



# The Global Profession of Internal Auditing

Dallas Chapter of the IIA  
February 5, 2009

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*Progress Through Sharing*

# Topics

- The Global IIA
- The IIA's New Strategic Plan
- Current Environment and Emerging Trends
- Closing Thoughts

# The Global IIA



# The IIA

	Members	Institutes/Chapters
<b>Global</b>	159,500	251
<b>Asia Pacific</b>	31,300	20
<b>Europe</b>	34,250	32
<b>Middle East</b>	2,450	6
<b>Africa</b>	11,100	20
<b>Latin America</b>	9,550	19
<b>North America</b>	70,850	154

*Membership has increased over 100% since 2000!*

**Approximately 75,000 Certified Internal Auditors**



# New Strategic Plan for the IIA



# IIA Strategic Planning – 2008-2013

## Preferred Future Milestones

### By 2013:

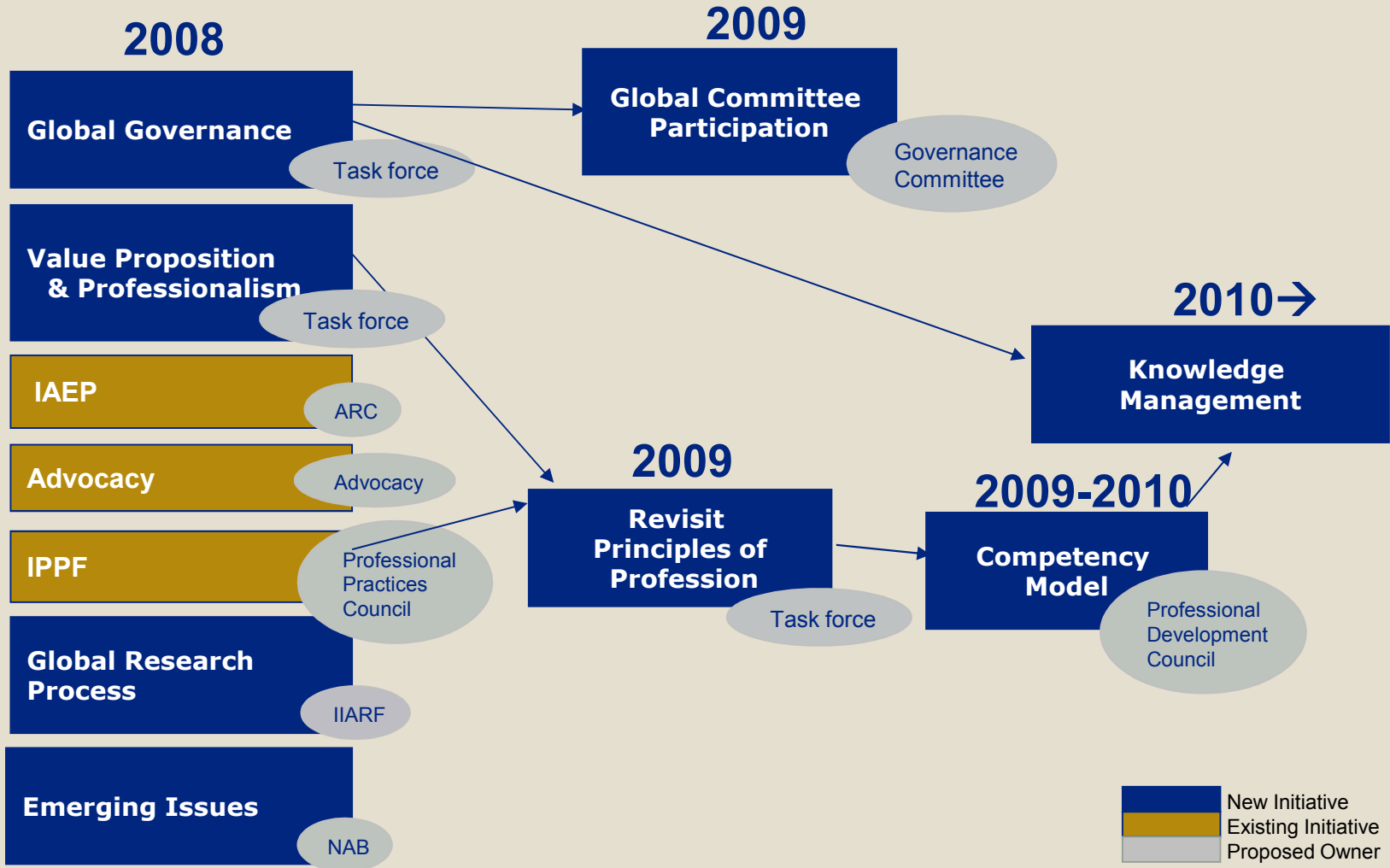
1. Internal Auditing is universally recognized as a **profession**

