

The Global Profession of Internal Auditing and a Vision for the Future

ECIIA Conference 2008

November 21, 2008

Patty Miller
Chairman of the Board - IIA
Partner, Deloitte & Touche LLP
pkmiller@deloitte.com
510-287-2805



Progress Through Sharing

Topics

- The Global IIA
- Current State of the Profession and Challenges Facing Internal Audit
- The IIA's New Strategic Plan
- Emerging Trends and Expectations
- Closing Thoughts

The Global IIA



The IIA

	Members	Institutes/Chapters
Global	159,500	251
Asia Pacific	31,300	20
Europe	34,250	32
Middle East	2,450	6
Africa	11,100	20
Latin America	9,550	19
North America	70,850	154

Membership has increased over 100% since 2000!

73,815 Certified Internal Auditors as of February 2008



The Internal Audit Profession Current State and Challenges



Current State of the Profession

- Different levels of **maturity**
 - Compliance/financial/operational/technical
 - Risk based vs. cyclical/rotational
 - Auditing vs. consulting
 - Broad or narrow focus -- controls, risk management and governance
- Different levels of **acceptance**
 - Legislated/regulated
 - Must do vs. optional/nice to do
 - Critical function vs. necessary evil

Current State of the Profession

	Historic Internal Audit	Mainstream Internal Audit	Cutting Edge Audit
Focus	Audit entities based on rotational plan	Prioritize audit entities based on risk	Focus on strategic, business and process risk
Perspective	Historic	Historic	Future
Style	Corporate police	Father knows best	Consultant & advisor
Mandate	Compliance to policies & procedures	Assurance on financial control, compliance	Business assurance
Risk Focus	Financial	Financial plus	Enterprise risks
Toolkit	Compliance work programs	Audit work programs for key processes / controls	Risk frameworks, self-assessments
Technology	None	Automated workpapers	Automated testing & continuous monitoring
Results	Small 'findings'	Assurance; key audit entities	Proactive risk management; dynamic reporting

Challenges Facing the Profession

- Increasing expectations
 - Boards and Audit Committees
 - Management
 - External auditors
 - Regulators
- New required competencies
 - Specializations
 - Leadership skills



New Strategic Plan for the IIA



IIA Strategic Planning – 2008-2013

Preferred Future Milestones

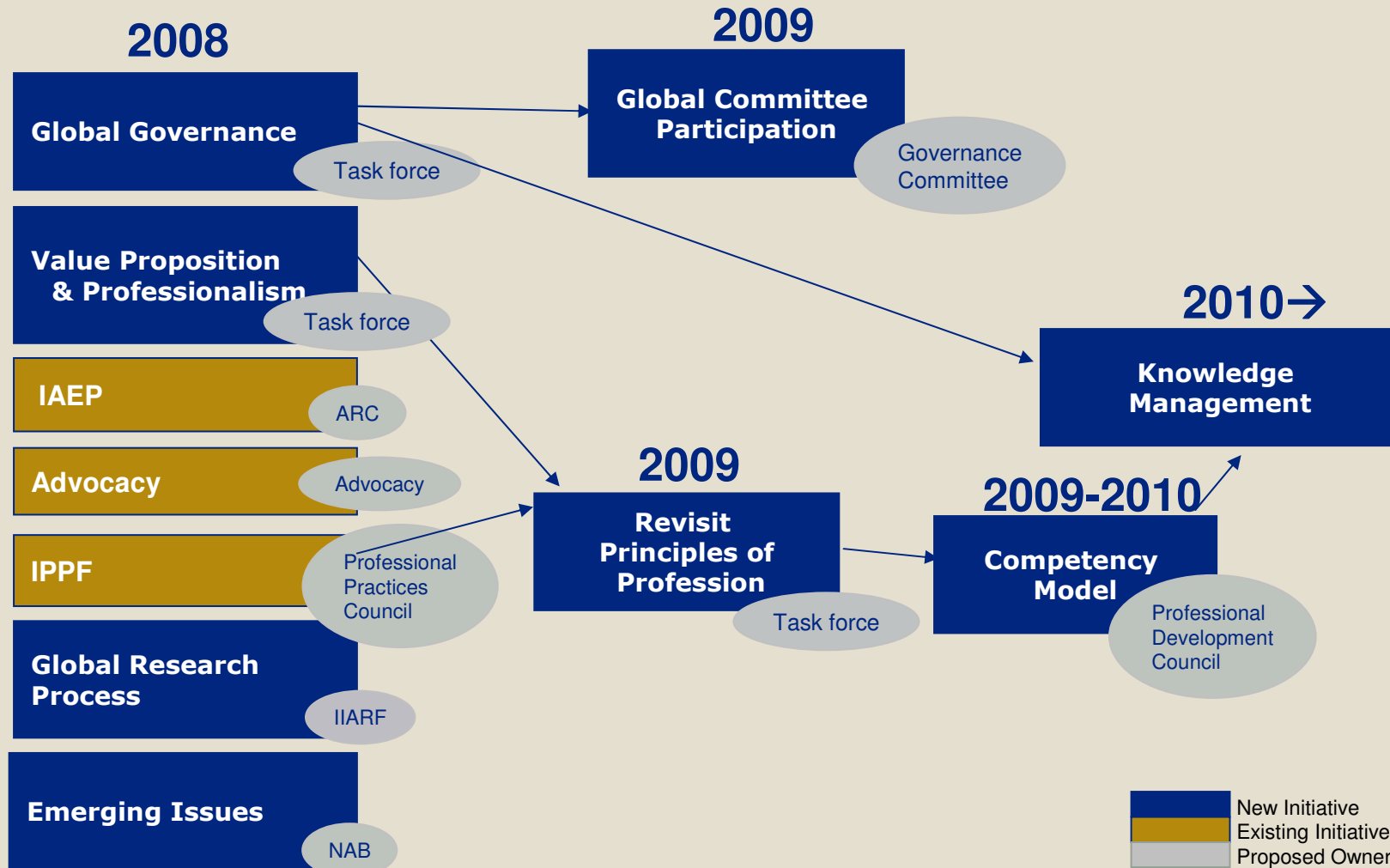
By 2013:

1. Internal Auditing is universally recognized as a **profession**

To Accomplish this The IIA:

2. Defines the **principles of the profession** and assures that the principles are available seamlessly worldwide
3. Assures **adherence** to professional requirements
4. Is the **preferred provider** in the research, development and dissemination of knowledge to advance the profession
5. Is seen by its members and operates as **one global organization**

Near Term SP Initiatives



IIA's Strategic Plan

How will these SP outcomes affect our profession?

Outcomes

Evaluation of professional requirements and certifications



Advocacy to external stakeholders



Global availability of Standards, guidance, research and services



One global professional organization



Impacts

Increasing requirements for professional internal auditors

Heightened stakeholder expectations

Consistent definition and application of professional practice worldwide

Superior support for professionals worldwide



Theme for 2009

Internal Auditing....

Recognized.

Trusted.

Valued.

Recognition

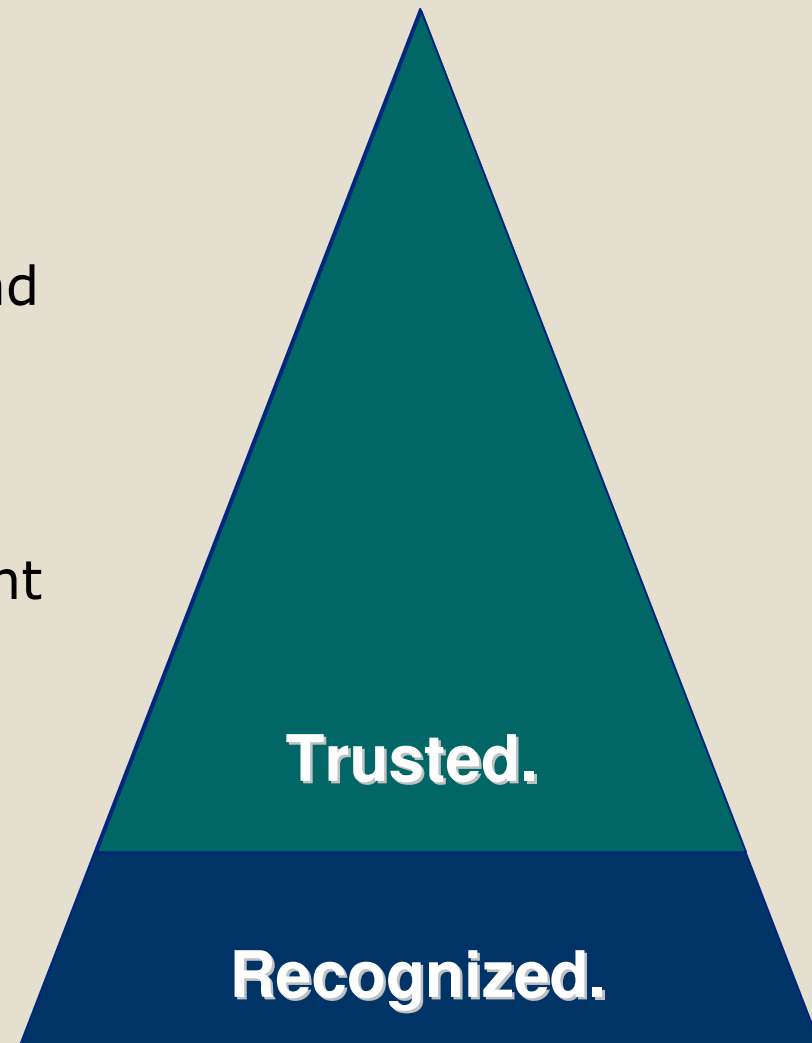
- Our profession, our organization, each professional
 - Roles understood
 - Expectation of due care, objectivity, fair and accurate reports
 - Appreciation of professional behaviors and attitudes



