



2023 INTERNAL AUDIT
WEBINAR SERIES

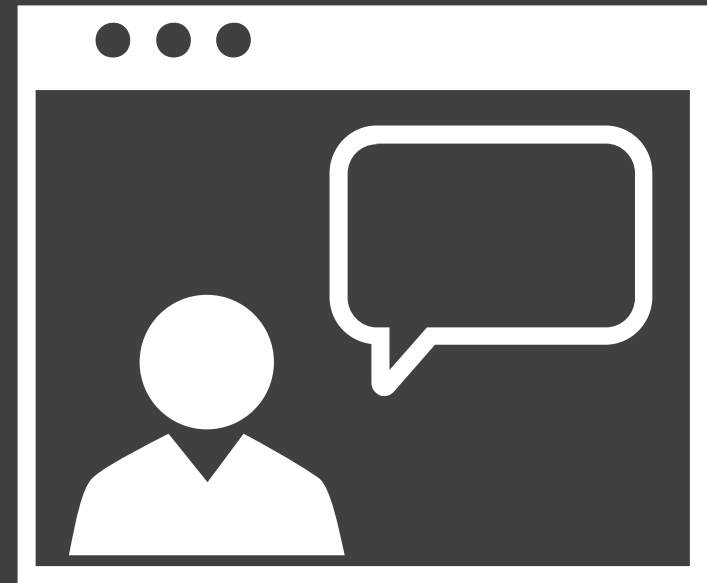
COURSE 2
INTERNAL AUDIT
OF THE FUTURE

May 23, 2023

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BDO and Our Internal Audit Webinar Series



Vicky Gregorcyk, CPA

ASSURANCE MANAGING PARTNER, RISK ADVISORY SERVICES, BDO USA

Vicky is the Assurance Managing Partner of the firm's Risk Advisory Services practice. In addition, she serves on the BDO Global Steering Committee for Risk Advisory Services. As a results-oriented executive, Vicky has worked with U.S. Risk Advisory Services leaders to deliver best-in-class client service. She has more than 30 years of experience in delivering internal audit, Sarbanes-Oxley, IPO Readiness, compliance and advisory solutions for Fortune 500 and middle market companies. Vicky has designed internal audit departments, identified control and efficiency issues, and recommended alternative solutions to executive management and audit committees. She has also directed client responsibilities for a variety of clients including public companies in the U.S. and clients on foreign exchanges. Vicky assists clients in assessing the health of their organization using a framework that includes strategy, leadership, people, processes, and results. Her clients have crossed multiple industries, including manufacturing and distribution, natural resources, consumer products and private equity.

PROFESSIONAL AFFILIATIONS

- ▶ American Institute of Certified Public Accountants
- ▶ Texas Institute of Internal Auditors
- ▶ Institute of Internal Auditors
- ▶ Information Systems Audit and Control Association

EDUCATION

- ▶ B.B.A., Accounting/Finance, Lamar University



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Erin Sells, CPA

MANAGING DIRECTOR, RISK ADVISORY SERVICES, BDO USA

Erin is a Managing Director in Risk Advisory Services in BDO's Chicago office. She has deep accounting and financial reporting knowledge developed through 19 years of practice in public accounting working with mid-sized and large public and private corporations and organizations. Erin has extensive experience with internal controls, complex transactions, accounting standard implementations, compliance standards, and financial reporting.

Erin is a strategic thinker with the ability to navigate complex situations and devise solutions to achieve operational excellence. She has experience in directing business process transformation through simplification and automation.

Erin has a proven track record of working collaboratively with clients to support their business objectives. She uses an open-minded approach, considers the views of others, and leverages broad relationships across BDO for project and client service delivery.



