



Internal Audit: Doing More With Less

Presented by: Rick Warren

Agenda

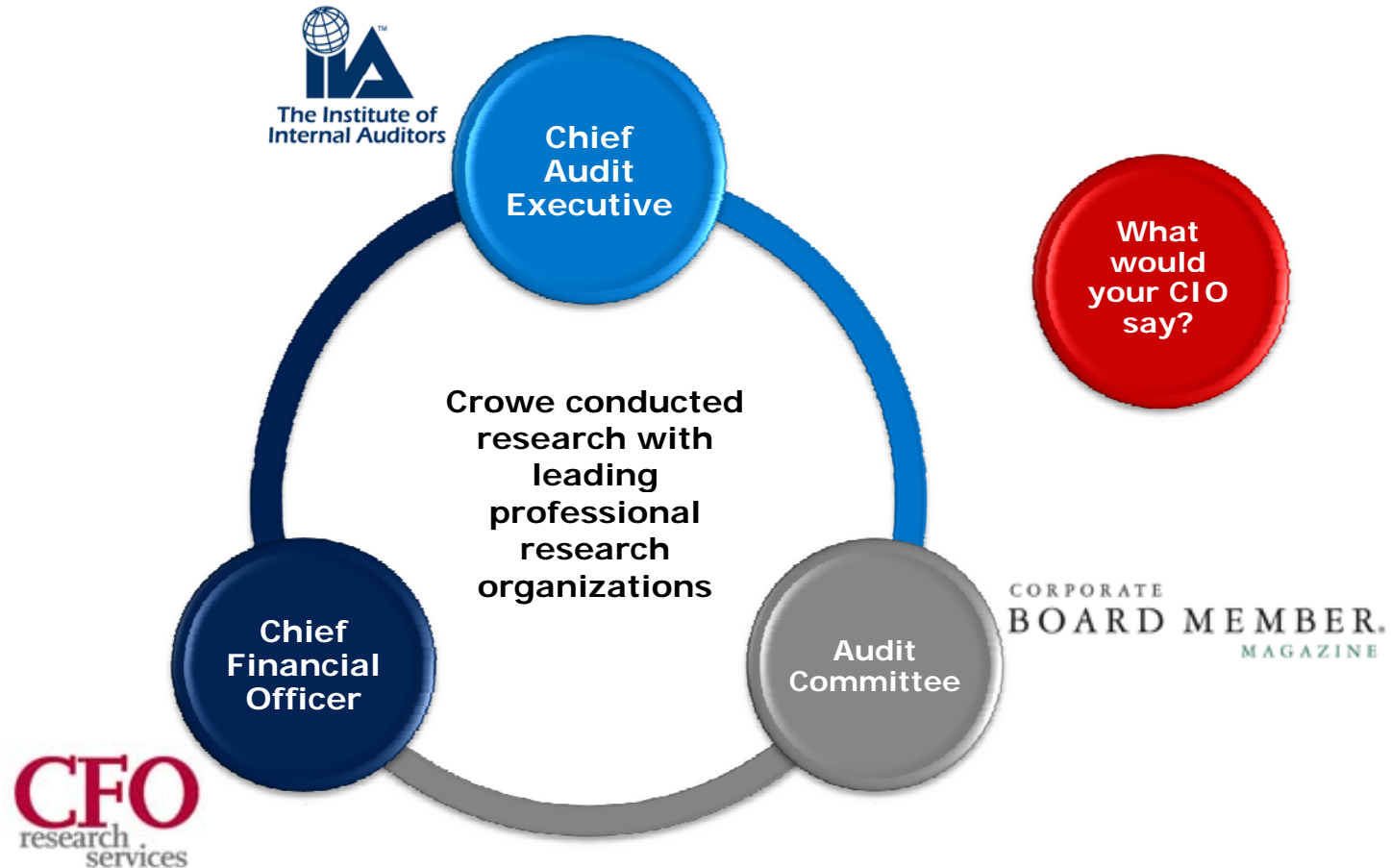
- How chief audit executives and internal audit functions remain relevant
- Market trends
- Internal audit challenges
- Solutions
- Four principles of the new internal audit model
 - Compliance
 - Business Performance Evaluation
 - Risk Management
 - Assurance