*To Accomplish this The IIA:*

2. Defines the **principles of the profession** and assures that the principles are available seamlessly worldwide
3. Assures **adherence** to professional requirements
4. Is the **preferred provider** in the research, development and dissemination of knowledge to advance the profession
5. Is seen by its members and operates as **one global organization**



# Near Term SP Initiatives





# **Theme for 2009**

**Internal Auditing....**

**Recognized.**

**Trusted.**

**Valued.**



# Recognition

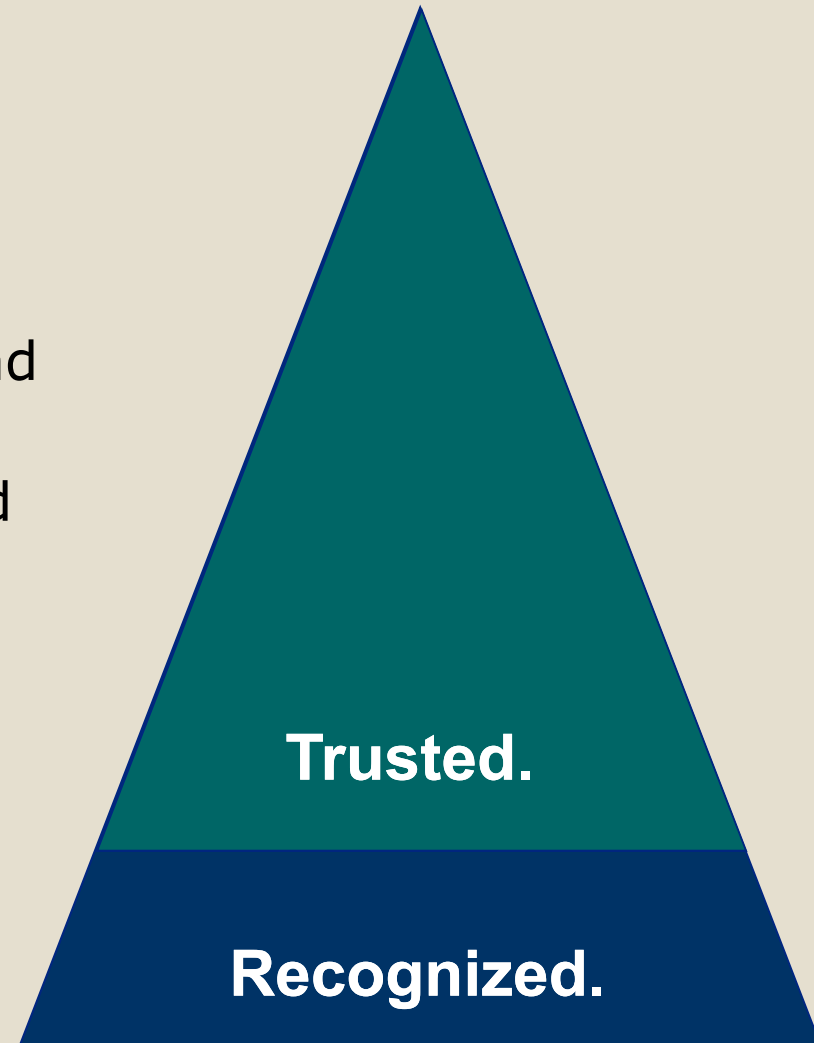
- Our profession, our organization, each professional
  - Roles understood
  - Expectation of due care, objectivity, fair and accurate reports
  - Appreciation of professional behaviors and attitudes
  - High integrity and ethics