PROFESSIONAL AFFILIATIONS

▶ American Institute of Certified Public Accountants

EDUCATION

▶ B.S., Northern Illinois University

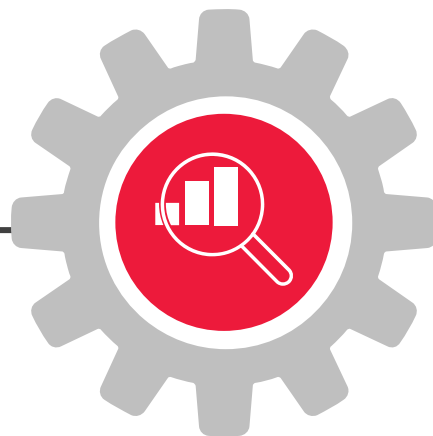
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Today's Learning Objectives

AT THE CONCLUSION OF THIS COURSE, PARTICIPANTS WILL BE ABLE TO:



Describe the key areas impacting internal audit where change can be expected in the next several years



Define the skills needed related to future internal audit team member selection



Describe best practices for remaining in lock-step with leadership as risks develop and change occurs

Executive Summary

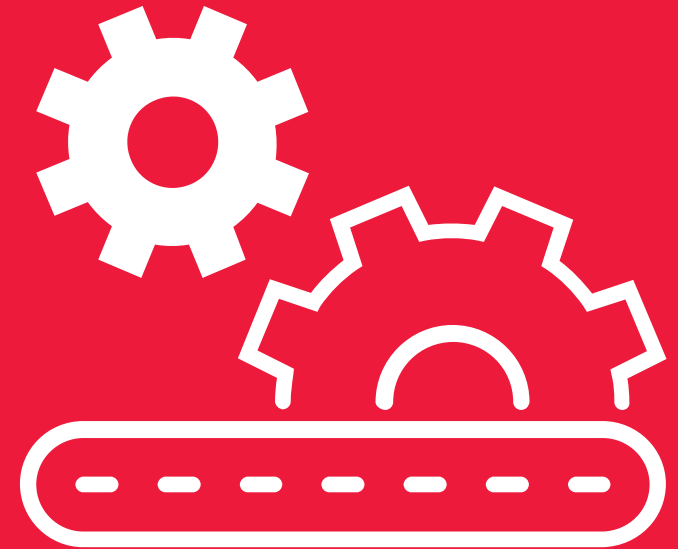
- ▶ Why is Internal Audit of the Future Important?
- ▶ BDO selected topics for discussion based on what is evolving at rapid pace and what is most relevant to market and Audit Committee today
- ▶ There are many other dynamic topics to consider

Discussion Topics

- ▶ ***Technology*** Driving the Internal Audit Profession Forward
- ▶ Building ***The Internal Audit (IA) Team of the Future***
- ▶ Today's ***Regulatory Environment***
- ▶ Navigating the New ***ESG Agenda***



Technology



Technology Driving the Internal Audit Profession Forward

- ▶ Data Analytics
- ▶ Augmented Reality
- ▶ Automated Intelligence
- ▶ Key Considerations



Data Analytics

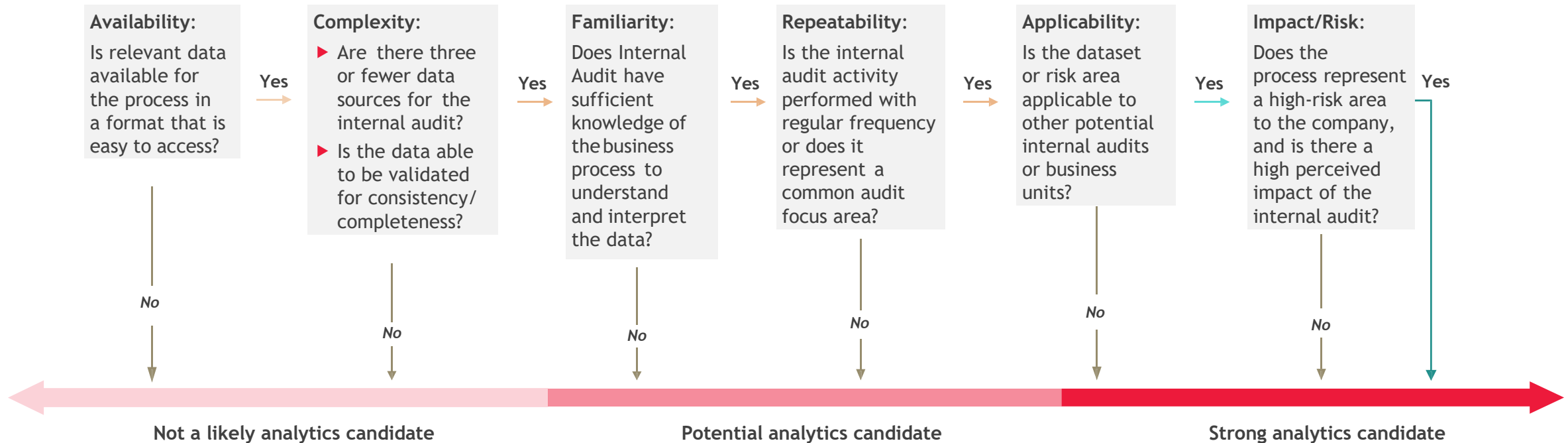
Data analytics have evolved from a look at samples of historical data to a fully predictive view of data, internal auditors will have an opportunity to collaborate with others across the assurance landscape to drive better use of risk and controls, forecasting risks and breakdowns before they happen.

