



# Risk Management and the Financial Crisis

*What Audit Has Learned and  
How Technology Can Help*

**April 23, 2009**

**Leverage Information Technology:  
Turn Corporate Governance into Business Performance™**

# Agenda

## What Audit Has Learned and How Technology Can Help

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- **Introductions**
- **Current Issues and Challenges**
- **Audit Risk Intelligence**
- **Best Practices in Risk Technology**
- **Risk Solution Roadmap**
- **Q & A**



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GRC Expertise, Solutions, Software Services

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## ● Jim Kaplan CIA, CFE - AuditNet

**Jim Kaplan** is the Founder and CEO of AuditNet® the largest free Internet portal for the audit, financial and compliance community. He has a Master of Science in Accounting from the American University in Washington, D.C. He is an active member of the Institute of Internal Auditors (IIA), the National Association of Local Government Auditors (N.A.L.G.A.) and the Association of Certified Fraud Examiners. He is the **2007 recipient of the IIA's Bradford Cadmus Memorial Award** and the 2005 Association of Local Government Auditors Lifetime Membership Award. Jim was a contributing editor for The Internal Auditor, the professional journal of the IIA. His column covered the different ways that auditors used computers and software. His writing has appeared in the Internet Bulletin for CPA's and Internal Auditing Alert. He is the author of The Auditor's Guide to Internet Resources 2<sup>nd</sup> Edition, published by the IIA.

## ● Richard E. Cascarino, MBA, CIA, CISM, CFE

Well known in international auditing circles as one of the most knowledgeable practitioners in the field, Richard is CEO of **Richard Cascarino & Associates** based in Colorado, USA with over 26 years experience in audit training and consultancy. He is a regular speaker to National and International conferences and has presented courses throughout Africa, Europe, the Middle East and the USA. Richard is a Past President of the Institute of Internal Auditors in South Africa, was the founding Regional Director of the Southern African Region of the IIA-Inc and is a member of ISACA, and the American Institute of Certified Fraud Examiners. Richard was Chairman of the Audit Committee of Gauteng cluster 2 (Premier's office, Shared Services and Health) in Johannesburg and a member of the Audit Committee of the Department of Public Enterprises in South Africa.



## ● Adil Khan – FulcrumWay

**Adil Khan** is a Senior Director at Fulcrum with over 15 years of experience in enterprise business systems. Adil also serves on the board of the Oracle Applications Users Group Internal Controls and Security Interest Group (OAUG-ICSSIG). At Fulcrum, Adil has successfully designed and implemented internal controls management systems for more than 15 global companies listed on NYSE and NASDAQ. His expertise includes streamlining and automating Governance Risk and Compliance processes based on industry standards such as ERM-COSO and CoBIT. Prior to Fulcrum, Adil served as a board member and Chief Executive Officer of ALTM a public company listed on NASDAQ.

## ● Lane Leskela - FulcrumWay

**Lane Leskela** is an accomplished enterprise technology professional with sixteen years of influential enterprise technology market research, software marketing and governance, risk and compliance (GRC) program consulting. Mr. Leskela has led the evaluation of numerous GRC technology strategy, product selection and implementation planning programs. Prior to Fulcrum, Lane served as the Senior Product Marketing Director for GRC applications at Oracle Corporation. Prior to joining Oracle, Lane was a Research Vice President at technology research firm Gartner, Inc. At Gartner, he managed software market research, analysis, reporting and client services for enterprise risk management, regulatory compliance management and financial control and reporting.



