

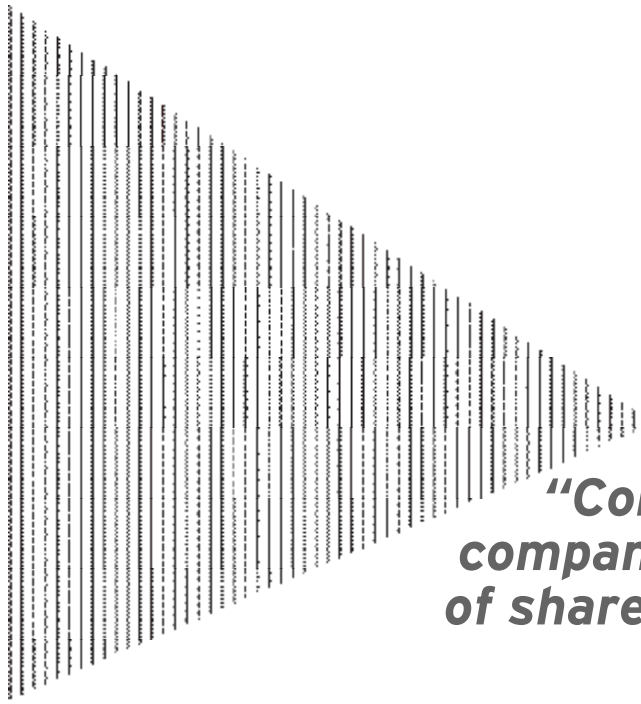


Effective Governance, the Audit Committee and Chief Audit Executive

June 19, 2009

8:30-10:00

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“Corporate governance is the system by which companies are directed and controlled, in the interest of shareholders and other stakeholders, to sustain and enhance value.”

Organization for Economic Cooperation and Development

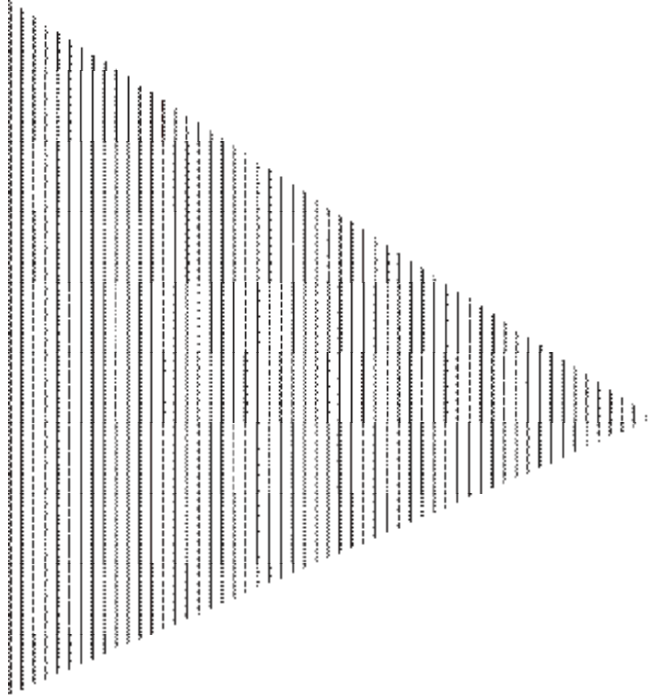
Agenda

- ▶ Introduction
- ▶ Recent Events
- ▶ Governance & the Audit Committee
- ▶ Internal Audit and the Chief Audit Executive
- ▶ Questions & Answers

