

Internal Audit at a Crossroads: How will you get ready?*

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*connectedthinking

Agenda

Internal Audit at a Crossroads
Summary of Research Results
Some keys to improvement

“In the next five years – your profession will be revolutionized... A compliance based approach (to internal audit) is something of the past.”

Mervyn King

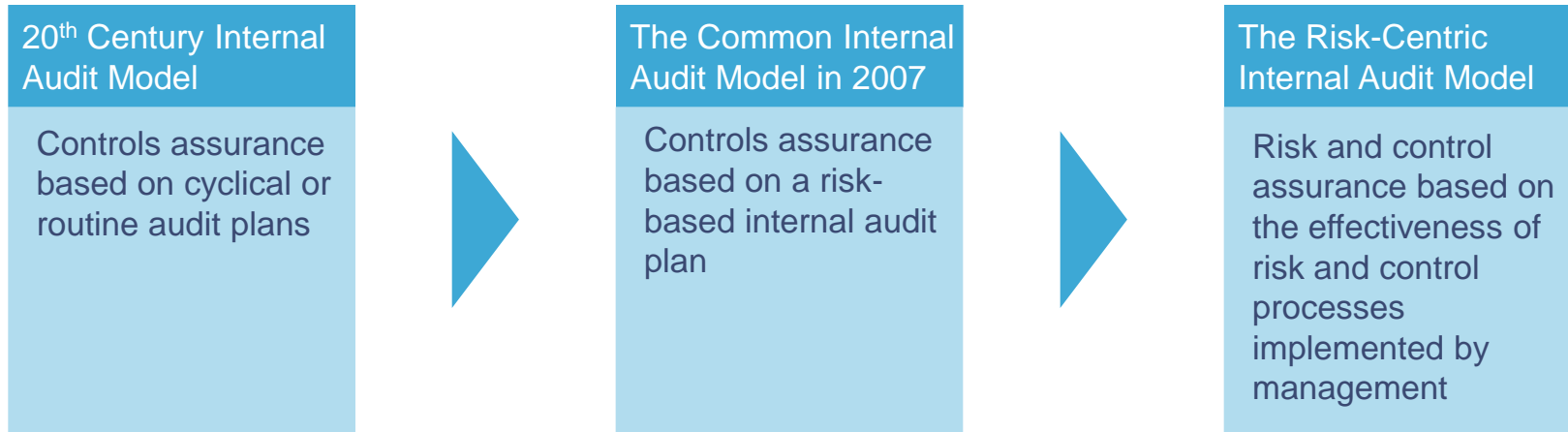
July 9, 2007

IIA International Conference – Amsterdam, NL

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As companies move toward risk management, Internal Audit must also evolve – or risk a diminished value proposition



If the view (among stakeholders) grows that all Internal Audit does is test controls, then resource levels will have to come down. *Chief Audit Executive, Financial Services Industry*

Traditional internal auditing will probably diminish in value if the organization moves towards formal risk management. *Senior Executive, Rating Agency*

“Globally, almost 80% of internal auditors expect audit coverage related to risk management will increase over the next three years.”

“A Global Summary of the Common Body of Knowledge,” © 2007, The Institute of Internal Auditors Research Foundation

Views on the Internal Audit Activity

Type: Executive Summary Report

Date: 9/23/2009

Total number of responses: 615




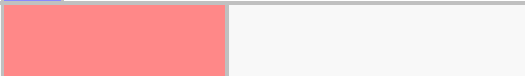

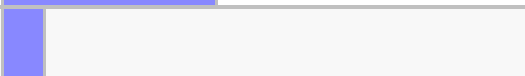

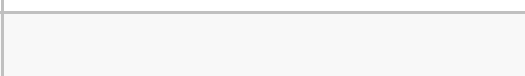
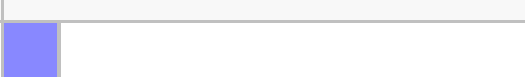
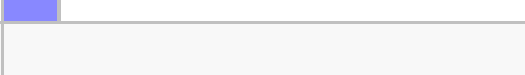
1: What should be the main role of internal auditing in your organization?