- **AuditNet®** is the **global resource for auditors** created by Jim Kaplan an Internet for auditors pioneer and recipient of the IIA's 2007 Bradford Cadmus Memorial Award. The Web site features:
- Over 2,000 Reusable Audit Programs, Questionnaires, and Control Matrices
- Auditor Career Center
- Online and E-mail Discussion Forums
- Ask The Auditor
- Monthly Newsletters with Expert Guest Columnists
- GRC Resources
- Latest Books Reviewed
- Career/Workplace Advice
- Audit Guides, Manuals, and Books on Audit Basics



## Who are we

Richard Cascarino and Associates are providers high quality consulting and training services worldwide. They are associated with some of the most experienced consultants and highest quality professional educators in the fields of Fraud Audit, IS Audit and IS Audit Training, Internal Audit and Internal Audit Training as well as Enterprise Risk Management

## Our Mission

We strive to serve our customers by providing high grade, international consulting services in the fields of:

- Corporate Governance
- Internal Audit
- Internal Audit Training
- IS Audit
- IS Audit Training
- Forensic Audit and Fraud Audit
- Forensic Audit Training
- Fraud Audit Training
- Risk Management
- Strategic use of IT
- Audit Committee effectiveness
- Enterprise Risk Management



- **FulcrumWay:** is the **#1 End-to-End** Provider of Governance, Risk and Compliance Expertise, Solutions and Software Services for Oracle enterprise customers
- **Expertise:** Risk Management, Compliance, IT Audit, Internal Controls, Financial Reporting and GRC Software implementation consulting services. Since 2003, we have successfully assisted over one hundred Fortune-500 to Middle Market companies across all major industry segments.
- **Packaged Solutions:** Oracle certified Systems Integrator and ISV member of the Oracle Partner Network. FulcrumWay solution are built on software technologies from Oracle Corporation. FulcrumWay GRC Solutions are the #1 choice of Oracle customers.
- **Software Services:** We enable organizations to assess Financial, Operational and Information Technology risks, monitor internal controls and optimize business processes. Auditors, Risk Managers and Business Process Owners can rapidly assess enterprise risk and monitor controls using web based software services.
- Privately Held Delaware corporation with US presence in:  
New York, Texas and California
- International Presence in UK and India



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## Dell Talking Again After Audit

More than four years of intentionally misstated results will cost the computer maker millions. Says one exec: "This is not a happy story"

Business Week, 2008

The Public Company Accounting Oversight Board issued a 33-page alert to auditors, telling them to plan their audits with an eye towards the new risks that spring from management acting under economic pressure.