2008 Timeline of Unprecedented Events

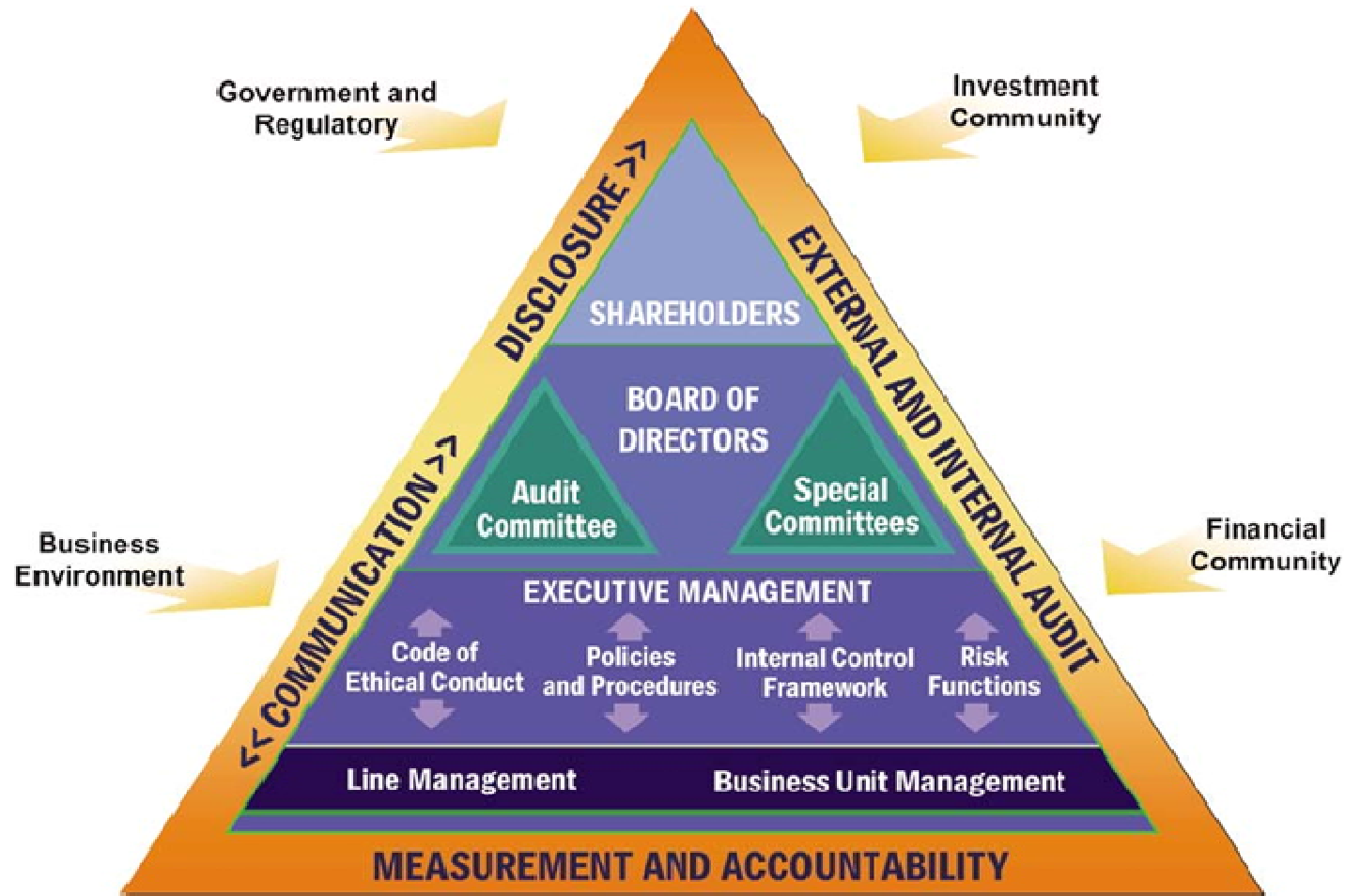
	J	F	M	A	M	J	J	Aug	September	October
Government actions									<ul style="list-style-type: none"> ▶ Goldman & Morgan Stanley: "Bank Holding Cos." ▶ Loosened PE-Bank Investment rules ▶ SEC ban on short selling ▶ FBI Fraud investigation 	<ul style="list-style-type: none"> ▶ US Comm'l Paper funding facility ▶ Ireland guarantees deposits at 6 banks ▶ Germany guarantees all private bank accounts (~800) ▶ France injects funds in banks (10) ▶ UK enters into the capital of 8 banks (~65) ▶ Simultaneous Central bank rate cuts: US-50bp; BoE-50bp; ECB-50bp; China-27bp; Swz-25bp
Government bailouts									<ul style="list-style-type: none"> ▶ Fannie & Freddie (200) ▶ AIG (85) ▶ WaMu seized ▶ US Guaranty program for MM funds (50) 	<ul style="list-style-type: none"> ▶ Troubled Asset Relief Program (TARP – 700) ▶ Glintner ▶ B&B (78) ▶ Dexia (9) ▶ Fortis (23)
Acquisitions (buyer / seller) and bankruptcies									<ul style="list-style-type: none"> ▶ Lehman (bankrupt) ▶ Nomura / Lehman (Europe, Asia, ME) ▶ Barclays / Lehman (NA) 	<ul style="list-style-type: none"> ▶ BoA / Merrill ▶ Lloyds / HBOS ▶ Berkshire / Goldman ▶ JPMorgan / WaMu ▶ Santander / B&B
CEO / chairperson changes									<ul style="list-style-type: none"> ▶ UBS ▶ Wachovia ▶ Fannie & Freddie ▶ AIG 	

