility (e.g. expatriate programs, talent management)
- Customs Import-Export
- Foreign Corrupt Practices Act (other similar regulations - e.g. UK Anti-Bribery)
- Compliance with local laws and regulations
- Data privacy (cross border laws and regulations)
Foreign Corrupt Practices Act

Considerations for an effective compliance program:

• Code of conduct and compliance policies and procedures
• Risk assessments
• Training and continuing advice
• Incentives and disciplinary measures
• Third party due diligence and payments
• Confidential reporting and internal investigation
• Continuous improvement: periodic testing and review
• Mergers and acquisitions: pre-acquisition due diligence and post-acquisition integration
Business Process Effectiveness and Efficiency

With continuing focus on efficiency and effectiveness of operations, internal audit may be asked to review business processes beyond finance and compliance, such as:

• Post-merger integration
• Capital expenditure tracking and monitoring (e.g. ROI, project management)
• Research and development (time-to-market considerations)
• Expense analysis and cost savings ideas
IT Governance

As the IIA Professional Standards call for Internal Audit involvement in the assessment of IT Governance, internal auditors are being asked to evaluate the following:

• Evaluate IT’s role in sustaining and extending the organization’s strategies and objectives
• Review performance measures and goals
• Monitor IT project progress and results
Data Privacy

The increase in customer and employee concerns over personal information and sensitive data have introduced new risks:

• Reputational, regulatory and operational risks
• Understanding the flow of personally identifiable information (PII) from initiation to destruction
  – How is PII acquired
  – How it is used
  – Where is PII stored
  – Who has access to PII
  – How is PII disposed
Cyber Security

Cyber threats are a relatively new and constantly evolving source of risks, such as:

- Ability to quickly find and contain compromised devices
- Lack of capability to identify, contain, analyze, and remediate compromised devices
- Information provided by sources is often outdated, high level, and not actionable
Cloud Computing

Internal Audit is being asked to evaluate how businesses purchase, deploy, and support IT services

- Understand cloud computing strategies employed
- Determine how the use of cloud services may impact and change IT and business risks
- Assess vendors and cloud providers
Mobile Device Security

Enabling mobility presents challenges by increasing data protection, operational, legal and regulatory risks, such as:

- No concrete regulatory requirements developed for mobile applications
- Increasing risk and liability associated with breaches
- No control on the mobile device in the case of bring your own device (BYOD) scenario
- Heightened awareness and concerns about privacy
Business Continuity Management & Disaster Recovery Planning

The increased threat of disasters and spiraling cost of business disruptions have forced organizations to reevaluate Business Continuity and Disaster Recovery risks:

- Inability to respond to any type of unexpected disaster event, putting personnel, facilities, and finances at great risk
- Ability to remain competitive and even viable in a worst-case disaster scenario
- Increasing business uncertainty and marketplace volatility
- Huge dependence on IT for business and increasingly complex IT architecture
- Complex globalization (global operations) and business expansion
- Increasing regulatory landscape
- Supply chain resilience
End User Computing (EUC)

The use of financial reporting related spreadsheets, report writers and personal databases have introduced new risks:

• Spreadsheets and other EUCs have proliferated through the environment
• Regulators, auditors, and management may have a heightened concern about the ability to rely on data from EUCs
• Errors in EUCs may cause significant issues, including restatements
Social Media

A number of recent incidents on social networks have exposed businesses to unforeseen risks that have damaged brand equity

• Loss of Control — The voice of the customer is amplified and companies no longer control the message or topic
• Confidential Information — Use of social media sites enables users to circumvent company controls, opening up the potential to violate communication policies and posing security and privacy risks, with potential legal and regulatory ramifications
• Productivity Loss — How to change a potentially major distraction for employees into a means to drive collaboration among co-workers
Software Asset Management (SAM)

Software purchases typically make up a significant part of a company's capital spending, yet the full impact of the software license agreements and contracts are rarely understood

- Internal Audit is becoming involved in the execution of SAM operational audits
- Internal Audit is involved in reviewing the purchase, installation, movement, and disposal of software assets
Data Analytics

Organizations are starting to employ the power of data analytics to enhance the audit process

- Internal Audit can provide insights to the business by developing deeper understanding of business risks and controls effectiveness, industry trends, and continuous controls monitoring capabilities
- Helps Internal Audit to substantiate or quantify conclusions in the absence of “Cold, Hard facts”
- Helps Internal Audit to “do more with less”
Summary
Summary

• IA’s role and importance has changed considerably over the past few years
  – Changing regulatory, technological and economic landscape
  – Globalization and the risks of the extended enterprise
  – Risk events and events of corporate wrong-doing
  – Evolving expectations of Audit Committees and Management

• More than ever, IA is considered integral to a company’s control environment and risk management process.

• IA is constantly at the forefront to provide value-added and relevant analyses of an organization’s internal control structure, performance and productivity, governance and management of risks.

• IA has a great opportunity to continue to enhance its value and be an active player in providing assurance and advisory support to management and the Audit Committee.
Questions?
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