(Respondents could only choose a single response)

| Response | Chart | Frequency | Count |
|---|-------|------------------------|------------|
| Using a risk-based approach, ensure controls are adequate to mitigate a variety of different types of risks. | | 40.7% | 249 |
| As a value-added function, advise and consult management and the board on governance processes, the effectiveness and efficiency of the organization, and whether organizational goals and objectives are being met. | | 51.3% | 314 |
| Ensure compliance with laws and regulations is met. | | 2.5% | 15 |
| Ensure financial controls are effective. | | 1.6% | 10 |
| Other; specified below. | | 3.9% | 24 |
| Not Answered | | | 3 |
| | | Valid Responses | 612 |
| | | Total Responses | 615 |

2: How often should your audit committee communicate with the chief audit executive (including both formal and informal communication)?

(Respondents could only choose a single response)

| Response | Chart | Frequency | Count |
|--|--|------------------------|------------|
| weekly |  | 7.3% | 45 |
| monthly |  | 40.0% | 245 |
| quarterly |  | 38.2% | 234 |
| semi-annually |  | 4.2% | 26 |
| annually |  | 1.1% | 7 |
| We do not meet with the chief audit executive. |  | 2.4% | 15 |
| Other; specified below: |  | 6.7% | 41 |
| Not Answered |  | | 2 |
| | | Valid Responses | 613 |
| | | Total Responses | 615 |

Stakeholders' perspectives on the future of Internal Audit

The focus of internal audit should evolve and align with emerging/ changing risks.

Strategic & Business 60%

Corporate Strategy

Lack of effective measurement processes to determine whether strategies are achieving their long term objectives.

Operational 20%

Inadequate consideration of impacts relating to risks and of risk mitigation activities during strategic planning and budgeting.

Compliance 5%

Industry

Market/environmental forces that affect an entire industry – current economic crisis, natural disasters

