

***Higher performance
by design: A blueprint
for change***

2014 State of the Internal
Audit Profession Study
*Entertainment, media, and
communication industry*

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Overview

- 10th Annual State of the Internal Audit Profession Study recently released
- More than 1,900 respondents: 1,400 chief audit executives (CAEs) and internal audit (IA) managers, as well as more than 520 stakeholders (e.g. board and audit committee members, chief financial officers, chief risk officers, chief communication officers)
- Conducted over 125 stakeholder and CAE interviews across North America, Europe, Australia, and Asia to gain further insights
- 117 respondents categorized as entertainment, media, and communication (EMC) industry
- Interviewed certain key regulators across the globe to understand their expectations of internal audit
- Survey focused on:
 - Understanding what is expected from internal audit for the purpose of identifying potential alignment issues
 - Understanding stakeholders' perceptions related to the value of internal audit
 - Understanding internal audit's performance related to key attributes



Heart of the matter

Higher performance by design: A blueprint for change

This year's findings

- Significant differences of opinion exist between stakeholders and CAEs on the nature of what is expected of internal audit (i.e. a misalignment)
- On average, 51% of EMC stakeholders say internal audit is performing well at delivering on expectations
- 50% of EMC stakeholders do not believe internal audit adds significant value

Leads to the following questions

- Is your function aligned to the expectations of its key stakeholders? How do you know what capabilities to develop without clearly knowing what is expected of you?
- Are you aligned with respect to the critical risks?
- Are you expecting enough from your function? Our research shows that when more is expected, internal audit has the opportunity to generate more value to the organization
- Higher expectations require increased capabilities and increased investment

Internal audit must be aligned with the expectations of its stakeholders in order to strategically build the right capabilities and raise both its performance and its value.

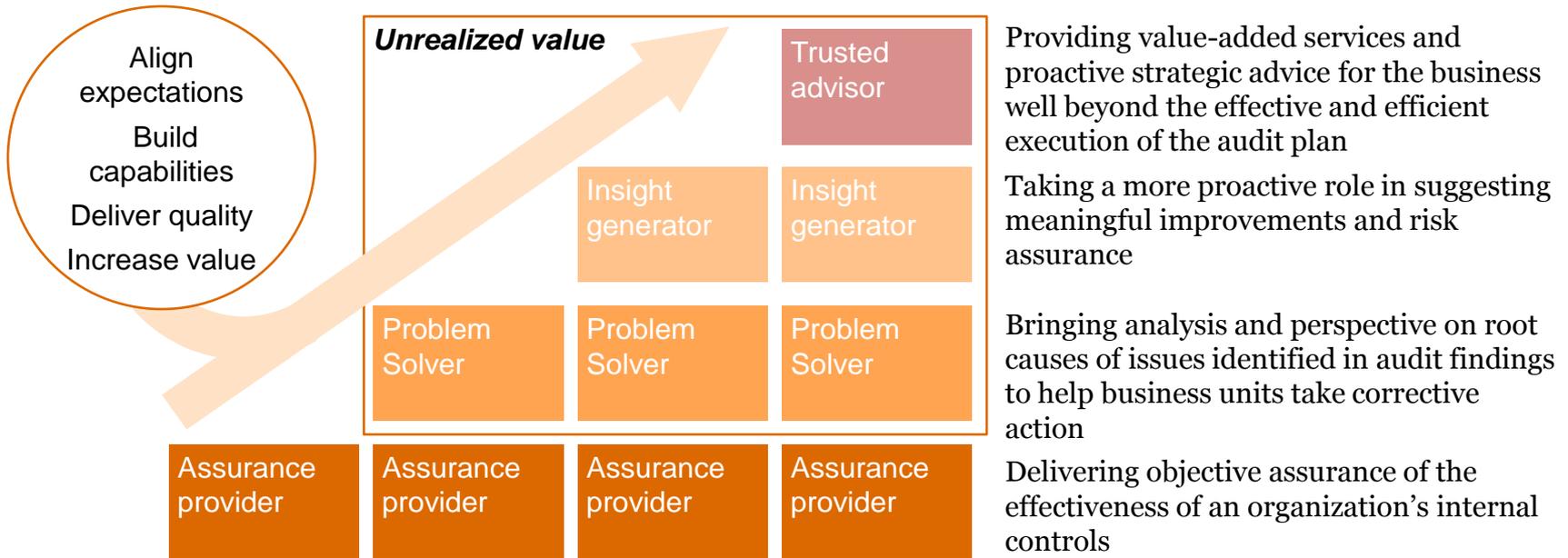
At a glance: Entertainment, media, and communication sector responses

