

2014 Internal Audit Forum

Hosted by EY

17 March 2014



Building a better
working world

Where do you fit on the value continuum?

Internal control system

Business partner



- ▶ Where do you see your Internal Audit function now?
- ▶ Where would you like to be?
- ▶ Where would others in your organisation see you now?

What is Controls Transformation?

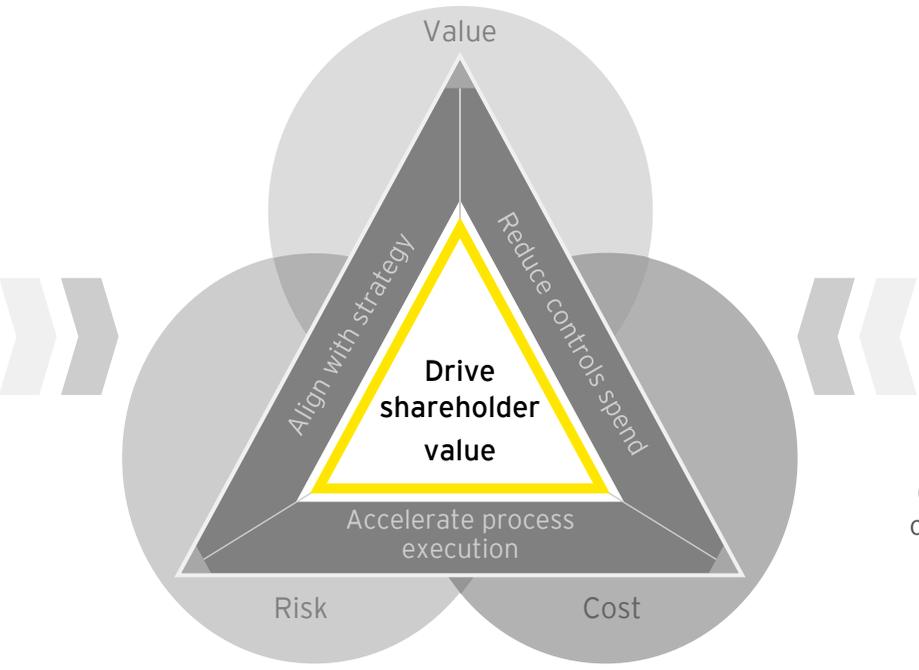
Controls Transformation services

- ▶ Help organisations utilise their internal control environment to drive their strategic objectives, address risks that matter, extract capital from their control environment and sustain efficient and effective processes.
- ▶ Provide the agility to anticipate and respond to ongoing changes and emerging risks.
- ▶ Drive shareholder value by creating an integrated, streamlined and dynamic control environment that balances value, cost and risk.

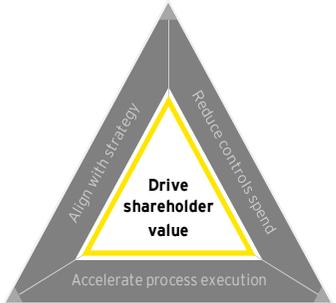
Balancing value, cost and risk



Risk management remains a concern for boards and executive management. Our approach for transforming controls lies in balancing value, cost and risk to help companies create a competitive advantage for the enterprise.



Developing an integrated, streamlined and dynamic control environment



Controls Transformation focuses on aligning the right controls with business strategy, reducing the overall control spend and accelerating process execution. This will further provide the agility to anticipate and respond to ongoing changes.

What are some of the potential benefits?

Area	Benefits
Value generation	<ul style="list-style-type: none">▶ Drive strategic objectives through a lean, dynamic and agile controls environment.▶ Standardise processes and controls across business units and geographies.▶ Focus resources on value-added roles by reducing burden of compliance from non-productive controls.
Cost reduction	<ul style="list-style-type: none">▶ Increase automated controls to reduce manual effort and cost.▶ Identifies opportunities for control removal and targeted control redesign.▶ Reduce overall controls spend.
Risk mitigation	<ul style="list-style-type: none">▶ Achieve more effective risk coverage by focusing on the key business risks and risks that matter.▶ Influence the strength, resilience, and effectiveness of the organisation's overall control environment.▶ Enable early detection and reaction to emerging risks.