Type of Data	Historical Data	Continuous Monitoring	Predictive Data Analytics
Type of Population	Samples	Samples	Full Populations
Expected Outcome	Learning, identifying gaps in control	Learning, identifying patterns and reducing gap between ID'ing risk and securing controls	Predicting risks and fraud and control weaknesses before they happen

Framework for Selecting Analytics-Enabled Internal Audits



Start



Opportunity to Introduce Data Analytics and Technology Throughout the Internal Audit Lifecycle

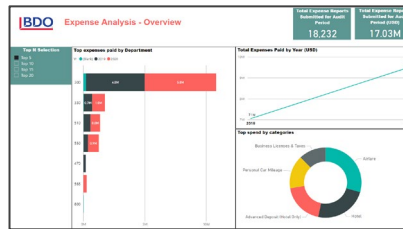


Data Analytics & Automation Use Cases for Internal Audit

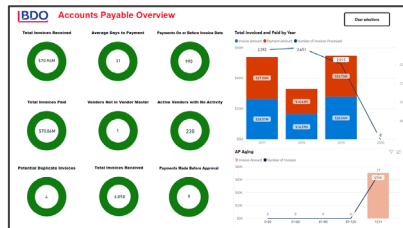
Journal Entry Analyzer quickly identify unusual and unauthorized journal entries, automate completeness test, prioritize review based on risk, helps CFO build trust in journal entry process



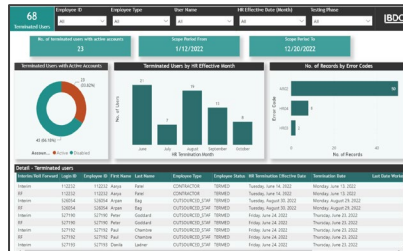
T&E Expense expense ratio by department, miscellaneous expense type, incompatible expenses, duplicates



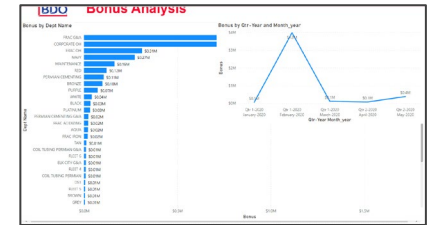
Accounts Payable duplicate vendor/ payment, one-time payments, restricted vendors, lost discounts



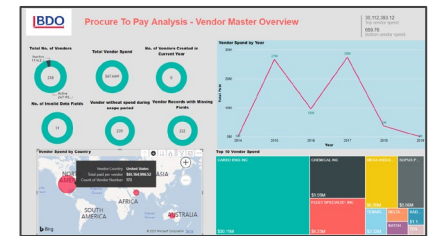
System Access overview of log in IDs and activity, terminated users with active accounts, average days to revoke access compared to policy



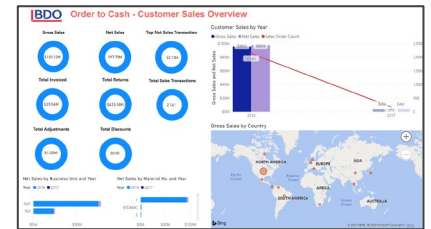
Payroll identify payments before hire/after termination, high overtime in pay period, duplicate bank accounts, off cycle payments