**Recognized.**

# Trust

- High integrity and ethics
- Respect those audited
- Understand the business; management's strategies and objectives
- Focus on the right areas and the right risks
- Provide practical, relevant and persuasive recommendations

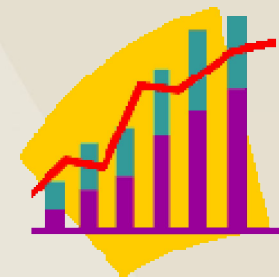


# Value

- Contributions to your organization and assurance to stakeholders
  - ‘Seat at the table’
  - Proactive catalyst for positive change
  - An objective and informed reporter on business risk, control and governance
  - Trusted advisor on risk, control and governance issues
  - Balance of consultative and assurance services
  - Help protect AND grow the business



# Current Environment and Emerging Trends



# Corporate Governance Failures - Then



**Andrew Fastow  
Enron**

***pleaded guilty  
to fraud and  
conspiracy***



**Scott Sullivan  
Worldcom**

***pleaded guilty  
to fraud***



**Martha Stewart  
Omnimedia**

***convicted of  
lying, conspiracy,  
and obstruction  
of justice***

# Corporate Governance Failures - Now

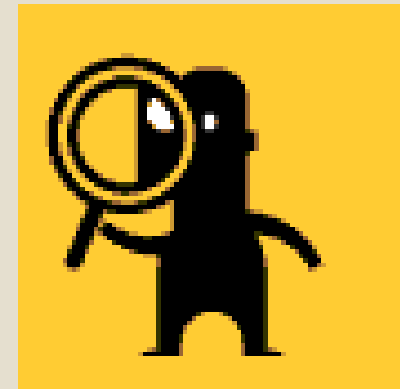
- Bear Sterns (US) – Trading practices
- Societe Generale (Europe) – Management competence; trader fraud
- Citigroup – Lending practices
- UBS (Europe) – Tax advisory services
- Fisher Price (US/China) – Lead paint in toys
- GlaxoSmithKline (US) – Paxil side effects
- Oji Paper and Nippon Paper (Japan) – False claims on recycled paper content
- IndyMac Bank (US) – Lending practices
- Samsung (Korea) – Tax evasion
- Satyam (India) – Fraudulent financial reporting

# Definition of Internal Audit (IA)

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of **risk management, control, and governance processes.**”\*