Key triggers for Controls Transformation

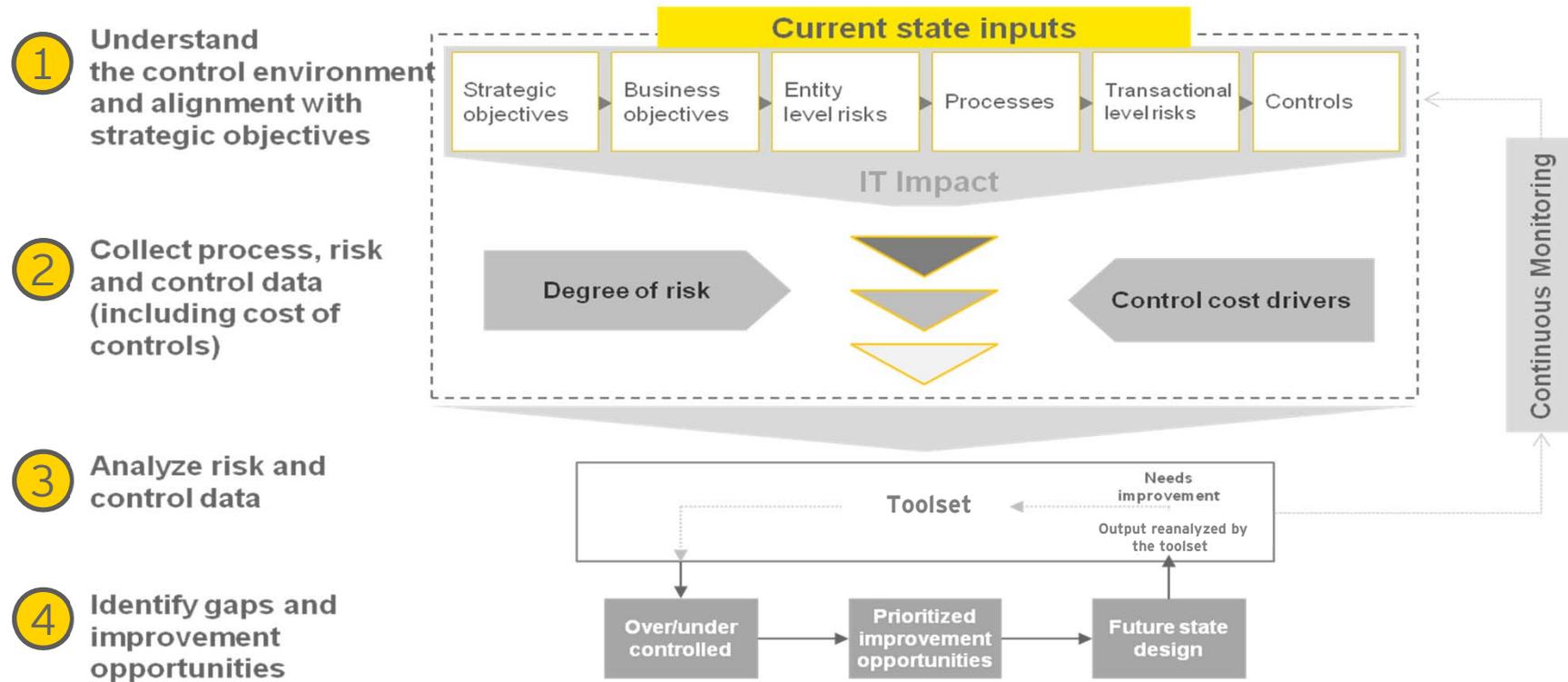
Enterprise

- ▶ Lack of visibility to alignment between strategic objectives and business operations
- ▶ Organisation has gone through recent merger or acquisition activity or major transformational changes such as Enterprise Resource Planning implementation, process re-design, etc.
- ▶ Organisation has extensive international operations or has plans to expand globally
- ▶ Ongoing or potential enterprise cost reduction initiative
- ▶ Recent changes in executive leadership
- ▶ Significant regulatory, compliance and financial reporting issue

Business

- ▶ Organisation has no or limited visibility to total cost of controls
- ▶ Control environment has had limited or no change in the past few years
- ▶ Controls structure is heavily dependent on manual controls and does not leverage the IT systems
- ▶ Non-standard, duplicative and redundant processes

The controls Transformation approach takes place in four stages, Understand, Collect, Analyze and Identify.