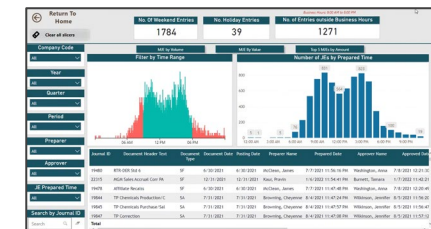
Vendor Integrity top vendor spend, no of vendors with no invoices, payments to inactive vendors, vendor records with missing fields



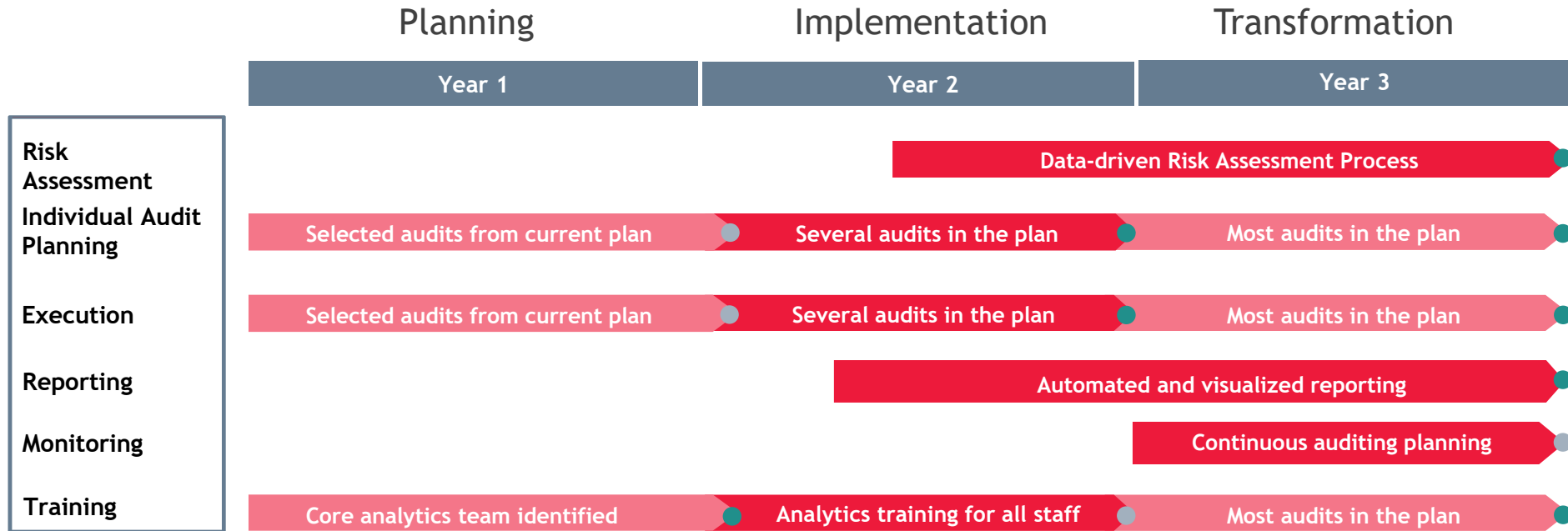
Order to Cash insights to sales activity and customer distribution, sales price analysis, customer analysis, shipped but not Invoiced)



Financial Close reconciliation of GL to consolidated financial statement. Insights into J/Es posted to a closed period, JE creator vs approver SOD analysis, analysis of approval turnaround.



