

# Internal Auditing Newsletter

Disaster Recovery and Business  
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Responsibilities Page 3



Issue 2, June 2010

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## IFRS is a Reality

On June 16<sup>th</sup>, Relevante hosted a Webinar on IFRS. One segment focused on IFRS considerations for Audit Committee Members and Internal Audit Leaders. The major takeaways of the session included:

- During 2009 – professionals slowed IFRS training & awareness
- October 2009 – SEC publicly reaffirmed commitment toward moving to a single set of high quality accounting standards
- SEC unanimously approved staff to complete a 5 Year Work Plan which essentially now replaced the IFRS Road Maps
- SEC 5 Year Work Plan sees “2015” as the earliest possible adoption date for IFRS
- Early adoption provision removed (but may be re-introduced)
- Audit Committees and Audit Leaders should be planning now; include IFRS on quarterly meeting agendas

...IFRS continued on page 4



Content of this newsletter is based on information available as of June 18, 2010. Accordingly certain aspects of such may be superseded as new guidance and / or interpretations become available. Financial statement preparers and other users of this newsletter are cautioned to stay abreast and carefully evaluate subsequent authoritative literature and guidance that is issued. The purpose of this newsletter is general in nature and is meant for general informative purposes. The information presented herein is not meant to be used as a substitute for professional auditing, accounting and technical advise. Relevante Inc. 2010.



# Improving Audit Cycle Times

As we are expected to do more with less, how shall we become more efficient to ensure audit quality still improves?

As pressures increase to do more with less, one thing on the mind of leaders is how to improve audit cycle time while still adding value to the organization. Audit cycle time is often defined as the time from day one of the planning phase through fieldwork, to the date the final audit report is issued. Audit cycle time can be used as one indicator of audit efficiency, unless there is a simultaneous decrease in value add or audit quality.

A good concept is to, “work smarter, not harder.” A few proven methods of “working smarter” are through the use of

technology (i.e. electronic work papers) and data analytics (i.e. CAAT tools) during audits. Many audit leaders, recognizing the major benefits of such utilities, took the necessary steps to purchase technologies, invest in staff training and set the department goals to use the new tools. However, shops continue to struggle through time with increasing pressures to do yet more work, a steep learning curve for technology use and a lack of full technology integration.

In fact, recent industry surveys cite technology skills as one of the least available within shops.

Perhaps a root cause can be found in comparison to the follow up cycle for issues. Often times the root cause is not identifying the lacking technology issue and making an action plan for improvement with a target date to meet certain goals (i.e. purchase, train, use etc.). It is in the ROI assessment being missed. Not performing assessments to ensure the return in IT investments is



Do you realize your return on investment in technologies?

realized through time is in itself lending to a major deficiency in audit efficiency. The imperative is to ensure the audit function realizes optimal benefits from technologies and analytic tools available.

This often requires more mentoring from leaders in the department and an initial increase in audit cycle time, however, by applying project management concepts, this can be coordinated through time to realize major improvements in the value add.

As SOX requirements lessened in recent years, IA resources were freed up. Now the need for qualified and skilled auditors in the areas of technology and data analytics appears to be growing. Perhaps the SOX era kept many auditors in that check the box mentality for too long and now it is time to break out and work smarter.

Overall effective use of technology, and data analytics are both proven ways improve audit cycle times and add value. Investing in Audit IT

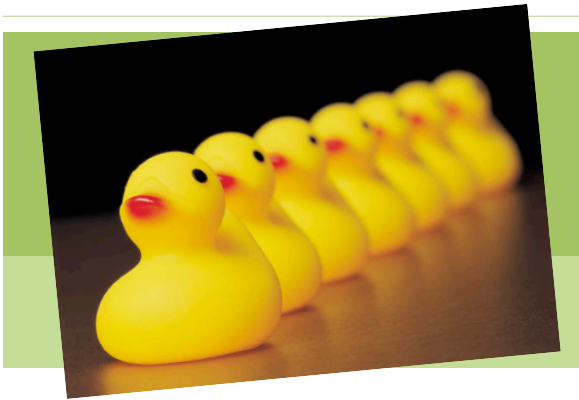
infrastructure and sending, and resending, audit staff to training is just a beginning to improving efficiencies.