All amounts are in billions of dollars, unless otherwise noted



Governance & the Audit Committee

Elements of the Effective Governance Model



The Evolution of the Audit Committee

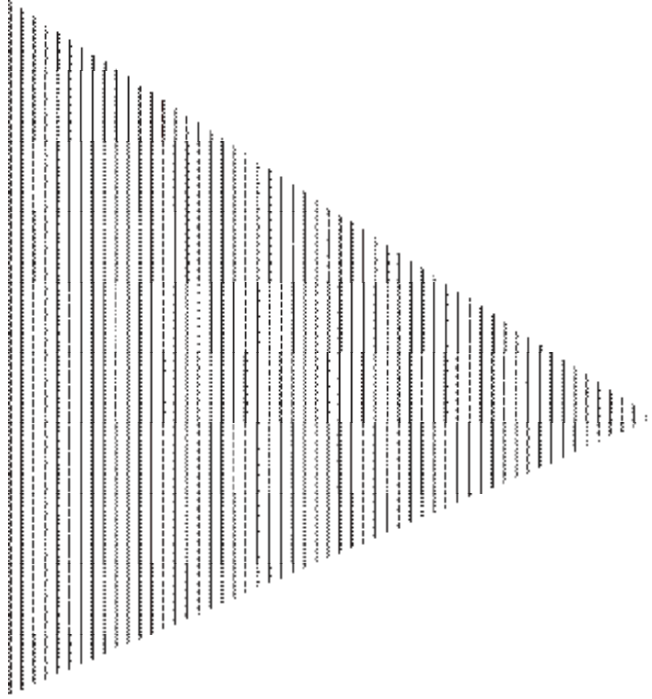
- ▶ Role of the audit committee has always been to help ensure the quality and integrity of a company's audit and related accounting and reporting practices
- ▶ Heightened scrutiny from various stakeholders has added an additional layer of complexity and challenge for the audit committee, which is compounded by the current state of the global financial markets and a multitude of accounting, economic and market risks
- ▶ Heightened focus on liquidity and credit risks

What does this mean for audit committees?

- ▶ Audit committees will have more trials to bear in order to effectively manage risk
- ▶ This puts a strain on the current audit committee and board activities and processes, it could change the roles that audit committees now play in maintaining the financial health of an organization

The focus of Audit Committees during the Financial Crisis

- ▶ Scrutinize financing on an ongoing basis
- ▶ Broaden analysis of near-term risks and key relationships
- ▶ Analyze year-end issues
- ▶ Revisit financial plans and budgets
- ▶ Re-evaluate financial communications
- ▶ Ensure controls remain robust
- ▶ Consider implications for enterprise risk management



Internal Audit and the Chief Audit Executive

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Crisis related Internal Audit Approach (1/2)

At times of:

- ▶ Significant change
- ▶ High pressure
- ▶ Uncertainty

The risk of control failure increases significantly due to:

- ▶ Lack of time
- ▶ Rapid changes to plan / approach
- ▶ New people and / or projects
- ▶ Unworkable, unsustainable “quick fixes”
- ▶ Financial cutbacks
- ▶ Corner cutting / rushed systems changes
- ▶ Re-prioritization of control fixes
- ▶ Increasing volumes of specific items

Crisis related Internal Audit Approach (2/2)

As a result, many Internal Audit functions

- ▶ Continually re-appraise their Audit Plan
- ▶ Respond rapidly to changes in audit need
- ▶ Collaborate closely with executive management

And place greater emphasis on

- ▶ Rigorous controls testing
- ▶ More frequent execution
- ▶ Issues tracking / follow up

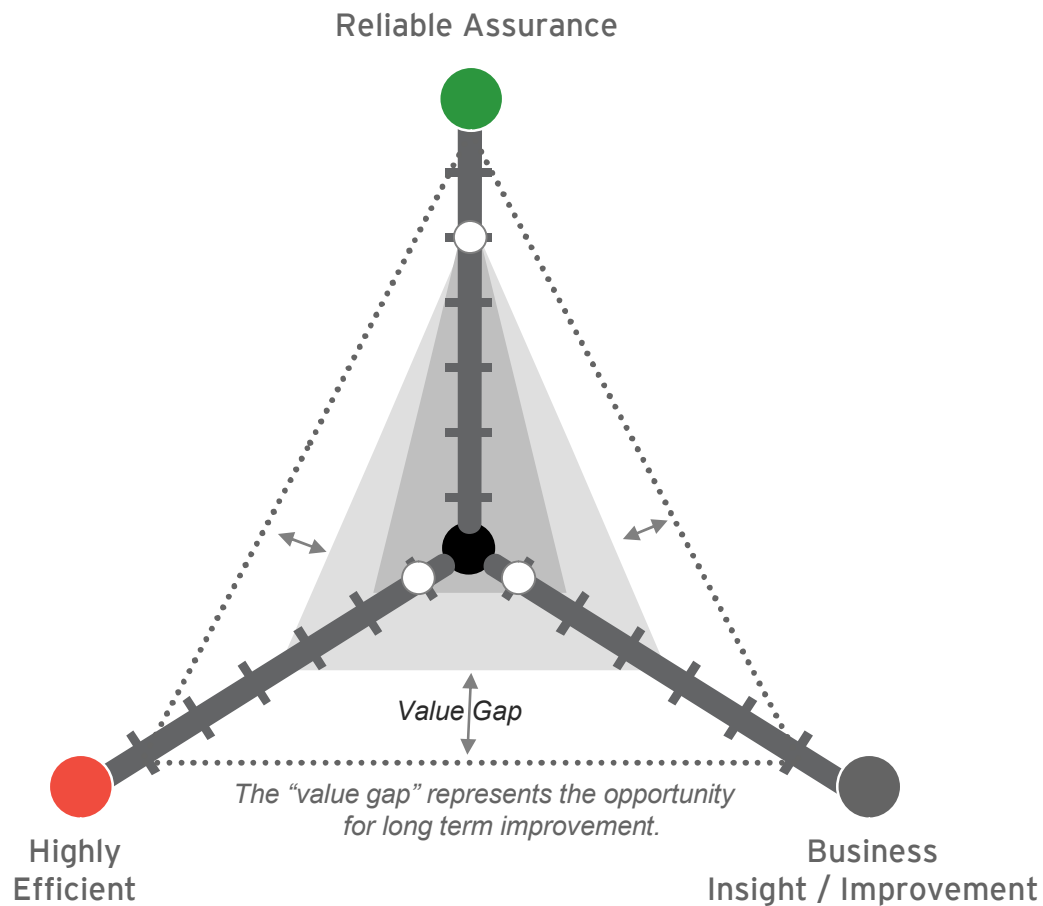
Altering their reporting style to be

- ▶ Timely
- ▶ Clear and concise
- ▶ Persuasive, impactful

Features of a Leading Class Internal Audit Function

- ▶ The role of leading class internal audit functions will remain unchanged, but performance expectation will grow
- ▶ The best internal audit functions relish operating in a rapidly changing environment
- ▶ Identifying potential surprises attributable to poor control, will be increasingly important, as well responding to control incidents and preventing recurrence
- ▶ The business as a whole understands and buys into the distinct role and value proposition of internal audit
- ▶ Audit delivery model is much more sharply focused on high risk areas
- ▶ Internal audit's people model will mirror the delivery model