Recognized.

Trust

- High integrity and ethics
- Understand the business; management's strategies and objectives
- Focus on the right areas
- Respect those audited
- Provide practical and relevant recommendations



Value

- Contributions to your organization and assurance to stakeholders
 - ‘Seat at the table’
 - Proactive catalyst for positive change
 - An objective and informed reporter on business risk, control and governance
 - Trusted advisor on risk, control and governance issues
 - Balance of consultative and assurance services
 - Help protect AND grow the business



Considerations Today

Are each of us ...

- Hiring the best and brightest
 - and providing a learning and career pathway
- Complying with professional standards and requiring all members of our organizations to do so
- Acquiring a professional certification and encouraging all members of our organizations to do so
- Demonstrating the highest levels of integrity, objectivity and professional due care
- Reporting directly to the Audit Committee or Governance group
- Maintaining open and honest communications

Considerations Today

Are each of us

- Seeking to understand stakeholder expectations and evaluating effectiveness in meeting those expectations
- Embracing and executing a risk-based approach with a balanced plan
- Leveraging technology to enhance effectiveness and efficiency
- Demonstrating proactive and flexible behaviors
- Providing leadership on issues of corporate governance, fraud, risk management, internal control and financial reporting
- Operating as effective change agents

Considerations Today

Are each of us ...

- Keeping abreast of new developments in our businesses, industries and regions, and considering risks and internal audit's role – for example:
 - Extended enterprise
 - IFRS adoption worldwide
 - Credit crisis and sub-prime issues
 - Economic downturn and currency destabilization
 - Corporate responsibility and sustainability
 - Intellectual property protection
 - Regulatory changes
 - Improved accountability and modernization in government
- ... and considering the IT implications?
- Staying informed on emerging trends in our profession?

New IA Risk Assessment Approach

The Fallibility of Probability

- Little or no predictive value
- Major value losses are often high impact / low likelihood

9/11

Dot com bubble

Oil / commodity price spikes

Danish cartoons

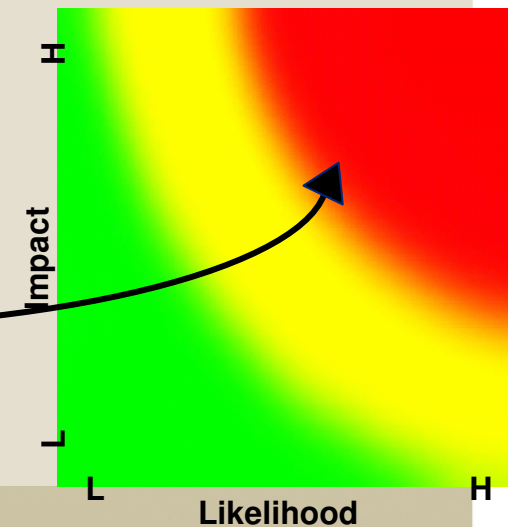
1997 Asian Financial crisis

Financial scandals

Natural disasters

???