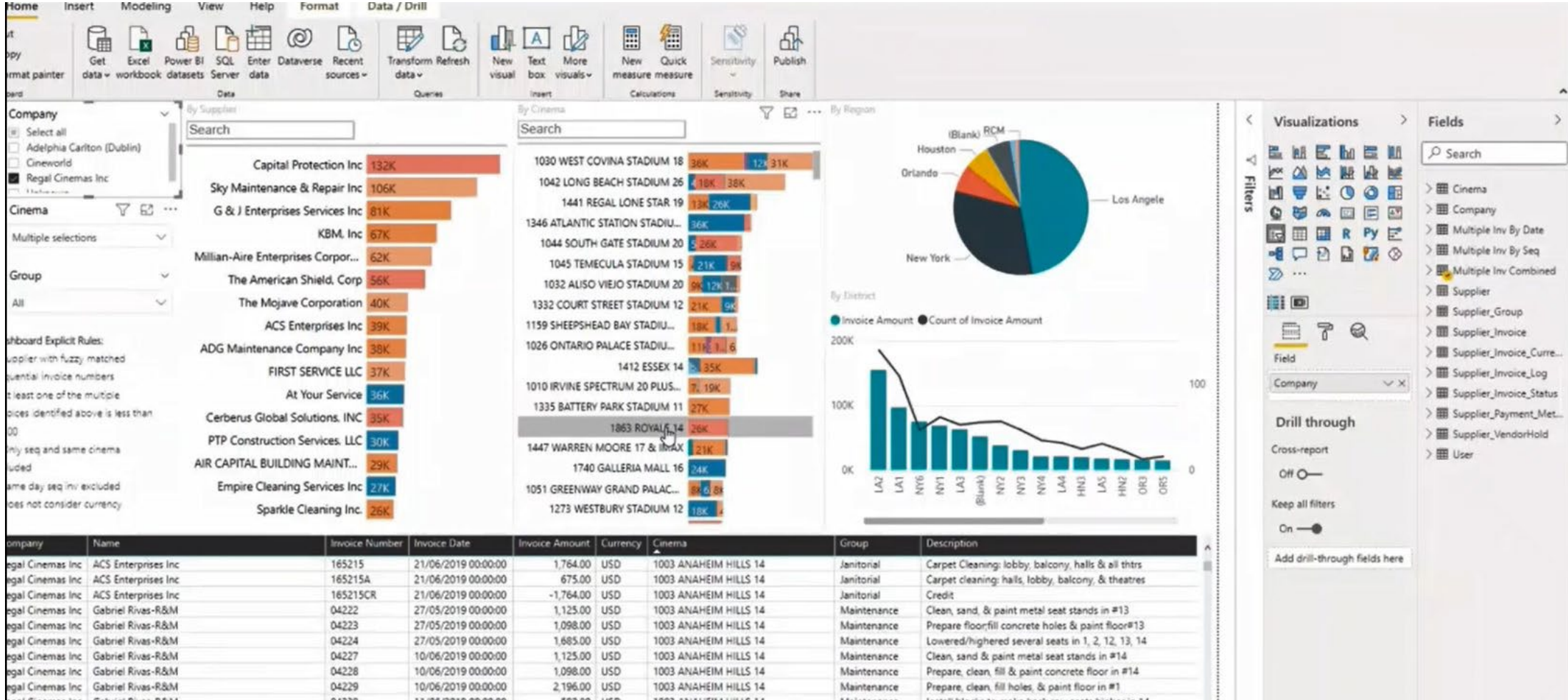
Illustrative Roadmap



- Process Partially Complete
- Process Complete

- ▶ Review audit plan and select audits most suitable for use of analytics
- ▶ Conduct audits through analytics as proof of concept
- ▶ Develop and begin to refine methodology for using analytics in the audit process
- ▶ Integrate analytics specialists in the planning and strategy for additional audits to identify the audits where analytics can be leveraged
- ▶ Execute communication plan to build momentum surrounding program
- ▶ Conduct Risk Assessment using data to better inform risk areas for audit plan
- ▶ Focus execution on improving accuracy of testing for most audits
- ▶ Identify high risk audit areas for continuous auditing/roadmap