117 respondents from
EMC industry

74% of respondents
from the EMC
industry were CAEs

71% of EMC industry
respondents
reported >\$1 billion
in revenue

The journey to capture unrealized value



Case for change

Value

Stakeholders have significantly different views of internal audit's value

Performance

Many functions are still challenged, and stakeholders in the EMC industry are less satisfied with internal audit's performance

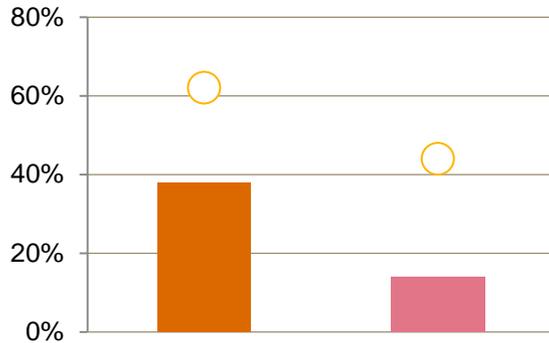
Critical risks

Companies are doing a better job of managing critical risks

2013	<i>69% of EMC industry stakeholders see significant value</i>	<i>80% of EMC industry stakeholders rank internal audit performance as strong</i>	<i>64% of EMC industry stakeholders say risks are well managed</i>
2014	<i>50% of EMC industry stakeholders see significant value</i>	<i>51% of EMC industry stakeholders rank internal audit performance as strong*</i>	<i>65% of EMC industry stakeholders say risks are well managed</i>

*Represents the average of the “performs well” ratings across 18 capabilities in 2014 versus 8 capabilities in 2013.

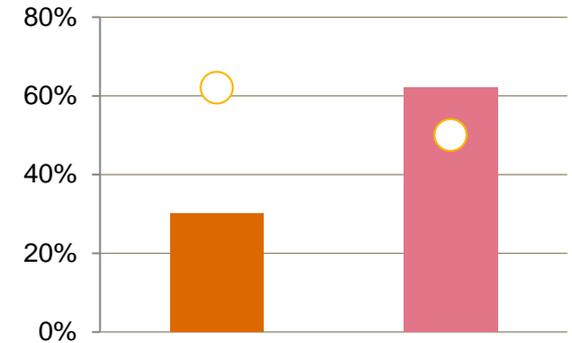
The case for change: Entertainment, media, and communication industry



Identifying thematic issues the organization is facing*



Using technology effectively in the execution of audit services



Promoting quality improvement and innovation*

CAEs' expectation

Stakeholders' expectation

Performance

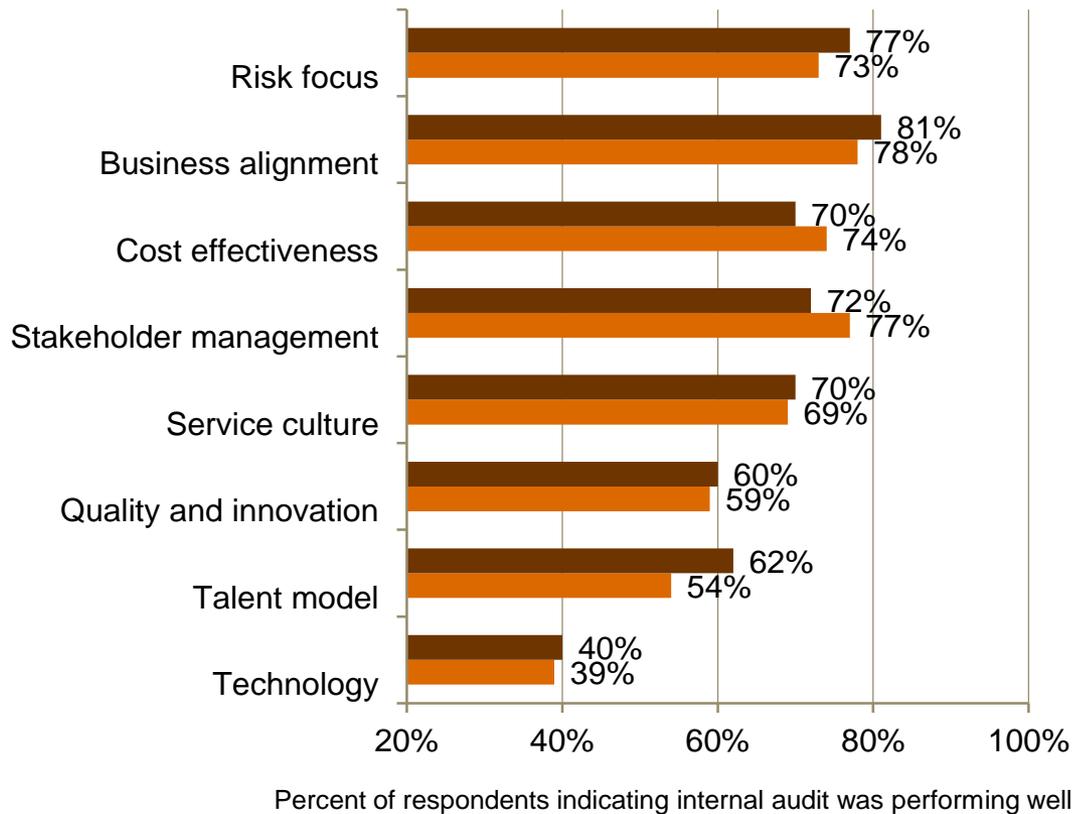
Expectation: % who expect this from internal audit; base = total survey responses

