



*Powerful Insights.
Proven Delivery.™*

Internal Audit's Role In Finance Transformation Projects

December 11, 2009

protiviti®
Risk & Business Consulting.
Internal Audit.



Internal Audit's Role in Finance Transformation Projects

AGENDA

- Why Finance Transformation and the Financial Close Process Matter
- Why Internal Audit Should Be Involved
- What Internal Audit Brings to the Table
- How Internal Audit Can Help
- How Internal Audit Can Deliver
- Other Ways Internal Audit Can Support Finance
- An Example: What if IFRS becomes a reality?
- Summing It Up



Why Finance Transformation and the Financial Close Processes Matter

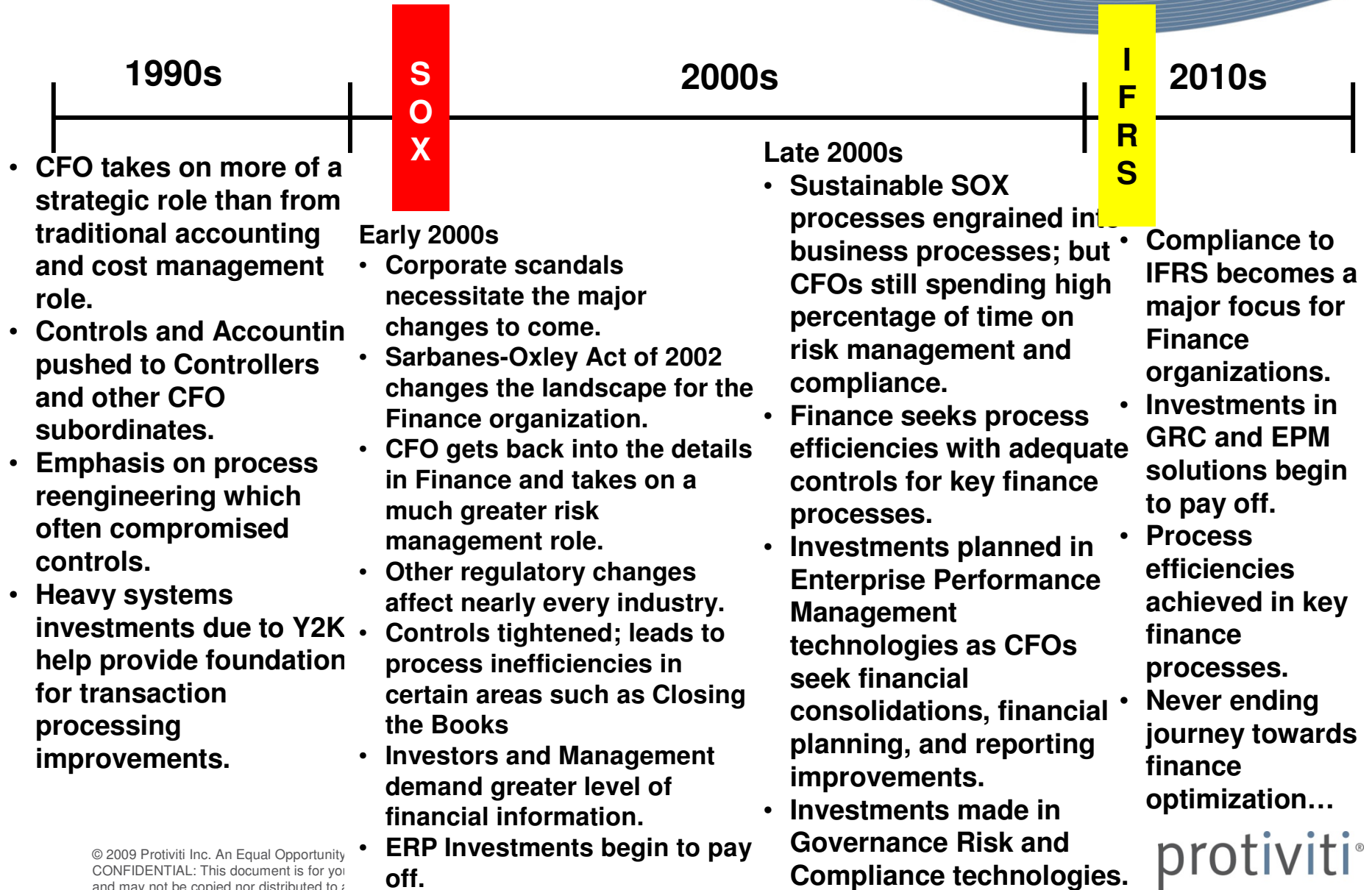
- Risks Impacting Quality and Timeliness
 - Completeness, accuracy and quality
 - Timeliness
 - Control Efficiency
 - People and other resource requirements