Controls Transformation helps to reduce the cost of controls by creating an integrated, streamlined and dynamic control environment.

Activity instructions

Duration:

10 minutes (group activity)

Objective:

Gain experience in identifying control issues and improvement opportunities through the analysis of graphs.

Background:

Your engagement team is performing a controls transformation diagnostic at the request of the Inventory Manager, the Inventory Process Owner.

The Inventory Manager joined the organisation during a recent restructure and has only been in his current role for 3 months, so he is very interested in an independent perspective on how he can improve his team's performance. He is also under pressure to reduce operating costs by 10% over the next financial year.

While the Inventory Manager understands the concepts of risks and controls through his prior interactions with internal audit, he views controls primarily as an impediment to efficiency. The controls transformation value proposition interests him but he is not yet convinced that it can achieve any measurable benefits.

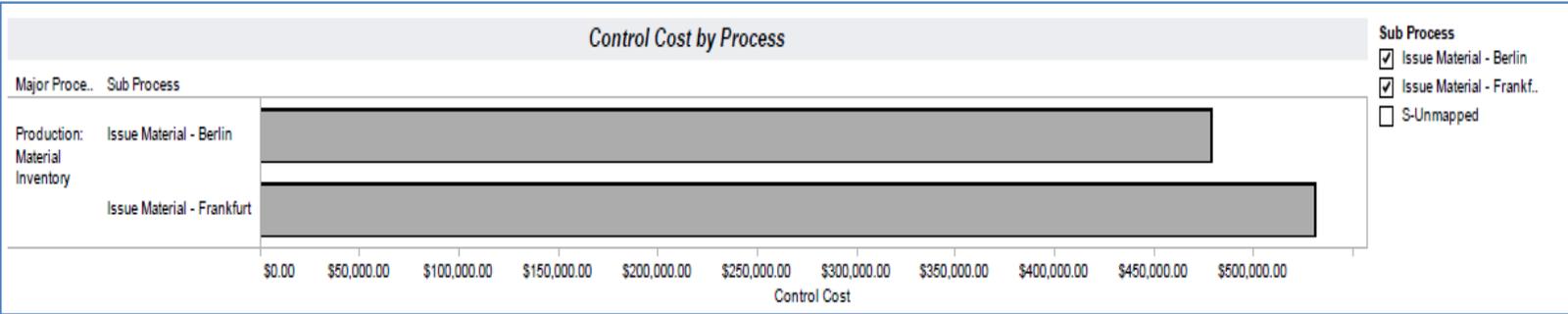
Task:

After several weeks of workshops and document reviews, your team has populated the data templates and run them through toolset. You have now been asked to use the graphs to prepare a brief presentation to the Inventory Manager as part of the exit meeting. The presentation will need to contain:

- ▶ Key observations about the current control environment
- ▶ High-level improvement opportunities

Your team is holding a 10-minute brainstorming session to discuss the graphs and identify the key information to be covered in this presentation.