- Biases management to direct resources to high impact / high likelihood events
- Typically focuses on single events rather than a series of events or domino effects
- Audit activities are often misdirected to the "red zone"



New IA Risk Assessment Approach

M = High Impact/High Vulnerability

- Provide assistance in design of controls where impact and vulnerability are high
- Track progress on remediation plans

A = High Impact/Low Vulnerability

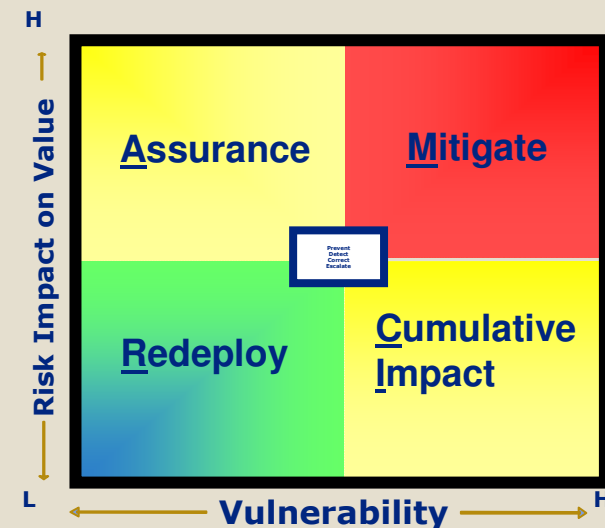
- Obtain assurance confidence in preparedness is justified