Why Finance Transformation and the Financial Close Processes Matter

- Common challenges
 - Limited oversight/monitoring
 - Due dates are moving targets
 - Lack of the “big picture”
 - Dependencies not understood
 - Checklist version control
 - Low-priority tasks in the critical path
 - Inefficient use of resources (such as allocation of low risk, low complexity tasks to senior personnel)
 - Unclear link to Section 302 and 404 certifications

Why Finance Transformation and the Financial Close Processes Matter

Timeline – The Role of the Finance Function



Why Finance Transformation and the Financial Close Processes Matter

Competing Priorities in Finance

CFOs are finding it increasingly difficult to balance the multitude of expectations of the finance function:

CFOs are being asked to:	Research shows:
<ul style="list-style-type: none">• Find more effective ways to reduce costs without compromising controls• Maintain stability when non-routine situations arise• Provide ongoing assurance that the organization is in full compliance with complex regulatory requirements• Provide more timely and insightful information for decision making	<ul style="list-style-type: none">• Over 70% of finance organizations have not yet fully developed the capabilities to meet these demands due to a number of factors, including:<ul style="list-style-type: none">▪ Critical resource constraints▪ Inefficient processes▪ Inherent barriers that prevent access to critical information

Why Internal Audit Should Be Involved

- Audit universe = steady state + change initiatives
- Finance Transformation should be part of the audit universe since it is likely a major project
- Finance Transformation will most likely be rated as high risk
- The internal audit plan should be risk-based
- Accordingly, it would be expected that Finance Transformation be part of the internal audit plan



What Internal Audit Brings to the Table

- Objective input
- Controls and risk management focus
- Knowledge of the Organization's business, processes, policies and standards
- Technical expertise



How Internal Audit Can Help

Scoping

- Identification and scoping of areas where Finance should focus improvement efforts:
 - Controls assessments
 - Cost assessments

Compliance

- Ensuring that all regulatory requirements are factored into the design of the area in scope
 - Sarbanes-Oxley
 - SEC requirements
 - other industry-specific regulations

How Internal Audit Can Help

Systems Implementations

- Ensuring that controls are configured properly in systems implementations
- Assistance with testing phase of an implementation – creates greater SOD in the process
- Review and approval of security profiles
- Ensuring data integrity

Project Management

- Business Case performance audits – are we;
 - on time/budget?
 - achieving the expected ROI?
- Contracts audits – are vendors performing as agreed?

How Internal Audit Can Deliver

Deliverable/Assessment	Value Proposition
<p><u>Project Approach</u></p> <ul style="list-style-type: none"> • Report on overall project plan adequacy • Gaps analysis for project plan (not the accounting) 	<ul style="list-style-type: none"> ✓ Highlight significant project risks if not addressed in plan ✓ Provide management with time to react ✓ Proactive partner in addressing project gaps
<p><u>Governance & Oversight</u></p> <ul style="list-style-type: none"> • Assess initial critical decision making process • Assess adequacy of governance & oversight • Review initial financial statement impact 	<ul style="list-style-type: none"> ✓ Ensure adequate oversight of project ✓ Establish budget expectations ✓ Opportunities to streamline costs (e.g. pilot processes, internal vs. external resources)
<p><u>Operational Implications</u></p> <ul style="list-style-type: none"> • Assess current technical capabilities • Assess operational impacts on systems & internal processes • Assess financial reporting process changes • Review plan to address disclosure considerations 	<ul style="list-style-type: none"> ✓ Highlight technical skills gaps ✓ Highlight significant risks to operations ✓ Highlight significant change management issues ✓ Recommend leading practices for implementation of system & policy changes (e.g. training & communication) ✓ Highlight significant disclosure requirements

Overview

Approach

Suggestions

Value Proposition

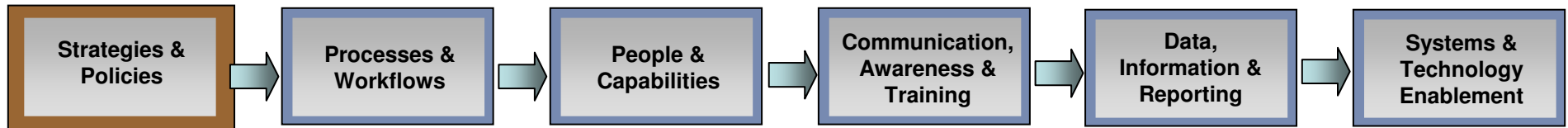


Other Ways Internal Audit can support Finance

- Assist with Restatement efforts, new accounting standards, regulatory inquiries and other non-routine situations as they arise.
- Extend the Risk Management Role played by the CFO

An Example: What if IFRS became a reality?

