

Positioning for future success*

Transforming the internal audit department from being focused on compliance and financial reporting to managing strategic risks will help bring about efficiencies and alignment with the overall business.

Challenges facing organizations in Canada

- While risk management functions are facing cutbacks due to the downturn, the need to manage risk is more important than ever.
- Organizations are under significant economic pressure and business leaders are looking at ways to be more efficient.
- Cost containment, strategic outsourcing, critical projects, environmental concerns, and a new royalty regime—these are just some of the strategic areas that need to be assessed while we look to the future.
- The downturn means companies could be at significantly higher risk for fraud. In the past, internal audit has reacted to fraud rather than being proactive and looking at areas where it is likely to occur and taking action before it happens.

The current downturn, and an increasingly complex business environment, have alerted many to how critically important risk management is for business success. The impact of failing to assess risk is staggering if one considers researchers have found that strategic and business issues are the most common means by which organizational value is eroded. In fact, it is responsible for 60% of lost value—with operational issues driving another 20% of the loss.¹ But with organizations facing cost-constraints, most are not in a position to make additional investments in risk management. And yet there is an often overlooked solution: transforming the internal audit department into a component of strategic risk management.

Unfortunately, not all internal audit departments are currently equipped to take on this new role and its related challenges. Since 2002/2003, most publicly traded companies and government organizations have spent the bulk of their internal audit effort on compliance and assessing controls specific to the financial

reporting process. With 70% of their time spent on those issues, few have had the resources and experience to turn their attention to more operational and strategic areas and risks such as assessing whether potential acquisitions are in alignment with their organization's strategic goals and focus.² For example, many organizations are struggling today because they did not undertake appropriate credit risk management measures to ensure they were not over leveraged and that their investment decisions were sound.

Organizations can no longer afford to limit internal audit to compliance and financial reporting. As a result there are growing expectations that internal audit take on activities that add value to the overall business.

A minority of organizations are making changes to their business models in order to adapt to the new economic reality. But for all organizations, this is an opportune time to transform internal audit departments, shifting them to play a greater role in operational, strategic areas and risk management.

1. PricewaterhouseCoopers. *An opportunity for transformation* How does internal audit contribute to shareholder value* (2008).

2. PricewaterhouseCoopers. *Targeting key threats and changing expectations to deliver greater value** PricewaterhouseCooper's 2008 State of the profession study.

The risks of not transforming the internal audit department

- A failure to achieve the maximum value from the internal audit department in a new competitive environment where every department in the organization needs to contribute.
- Inefficiencies and possible cost savings that remain unidentified, jeopardizing your organization's competitive advantage.
- Undetected operational and strategic risks and opportunities that could help the turnaround.

Making the internal audit transformation happen

- Analyze the internal audit department's annual plan based on a solid understanding of the organization's strategic initiatives, stakeholder expectations and business risks.
- Gather data to assess current state of internal audit coverage.
- Link the organization's strategic objectives and shareholder value drivers to internal audit's scope.
- Consider how previously unaudited areas might be audited, then align auditable risks to the audit plan.
- Create a value map that highlights every important value objective and link those objectives to specific processes that are linked to the audit plan.
- Consider areas for cost containment reviews.
- Based on the updated audit plan, consider transformational ideas to reduce cost within internal audit.
- Eliminate routine, low-value audits.
- Identify inefficient processes within internal audit.
- Ensure you have the right skill sets in the internal audit department for its new strategic role because many employees in audit departments today lack operational or strategic skill sets.
- Use the right technology to reduce internal audit costs and improve its capabilities and efficiencies.
- Develop implementation plans for internal audit transformation concepts as well as anticipated process efficiencies.

Benefits

- An internal audit department that can identify strategic risks, pitfalls and opportunities that management might not see because they are too close to the issue. The transformed internal audit department offers a fresh perspective and an independent lens.
- Add value across the organization and improve efficiencies and reduce costs in multiple areas. For example, the internal audit can conduct procurement reviews with a strategic perspective and ensure prices of high-value contracts are in line with current global prices, potentially resulting in measurable cost savings.
- An internal audit department that is fully aligned with the organization's strategy and stakeholder expectations.
- An internal audit department that is perceived by others within the organization as trusted business advisors rather than as policemen.

Value builders

PricewaterhouseCoopers (PwC) perspective

A value map to guide the internal audit transformation

The transformation requires a holistic approach.

We have significant experience in making sure that the initial risk assessment or the transformation process is focused on the right value map for the organization and is in alignment with stakeholder expectations and business strategy.

The skill sets to go the distance

PwC can help train and/or collaborate with the internal audit department to upgrade the skill sets of the internal audit team.

We, as a multidisciplinary team, have people with a variety of different skill sets and can bring them to the client to address some of the strategic and operational areas and send them down the right path.

The ability to benchmark

Benchmarking is important because it allows you to form realistic expectations about what you can achieve. This is not an overnight process.

We perform quality assurance reviews, an evaluation of the internal audit department against best practices to come up with what internal audit should be doing to be more efficient and effective. With the PwC Profiler, a tool that carries best practices from up to 500 organizations, we can show clients where they stand against their peers and help build the case for change. As a result, we can help build the case for change.

The right cultural mindset

Different organizations are going to be at different places on the internal audit transformation map. Some will be further ahead in anticipating the change while others are still stuck on the compliance and financial focus and need a new way of looking at it.

We need to look at an organization's long term strategy and understand its vision to help create an internal audit value map. More importantly, the interaction that we have with senior management helps us to understand where future challenges are going to come from and where internal audit can contribute and help manage situations. As part of this process, we must get buy in from the rest of the organization to undertake an internal audit transformation.

The right technology solutions

There are two pieces of technology that make sense for any internal audit department: a good data analysis tool; and a good documentation tool. We have tools and methodologies to document, review, and archive work paper documentation as well as IT consultants with the expertise to help companies streamline, interconnect and improve their IT systems.

Before we do an internal audit transformation we like to identify ways to take out 20 to 25% of the internal audit department's cost and invest that in the transformation so that the organization is not spending anything more than what they were already spending. In effect they get more value at the same price.

How PwC can help

PwC has a team with significant internal audit experience in helping clients benchmark and change their internal audit departments. We help our clients become cost efficient as well as more focused on critical stakeholder value areas which can contribute to overall business success. Call one of our practitioners below to talk about how we can help your internal audit department.

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