R = Low Impact/Low Vulnerability

- Obtain assurance on effectiveness
- Identify ways to improve efficiency

CI = Low Impact/High Vulnerability

- Assess cumulative impacts and frequency

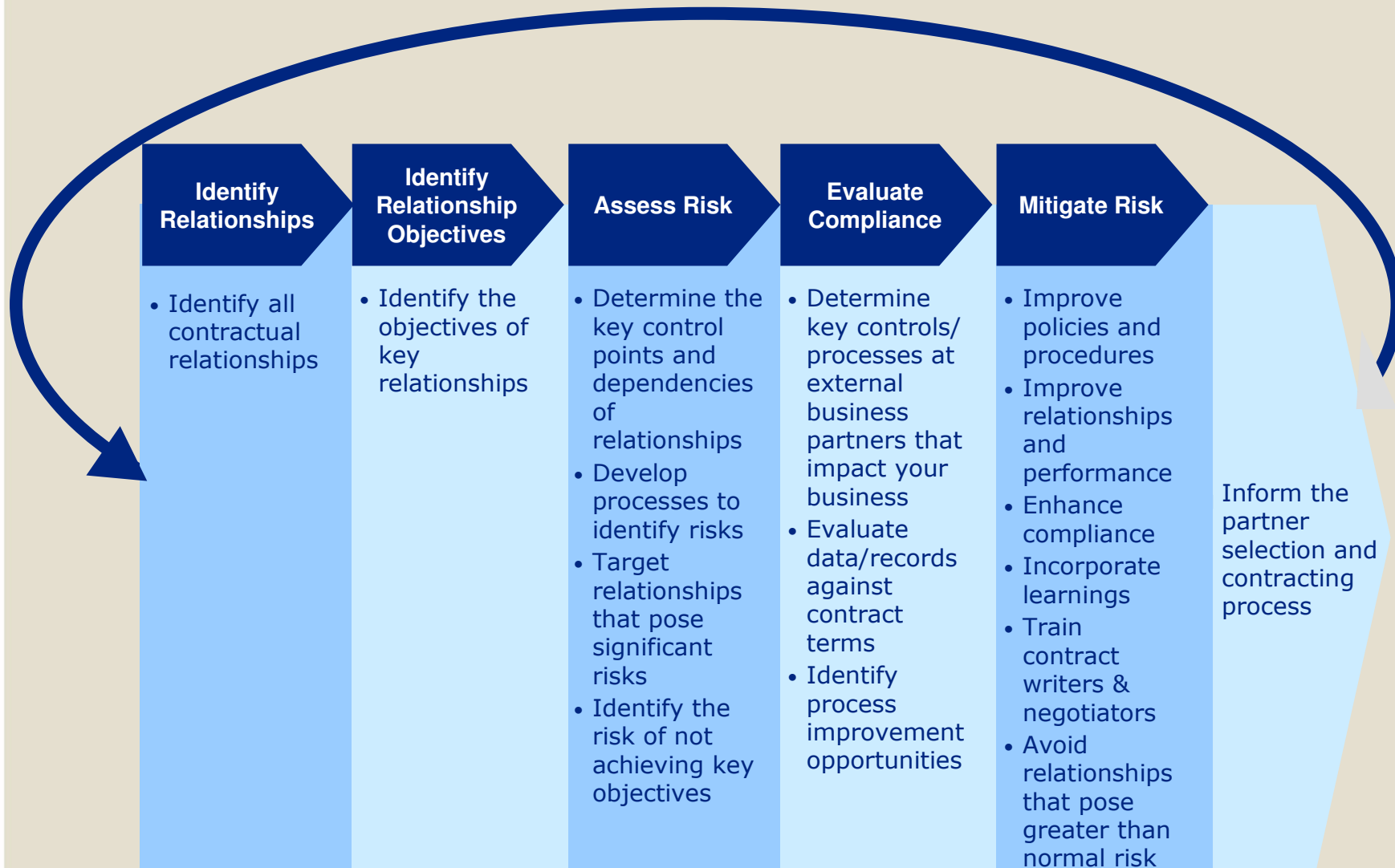


Extended Business Relationships

Supply-Side Partners	Demand-Side Partners	Licensees	Infrastructure
<ul style="list-style-type: none"> • Vendors • Suppliers • Manufacturers • Replicators • Integrators 	<ul style="list-style-type: none"> • Franchisees • Distributors • Advertising agencies • Retailers • Warranty providers 	<ul style="list-style-type: none"> • Co-brand partners • Joint developers • Patent licensees • OEMs 	<ul style="list-style-type: none"> • IT outsourcing • HR services • Travel agencies • Legal services • Transaction processing • Call centers



Internal Audit: Turn Trust into Value



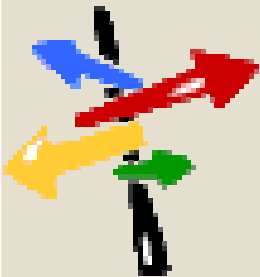
Driving Value from the Extended Enterprise

- Revenue recovery
 - Royalties
 - Franchise fees
- Cost reduction
 - Volume discounts
 - Most favored pricing
- Improved reporting
 - Point of sale data
 - Forecast data
- Relationship management
- Brand protection
- Security and privacy
- Regulatory compliance



Corporate Social Responsibility

- Significant and growing worldwide trend and stakeholder expectation
- Both a threat and an opportunity
 - Can you meet the expanding expectations?
 - Have you anticipated your competitors' actions?
 - Have you anticipated your regulators' actions?
 - Can you leverage the trend to an economic and societal advantage?
 - Improve operations, attract talent, promote positive relations, enhance transparency and accountability, streamline regulatory compliance, heighten competitiveness, draw investors



Corporate Social Responsibility



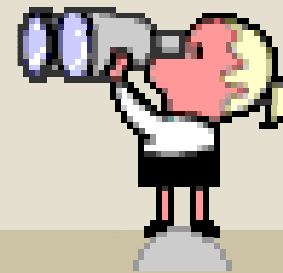
- Consider Is your organization ready?
 - To pay for what was formerly free?
 - To take advantage of shifting demographics?
 - To respond to activists?
 - To anticipate your stakeholder's changing needs and expectations?
- IA as catalyst
 - Understand your organization's approach and attitude
 - Educate on breadth of risk and opportunity
 - Assist in collecting data and benchmarking
 - Assist in planning approach with appropriate measurements to monitor progress and risk management
 - Ultimately, assist in designing new processes and supporting controls

Closing Thoughts



Final Thoughts

- Internal audit profession is advancing
- Stakeholders' expectations are increasing
- Individual practitioners and organizations must 'raise the bar' to most effectively represent and advocate for our profession
- Our new challenges will bring new opportunities for our organizations, internal auditing as a profession, and each of us as professionals



My Challenge

Challenge yourself
Challenge your team
Challenge and support the IIA

to be not just recognized
not just trusted
but a valued member of the
organization, our
profession, and our
Institute

