

Raytheon

Customer Success Is Our Mission



Internal Audit: Will we lead, or become irrelevant

Larry Harrington
Raytheon VP Internal Audit
November 5, 2009

Will We lead or Become Irrelevant?

Agenda

– The Case for Change

- Why we must act as owners of IA
- Why we must rethink business models
- Why we must change personally

– How do we make the changes?

Let's Get Started

Ground Rules

- Be an active listener
- It is OK to question the status quo
- Think and act like business owners
- Complacency is our enemy



So let's begin



Change Comes More Quickly with Increasingly Devastating Impact

Think about this decade alone

- 3 economic bubbles
- 3 market crashes
- A major terrorist attack in the US
- 2 major wars being fought
- Cyber security is our soft underbelly



These events have impacted every company and every person

IBM: Enterprise of the Future- 3rd Biennial Study

- 1000 Global CEO's/Public Sector leaders
- 80% say change is accelerating; change is the new norm; status quo is our enemy
- Unfortunately, they believe our need to change far exceeds our ability to change
- So what is some of their advice?

Resist change – you die
Adapt to change – you survive
Create change – you lead
-Unknown

IBM Study

We Must Hunger for Change

- It's a white water world; change is coming from everywhere
- Lead and shape change rather than react to it
- Market and industry shifts provide opportunity to move out ahead
- Reward innovators/successful change managers

Innovate Beyond Customer Expectation

- Customer expectations are increasing daily; we must surpass the expectations
- Deep collaborative customer relationships allow you to surprise customers with innovation that makes them and you successful.
- Look at Apple and Raytheon.

Some Raytheon Examples

- ERM
- Anti-Fraud Initiatives
- Business Continuity
- Costs Reductions
- Insurance Renewals
- Diversity
- Change Management

Raytheon Internal Audit:
**Creating Positive Change
With A Sense Of Urgency**

IBM Study

Become Disruptive by Nature

- Leaders radically challenge their business model to disrupt the competition
- Leaders challenge the value proposition; overturn the delivery approach; and reinvent themselves and their industry

Be Genuine, not Just Generous

- Companies now go beyond philanthropy and compliance
- Today companies worry about society and the environment in all actions

What Does This Have to do the Internal Audit Profession?

- EVERYTHING
- Will we:
 - Reinvent ourselves/our profession?
 - Will we become irrelevant?
 - Will we fight the status quo?
- The moment is here today
 - Will you seize it?



Unprecedented Opportunities

Our customers increasingly face:

- Competitive and stakeholder pressure, intensified by recession
- Increasingly complex regulatory oversight
- Budget constraints and growing responsibilities



Leading to:

- Increased pressure to understand governance, risk, and compliance
- A need to reduce cost and simplify business initiatives
- Questioning of the effectiveness and cost of risk management

As organizations trim costs and try to do more with less, risks will increase.

Internal Audit must adapt

A Point of No Return

The economic crisis should be a tipping point for many internal audit departments and auditors.

Our failure to identify, align to, and support our organization's key initiatives will lead to diminished value and respect.

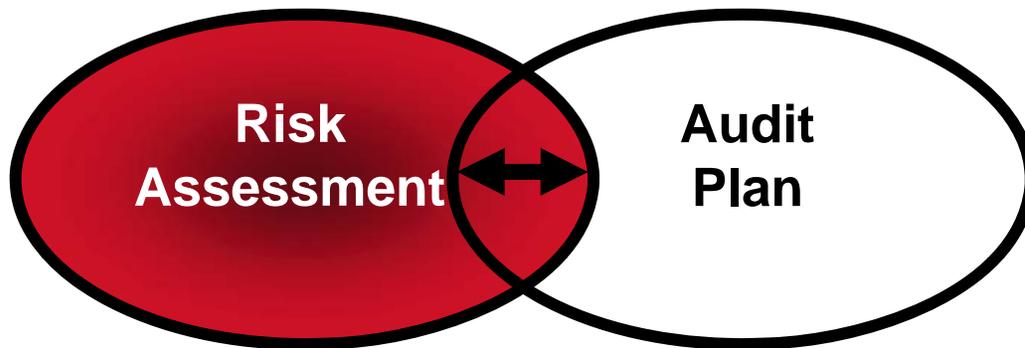
The time is now to rethink:

- Our **brand**
- Our **relationships**
- Our **audit plan**
- How to make our organizations successful



The Opportunity Is Now

It's 10 PM, do you know where your real risks are?