Performance: % who say internal audit performs this well

Regarding identification of thematic issues, EMC stakeholders say internal audit is performing significantly worse than CAEs think. CAEs say they do not believe that promoting quality and innovation is expected of them, and twice as many stakeholders say it should be.

*Caution: Small base size.

The EMC industry found internal audit to be performing 8% lower than population for “talent model”

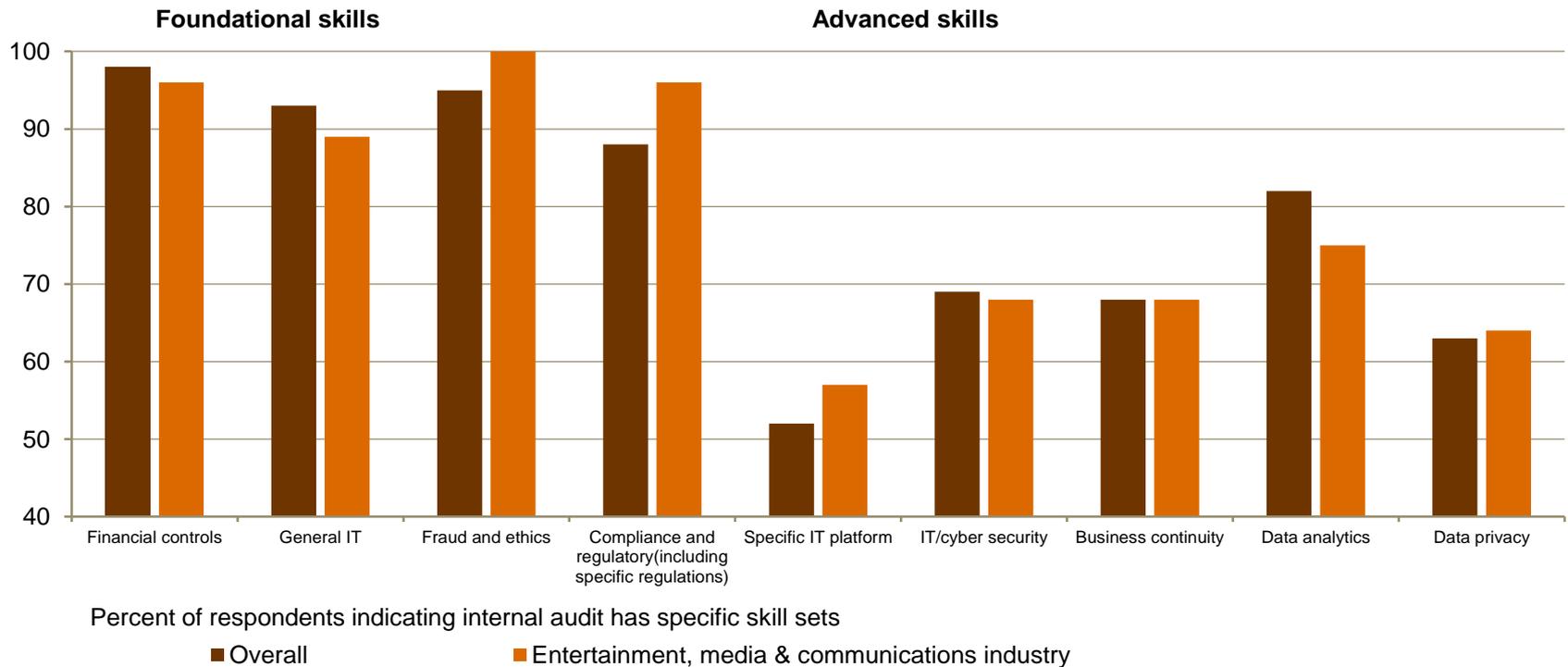


■ Overall

■ Entertainment, media and communication industry

Expanded expectations and alignment of stakeholder expectations create an opportunity for internal audit to raise its performance and provide added value for the organization.

Building the capabilities to deliver on expectations



Even though EMC results are consistent with overall findings in most categories, they continue to lag other industries on data analytics capabilities.

Developing an aligned set of expectations

- Align and agree on the critical risks the organization faces (fundamental)
- Establish detailed expectations aligned to the eight foundational attributes
- In developing these detailed expectations, consider:
 - Future needs and emerging issues and risks
 - Regulatory expectations
 - The first and second lines of defense

Achieving alignment on the breath of expectations and critical risks is a significant step toward internal audit's improving its relevance and value to the business.

Internal audit's communication strategy

	Overall	EMC industry
Specific communication with audit committee chair and board on internal audit mandate	73%	73%
At least an annual discussion with key stakeholders to ensure internal audit's role is aligned with expectations	72%	69%
A meeting held between internal audit, management ,and board members to agree on expectations	67%	60%
Top-down communication with internal audit members on expectations	61%	63%
Specific communication with internal audit members on expectations	63%	64%
Regular survey of stakeholders on internal audit's performance and adherences to stakeholder expectations	40%	30%
A meeting held with external stakeholders such as regulators and external auditors to discuss expectations	43%	41%
Posting of internal audit expectations on company's internal website	29%	24%

“Regular survey of stakeholders” is the tactic with the biggest difference from the overall population, with 30% in the EMC industry saying it is important, compared with 40% of overall survey respondents.

Communicating performance and value

Advanced metrics can be used to measure internal audit performance:

- Involvement and value provided in all key initiatives and emerging risk, including new systems, acquisitions, dispositions, new products, and new regulations
- Ability of internal audit to provide macro/horizontal views on key issues and areas of critical risk to the organization
- Ability of internal audit to be a change agent in the organization; that is, is the overall control environment improving year over year because of internal audit's influence?
- Annual voice-of-the-customer survey
- How well internal audit is able to answer questions from the board and management
- Value of recommendations provided
- Cost savings and revenue enhancement based on internal audit's recommendations and findings

Trusted advisors focus on communicating the value they bring to the organization through the recommendations they make and their involvement in emerging issues rather than on classic value measures such as successful completion of the audit plan.

Successfully making the journey

Each stakeholder plays a role in enhancing the value internal audit can deliver

Chief audit executives

Lead the design and the communication plan

- Develop a point of view on what stakeholders expect of internal audit and how you are fulfilling those expectations
- Use an aligned set of expectations to assess needed skill sets against your current capabilities and to develop an action plan, including milestones and metrics to address any capability gaps
- Create a communication plan to purposefully gain alignment on the suggested inventory of expectations

Management

Support the design

- Involve internal audit in nontraditional areas, and value the new perspectives and feedback the function can bring
- Support efforts to align skill sets with business risks and the aligned expectation set
- Support internal audit's efforts to develop metrics that align with expectations, and expect more than the typical report on controls

Board members

Provide proactive input and approve the design

- Provide input on expectations, with an understanding of leading practices and the value internal audit could deliver if expectations, supported by capabilities, are more strategic in nature and better aligned with the most critical risks of the organization
- Provide input on the performance that internal audit is expected to achieve through its short- and long-term strategic plans, including the need to invest in skill sets and processes that will deliver on expectations
- Provide input on when and how the CAE should communicate with the board and how and when the board prefers internal audit to report progress against expectations