Continuous controls monitoring

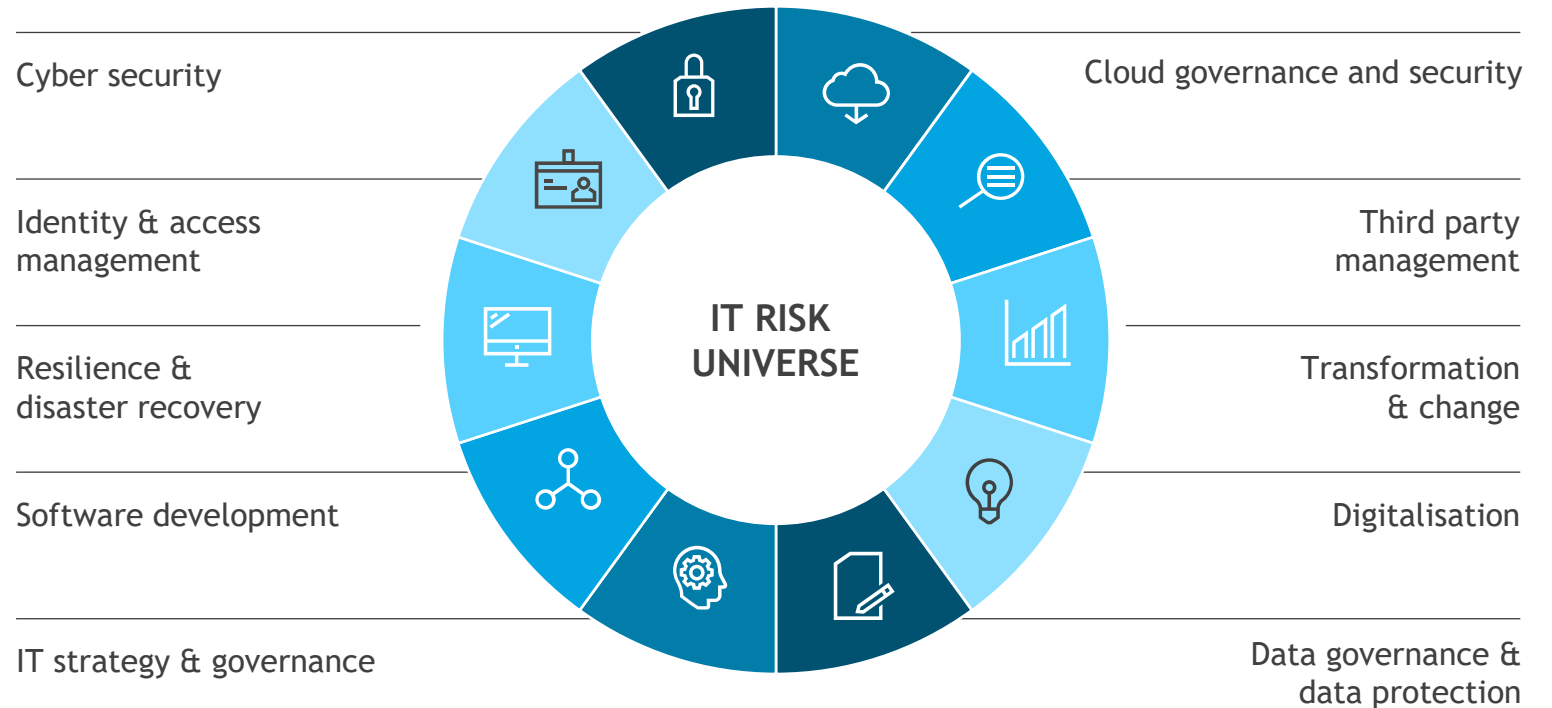


Process Intelligence



Understanding Your Technology Risks

- ▶ Emerging business models are being deployed rapidly to maintain competitive position - sometimes with little time to revisit risk and embed controls



Top IT risks based on industry best practice sources such as COBIT, IT risk hot topic evaluations produced by the IIA, and our own experience of what we typically see as principle risk exposures at our clients.



TECHNOLOGY IN ACTION: ROBOTS



Up Next: Drone Planting



Up Next: Robot Picking Litter

AUGMENTED REALITY



**Up Next:
Human Evolution Based on
Advancements in Technology**



Up Next: Tech-enabled Fashion options

Augmented Reality






Up Next: AR/AI models using Synthesia software



Additional Thoughts on Augmented Reality



Up Next: Chat GPT



Up Next: What Tesla sees

Key Considerations

- ▶ Have you developed a strategy to implement automation and process improvement technologies to optimize your internal audit procedures?
- ▶ Have you developed a roadmap for implementing and integrating new technologies into your internal audit function over the next few years?
- ▶ Are you actively exploring and preparing for the implementation of predictive data analytics and AI in your internal audit function?
- ▶ Have you identified the risks and challenges associated with incorporating new technologies into your internal audit processes, and developed a plan to mitigate these risks?
- ▶ Are you collaborating with other functions in your organization, such as IT and cybersecurity, to leverage their expertise and ensure alignment with overall technology strategy?
- ▶ Are you staying informed about the latest technological advancements and trends in the internal audit industry, and considering how these may impact your future plans?