The best audits in the world are of limited value if they are in the wrong area

- Are you auditing the right things at the right time?
- Based on who's risk assessment, management or IA's?
 - The economic environment has afforded IA the opportunity to shift and/or share risk assessment responsibility.
 - IA can help management perform a risk assessment through our experience/knowledge, use of tools, etc.

Assessment Risks

Audits in Today's Environment (cont'd)

- Fraud
 - Increased risk of fraud...need for greater fraud awareness, prevention and detection
- External business relationships
 - Key suppliers
 - Distributors/agents
- Reputation
 - Auditing underperforming programs and businesses
 - Reliability of management forecasting – auditing assumptions
- Cash and working capital
- Return on investment
 - Cost reduction program effectiveness/Capital projects

Other Risks

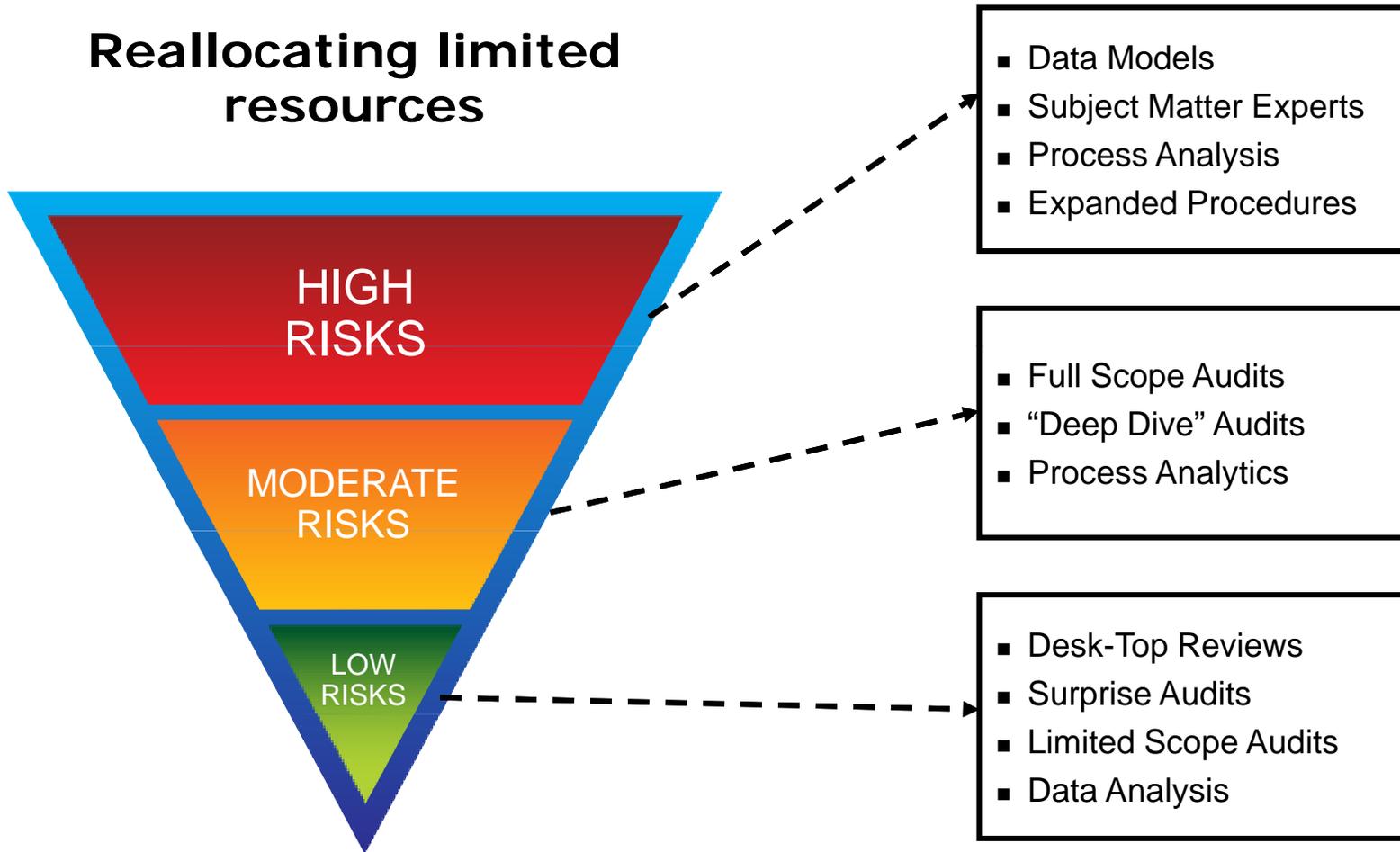
Audits in Today's Environment (cont'd)

In today's environment, can you afford to be just a cost center?