*Did Internal Audit fail in organizations with governance failures?*

*What can Internal Audit learn from these governance failures?*



\* The International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors

# Responsibilities TODAY

## Are each of us ....

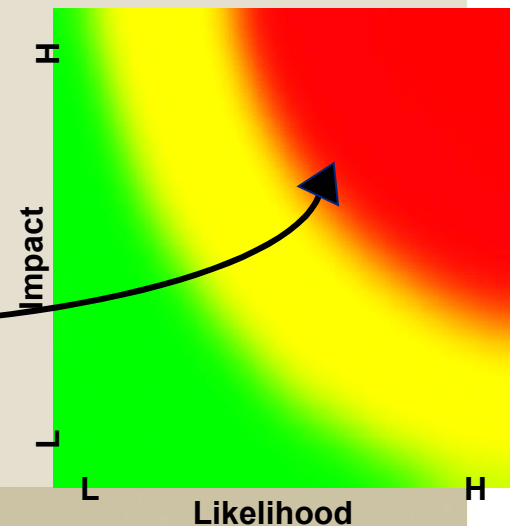
- Hiring the **best and brightest**
  - and providing a learning and career pathway
- Seeking to understand **stakeholder** expectations and evaluating effectiveness in meeting those expectations
- Embracing and executing a **risk-based approach** with a balanced plan
- Providing **leadership on issues of corporate governance**, fraud, risk management, internal control and financial reporting
- Willing to **challenge status quo**, and operating as change agents
- Staying informed on **emerging trends in our profession?**
- Keeping **abreast of new developments** in our businesses, industries and regions, considering risks and taking a proactive role:
  - Economic downturn
  - Currency destabilization
  - Extended enterprise
  - IFRS adoption worldwide
  - Corporate responsibility and sustainability
  - Etc.



# New IA Risk Assessment Approach

## The Fallibility of Probability

- Little or no predictive value
- Major value losses are often high impact / low likelihood
  - 9/11
  - Dot com bubble
  - Oil / commodity price spikes
  - Danish cartoons
  - 1997 Asian Financial crisis
  - Financial scandals
  - Natural disasters
  - ???
- Biases management to direct resources to high impact / high likelihood events
- Typically focuses on single events rather than a series of events or domino effects
- Audit activities are often misdirected to the "red zone"



# New IA Risk Assessment Approach

## **M = High Impact/High Vulnerability**

- Provide assistance in design of controls where impact and vulnerability are high
- Track progress on remediation plans

## **A = High Impact/Low Vulnerability**

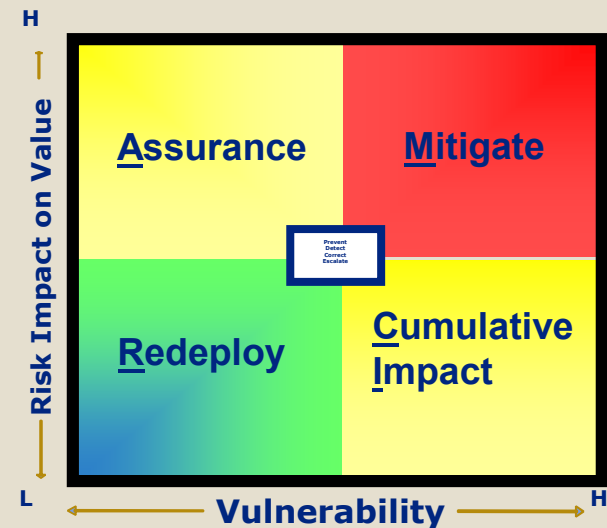
- Obtain assurance confidence in preparedness is justified

## **R = Low Impact/Low Vulnerability**

- Obtain assurance on effectiveness
- Identify ways to improve efficiency

## **CI = Low Impact/High Vulnerability**

- Assess cumulative impacts and frequency



# Economic Downturn/Financial Crisis

- Illustrative risks:
  - Increased incentives for financial fraud
  - Disgruntled ex-employees who sabotage, pilfer assets
  - Short term cost-cutting with destructive operational or control implications
  - Reliance on a third party supplier, distributor, or joint venture partner with financial difficulties; what contingency plan is in place
  - Potential liquidity issue due to the tightening of credit

## Internal Audit Role

*Help management identify risks, design risk management strategies, assess and monitor effectiveness of applicable controls*

# Potential Internal Audit Involvement

- Participate in cross functional 'what if' discussions to reconsider risks and identify action plans
- Help design risk management / monitoring processes (i.e., controls!) to address risks
- Redirect audit resources to re-assessed highest risk areas
  - Risk assessment and risk management/monitoring practices
  - Complex decision models – such as risk monitoring and valuation
  - Physical and system security in the aftermath of layoffs
  - Operational reviews in processes that MUST continue to work
  - Investment diversification policy
  - Consumer loan, credit policy
  - Governance roles, responsibilities, practices
    - Financial and nonfinancial metrics used to measure performance
  - Extended enterprise reviews