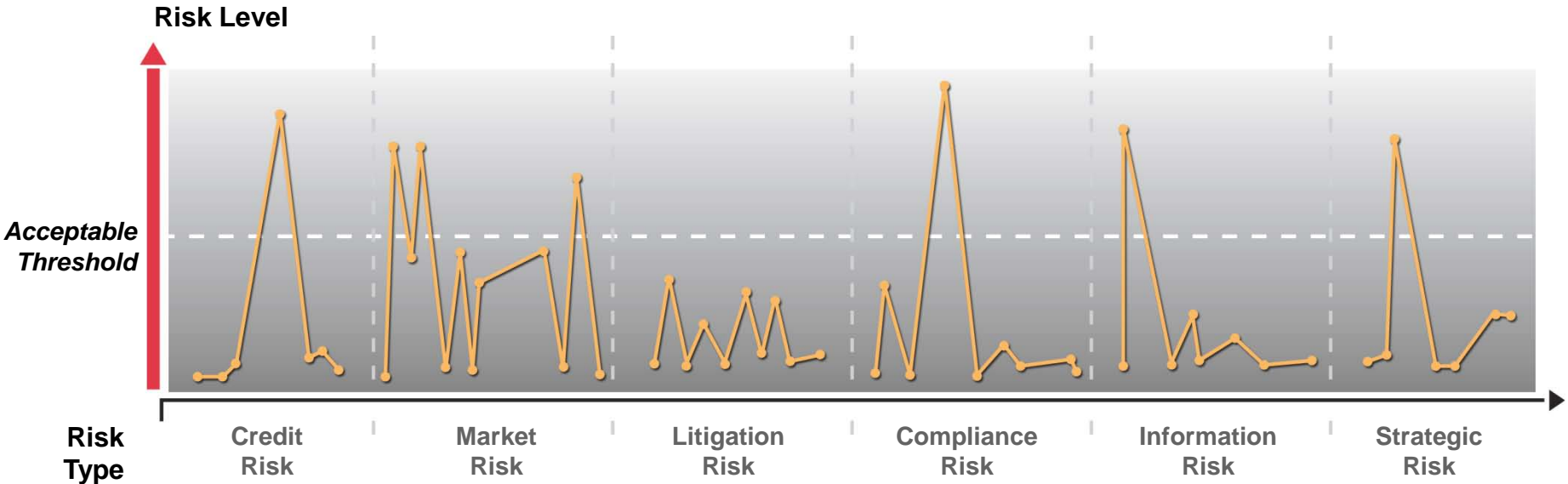
Compliance Week, 2009

Online fraud is becoming so lucrative, said Katherine Hutchison, PayPal's senior director of global risk management, that it has developed into an industry with specialized players that hire each others in areas such as harvesting credit card numbers and freight forwarding. "A single professional thief doesn't have to have all of the skills needed to commit fraud," she said.)

WSJ April, 2009

- Detect and Prevent Outright Fraud
- Mitigate Financial Misstatement Risk
- Develop and Maintain Sustainable Regulatory Compliance Processes
- Effectively Test and Monitor Internal Controls





**FACT: Between 2004-2008, 62% of global companies experienced risk events\***

- 87% of those risks were non-financial
- Almost half were not prepared
- Less than half manage risk formally

\*Source: IBM Global CFO Study, 2008



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## What audit must do!

- Internal audit must work cooperatively with management to identify entity wide risk and ensure that controls are in place and working properly
- Involve boards and audit committees early in the risk assessment process and continuous feedback on risk exposures
- Utilize new tools and strategies for continuous audit and greater reliance on data analytics
- Increase focus on compliance and governance as well as risk
- Greater reliance on subject matter experts for emerging complex financial areas
- Educate boards and audit committees on new standards such as IFRS



## IIA GAIN Report March 2009 - The Financial Crisis and Its Impact on the Internal Audit Profession

[www.theiia.org/download.cfm?file=30180](http://www.theiia.org/download.cfm?file=30180)

### ○ Key Findings

- 1. The economic recession has impacted not only organizations, but their respective internal audit activities as well.
- 2. Internal audit activities are **transitioning risks** that received extensive focus in recent years and concentrating more on **emerging risks** that resulted from the changing economic conditions.
- 3. A majority of respondents disagree with the statement that **better risk management could have played a role in preventing the current crisis**, yet most respondents agree internal auditing could have done more to assist their companies in identifying key risks.
- 4. Changing stakeholder expectations are impacting the focus of internal audit efforts.
- 5. Internal audit oversight and coverage of **emerging risks** associated with the acceptance of government stimulus funds are lacking.



- **Auditors have increased focus to the following - which is directly attributable to the impacts of the economic crisis**
  - reputational risks
  - liquidity risks, company
  - exposure to third parties in financial distress,
  - effectiveness of risk management, and
  - cost containment and reduction measures



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**AS/NZ 4360:2004** **Risk.** "The chance of something happening that will have an impact on objectives."  
**Risk management.** "The culture, processes, and structures that are directed toward realizing potential opportunities whilst managing adverse effects."

**Casualty Actuarial Society** **Enterprise risk management.** "ERM is the process by which organizations in all industries assess, control, exploit, finance, and monitor risks from all sources for the purpose of increasing the organization's short and long term value to its stakeholders."