Perform an assessment on actual to expected benefits of your current platform of technology and CAAT tools within your shop. Include everything from automated work papers to ACL and beyond. Determine if you are truly realizing the ROI from your IT spend. Identify gaps and remediate!

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# Disaster Recovery Business Continuity

Internal Auditing professionals have definite responsibilities in this important enterprise risk management area. Do you think a disaster will occur impacting your organization's operations?



Do you really think a disaster will occur that impacting operations at your company? Thought leaders agree that it is not "if" but "when" a disaster will occur that should be on the minds of Audit Committees, Audit Leadership, Executives and the Board of Directors. This applies to both small and large firms.

As the CAE or Internal Audit Director, are you able to report on the current state of disaster preparedness at your company? If not, this should concern you for a variety of reasons that we shall explore throughout this article.

First, let's begin with some basic definitions. A "disaster" may be defined as, "an unplanned event that disrupts or suspends normal business operations"; and, "business continuity" may be defined as, "the concept that a business should be able to survive even if a disastrous event occurs."

DC and BR initiatives require rigorous planning and resource commitments. These are a major part of Enterprise Risk management and a primary responsibility of Senior Managers. Disaster Recovery and Business Continuity are linked and dependent upon each other for success. Getting an entity back up

running post-disaster within a set amount of time does the company no good if there is no formal plan in place to continue operations. Therefore it is important to realize that Planning, Emergency Response, Initial Recovery & Business Continuity are all phases of a the larger complete disaster risk mitigation efforts.

Next, consider a sample list of disaster scenarios, and determine if you think your company may be at risk of any?

- Flood, Hurricane, Tornado
- Electrical / Power Outage
- Fire
- IT Interruption
- Terrorism
- Service provider's outage
- Denial Of Service Attack
- Employee Strike
- Work Place Violence
- Pandemic
- Gas refinery explosion
- Traffic accident
- Train derailment
- Radiation Leakage
- Oil Spill

Chances are even you are saying yes to at least a few of

these.

Just a few short months ago perhaps not many restaurant owners, newscasters, or travel agents were contemplating how the occurrence of a disastrous oil spill might impact their business. However, on April 24<sup>th</sup> an explosion at BP killed 11 workers, and since, has leaked an unknown amount of oil into the Gulf of Mexico making this, the nation's largest oil spill to date.

Depending on where your operations are located, 3<sup>rd</sup> party



## Disaster Recovery & Business Continuity – Consider the Ethical Responsibility

service providers, and the various diversified business operations your company runs in, you may be realizing financial impacts now for man-made disasters that occur all over the world. Natural disasters also are widespread, as we witnessed with Hurricane Katrina.

## Disaster Recovery Business Continuity... continued from page 3

Now, where do internal auditing professionals fit into this mix? According to the Institute of Internal Auditors (IIA) Standard 2110-2 on Risk Management, *“The internal audit activity should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.”* Copyright (Year) 2009 by The Institute of Internal Auditors, Inc., 247 Maitland Avenue, Altamonte Springs, Florida 32710-4201 U.S.A. Reprinted with permission.

Furthermore, the IIA explains in the related practice advisory that IA should consider evaluating the following related to business continuity: existence of a comprehensive risk-based plan, potential impact and likelihood of various scenarios, and assurance that DR/BC plans are maintained, tested, and audited periodically to remain relevant through time. GTAG 10 published by the IIA is an excellent resource to these points.

Senior Management will ultimately decide the roles internal auditors have during all phases of DRBC initiatives, and auditor independence can be maintained in the following are ideal roles:

**1. During plan(s) development act as objective participants:**

- a. Assist with Risk Assessments
  - b. Business Impact Analyses
  - c. Training programs
- 2. Assessments of proposed plans by evaluating the “design” for:**
- a. Disaster Criteria
  - b. Initiation Criteria
  - c. Action Plans / Crisis Type
  - d. Notification protocols
  - e. Contact lists
  - f. Damage assessment
  - g. Timing specs
  - h. Salvage protocols
  - i. Insurance Claim filing
  - j. Feasibility of reoccupation
  - k. Relocation procedures
- 3. Periodic Testing/Assurance**
- a. Reporting of issues noted
  - b. Monitor elapsed task times
  - c. Evaluate the back-up site
  - d. Accuracy of data recovery
- 4. Post disaster support**
- a. Recovery effort monitoring
  - b. Operational controls testing
  - c. Recommend improvements
  - d. Document lessons learned
  - e. Update DR BC plans

During the June 16<sup>th</sup> DR BC Webinar hosted

by Relevante the following FAQs were fielded by participants:

**Q1: What about DR/BC for Universities & health centers?** A1: Universities & health care centers have a unique set of risks. Many high quality Universities have published their entire DRBC and Risk Assessment process on-line in addition to tools & templates. I recommend checking these out and also utilizing GTAG 10.