# Extended Business Relationships

Supply-Side Partners	Demand-Side Partners	Licensees	Infrastructure
<ul style="list-style-type: none"> <li>• Vendors</li> <li>• Suppliers</li> <li>• Manufacturers</li> <li>• Replicators</li> <li>• Integrators</li> </ul>	<ul style="list-style-type: none"> <li>• Franchisees</li> <li>• Distributors</li> <li>• Advertising agencies</li> <li>• Retailers</li> <li>• Warranty providers</li> </ul>	<ul style="list-style-type: none"> <li>• Co-brand partners</li> <li>• Joint developers</li> <li>• Patent licensees</li> <li>• OEMs</li> </ul>	<ul style="list-style-type: none"> <li>• IT outsourcing</li> <li>• HR services</li> <li>• Travel agencies</li> <li>• Legal services</li> <li>• Transaction processing</li> <li>• Call centers</li> </ul>



# Internal Audit: Turn Trust into Value



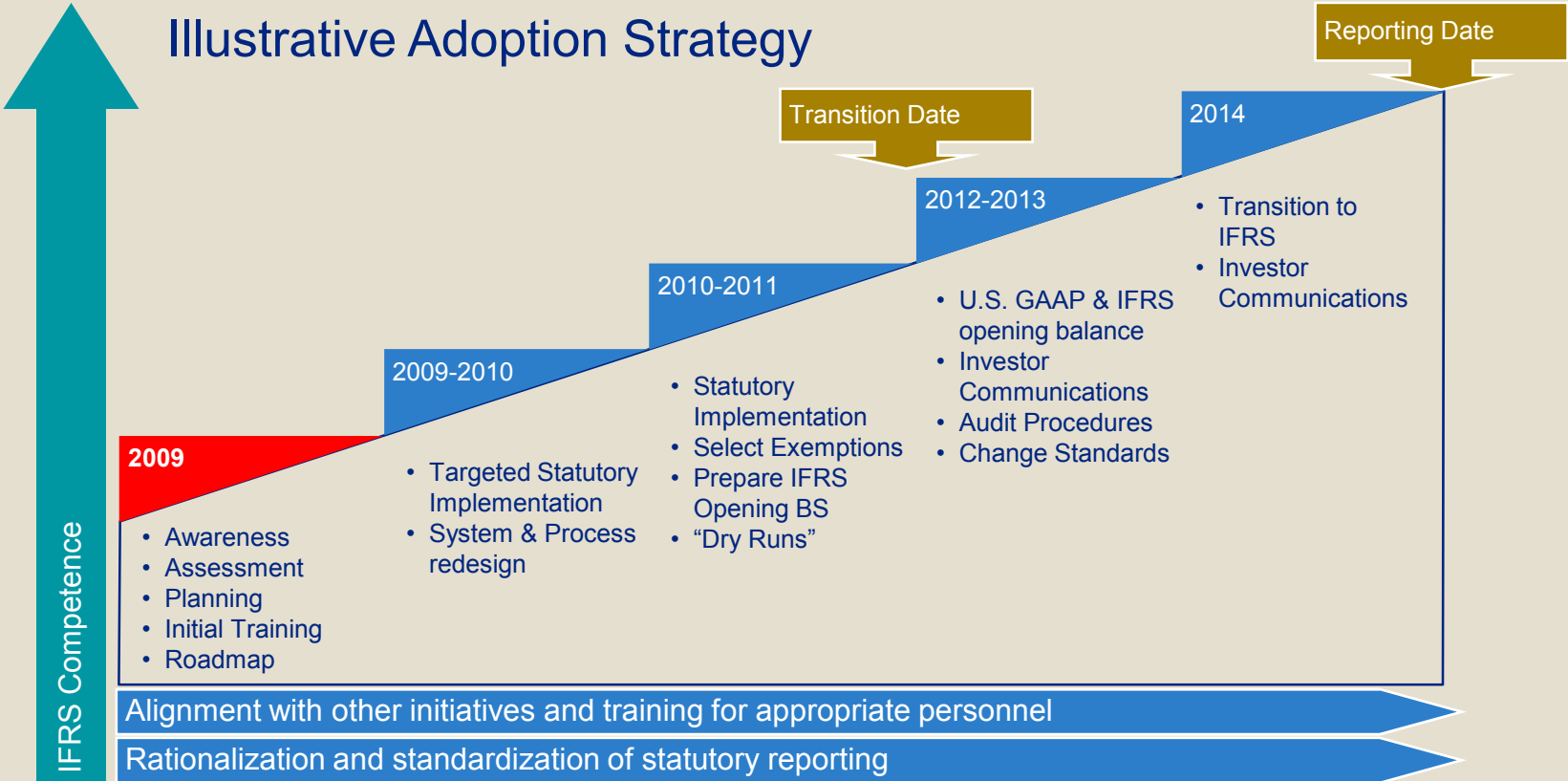
# IFRS – Are You Informed?

