



The Rise of the New Auditor

Beyond the Recession



ACL Webinar
December 10, 2009

Standard typical agenda

- Introductions
- The usual Chief Audit Executive survey results
- Some insights as to where management is coming from
- Quick summary of what we have learned in the past 20 years
- Summary of who is really getting it today
- What the future is going to bring
- Some ideas to help you move forward
- Q&A

How has the Chief Audit Executive role changed?

- ✓ “Must demonstrate a solid understanding of the company's business, **core strategies**, risk appetite and risk tolerance.”
- ✓ “Must be willing to raise difficult issues with senior management and the audit committee - even if such actions **prove unpopular**.”
- ✓ “Should maintain an **ongoing dialogue** with the audit committee. This will build a relationship and help the committee stay on top of significant risk and control issues”
- ✓ “Needs to provide **assertive leadership** that strengthens the organization's commitment to tough internal controls”
- ✓ “Must **partner** with senior management and the audit committee to help them fulfill their broad responsibilities for effective governance.”
- ✓ “Will combine **strong management** and leadership skills with solid technical expertise.”
- ✓ “Must be able to **think strategically** about the internal audit function, its mission and its strategic resources, including attracting highly qualified staff.”
- ✓ “Must be seen as **business partner** rather than ‘corporate cop’.”
- ✓ “Need to gain the respect and confidence of executive and operational management as a **prerequisite** to being viewed internally as a member of senior management and being included in meetings that address risk and strategy across the organization.”

Primary challenges of the CAEA

- Not able to complete audit plan
- Not completing audits in a timely manner
- Unable to find top talent/quality issues with existing personnel
- Operating below desired headcount
- Lack of specialty skills - need to invest heavily in competency models & training
- Poor international coverage, regulatory knowledge and local language skills
- Need to increase compensation and challenge of the job
- Audit Committee and Executive don't appreciate the value being provided
- Inability to provide assurance around risks not addressed in current audit plan
- Unable to effectively leverage corporate tools and resources



“An auditor is not bound to be a detective, or, as was said to approach his work with suspicion, or with a forgone conclusion that there is something wrong. **He is a watchdog, not a bloodhound.**”

Lord Justice Lopes – *Re: Kingston Cotton Mills Co. (1896)*



But we are in a recession...

- Enron and Worldcom are distant memories
- We've made our investments in SOX and are 'protected'
- ... but now compliance is 'on hold'
- In fact, Audit has become the finance overflow function
- We went from a flat, trust-based model to bureaucratic oversight and control redundancy
- ...but as we cut deeper in our layoffs we are shifting back to a trust-based model



“It’s only when the tide goes out
that you learn who’s been
swimming naked”

- *Warren Buffet*

... but what does the CEO and CFO want?

Reduce headcount

Cut costs

Improve business performance

'Real-time' auditing – fix it now!

Redeploy current personnel

Reduce costs of compliance

Business owns the controls, not internal audit

Add value

More accurate information faster

Find money fast



The two forms of CAE

Challenged, dissatisfied and disappointed;
obsessed with the audit plan

Challenged, engaged and within the 'inner circle';
changing the audit plan



How sustainable is the audit function?



Global recessions in the last 20 years



Who is helping the finance executive then...?

84% cite information integrity as their most critical issue

75% indicate information integrity 'hampered current business objectives'

59% do not have an information integrity program in place

52% view measuring product and customer profitability as top constraint

Despite the recession, **86%** are willing to make IT investments in areas that can demonstrate competitive advantage, efficiency and enterprise transformation capabilities

– August 24, 2009: *Financial Executives Institute & Gartner, Inc.*

The rise of the audit-aware manager

- Impact of Gen Y/Millennials
- Rapid shift from entitlement to job security fears
- Significantly more technology-savvy
- ‘Information curious’
- High level of multitasking
- Increasing sense of accountability
- Need to find faster ways to identify data integrity issues
- Aware of the ability of the system to measure performance

....the manager is the new auditor



The rise of the audit-aware Executive

- Stronger oversight controls and processes since SOX
- More effective BI tools and interactive dashboard reporting
- ERM and self-assessment have created increased transparency around upward risk communication
- Increased fear of Board and reputation damage
- Increased desire for instant information gratification
- Executive is more technology-savvy
- CFO is choosing the external auditor more often

...the Executive is also the new auditor



The rise of the audit-aware board

- The past 5 years have created a suspicion of management and fear of liability
- Board increasingly looks to bypass management
- Board sees internal audit as useful but conflicted
- Board is looking for their own verification and validation
- Board is more technology-savvy than before

...even the Board is the
new auditor!



It's a race to find the
risks and fix them!

Is Internal Audit losing the race?

What conclusions can we draw?



- Current trend of ‘information curious’ users will definitely continue
- Cloud computing, very smart phones and mini-apps will become the norm
- Workflow and rules engines will replace traditional ‘black-box’ applications
- Focus of testing will be meta-data and source entry controls
- Traditional audit methods will therefore likely be insufficient
- Need to ensure data converted into any new system is 99.99% correct
- There is a need to clean up legacy data NOW
- Need to start building continuous monitoring controls into systems

What is Internal Audit's opportunity?

- Anticipate the future risks
- Be a leader in the solution development
- Be an agent of change – encourage information curiosity
- Leverage your unique role across and up/down the organization



How to start converging on the ‘new world’?

1. Scenario planning – envisage possible futures and develop strategies to get there.
2. Develop a simple plan to maximize the visibility and relevance of Internal Audit.
3. Select a few key corporate strategic initiatives and get involved in them.
4. Find ways to get involved and add value at early stage M&A activities.
5. Seek to add to the top line (e.g. contract risk reviews, revenue assurance).
6. Begin automating the monitoring of process controls. Track the ROI.
7. Prepare now to be a leader in globalization (e.g. languages, skills, relationships).
8. Seek to anticipate regulatory change and lead the education effort.
9. Understand future risks relating to implementing ever-changing reporting standards.
10. Stay ahead of the next generation of trends (e.g. sustainability, XBRL, etc).



For more information, please contact:

Shayne Gregg

Partner

Enterprise Risk

604-640-3061

sgregg@deloitte.ca

Deloitte.