Project	Key Objective(s)	Est. Savings
Occupancy Costs and CAM Benchmarking	Determine if rents are paid accurately per lease terms and seek opportunities to use contract terms to reduce costs, including common area maintenance spend.	\$100K - \$150K
Data Analytics: Vendor Payments	Review payments to understand disbursement practices to reduce early payments, consolidate vendor billings, minimize manual checks, and use discounts.	.1% of annual spend
Insurance Programs & Brokers Project	Assess insurance programs and broker marketing improve service, formalize agreements, and reduce program costs.	\$660K - \$750K
IS Maintenance	Evaluate IS Maintenance Agreements for potential cost reductions.	\$750K - \$1M
Asset Management of Computers and Wireless Devices	Evaluate the efficiency and effectiveness of managing computers and wireless device assets. Perform an analysis of related contracts and costs to identify potential cost savings, avoidance and recovery opportunities.	\$293K
Vendor Rebate Review	Evaluate the effectiveness of managing vendor rebates, as well as analyze associated cost savings, avoidance and recovery opportunities.	\$136K
Auto Allowance Review	Review the auto allowance program, including process improvement opportunities and adherence to the criteria required to participate in the program.	\$500K

The Bottom Line

Audits in Today's Environment (cont'd)



Be Innovative

Beyond Today's Audits...

Economy will recover

But it will not be “back to business as normal”

We must challenge ourselves to move beyond doing better and faster audits to be:

- | Visionary
- | Strategic
- | Business Leaders



Our value tomorrow will be based on what we do today as well as the vision we set for the future.

Challenge Ourselves

Protiviti Paper-IA Biggest Challenges in the Next Five Years

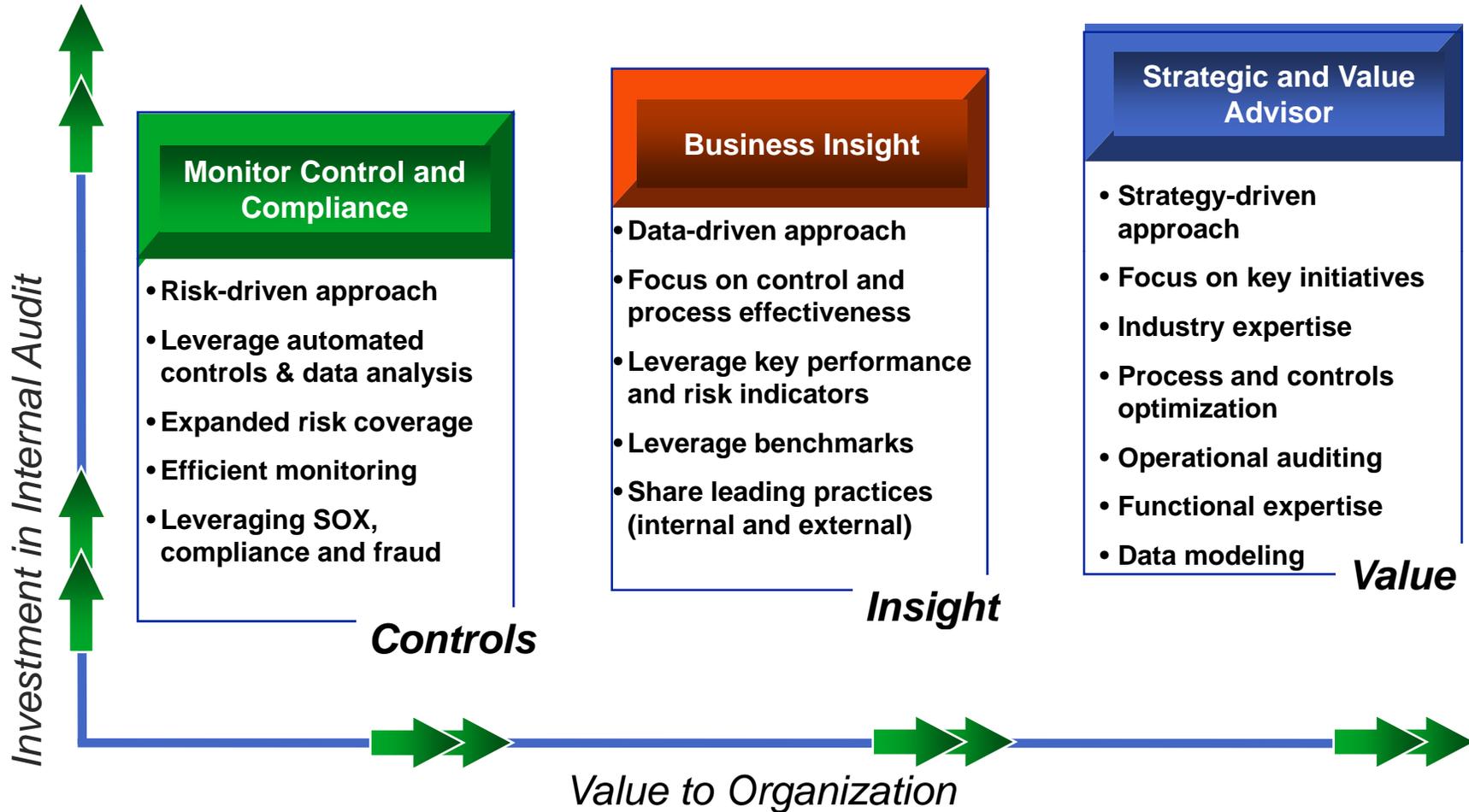
- Focus on work that is risk-based, not just transaction-based
- Harness data analytics and use data in audit planning to add real value.
- Quickly adapt to the new regulatory environments
- Ensure GRC is an integral part of the risk model
- Think of smarter ways to use technology
- Ensure strong internal controls during downsizing