## Illustrative Adoption Timeline



Plan & Transition	Convert & Compare	Sustain & Improve
<ul style="list-style-type: none"> <li>US companies launch <b>internal holistic assessments</b> and start mapping their paths to adoption</li> <li>SEC proposes IFRS road map</li> <li>Many US companies have the option to use IFRS</li> <li>Early adopters and large complex companies shift into <b>high gear</b></li> </ul>	<ul style="list-style-type: none"> <li>Comparison of <b>US GAAP and IFRS</b> Financial Statements</li> <li><b>Process and systems</b> changes are taking place as a result of IFRS transition</li> <li>Companies are executing on <b>communication</b> and <b>training</b> plans</li> </ul>	<ul style="list-style-type: none"> <li>All large accelerated filers are reporting under IFRS</li> <li>Continued focus on efficiencies and benefits to drive sustainability</li> </ul>

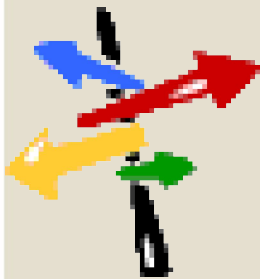
# IFRS – Have You Started?





# Corporate Social Responsibility

- Significant and growing worldwide trend and stakeholder expectation
- Both a threat and an opportunity
  - Can you meet the expanding expectations?
  - Have you anticipated your competitors' actions?
  - Have you anticipated your regulators' actions?
  - Can you leverage the trend to an economic and societal advantage?
- Improve operations, attract talent, promote positive relations, enhance transparency and accountability, streamline regulatory compliance, heighten competitiveness, draw investors



# Corporate Social Responsibility



- Consider .... Is your organization ready?
  - To pay for what was formerly free?
  - To take advantage of shifting demographics?
  - To respond to activists?
  - To anticipate your stakeholder's changing needs and expectations?
- IA as catalyst
  - Understand your organization's approach and attitude
  - Educate on breadth of risk and opportunity
  - Assist in collecting data and benchmarking
  - Assist in planning approach with appropriate measurements to monitor progress and risk management
  - Ultimately, assist in designing new processes and supporting controls

# Closing Thoughts



# Final Thoughts

- Risks facing our organizations are unprecedented and stakeholders' expectations continue to increase
- Internal audit profession has an opportunity to step forward
- Individual practitioners and organizations must 'raise the bar' to most effectively represent and advocate for our profession
- Our new challenges will bring new opportunities for our organizations, internal auditing as a profession, and each of us as professionals



# My Challenge

Challenge yourself  
Challenge your team  
Challenge and support the IIA

to be not just recognized  
not just trusted  
but a valued member of the  
organization, our  
profession, and our  
Institute