How chief audit executives and the internal audit function remain relevant

- Internal audit should:
 - Engage the organization on good corporate governance
 - Understand strategy, related risks and risk responses
 - Participate in enterprise risk management process and provide thought leadership
 - Monitor and report on key risks
 - Respond to changing business requirements
 - Give assurance to key stakeholders

Recent Crowe Horwath research was conducted to help understand how chief audit executives can best support the business

Crowe Research Overview



For more information on the results of these studies, visit crowehorwath.com

Chief audit executive interaction with and support of the Audit Committee

- 96% provide updates to Audit Committee members on critical issues
- 90% provide updates to Audit Committee members on the internal environment at the organization
- 85% educate Audit Committee members on relevant risks and risk management strategies
- 76% work with general counsel on various governance and internal control matters
- 76% work with the audit committee to design the internal audit charter, activity's mission, strategy and focus



Chief audit executive interaction with and support of the Audit Committee - opportunities

- 32% do not educate Audit Committee members on new governance initiatives and emerging compliance trends
- 36% do not assist in preparing for meetings
- 45% are not involved in enterprise risk management related activities including risk assessments conducted through internal audit
- 66% are not involved in conducting orientation for new board/Audit Committee members

Chief audit executive research main themes

- Only one-third of chief audit executives rate their overall experience interacting with the Audit Committee as “Excellent”
- Less than one-quarter of chief audit executives strongly agree that the Audit Committee leverages them to increase the committee’s effectiveness
- Only 30% of chief audit executives strongly agree that they serve as the link between the Audit Committee and management

There is a definite opportunity to increase the chief audit executive’s role as a link between organization management and the Audit Committee on corporate governance and related matters

Audit Committee responses

- 70% of Audit Committees identified enterprise risk management as the most challenging issue for their audit committee in the coming 12 months.
- According to Audit Committee members:
 - Over 55% of chief audit executives have the opportunity to improve in conducting risk assessments.
 - Nearly 60% of chief audit executives could improve in their effectiveness evaluating governance processes, enterprise risk management process, and/or internal controls.



Audit Committee research – evaluation of chief audit executive

- Overall, the chief audit executive and the chief financial officer were rated as the most effective in terms of helping the Audit Committee meet its internal control responsibilities.
- There is a positive correlation between how comfortable Audit Committee respondents are that information they receive from their chief audit executive is complete, accurate, proactive, and objective and how effective they rate the chief audit executive's assistance in meeting Audit Committee responsibilities.
- Audit Committee respondents are most confident that the information the Audit Committee receives from the chief audit executive is accurate.
- Audit Committee respondents are least confident that the information received is proactive.

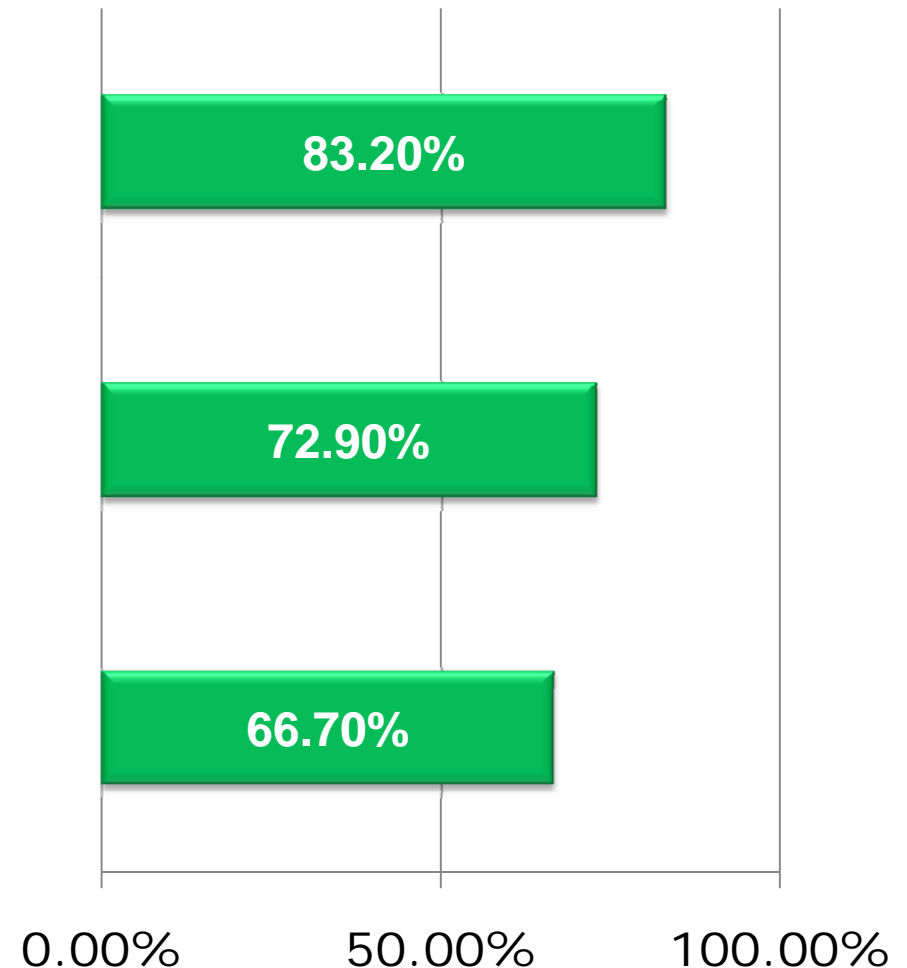
Audit Committee research – question and rating scale

