



How the Recession Is Changing Internal Auditing

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Agenda

- **Who am I?**
- **How the Economy has affected us**
- **The Ever-Changing Field of IA**
- **Increased Role & Value of IA**
- **IIA GAIN Survey Results**
- **What We Can do to Help?**
- **How Can Auditors Help Themselves?**



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- **Principal, SOFT Audit Consulting**
- **Former Director of Corporate Audit/SOX at Dr Pepper Snapple Group & Tyler Technologies**
- **Established/Assisted in Establishing 3 Internal Audit/SOX Departments over the past 6 years**
- **CPA, CIA, CISA, CGEIT, CCSA**
- **Texas A&M University – 97/98**
- **Father of two beautiful kids!**





How has the Economy Affected Us?

- **How many in the audience:**
 - Are currently in transition?
 - Know someone that is currently in transition?
 - Personally been affected by the economic downturn?
- **Job Market for Internal Auditors**
 - Weaker than previous years **HOWEVER**
 - Consistently Stronger than other professions
 - Everyone still needs auditors!



Economic Lifestyle Changes

- **Have your spending habits changed?**
- **Have your Company's spending habits changed?**
- **Have you been asked to cut your budget?**
- **What has changed around you?**





In times of economic downturn, companies often face increased risk. Cost cutting becomes a main priority and certain risks areas might lack the focus necessary during normal economic times. It is not time to decrease controls; its time to strengthen the control environment.



The Ever-Changing Field of Internal Audit

- **Auditors around the world are refocusing their audit efforts to reflect a changing economic climate.**
 - A third of organizations in the survey say the downturn is affecting the focus of their work, with the risk of fraud representing the main area receiving extra attention.
 - Half of the respondents feel that budget cuts across their organization would damage its control environment and its ability to achieve business outcomes this year.
 - The survey said auditors should be reviewing what the organization is doing to maintain its control coverage, but the majority (58 percent) have no plans to do any work on this risk.

SOURCE: IIA Gain Knowledge Report: 2009
Hot Topics for the Internal Audit Profession,
January 2009



The Ever-Changing Field of Internal Audit

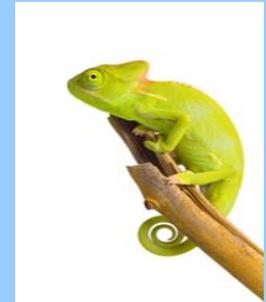
- **PwC study on the state of the profession has more detail on the shifting audit focus at U.S. companies.**
 - The two main areas gaining increased attention are strategic/business risk and operational risk.
 - Most audit shops at the companies surveyed are heavily rooted in financial controls and operational compliance, a reflection of the fact that they all have to abide by the U.S. Sarbanes-Oxley Act of 2002.

SOURCE: PwC, "Business Upheaval: Internal Audit weighs its role and the recession and evolving enterprise risks", 2009



The Ever-Changing Field of Internal Audit (cont.)

- **We are not in the audit report business; we are not even in the audit recommendation business. Instead, we are in the change business — how to address risk and how to make the company better. It's not easy to audit this way, but if you search out areas where you can help, then your audit business will boom and they will not cut your department."**
 - Michael Fucilli, auditor general at the Metropolitan Transportation Authority (MTA) in New York City





Increased Role and Value of IA

- **IA professionals are being forced to grapple with a number of significant issues.**
- **Internal auditors have been enjoying a surge in demand for their services.**
- **The IA role has expanded beyond internal controls assessment to achieve strategic and operational windfalls. This is especially true given the current recession.**

SOURCE -

<http://blog.aefeldman.com/2009/04/06/internal-audit-departments-staff-up-as-focus-shifts-toward-value-creation/>



Increased Role and Value of IA (cont.)

- **Corporate management is asking internal audit to find new ways to help achieve strategic objectives.**
- **Internal auditors are expected to extend their role and use quantitative skills and risk knowledge to help improve risk management and processes, and reduce complexity and costs.**
 - Increased role of IA in the ERM process?

SOURCE: KPMG Audit Committee Institute



Increased Role and Value of IA (cont.)