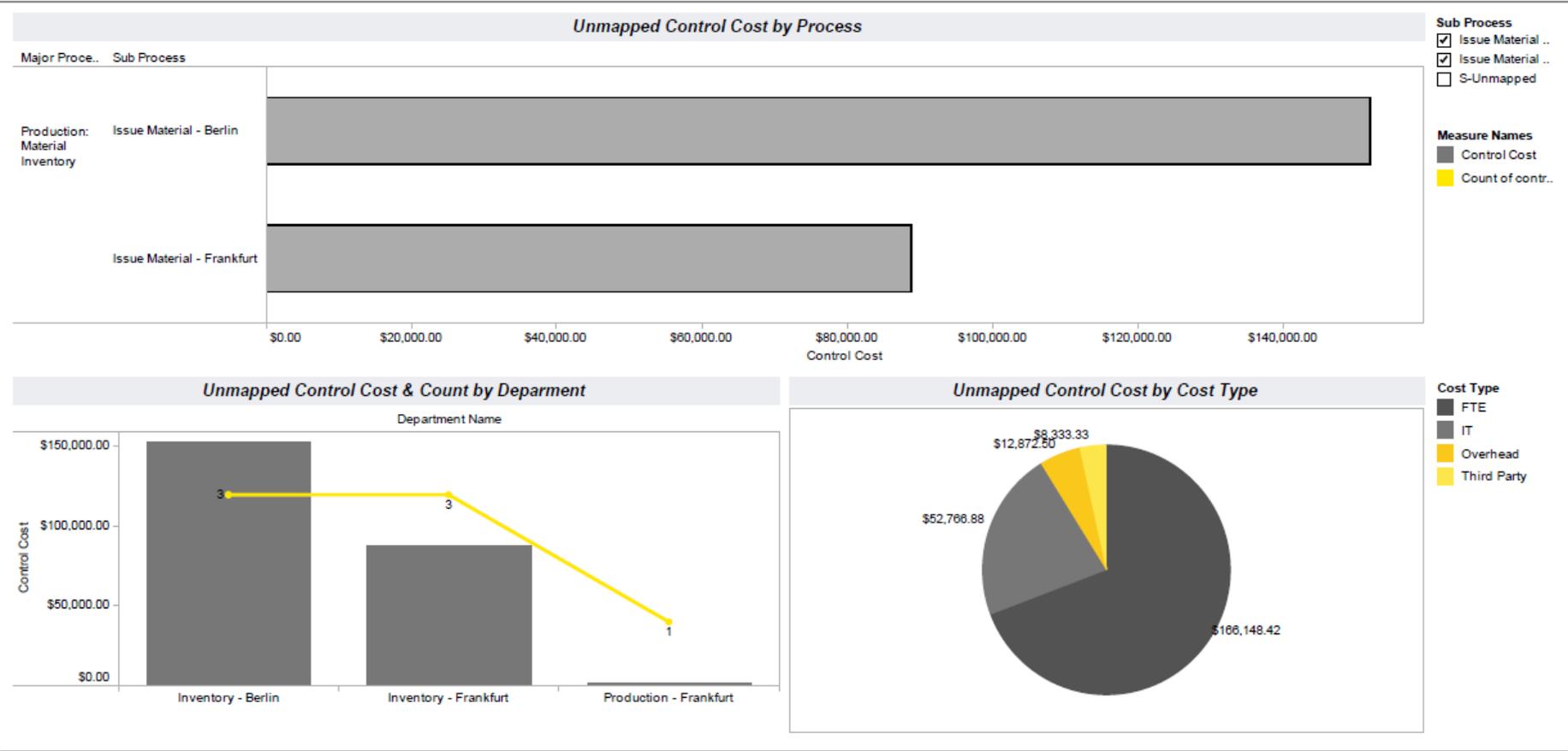
Graphs 1



Graphs 2

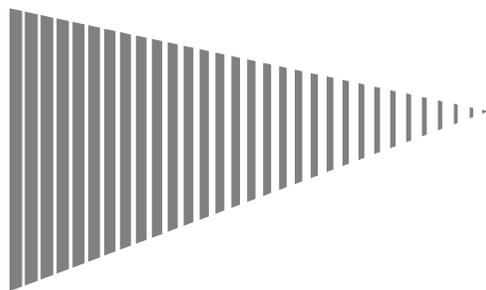


Graphs 3



Refer to the attached guidance material for an overview of each graph.

Q&A

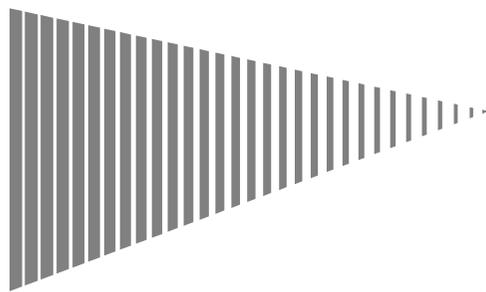


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Thank you



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