- Question: How effective is your company's chief audit executive with regard to the following functions?
- Rating scale:
 - Very effective
 - Somewhat effective
 - Not effective
 - Would be useful, but function not currently in place
 - Not comfortable delegating this task

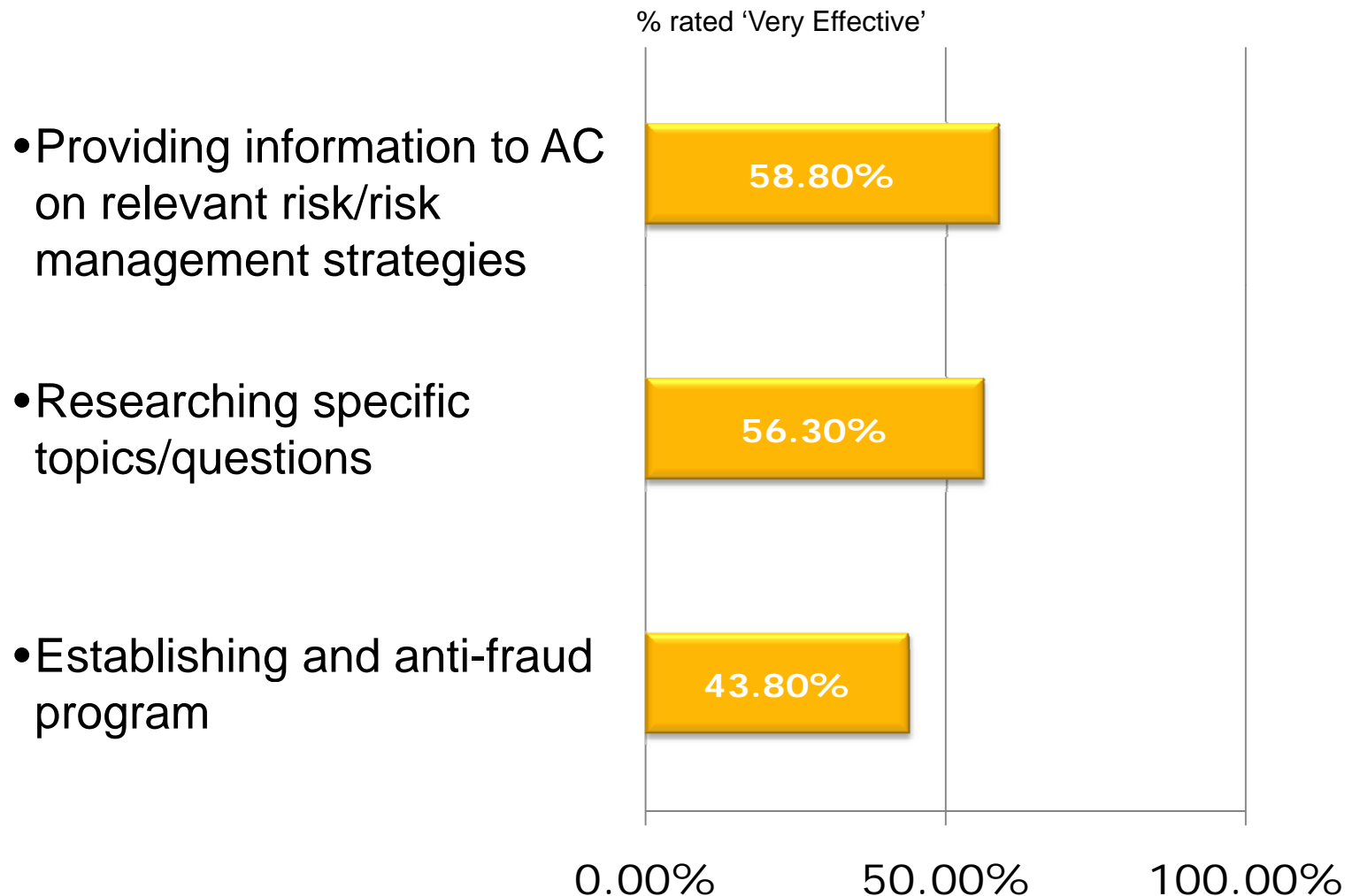
Chief audit executive effectiveness as rated by Audit Committees