Financial 15%

Competitors – new entrants, new regulations, new capabilities

Customer Focus

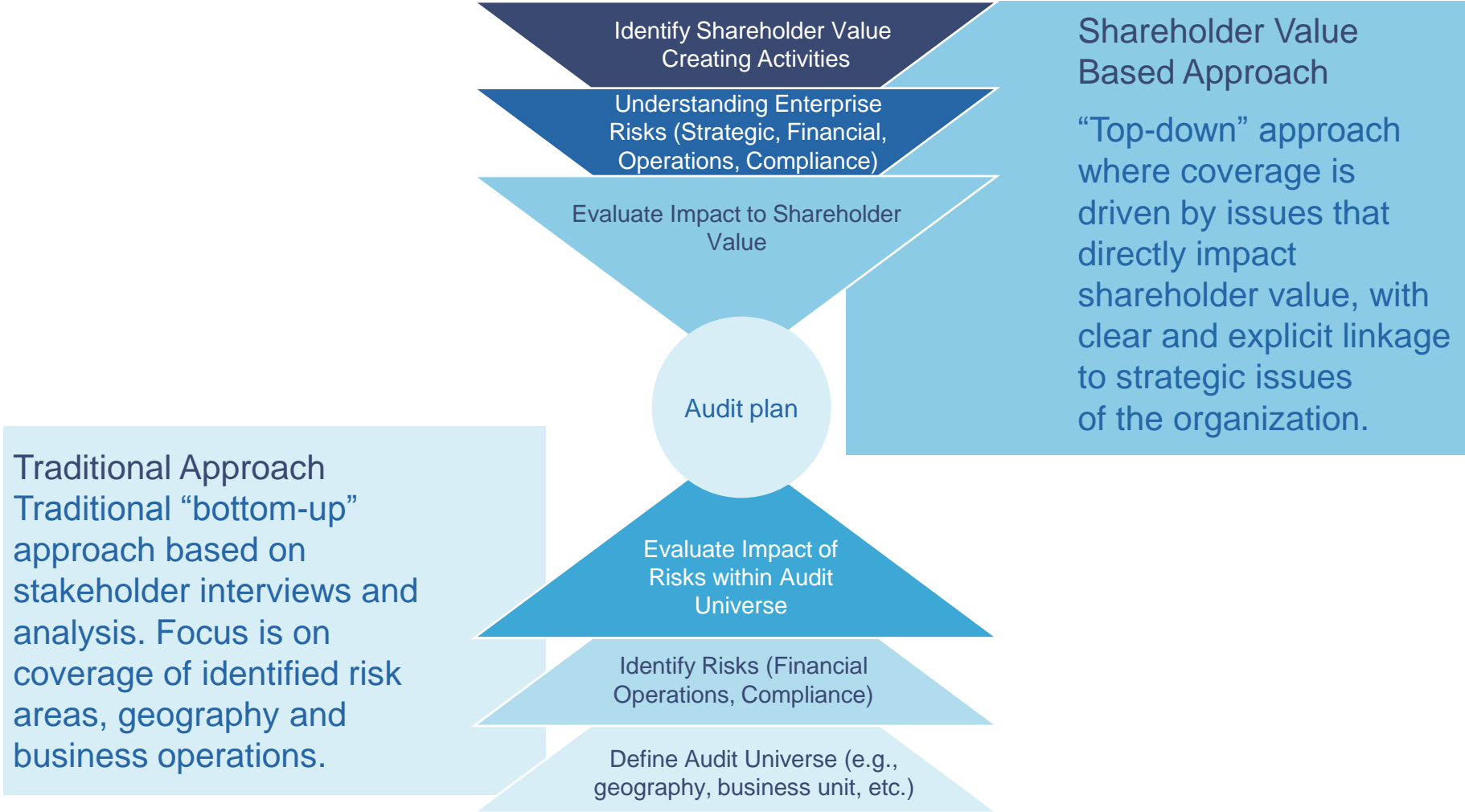
Failure to anticipate changing consumer needs, which may lead to ineffective product development / loss of market share

Lack of consumer measurement or satisfaction process to assess whether company is meeting customer expectations.

Reputation

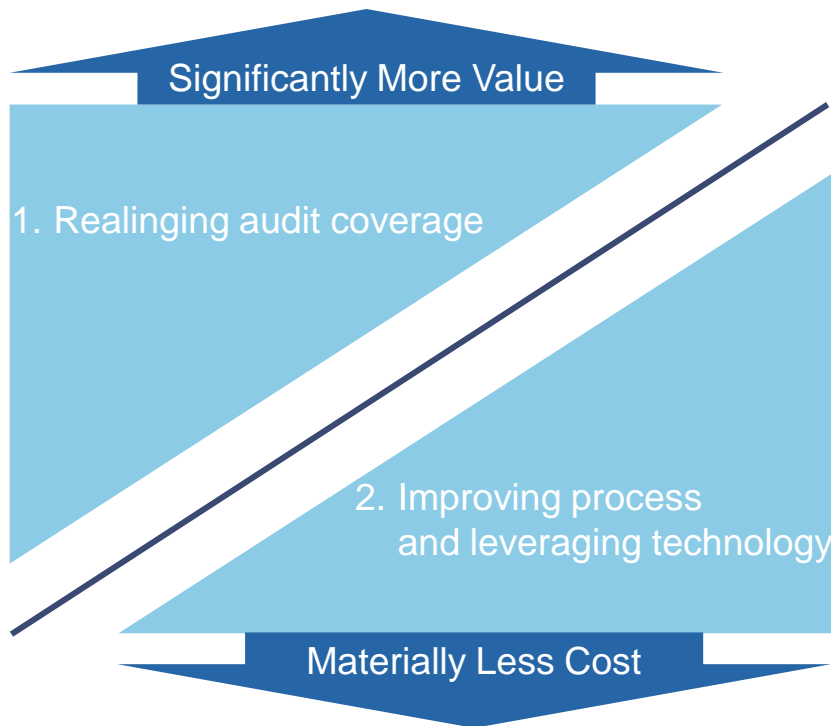
Major product failure, unethical behavior, or poor quality of service