The Role of Leading Class Internal Audit Functions will remain Unchanged, but Performance Expectation will Grow

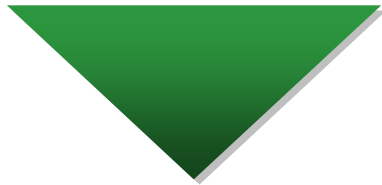


- Reliable assurance
 - ▶ Entire spectrum of governance, risk management and internal control
 - ▶ Shorter assurance shelf life
- Highly efficient
 - ▶ Quick to the answer
 - ▶ Fast and flexible
 - ▶ Rapid escalation, improvement
- Business improvement
 - ▶ Facilitator of improved risk management and control across the firm
 - ▶ Rapid problem diagnosis
 - ▶ Setting the standards and stretching firm performance
 - ▶ Anticipate issues: fewer "unknowns"
 - ▶ Non problems getting fixed - and if not, why not?

The Best Internal Audit Functions Relish Operating in a Rapidly Changing Environment

— Market place change

- ▶ Globalization
- ▶ Regulatory change
- ▶ Advancement in technology



- ▶ Effective antenna - tuned into change
- ▶ Fast and flexible

— Internal change

- ▶ Larger, more complex change programs
- ▶ Improvement in the risk awareness and control capability of the business
- ▶ Improved effectiveness of other risk and control function



- ▶ Higher standards of performance
- ▶ Methodology & technology enhancements

— Labor Market

- ▶ "War for talent"
- ▶ Shifting career aspiration, "generation Y"
- ▶ Mobility



- ▶ Changed people model

Identifying potential surprises attributable to poor control, will be increasingly important, as well as responding to control incidents and preventing recurrence

— Key factors

- ▶ Inherent likelihood of control incidents is increased due to market conditions, pace of change and business expansion
- ▶ Marketplace becoming more unforgiving of control problems
- ▶ Performance culture may encourage suppression

— Answers required

- ▶ Have we identified the underlying root causes?
- ▶ Could it happen here?
- ▶ It is happening anywhere else in our firm?
- ▶ Have we understood and dealt with the consequences of the problem?
- ▶ Are sustainable fixes in place?

— Internal audit response

- ▶ Better predictive capabilities (KPI monitoring, continuous risk assessment)
- ▶ More, better targeted “deep dives”
- ▶ Improved analytical capabilities
- ▶ More rigorous follow-up
- ▶ Group wide, thematic reviews taking precedence

The business as a whole understands and buys into the distinct role and value proposition of internal audit

— Leading internal audit

- ▶ Clearly positioned as the 3rd line of defence and an integral part of an overall governance framework
- ▶ Independence, impartiality, objectivity at the core of all what internal audit does
- ▶ Has clearly defined requirements for stakeholder groups consistent with their overall role
- ▶ Focused efforts on delivery of stakeholder needs, proactively measuring performance