Impact of IFRS Conversion on the Six Elements of Infrastructure



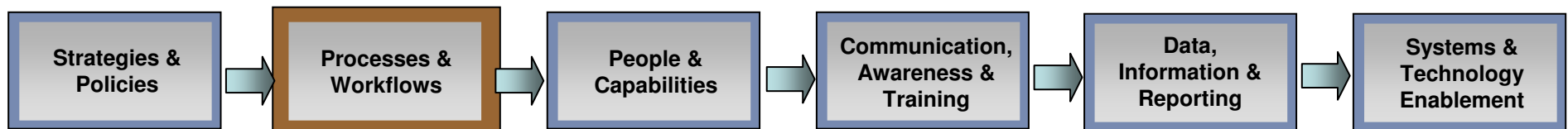
Strategies & Policies:

- A critical first step is the determination of accounting policies under IFRS:
 - Understand the new standards
 - Differences between IFRS and current accounting policies will need to be identified ⇒ perform a technical accounting diagnostic
 - IFRS 1 conversion considerations
 - Modeling and pro-forma analysis
 - Decisions and accounting policy determination
- Accounting policies (and other policies) will need to be revised to reflect changes to IFRS
- Consistency of IFRS across all business units in multiple countries is required
Internal Auditors need to acquire and maintain skills in reviewing policies – policies which may have an entirely different “look and feel” under IFRS than they did under US GAAP.

... but conversion impacts more than just accounting policies ...

An Example: What if IFRS became a reality?

Impact of IFRS Conversion on the Six Elements of Infrastructure



Processes & Workflows:

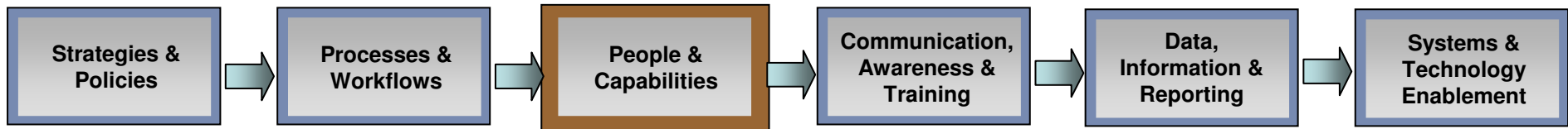
- **Business processes in affected areas will need to be revised to support accounting policies, valuation of assets and liabilities and disclosure/reporting needs under IFRS**
- **Internal controls will need to be reviewed and redesigned for new processes**
- **Internal control documentation supporting SOX will need to be reviewed and updated to avoid gaps**
- **Manage the conversion process and cost ... focus on the change management process, and make changes dynamically**

Internal Auditors will need to plan and execute a plan which takes the time and effort for the business units to update documentation into account.

Test plans may need to change based on changes to policies and workflows

An Example: What if IFRS became a reality?

Impact of IFRS Conversion on the Six Elements of Infrastructure



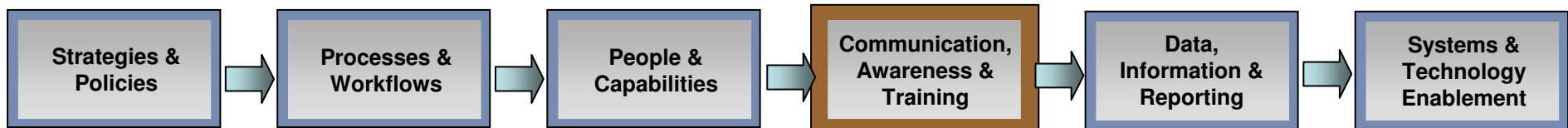
People & Capabilities:

- War for Talent – the company need to to :
 - Hire or retain “qualified” personnel (accounting and IT personnel, consulting and external resources)
 - Appoint a team to champion, handle and manage the conversion
 - Build capabilities, including those outside of the accounting and financial reporting areas
 - Review and update employee performance measures linked to financial reporting

Internal audit groups will need to access or “borrow” people with requisite skills in order to execute their plans.