Transformed vs. traditional risk assessment approach



Stakeholders' perspectives on the future of Internal Audit

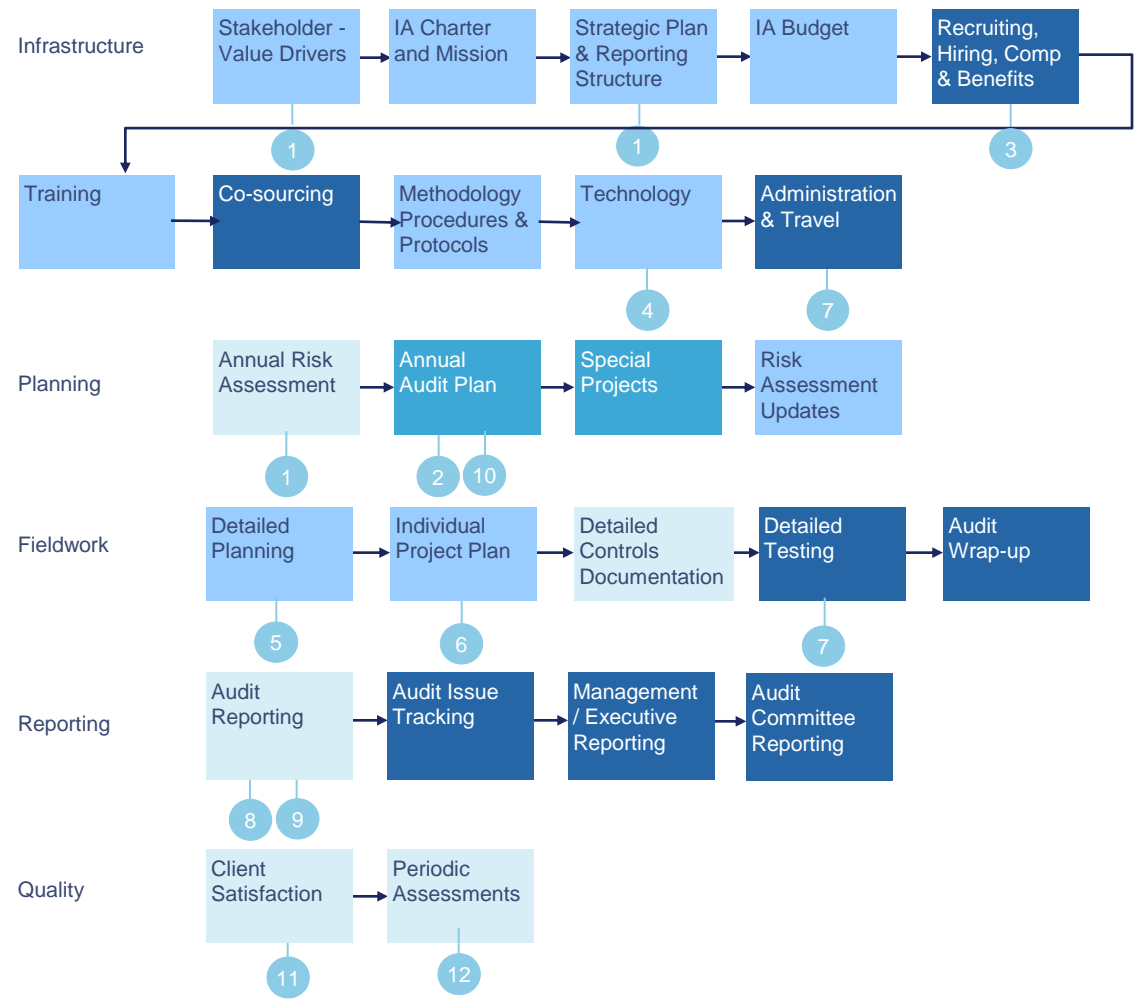
Internal audit must streamline its processes and leverage technology to reduce costs and enhance the quality of its services.



