

Going Beyond SOx Compliance – *Internal Controls Optimization*

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Presented to: The Dallas Chapter of the Institute of Internal Auditors

These slides are incomplete without the benefit of the comments made at the session. The information and considerations presented herein do not constitute legal or any other type of professional advice.

Today's Agenda

- Current State vs. Desired State
- Defining Internal Controls Optimization
- Drivers & Triggers
- Opportunities & Benefits - Controls Optimization to Drive Overall value within the Company
- Internal Controls Optimization Methodology
- Considerations

Current State vs. Desired State

What Our Clients Are Facing

- Dealing with high costs of compliance
- Struggling to define value proposition of controls to business
- Constantly changing landscape of compliance (e.g., SOx, JSOx, HIPAA, PCI, etc.)
- Dilution of qualified compliance resources
- Compliance function organizational placement

However, audit and compliance organizations are beginning to see more clarity in the compliance path forward:

A refined vision of tomorrow...

What Our Clients Are Trying to Achieve

- Robust and efficient compliance programs with clarity about the compliance approach
- Deeper knowledge of controls, residual risks, and mitigation strategies
- Risk and control-aware culture
- Repository of identified risks, weaknesses, and vulnerabilities
- Means to proactively demonstrate remediation efforts are underway and effective
- Authority to take charge of the audit / regulatory agenda
- Ability to get on with the business of serving customers and growing revenues (i.e., less compliance pain for the business)

However, organizations have not been able to consistently support these requirements

Managing Business & Information Risk: *Beyond Compliance*

BASEL II, CMM
COSO, COBIT
FCRA, FDICA
FFIEC, GLBA
HIPAA, ISF
ISO 27001, ITIL
J-SOX
OCC Bulletin 98-3
PCI, Reg B & E
SAS 70
CA SB1 & 27
TX SB11
CA AB715
CA SB1633
SOx, TG3
USA Patriot Act



Defining Internal Controls Optimization

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- **Internal Controls Optimization** is:

A **continuous process** of improvement,

reflecting a company's objectives and risks

and the risk appetite of management

by establishing effective and efficient internal controls

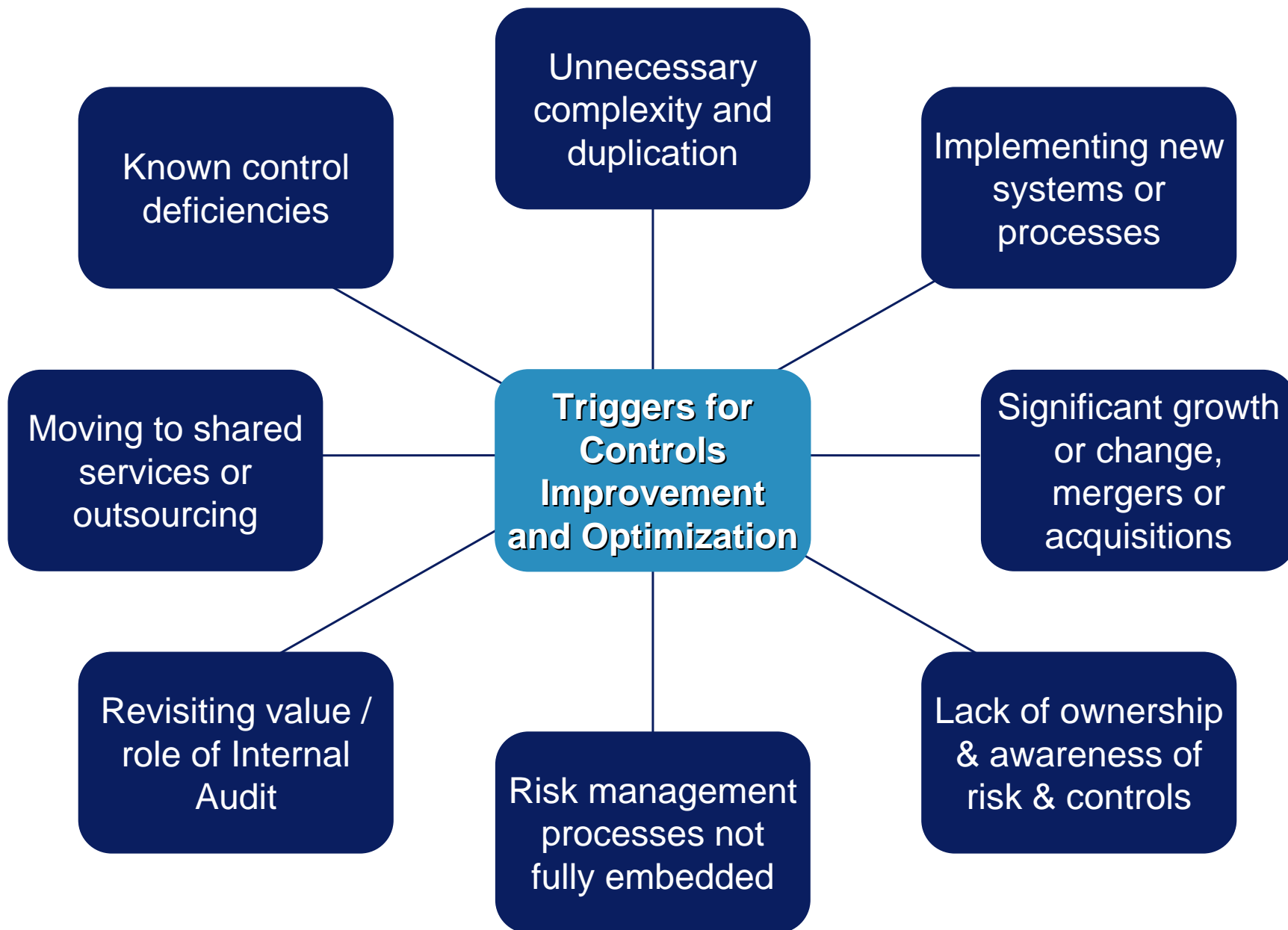
Defining Internal Controls Optimization

Establishing the right controls at the right cost for your organization

- Efficient and systematic process to define the risks which are likely to impact the achievement of the organization's objectives
- Identification of the existing controls universe and quantification of the costs, process impact, and reliability associated with the operation and validation of those controls
- Identification of existing controls which will most efficiently and effectively mitigate and manage those risks, looking to leverage higher level controls where possible; elimination of redundant, inefficient or ineffective controls
- Redesign, automate, or implement new controls, to increase the efficiency and effectiveness of the existing system of controls
- Design and implementation of a management oversight and reporting structure to monitor the effectiveness of the system of controls, its infrastructure, and the identification of process improvements

Drivers and Triggers for Internal Control Optimization





Opportunities and Benefits

Opportunities of Internal Controls Optimization

- **Governing Risk-** Develop a comprehensive perspective on risk beyond financial reporting. Evaluate and assess the risk that impacts operational and strategic value of the business.
- **Enhancing Compliance-** Enable the stakeholders within the company to view Compliance functions (e.g., Internal Audit and other compliance groups) as valuable assets to the company resource *base – as internal compliance consultants who can demonstrate the linkage of compliance to business success.*
- **Realizing Operational Benefits-** Tangible metrics that demonstrate quantitative and qualitative benefits that the business can understand and support. ex: reduction in X dollars of shrink based on control improvements made to XYZ operational process.

Opportunities of Internal Controls Optimization (cont.)

- **Improving Information Reliability**- Moving beyond data and information within disparate systems. Enabling information availability to drive business decisions that are based on sound controls that support reliable data.
- **Managing Change**- Controls designed to move with the business and provide the stability needed in ever-changing business models..ex: outsourcing, M&A, shared services etc.

Benefits of Internal Controls Optimization

- Reduce financial and business risks, costs and effort for your Company resources**
- Improve enterprise risk management, business and operational processes and your compliance process**
- Integrate systems and processes along with your operational and compliance controls**
- Clarify roles and responsibilities and key business objectives and risks to enhance the accountability within your organization**
- Utilize Internal Audit to spend more time assisting the company with new risk management concerns.**

Internal Controls Optimization Framework

- PwC framework for ICO has been removed. If you would like further discussion regarding this framework, please contact Maanasa Jain directly.

Why Internal Controls Optimization Stalls

- Narrow focus on subset of compliance and risk areas instead of broad across-the-organization focus.
- Non-dedicated project team or lacking experience within compliance and risk areas.
- Project objectives not clearly articulated and expected benefits not defined.
- Only viewing internal controls optimization as a cost reduction initiative instead of a business enabler that increases operational resilience and reliability.

Implementation considerations

- Formal and consistent approach to Internal Controls Optimization- *Experience and Methodology are Key!*
- Knowledge of the business and industry- *drives the ability to demonstrate value*
- Tailored approach that considers linkage- *ERP impacts, external factors, internal initiatives etc.*
- Stakeholder commitment and buy-in- *How well does management truly understand the concept of controls optimization?*

Implementation considerations - What may be available

- Integrated balanced posting
- System supplied auditing capabilities
 - Audit trails
 - Changed document log
 - Document flow
- System retained transaction history
- System retained history of program and configuration changes
- Edit checks and tolerances
- Document flow and routing
- Required and system populated fields
- Duplicate transaction checks
- Sequential documents
- Reason codes
- User defined error/warning messages
- Automatic integrated posting following predefined posting keys
- Defaulted and predefined master data

Before you begin - Some questions to ask yourselves

- How effective and reliable are your risk and control activities? Do you measure their ROI?
- What metrics are reported to provide assurance that your control environment is effective? How consistent and robust is this across the business?
- Do you act on risk and control information to enhance your business performance?
- How are risk and control activities co-ordinated across the business? (e.g., finance and operations)
- Is the balance in the role of finance between maintaining control, driving efficiency and providing insight right?

Closing Thoughts

- **Value awakening-** what value can controls bring to organizations- NOW IS THE TIME
- **Alignment-** integration to the business and creation of optimized controls
- **Holistic View-** Enables Controls professionals to infuse thought leadership

Controls optimization - the enabler

Questions?

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