An Example: What if IFRS became a reality?

Impact of IFRS Conversion on the Six Elements of Infrastructure



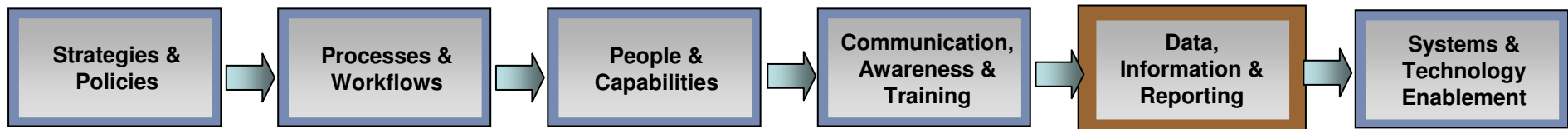
Communication, Awareness & Training:

- **Communicate and manage the change internally and externally.**
- **Internal:**
Education and training, including those outside the accounting and financial reporting areas.
Prepare senior management and the Board of Directors for the new basis of accounting – educate users on changes to reports and how to understand and interpret information and reports.
- **External:**
External communications to manage expectations.
Prepare external stakeholders and the marketplace (including analysts) for the new basis of accounting and reporting.

Internal Auditors will need to plan and execute in a way that enables timely communication of issues with an IFRS conversion for internal and external timelines

An Example: What if IFRS became a reality?

Impact of IFRS Conversion on the Six Elements of Infrastructure



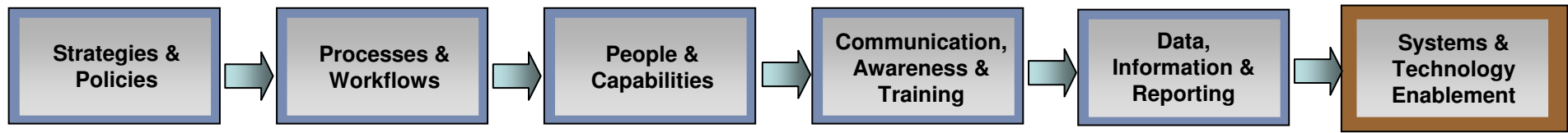
Data, Information & Reporting:

- Identify data sources to meet requirements and accommodate valuations, accounting, reporting and disclosures under IFRS.
- Assess impact of IFRS on KPIs and internal management reporting and analysis.
- Identify reports (system generated and manually created) which are impacted by the conversion to IFRS and the changes needed to the reports.
- Educate users on changes to reports and how to understand and interpret the new presentations.

Internal Auditors will need to build plans which respond to changes in the design and testing needs which come from changing sources of data and information flows.

An Example: What if IFRS became a reality?

Impact of IFRS Conversion on the Six Elements of Infrastructure



Systems & Technology Enablement:

- Evaluate if current financial reporting and other applications can accommodate valuations, accounting and reporting under IFRS.
- Can software applications be converted or will new applications be needed.
- Are vendors providing support and upgrades.
- What is the cost and timeframe needed to convert software applications.
- Will the use of spreadsheets be required and how will they be controlled to ensure the integrity of financial reporting.

Internal Audit groups will need to be able to react to changes in the extent to which data passes through systems or human hands, and pay special attention to IT change management protocols in the year(s) of conversion

Summing It Up

- Finance Transformation Projects:
 - Are critical to operations and Finance
 - Add risk due to control and process changes and resource requirements
 - Require Internal Audit to be involved
- Internal Audit Can Best Be Involved:
 - By participating from day one
 - By providing insights and recommendations to *improve* controls
- Internal Audit Needs to:
 - Be prepared to plan and execute
 - Be prepared to change its own activities to add value and insight in a new financial reporting model



Questions and Comments

Christopher.Wright@protiviti.com
New York Managing Director
Protiviti, Inc.
212.603.5434



Confidentiality and Disclosures

"This presentation contains confidential material proprietary to Protiviti Inc. ("Protiviti"), a wholly owned subsidiary of Robert Half International Inc. ("RHI"). RHI is a publicly-traded company and as such, the materials, information, ideas, and concepts contained herein are non-public."