- Technology to improve the efficiency of the audit process
 - Automate issue tracking
 - Streamlined reporting
 - Knowledge management and leading practices
 - Storage and retrieval of work products
- Technology to execute audits
 - Data retrieval software to automate testing
 - Increase audit coverage
 - Focus on anomalies
 - Data mining/analysis software for predictive analysis and modeling
 - Continuous monitoring

The transformed approach enhances efficiencies and lowers cost

Internal Audit Process Overview



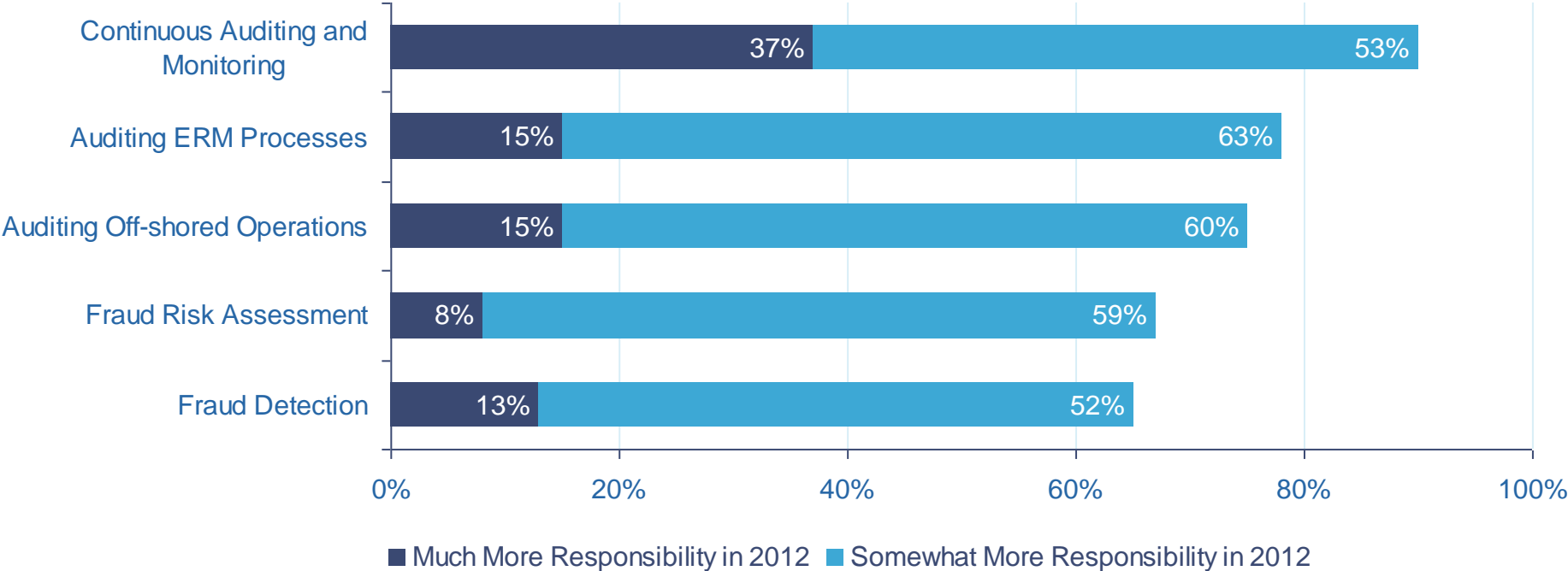
- Areas with significant opportunity for time and/or cost savings
- Areas with moderate opportunity for time and/or cost savings
- Areas with limited opportunity for time and/or cost savings

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Survey results: Changes in Internal Audit roles and responsibilities