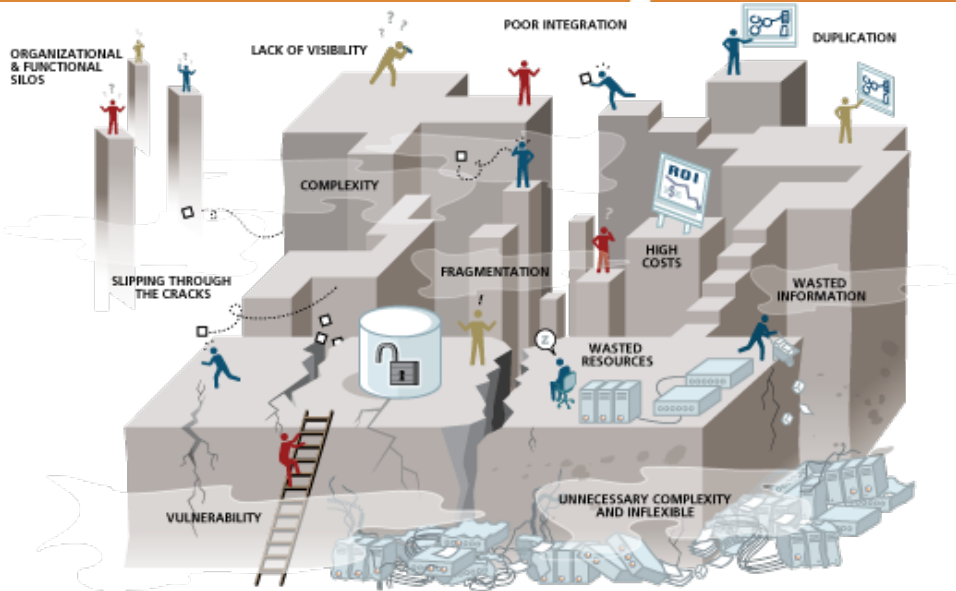
**COSO ERM: 2004** **Enterprise risk management.** "Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives."

**ISO/IEC 73 & 31000 (June 15, 2007 draft)** **Risk.** "Effect of uncertainty on objectives."  
**Risk management.** "Coordinated activities to direct and control an organization with regard to risk."

**Risk Management Association** **Risk management.** "The methodical management of all material risks."

**United Kingdom Turnbull Report (1999)** **Risk.** "Risk is real, or possible, events which advance the likelihood of reaching business goals and increase the probability of losses."



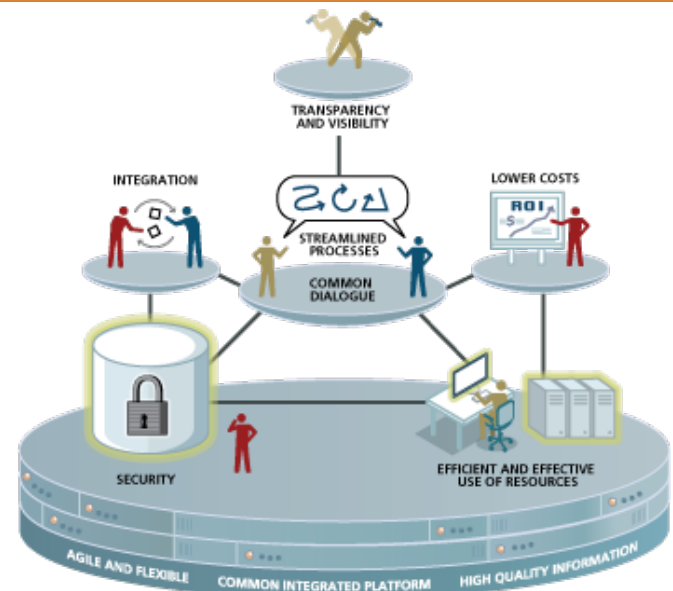


## Current State

- Managed in silos
- Mostly reactionary
- More projects than programs
- Handled separately from mainstream processes and decision-making
- People used as middleware
- Limited and fragmented use of technology



(c) OCEG, 2008



## Future State

- Enterprise approach
- Integrated controls and processes
- Program based approach
- Embedded within mainstream processes and decision-making
- Effective use of information technology
- Architected solutions