Protiviti (cont.)

- Move to continuous auditing
- Make IA a strategic part of the business
- We need to think and act more creatively
- Integrate fraud and prevention into audit strategies
- Recruit from non-traditional areas
- Challenge the status quo

The Challenge

Stakeholders will look to us for balanced focus between compliance and business improvement, with more emphasis on business improvement



Control Assurance Is Not Enough

Meeting the Challenge

**So how do we
move to the right?**



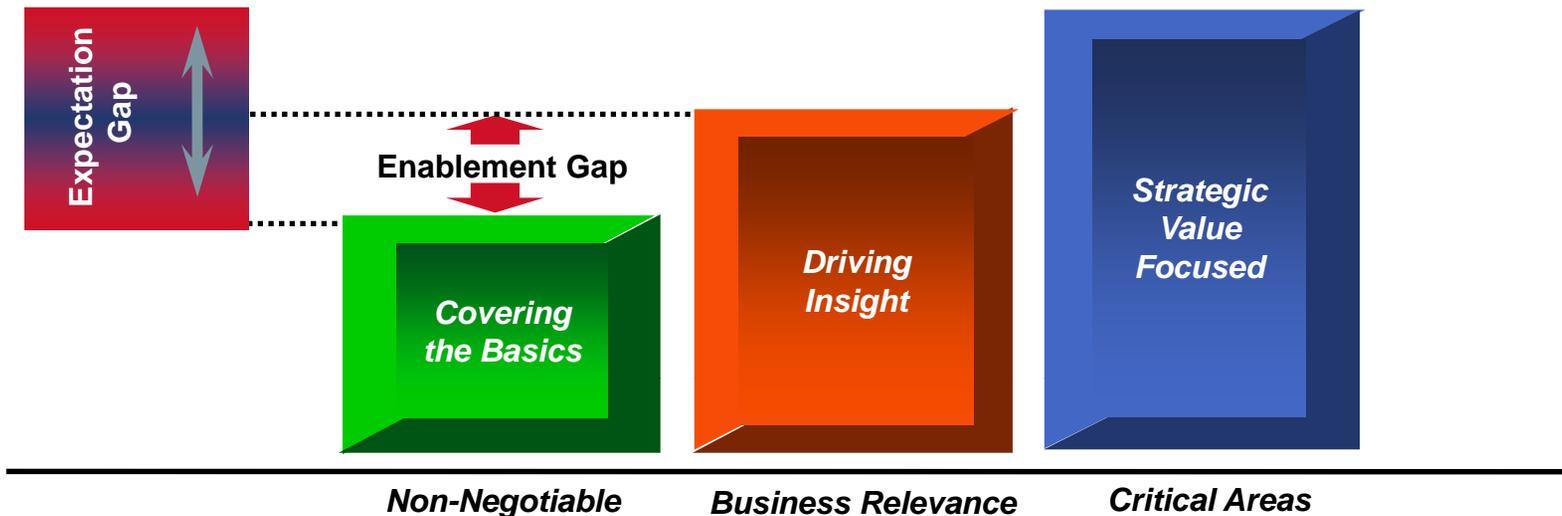
Use the current environment to influence IA's position in the organization and obtain management's commitment.

- The economic crisis is changing stakeholder views on the impact of risk management on organizational strategic goals and objectives.
- If we are not proactively involved in or leading discussions around improving risk management processes, we are not strategic (and perhaps not in compliance with IIA standards).