- **Internal auditors in the United States and Canada appear to be holding their own during these challenging economic times.**
 - The study, which polled more than 1,200 companies, finds that internal auditors with the Certified Internal Auditor (CIA) designation are cashing in earning significantly more than their counterparts without an internal audit certification.
 - Internal auditors on average will continue to receive raises over the next year, despite the looming recession.
 - The study found that a staggering 91% of employers surveyed indicated they are likely to increase internal auditor salaries next year.
 - 69% are planning to provide increases to 100% of their audit staff in the next 12 months, versus 34% for their entire workforce.

SOURCE: IIA Compensation Study, 10/08



IIA Survey Results

Five areas of realization emerged from the survey results:

- 42% of respondents working in the financial services sector felt better risk management practices could have helped prevent their organization's current financial situation, although a majority of the respondents overall did not feel this way.
- Within organizations receiving stimulus or rescue funds, almost half (44 percent) of internal audit activities have not addressed risks related to the funding.
- Organizations are redirecting their internal audit resources away from covering previous risks, such as U.S. Sarbanes-Oxley Act of 2002 testing, to cover recession-related risks.
- The survey data points toward a change in stakeholder expectations which will further drive the priorities of an organization's internal audit activity.
- The recession has had a trickle-down effect that has impacted the resources of internal audit functions, possibly leaving organizations open to additional risks.

SOURCE: IIA GAIN Survey, A World In Economic Crisis:
Key Themes for Refocusing Internal Audit Strategy,
March 2009



IIA Survey Results (cont.)

- **Deteriorating economic conditions have led to a shift in the focus of internal auditors, with 47% telling a new survey that the downturn has led to more work on issues of operational risk.**
 - Same figure have also seen an increase in cost reduction work as companies tighten their belts in the face of the recession.
- **Furthermore, the IIA found that the economic crisis is fueling increased integration between risk management, compliance and internal audit. 35% of auditors said they had increased their oversight of risk controls.**

SOURCE: www.barclaysimpson.com, "Recession has put focus on risk for internal auditors, March 30, 2009"



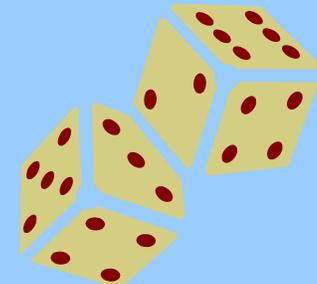
What Can We do to Help?

- **What is the Audit Committee's Risk Tolerance?**
- **Refresh the Audit Risk Assessment**
- **Increased Focus on Fraud**
- **Integrate Audit Approaches**
 - SOFT Audit Approach
- **Increase Value-Added Services**



What is the Audit Committee's Risk Tolerance?

- **With budget cuts, how do IAD's adjust?**
 - Less Audits?
 - Same Audits but not as deep?
 - Is not completing the audit plan an alternative?
- **What are the A/C's expectations?**
 - Mature organization?
- **Categorize Audits between required vs. nice to have?**





Refresh the Audit Risk Assessment

- **Audit Risk Assessment should be refreshed annually and reviewed periodically.....**
- **Changing economic times = changing risks**
- **Audit Risk should be constantly monitored and assessed with increased scrutiny**



Increased Focus on Fraud

- **Desperate times can call for desperate measures**
 - Increase in Fraud
 - Increase in Time Spent on Frauds
- **Cost/Benefit to all investigations**
 - More Investigations but Less Staff?





Integrate Audit Approaches

- **Don't work in Silo's**
- **Integrate SOX testing with operational audits, etc**
 - Don't visit a site twice
 - One round of SOX testing?
- **Cross-Train Auditors**
- **Risk Management, Compliance and Audit Integration**



The Integrated SOFT Audit - Definition

An integrated S.O.F.T. (“SOFT”) audit is an efficient vehicle where financial, compliance, and operational objectives intersect and the most relevant and material tests are completed based on a comprehensive risk and cost/benefit analysis.