Areas of Increasing Responsibility by 2012



Fraud is on the rise again. But I am not sure that Internal Audit is prepared. No one is readily able to educate, find and resolve fraud issues.
– Chief Audit Executive, Transportation Industry

Changes in Internal Audit's Role

Areas of greatest projected increases in internal audit's responsibility include:

| | |
|--|-----|
| 1. Continuous auditing or monitoring | 95% |
| 2. Auditing the ERM process | 77% |
| 3. Auditing outsourced or off-shored operations | 75% |
| 4. Fraud detection | 66% |
| 5. Fraud risk assessments | 66% |
| 6. Auditing executive comp and disclosures | 65% |
| 7. Auditing operational efficiency/effectiveness | 64% |

Survey results: Skill sets that will be more important by 2012

- 1. Data mining & analysis 89%
- 2. Risk assessment 76%
- 3. Information technology 72%
- 4. Risk management 70%
- 5. Fraud detection 69%

Survey respondents indicating the skill set will be “far more important “ or “somewhat more important” than today.

The ability to conduct data analysis is essential. *Chief Audit Executive, Healthcare Industry*

Integrating technology and the finance skill set is becoming more and more important. *Chief Audit Executive, Technology Industry*

Sarbanes-Oxley has developed an Internal Audit culture of staff believing they could “stop thinking.” Internal Audit needs to get back to having business conversations, be better prepared, and have an understanding of what is going on in the business. *Chief Audit Executive, Consumer Products Industry*

Key trends PwC believes will reshape Internal Audit by 2012

- Changes in risk management
- Changes in Internal Audit roles
- Organizational and talent management trends
- Globalization
- Technology

Through analysis of both survey and interview data, PricewaterhouseCoopers believes these broad trends will drive change in Internal Auditing over the next 5 years.

Technology

- Impact of technology over the next five years was a recurring theme from the research
- Participants anticipate major changes in what they audit and how they audit and the skills that will be needed
- 100% expect use of technology to increase
- IT capabilities expected to grow the most in importance:

| | |
|------------------------------------|-----|
| - Privacy-related risks | 60% |
| - Off-shored technology operations | 60% |
| - Automated controls | 60% |
| - ERP systems | 53% |
| - Network security | 51% |
| - Data warehouse controls | 50% |

8: Which three words should best describe a high-performing audit activity:

(Respondents were allowed to choose **multiple** responses)