% rated 'Very Effective'

- Sarbanes-Oxley Compliance
- Preparing for Audit Committee meetings (agenda, materials)
- Championing ethics/following up on Wistleblower hotline

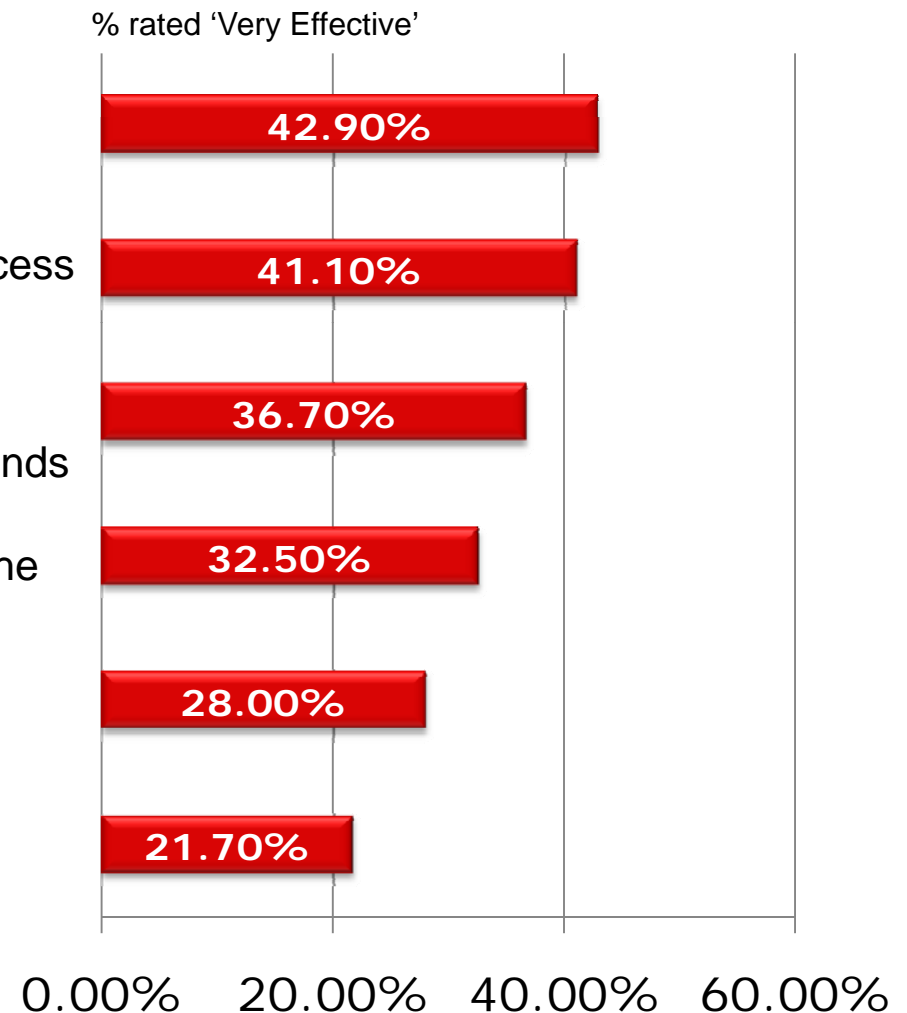


Chief audit executive effectiveness as rated by Audit Committees



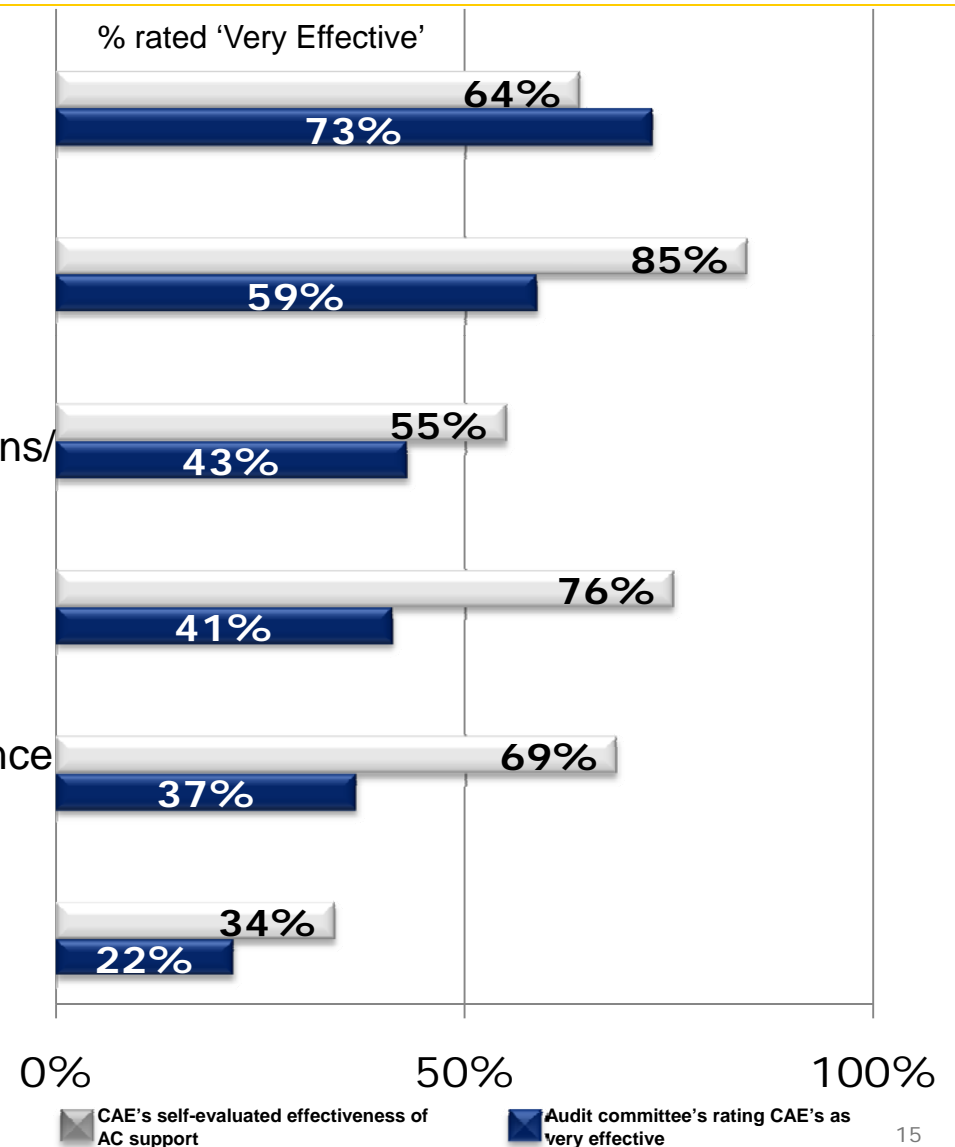
Chief audit executive effectiveness as rated by Audit Committees

- Conducting risk assessments (ERM considerations/ evaluations)
- Evaluating governance processes, ERM process and/or internal controls
- Providing information to the AC on new governance issues, emerging compliance trends
- Championing the governance framework in the organization
- Auditing compensation disclosure process
- Conducting orientation for new AC members