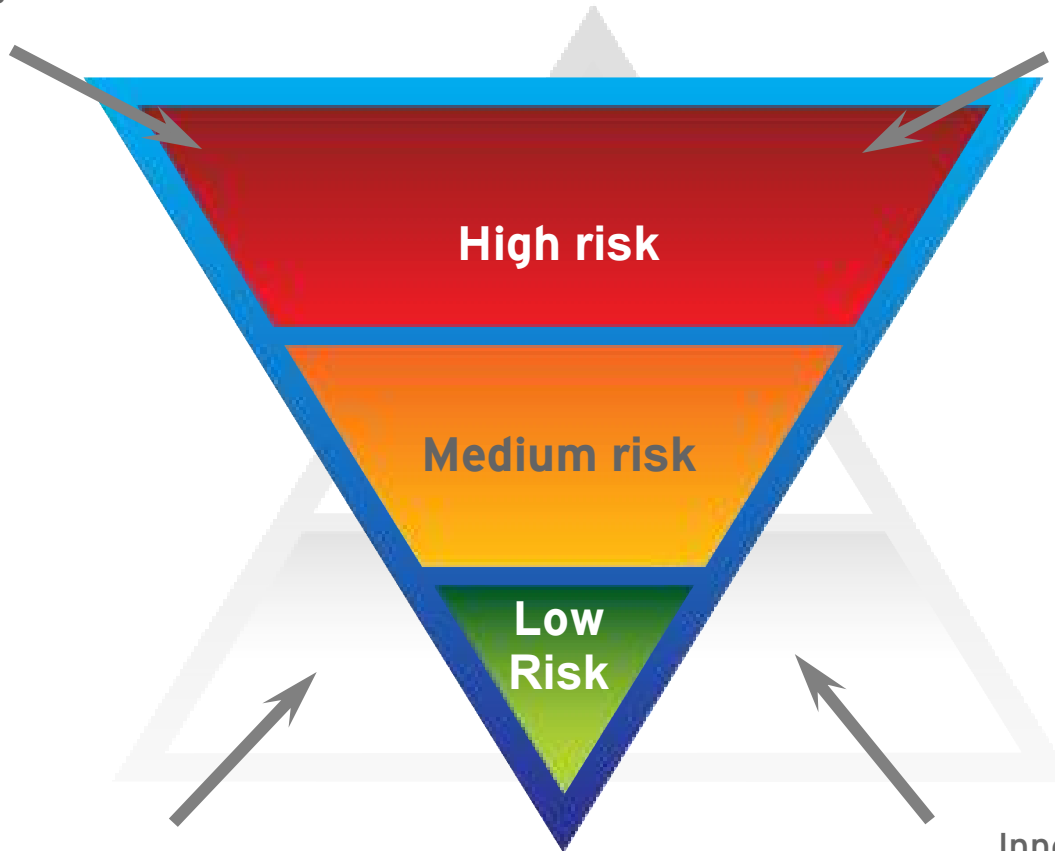
— Risk convergence / integrated assurance projects are blurring internal audit's mandate

- ▶ Confusion of roles and responsibilities of the risk and assurance related function
- ▶ Potential gaps / overlaps in risk or assurance coverage
- ▶ Group wide common language / definitions
- ▶ Co-ordination of activities to reduce the burden of the business
- ▶ Improved reporting to improve clarity and consistency

Audit delivery model is much more flexible and sharply focused on high risk areas

More deep dives
more thematic
reviews

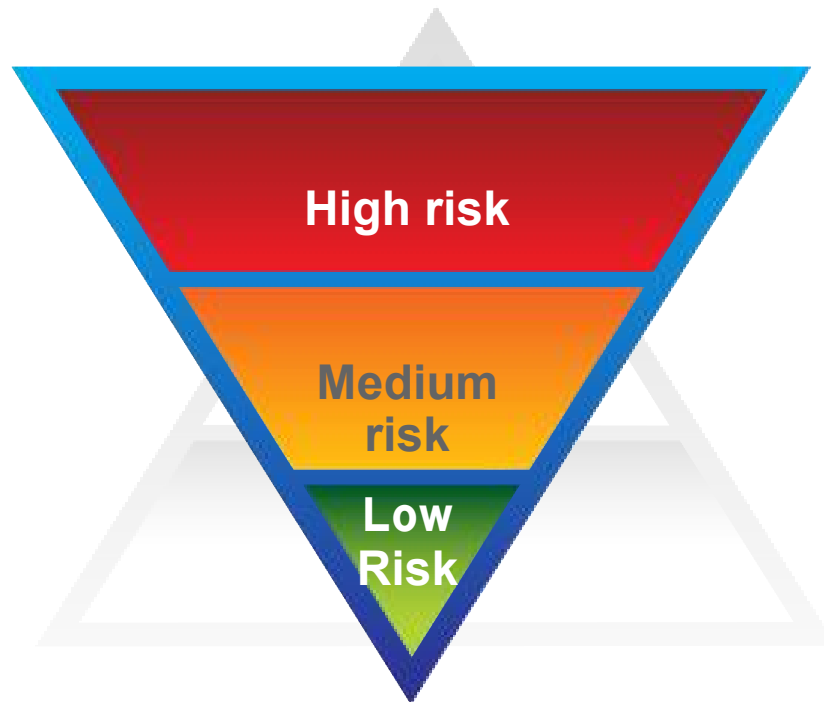
Greater focus on
change and other
risk drivers