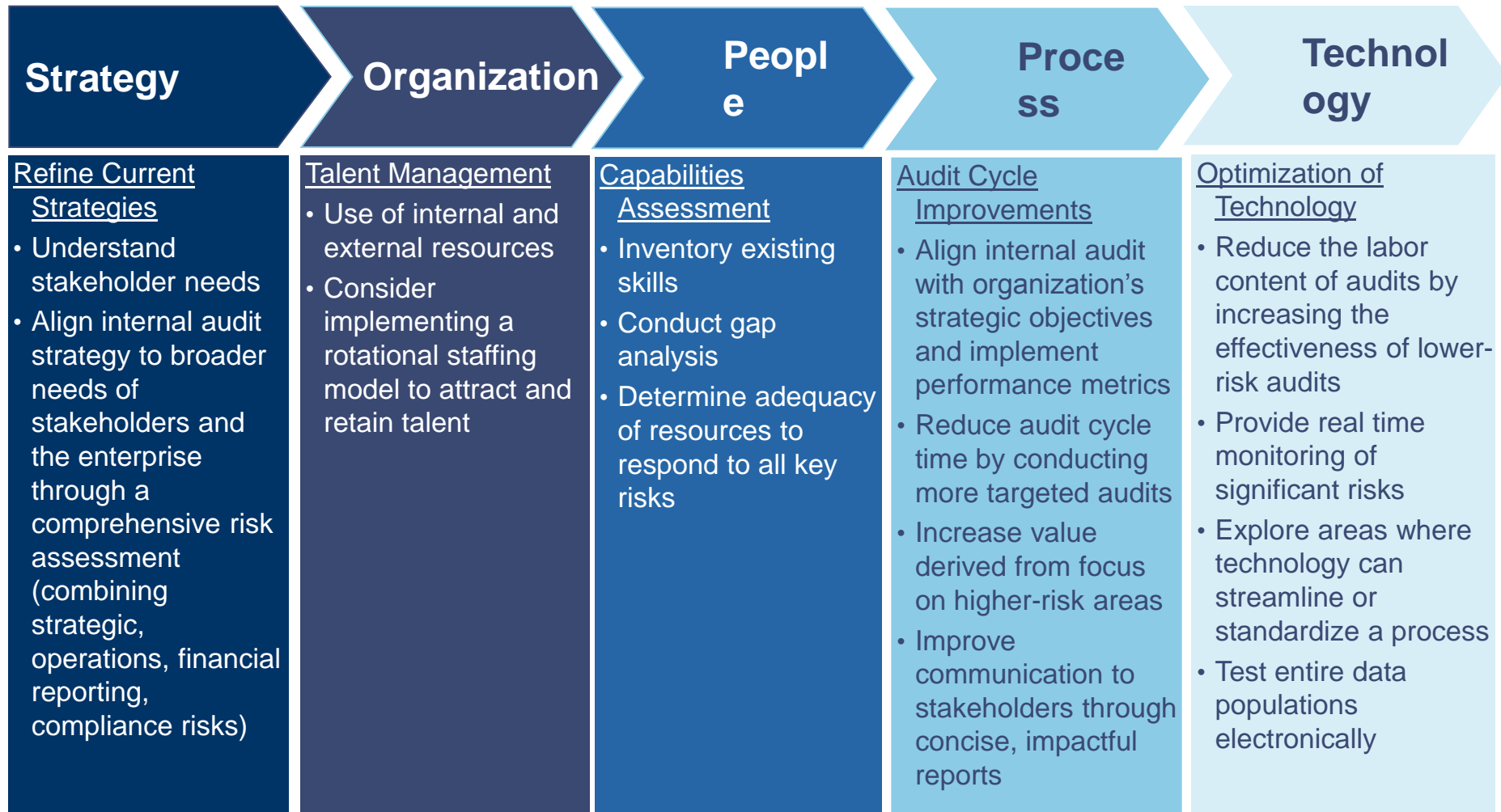
| Response | Chart | Frequency | Count |
|----------------------------|-------|------------------------|------------|
| Integrity | | 41.8% | 257 |
| Ethical | | 19.3% | 119 |
| Assurance | | 27.8% | 171 |
| Efficiency | | 16.6% | 102 |
| Accountability | | 8.1% | 50 |
| Transparency | | 7.6% | 47 |
| Insight | | 4.6% | 28 |
| Objectivity | | 58.5% | 360 |
| Reliability | | 15.4% | 95 |
| Recognized | | 3.1% | 19 |
| Trusted | | 12.7% | 78 |
| Valued | | 22.3% | 137 |
| Independence | | 60.3% | 371 |
| Other(s); specified below. | | 1.8% | 11 |
| | | Valid Responses | 615 |
| | | Total Responses | 615 |



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Ten Imperatives for Success in Next Five Years:

1. Strive continuously for appropriate alignment and stature of internal audit within your company
2. Develop and regularly update a formal strategic plan
3. Communicate continuously with key stakeholders
4. Ensure alignment of internal audit human resources strategies with enterprise and stakeholder needs
5. Maintain a continuous focus on enterprise risks and migrate toward a “risk-centric” value proposition

Ten Imperatives for Success in Next Five Years:

6. Enhance IT audit skills and capabilities and continuously strive for an integrated approach to IT audit coverage
7. Identify and implement technology solutions to enhance internal audit's efficiency and effectiveness
8. Leverage the collective knowledge and expertise of internal audit through a formal knowledge management strategy
9. Commit to continuous quality assurance and improvement
10. Link performance measures to strategic goals

Thank you!

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