**Q2: Is it important for small businesses to have DR/BC?** A2: According to many surveys and studies on small business financial impact post disaster is often enough to close the doors for good. A major assumption at fault is that SB owners assume they will be eligible for loan relief post disaster, which often they may not be. Right sized planning is the key. At a minimum take the time to plan, it does not have to be at the level or complexity of a large public company, however should be simplistic and representative of your SB.

**Q3: What are some standards & guidance for DR/BC?** A3: [www.drj.com](http://www.drj.com) maintains an on-going list of publicized standards, by country, by industry, by penalty if not followed, etc.; start general and drill down into specific industry standards from there.

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## IFRS is a Reality ...continued from page 1

The 5 Year Work Plan of the SEC considers a variety of things. For instance, the SEC will determine whether IFRS adoption as a single set of quality accounting standards should be optional or mandatory for public companies. In addition, the SEC needs to determine whether the optimal choice will be to select a single date for a large-scale one-time adoption for all public companies, or an alternative a phased approach.

Since private, small and medium sized companies make up

a majority of US business the plan will also consider potential impacts on private companies as well. Go to [www.iasb.com](http://www.iasb.com) for resources related to IFRS for SME, small and medium sized entities, which provide guidance of simplified IFRS tailored for SMEs. In addition there are active tools on-line at [www.ifrs.org](http://www.ifrs.org) for SMEs.

Overall, IFRS needs to be on the radar of Audit Committees for the following reasons: (1) Worldwide use of IFRS, (2) Convergence Efforts, and (3) SEC position.

Worldwide up to 120 countries already use or are moving towards IFRS. Convergence (the joint efforts of the IASB and FASB to align US GAAP and IFRS) is planned to be completed by June, 2011 but may be delayed per the FASB. These two facts plus the Feb 24, 2010 SEC statement of support for a single set of high quality accounting standards, which the SEC claims IFRS to be in the optimal position for such, are all indicators that IFRS is a reality and firms should be preparing now. ...IFRS Continued on page 5

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Questions for Audit Committee Members to address now include:

1. Are annual reviews of the AC Members & AC Charter conducted that include IFRS concerns?
2. What is the level of IFRS “financial literacy” of AC Members?
3. Are expectations managed with the Internal Auditing function related to what their IFRS roles and responsibilities may be?
4. What communications have occurred with outside auditors?
5. Has IFRS been considered as potential material risk and how will it be monitored?
6. Is there an open communication channel between the AC Members and Sr. Managers who are ultimately responsible for IFRS implications?
7. Have the Board and AC evaluated the potential IFRS education plan of the organization?
8. Has the AC considered the potential impacts IFRS will have in relation to fraud for the related industry and business operations?

With all the focus on IFRS it is imperative to realize the potential benefits as well as the costs and concerns. **Some potential benefits include:** commonality of financial reporting platforms, comparable financials that may aid with global investments and increased access to global capital markets, and the opportunity to use IFRS implementation as a company-wide process improvement initiative.

**Get started with IFRS Standard 1.** This the specific standard for first time adopters of IFRS which provides guidelines around mandatory and optional exemptions as well as retroactive application guidelines for particular accounting regulations. Some specific requirements include the opening IFRS statement of financial position, which is required at the date of transition. Also, first time adopters must comply with each IFRS as of 1<sup>st</sup> IFRS reporting period end. Another major area covered is for Disclosures. First time adopters must describe how the transition from US GAAP to IFRS has affected the company’s reported: financial position, financial performance, and cash flows.

For more information on IFRS 1 see [www.iasb.com](http://www.iasb.com); for more resources on IFRS & US Convergence see [www.ifrs.org](http://www.ifrs.org).

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