Comparing the views of CAE's and Audit Committees

- Preparing for the audit committee meetings by organizing agenda, preparing materials
- Providing information to AC on relevant risks/risk management strategies
- Conducting risk assessments (ERM considerations/evaluations)
- Evaluating governance processes, ERM process and/or internal controls
- Providing information to the AC on new governance issues, emerging compliance trends
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Chief financial officer research – enterprise risk management

- Like Audit Committee members, managing risk across the entire company tops the list of risk management challenges for chief financial officers
 - 65% of chief financial officers say managing risk across the entire company will be particularly challenging over the next year
 - Over 30% say they have been disrupted by either financial or operation surprises in the last three years
 - Over 40% or more say there is substantial concern about market, financial and technology risk factors over the next year
 - It was reported that 21% of the finance teams will devote much greater attention on company-wide risk management (another 54% at least moderately more)

Research main themes

- Chief financial officers identified the following as their weakest risk management performance areas:
 - Risk identification
 - Incorporation of risk analysis in strategy setting
 - Information gathering for risk management purposes
 - Risk assessment and quantification

Research main themes

- According to chief financial officers the biggest obstacles to improving risk management at their organization are:
 - Lack of time, attention, resources
 - Lack of shared understanding and approach to risk management
 - Perception of risk management as an unnecessary interference in business activities

Market trends

- Three surveys on internal audit commissioned by Crowe Horwath and partner organizations indicated that businesses felt:
 - Internal audit departments do well in testing past events
 - Fail to address two critical needs:
 - How the company is doing today?
 - What are the areas with room for improvement?
- Companies want greater assurance that everything is “OK” today, better business improvement processes and more thorough risk management efforts
- Global economic recession is requiring “more with less”

Internal audit gaps that exist today

- The need to provide greater assurance
- Recent cutbacks as a result of the economic crisis have narrowed the scope of internal audit activities
- Limited view of strategic and emerging risks
- Capability to address emerging and global needs
 - Compliance with Foreign Corrupt Practices Act
 - Compliance with other countries' business practices and customs
 - Sustainability
 - Doing more with less

Internal audit challenges

- Must be able to leverage the work of others
- Increased ability to address many issues at the same time
- Process owners need to be held accountable
- Provide continuous coverage

The new internal audit model



Compliance

- The new model
 - Red-flagged issues are investigated
 - Relies on the work of business unit managers and current reports
 - Verifies sample checks performed by managers
 - Covers various areas of compliance
 - JSOx/SOx
 - Security and privacy
 - Ethics and business practices
 - Health and safety
 - Anti-money laundering
 - Other

Improving business performance

- Businesses need all employees to help improve performance. For internal audit that might include:
 - Benchmark
 - Streamline internal controls
 - SOx
 - Automated controls vs. manual
 - Build controls into enterprise resource ERP systems
 - Improve operating efficiency and effectiveness
 - Optimize cost of compliance
 - Best practices
 - Continuous improvement

Chief Audit Executive's role in enterprise risk

- Key risks are always changing
- Link future risks to strategy and business objectives
- Apply monitoring and review methods to make audit process more effective and efficient.
- Use risk assessments from elsewhere in organization and integrate them into internal audit risk assessment process.
- Review the process that other groups within the company are using to evaluate emerging risks.

Enterprise risk – what it is not

- The chief audit executives role is not to manage risks or be in-charge of enterprise risk management

ERM supports good corporate governance

Crowe Horwath Enterprise Risk Management FrameworkSM



Good corporate governance requires a focus on the risks of the enterprise and various audit activities to determine whether risk management efforts are working effectively.

Corporate Governance FrameworkSM



Assurance

- Stakeholders are looking for assurance on a variety of topics
- Risks are being managed effectively
 - Financial
 - Non Financial
- Compliance requirements are being met
 - SOx
 - FCPA
 - Environmental
- Operations are efficient and effective
- Best practices are being utilized

Conclusion

- Redefining internal audit is a business necessity
- Audit Committee, chief financial officers and other stakeholders want an internal audit function that can build financial excellence with confidence
- People are discussing governance, risk and compliance but the NEW MODEL ADDS ASSURANCE
- With the internal audit model built on foundation of four key principles, internal auditors can:
 - Understand the business strategy
 - More effectively assess the business risk
 - Help manage risk in permanently changing business environment
 - Make recommendation that will lead to business process improvement
 - Help ensure compliance requirements are accomplished
 - Provide continuous assurance that all the above are achieved
 - Do all the above cost effectively

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