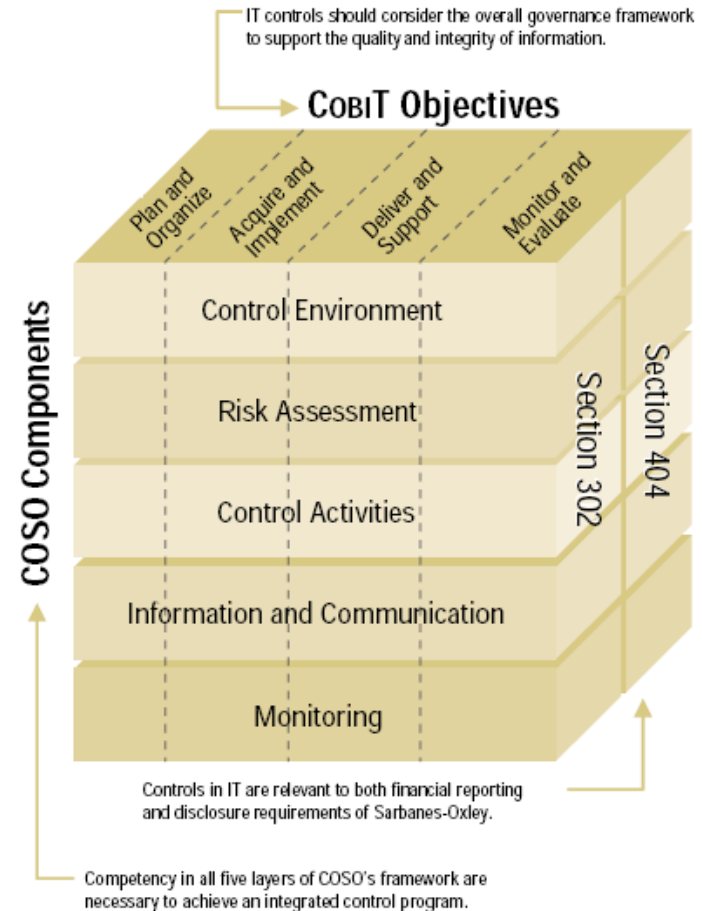
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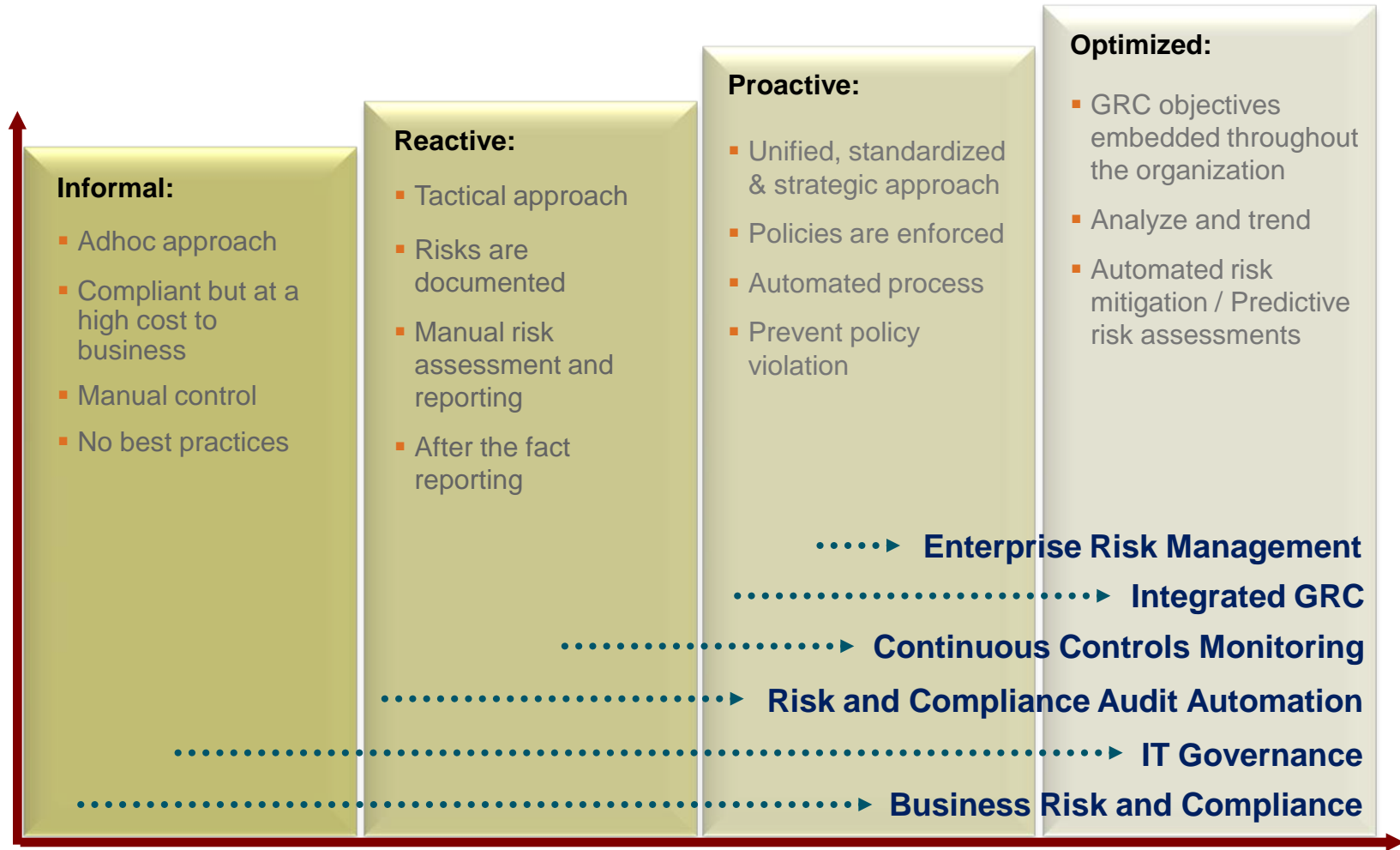
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Organizations should consider the nature and extent of their operations in determining which of the following control objectives need to be included in their internal control program:

- ✓ **PLAN AND ORGANIZE**
- ✓ **ACQUIRE AND IMPLEMENT**
- ✓ **DELIVER AND SUPPORT**
- ✓ **MONITOR AND EVALUATE**





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- **Ensure requisitions are authorized, comply with corporate limits**
- **Enable operational effectiveness, ensure requisitions are approved on a timely basis**
- **Ensure purchase order authorizations comply with corporate limits**
- **Ensure proper purchase order authorization by identifying split purchase orders**
- **Ensure validity of purchase orders by identifying duplicate purchase orders**
- **Ensure transaction validity and accuracy by identifying quantity mismatches**
- **Ensure transaction validity by identifying irregular purchase order data**
- **Ensure proper purchase order authorization, validity, and efficiency**
- **Ensure invoice and vendor validity**
- **Ensure proper invoice authorization and validity**
- **Ensure proper payment authorization and validity**
- **Ensure validity of payment by identifying duplicate payments**

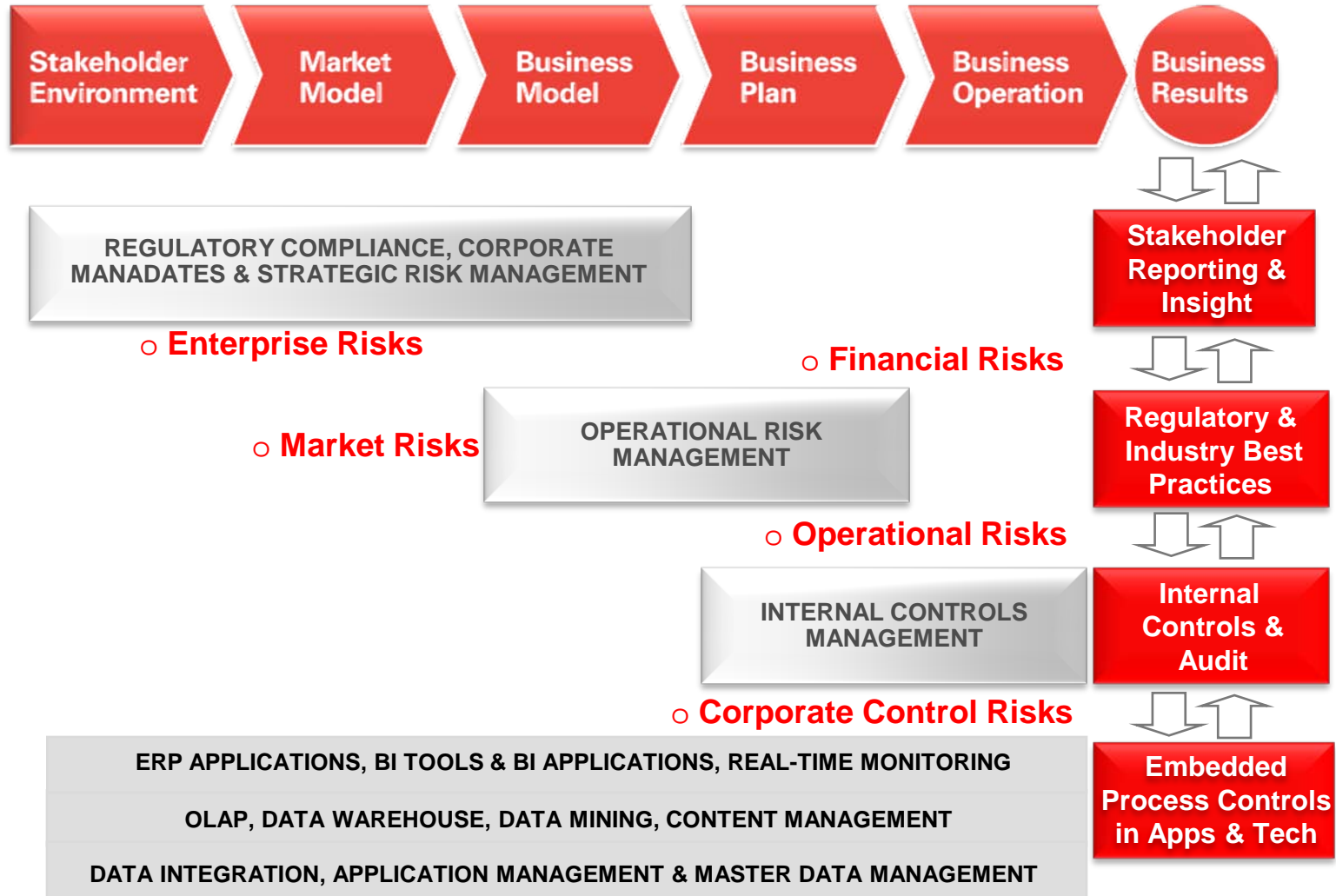


- **Effective application audit planning requires** mapping controls over application test environments, audit units and significant business processes based on risk likelihood and impact to thousands of functions and activities accessible through many roles, menus and functions.
- **Detecting users that have unauthorized access** to one or more critical business functions such as purchase to pay requires business analytics based on application control rules.
- **Compensating controls are needed** for certain users and transactions where business constraints require exceptions.
- **Remediation effort requires** strong collaboration among Audit, IT and Business stakeholders to reconfigure security, reassign users, prevent configuration changes, monitor transaction thresholds.
- **ERP Access Provisioning and Configurations** must be approved in “real time” to keep up with business needs.



# Roadmap

# A GRC integration Model



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- **What role should internal auditors take in raising awareness of governance, risk and compliance issues within their organization?**
- **What is the role of the Audit Committee in all this?**
- **What are the steps that organizations should take in implementing a GRC program?**
- **Continuous monitoring vs. Continuous auditing - who is responsible?**
- **What software tools are available for continuous auditing and what is the learning curve for these tools?**
- **Online fraud - can it really be prevented?**
- **What is the best way for auditors to assess their technology needs and options in the current economic environment?**

