



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?

Danny M. Goldberg



- Principal, SOFT GRC
- 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
- Texas A&M University – 97/98
- Father of two beautiful kids!





Danny M. Goldberg

- CPA – Since 2000
- CIA – Since 2008
- CISA – Since 2008
- CGEIT (Certification in the Governance of Enterprise IT) – Since 2009
- CCSA (Certification in Control Self-Assessment) – Since 2007
- Served on the Audit Committee of the Dallas Independent School District
- Board Member – American Lung Association
- Published Author
 - *Internal Auditor* Articles
 - ISACA Online Article – December 2009
 - Book Publication in 2010 (fingers crossed!)

What is Internal Audit (in layman's terms)

- Internal Audit makes sure, based on a risk model, that everything is as it is supposed to be. For example:
 - Policies are adhered to
 - Revenue is recognized appropriately
 - Controls are functioning as intended
- Internal Audit is also an internal consulting function
 - Assist in recommending controls for new systems
 - Process Improvements

What does an Internal Auditor do?

- Provide recommendations for improvement where opportunities or deficiencies are identified.
- Provides assurance to management and the audit committee that internal controls are effective and working as intended.
- The internal audit activity is led by the chief audit executive (CAE). The CAE delineates the scope of activities, authority, and independence for internal auditing in a written charter that is approved by the audit committee.

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?



Ramifications of Actions

- Economic downturn = Increased risk
- People Cuts = Control Cuts = Increased Risk
- Cost cutting becomes a main priority  Certain risks areas might lack 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

- The two main areas gaining increased attention are strategic/business risk and operational risk.*
- Many companies still heavily rooted in SOX testing.
- 33% 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.**

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

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

The Ever-Changing Field of Internal Audit

- 50% 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 Recession's Effect on Internal Audit

- The Institute of Internal Auditors polled 817 of its members
- 23% of internal audit activities experienced staff reductions during 2009
 - percentage is projected to drop to 12% in 2010.
- Internal audit departments have experienced staff reductions since 2008, with 2009 showing the greatest impact.
- The cuts didn't go as deep in Fortune 500 companies
 - average reduction was only 12% of the staff, compared to an average cut of 21 percent of the staff in the overall survey population.
 - 34% of the Fortune 500 companies reported reductions in 2009, whereas only 23 percent of the total survey population experienced reductions.

SOURCE: IIA Survey 10/2009

The Recession's Effect on Internal Audit (cont.)

- 17% of the survey respondents actually increased their internal audit staffing during 2009,
- 60% maintained their staffing level.
- Projected to trend slightly upward, with 18 percent projecting a staffing increase next year, and 70 percent saying they will maintain the same number of staff.
- 31% of the respondents indicated they have rotational models in place, but this number jumps to 64% among Fortune 500 companies.



SOURCE: IIA Survey 10/2009

The Recession's Effect on Internal Audit (cont.)

- “Fortune 500 companies reduced their internal audit staff by a lower percentage than did the overall population of internal audit departments we surveyed,” said IIA president and CEO Richard Chambers in a statement. “This may indicate that Fortune 500 companies are looking to their internal audit functions as a source of insight and assurance during the current economic crisis while they right-size their overall workforce.”

SOURCE: IIA Survey 10/2009

Increased Role and Value of IA

Advice from Colleagues Not Consultants

- The IA role has expanded beyond internal controls assessment to achieve strategic and operational windfalls
- Internal auditors have been enjoying a surge in demand for their services.

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

Corporate Role and Value of IA

- 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

Direct Economic Impact on IA

- 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

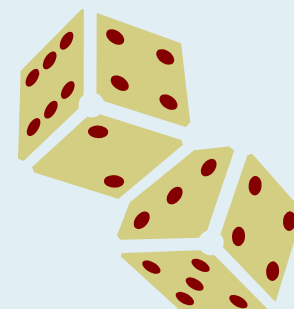
Changing Focus of IA

- 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"

Risk Tolerance of Audit Committee's

- 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?



What Can We do to Help?

- Refresh the Audit Risk Assessment
- Increased Focus on Fraud
- Increase Value-Added Services
- Decrease IA Costs – How?
- Integrate Audit Approaches
 - SOFT Audit Approach (3/2008)

Refresh the Audit/IT 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?



Decrease IA Costs

- Decrease Travel
 - Remote testing
- Training Costs
 - Bring Training In-house
- Outsourcing

Cost of CPE Training

- Reasons to maintain your CPA certificate
- Opportunity cost – what is your time worth?
- Options to consider
 - Live training (ie monthly association meetings)
 - Online training
 - Live webinars

Integrating 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

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.

The SOFT Audit Approach

S – Sarbanes-Oxley Testing

O – Operational Audit

F – Financial Audit

T – (Information) Technology

SOFT Audit Origins

- Developed out of Necessity
 - Significantly furthered by the Advent of Auditing Standard 5
- New Department
 - Created for SOX Compliance
- Limited Staffing (the proverbial one man department)
 - GAIN Survey – 60% of respondents have less than 10 people in IA.
- Limited Industry Knowledge

SOFT Audit Development

Revenue Recognition in the Technology Industry

- Identified controls around the revenue identification and recognition process
- Did not understand the accounting standards around the process
- Solution – combined controls testing with substantive auditing of controls
 - Tested for SOX purposes
 - Gained an understanding of accounting standards
 - Identified operational efficiency issues in regards to the process.

SOFT Audit Today

- Many companies have embraced this approach and are adding additional pieces to this (Continuous Auditing/Monitoring)
- Suitable to any size organization but fits all organizations with budgetary and people constraints
- This is not rocket science! Use common sense and your resources to the best of their abilities

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!

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



SOFT GRC

- Established 2007
- Focus on CFO-Suite Advisory Services and Governance, Risk and Compliance
- Professional Development & Executive Training

Healthcare 180^o



- Established 2009
- Brings an expert team with deep technical skills, a keen commitment to outstanding client service, and a relentless focus on doing what is right for each client.
- We assist our colleagues in responding to the shifting dynamics of the healthcare industry and guide them on their path to a well-performing organization.
- www.healthcare180llc.com

Questions???