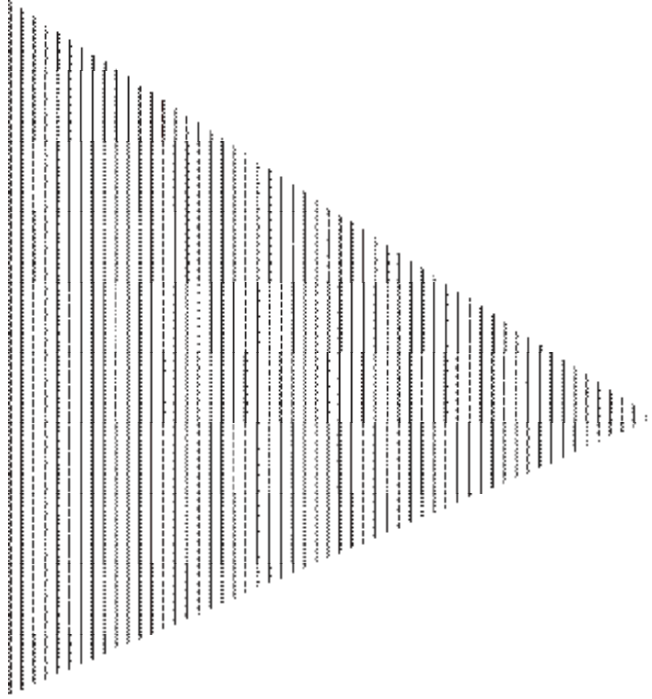
Leveraging risk
investments made by the
business

Innovated audit approach.
Shorter, sharper audits. Greater use of
analytical / monitoring techniques

Internal audit's people model will mirror the delivery model



- ▶ Fewer staff, more highly paid
- ▶ Acceleration of specialism development, especially in higher risk audits
- ▶ Experienced hires / rotation
- ▶ Fewer 'generalists'/career auditors
- ▶ Managing internal audit budgets in face of cost reduction challenges



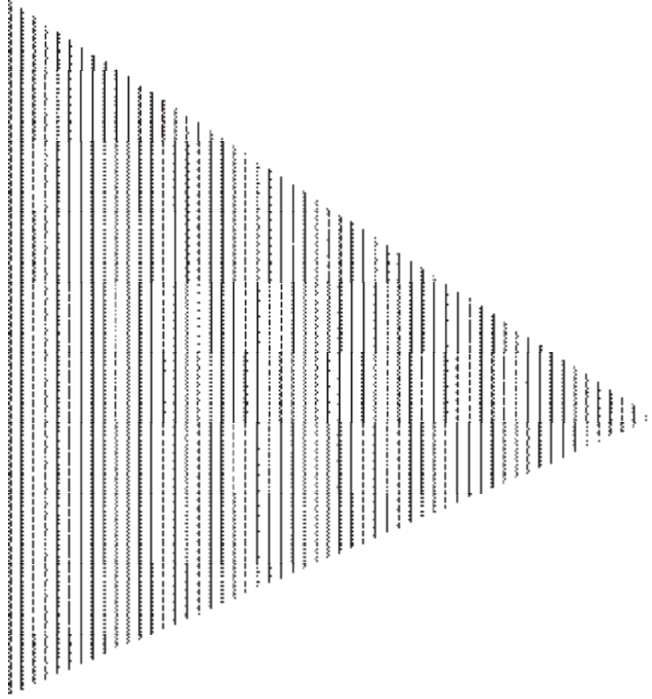
Questions?

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Contacts

~~Feel free to contact us for questions, clarifications, and guidance or any additional materials surrounding Good Governance, Audit Committee and the Role of Internal Audit~~

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Thank you

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