By integrating the audit approach, internal audit will be able to:

- S - Perform SOX compliance testing that is valuable to management and the Company.**
- O - Perform operational reviews that can enhance shareholder value through control improvement, improved risk management, operational efficiencies, and direct cost savings.**
- F - Perform financial statement testing that can be relied upon by external auditors in some cases.**
- T - Complete information technology testing in related areas as well as compliance reviews in non-financial areas (such as health and safety, labor law compliance, etc) – transaction auditing.**



Examples – Integrated Audit Benefits

- **Purchase order/invoice audit identified:**
 - Helped to ensure consistency in divisional policies and in use of purchase orders.
 - Duplication of effort in certain controls.
 - Lack of standard purchasing contracts.
- **Standardization of Human Resources/Payroll:**
 - Consulted on creation of standard payroll/human resources procedures based on best practices.



Operational and SOX Similarities – What is an Operational Audit?

- **Overall goal is to provide the management team with practical, strategic recommendations to:**
 - Identify cost saving opportunities,
 - Identify revenue enhancement opportunities,
 - Meet financial audit requirements (provide the necessary assurance to regulatory or grantor agencies, board or management), and/or
 - Overcome risks and take advantage of opportunities
- **Operational audits are big-picture, open-ended reviews**



Operational and SOX Similarities – What is a SOX Audit?

- **Compliance with requirements outlined in the Sarbanes-Oxley Act of 2002**
- **Controls-based testing, including documentation of processes and procedures and testing of key, material processes and controls**



Operational and SOX Similarities

	Operational	SOX
Involve review of Key Procedures/Processes?	X	X
Identification of Inefficient/Ineffective Processes?	X	X
Interviews with Personnel?	X	X
Testing to Verify Current Process is in Place and Functioning as Intended?	X	X
Identification of Potential Fraud/Segregation Issues?	X	X
Identification of Efficiency/Cost Savings Initiatives?	X	



Objectives of Operational Audit of Cash Receipts

Example "What Can Go Wrong" Questions - Divisional SOX Compliance Review - Cash Receipts	Assertion	Review policies and procedures and determine if they are in-line with best practices and are currently in place and adhered to.	Review procedures for depositing cash and determine if process, personnel and access are appropriate.	Determine if the employees who have access to cash and related G/L accounts are appropriate.	Review the timeliness of cash received at the bank versus posted on the general ledger.
What ensures that cash receipts are recorded when received?	Completeness, Existence/Occurrence	X	X		X
What ensures that cash receipts recorded equate to amounts deposited?	Measurement/Valuation	X	X	X	X
What ensures that cash receipts/transfers are recorded in the correct period?	Completeness	X			X
What ensures that duplicate postings of cash receipts are not made to the general ledger?	Completeness, Existence	X		X	X

X - Similar Objectives for Each Audit Process

Audit Synergies





Increase Value-Added Services

- **How can we add value to the business?**
- **Lean Six Sigma**
- **Process Improvement**
- **Focus on Cost/Benefit**
- **Justify your budget**
- **Continuous Auditing/Monitoring**

WWW.THESOFTAUDIT.COM





How Can Auditors Help Themselves?

- **Go Get Certified!**
 - CIA, CISA, CFE, etc.
- **Lean Six Sigma**
 - White, Yellow, Green, Black
- **Learn more about the operational aspects of the company**
- **Recession Proof Your Resume!**



SOFT Audit Consulting

- **Boutique consulting/contracting practice specializing in Audit, Compliance, Risk Management and Accounting/Finance.**
- **Do not compete with the Big 4 or any large consulting/contracting firms.**
- **Goal is to work with these firms to ultimately create value for our clients and to be a value proposition by being a thought and cost leader in areas of expertise.**
- **We only sell something we 110% believe in – ourselves.**
- **Our business model is simple: we have effectively eliminated the middle man to provide clients with the best service at significantly reduced rates.**
- **All of our advisors are ex-Big 4 and are of the highest caliber.**
- **Our rates are lower than all big firms as overhead is minimal.**



SOFT Audit Consulting



Let SOFT Audit Consulting help you finish the puzzle

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