Once we have commitment, how do we deliver?

Expectation Meets Reality

Meeting the Challenge (cont'd)



Closing the Enablement Gap

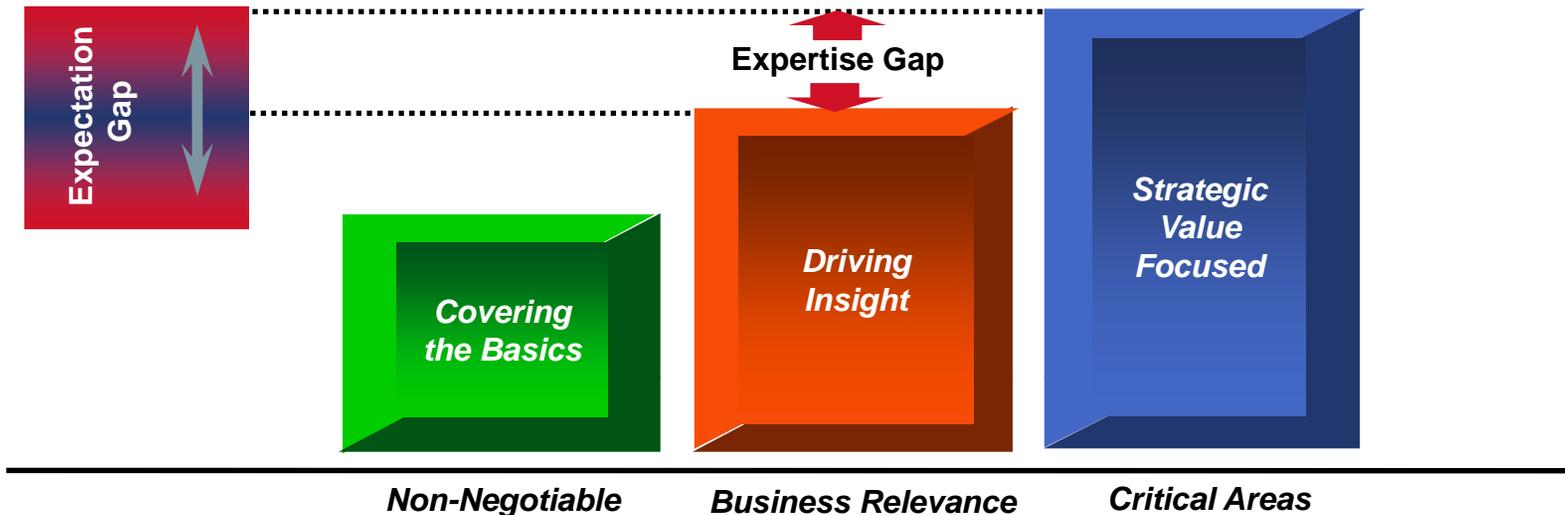
- Enhancing risk assessment, audit planning, and execution
- Focusing on business risks versus auditable risks/locations
- Focusing on business process improvement
- Increasing data analysis

Success Factors

- Assessing resources and hiring/rotation focus to include non-auditors
- Enhancing training and development to include non-audit skills including Six Sigma and change management
- Leveraging the IIA and each other for best practices and benchmarks

We Must Share

Meeting the Challenge (cont'd)



Closing the Expertise Gap

- Enhancing business and industry knowledge (e.g., SWOT)
- Using supplemental resources such as IT, GAAP/IFRS, treasury, taxes, pensions; etc.
- Increasing data modeling and benchmarking

Success Factors

- Networking to develop keen insight into strategy and competitive issues
- Participating in strategic planning
- Embedding and then leveraging management's risk management and analytic processes
- Marketing of IA capabilities

We Must Be Involved

The Auditor of Tomorrow

The required Internal Auditor skills of the future:

- **Risk Taker**
- **Boardroom Presence**
- **Variety of Experience**
- **Courageous**
- **Visionary**
- High Level of Certification
- Practical
- Strong Leadership Skills
- **Innovative and Creative**
- *Strategic Thinker*
- **Excellent Grasp of Business Risks**
- *Influential*
- *Motivator*
- *Arbitrator*
- **Team Builder**
- *Unquestionable Ethics and Integrity*
- *Flexible*
- *Disciplined*



Do You Have What It Takes?

Seize the Moment Before it Seizes You

Economic crisis has accelerated opportunities

Doing more with less is a fact of life

Today is tough, tomorrow will be even tougher

Stakeholders must understand our importance

Deliver value greater than the investment

Change starts with you

"The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday's logic."

— Peter Drucker

It Is Up To You