The Internal Audit Team of the Future



A Discussion Regarding The Internal Audit Team of the Future

- ▶ Role and scope changing
- ▶ Holistic assurance view
- ▶ Data driven / digital ‘savvy’
- ▶ Future focused
- ▶ External lens





Key Considerations

- ▶ Are you actively fostering a culture of collaboration, continuous learning, and accountability within your internal audit team?
- ▶ Have you identified the necessary skills and competencies for each member of your internal audit team?
- ▶ Have you developed plans to support each member's ongoing professional development?

Today's Regulatory Environment



Defining the ESG Universe



ESG Considerations

YOU ARE A PUBLIC LISTED US COMPANY OR PLAN TO GO PUBLIC

- ▶ SEC's proposed rules would require US listed companies to disclose climate-related information
- ▶ The proposed rules is applicable to both domestic and foreign registrants and would require significantly enhanced climate-related disclosures in registration statements and annual reports

YOU ARE OPERATING IN SELECT U.S. CITIES

- ▶ Several states and major cities have already their own ESG and sustainability rules

YOU'RE DOING BUSINESS IN THE EUROPEAN UNION

- ▶ Under the EU Corporate Sustainability Reporting Directive (CSRD) **10,000 foreign companies will be hit by CSRD, out of which 31% are American**
- ▶ Non-EU based companies will have to comply if:
 - the net turnover in the EU in the last two consecutive financial years was over €150 million per annum, and
 - and they have either a branch in the EU (with net turnover of at least €40 million), or a subsidiary meeting two of these three criteria (>250 employees; >EUR 40m turnover; or >EUR 20m assets)

... OR ONLY IN GERMANY

- ▶ The German Supply Chain Due Diligence Act set requirements for human rights and environmental protection for companies that supply goods or services in Germany
- ▶ The Act impacts companies across sectors, regardless of revenue or headquarters location. The legislation is already in effect for companies with 3,000+ employees and will be next year for those with 1,000+ employees

YOUR STAKEHOLDERS DEMAND IT

- ▶ You are a supplier of a large company that has made public ESG commitments (e.g., emissions reduction or net zero targets)
- ▶ Information and other ESG-related data are required when setting up contractual agreements
- ▶ Customers are asking information about your ESG approach. To avoid "greenwashing" you need to have appropriate processes and controls to claim your products or services are sustainable

AND YOUR INVESTORS REQUEST KEY ESG INFORMATION

- ▶ Annual shareholder meetings continue to be an important venue for investors and other stakeholders to request ESG disclosures – and sometimes proxy votes speak louder than words

Primary ESG Regulations Worldwide

CANADA

- ▶ Banks/insurance companies and crown corporations holding more than \$1 billion in assets to adopt TCFD requirements beginning in 2024
- ▶ Impending ESG reporting and climate regulation for public entities expected in 2025
 - Mandatory reporting will put pressure on the entire supply chain (Scope 1,2 & 3 GHG emissions)

USA

- ▶ SEC proposed rule on climate change disclosures (published on 21 March 2022)
- ▶ Proposed Climate Disclosure Requirements for Federal Contractors, published on November 10, 2022

UK

- ▶ TCFD (Task Force on Climate-Related Financial Disclosures) mandatory for large companies

EUROPE

- ▶ CSRD (Corporate Sustainability Reporting Directive)
- ▶ CSDD (Corporate sustainability due diligence)
- ▶ EU Taxonomy
- ▶ SFDR (Sustainable Finance Disclosure Regulation)

JAPAN

- ▶ JFSA (Japan's Financial Services Agency) public statement - listed and unlisted companies to report climate-related information

CHINA

- ▶ Law passed 8 February 2022 - listed and some unlisted companies to disclose environmental information

INDIA

- ▶ Business Responsibility and Sustainability Report - top 1,000 listed entities for reporting on a voluntary basis for FY 2021-22 and on a mandatory basis from FY 2022-23

The growing importance of ESG makes companies looking for assistance to enhance internal controls around ESG reporting, and to formalize the processes for collecting the data.

Transparent Reporting to Avoid Reputational Risks

- ▶ Marketing claims can damage a company’s social license to operate, but formal reporting and technical claims heighten the risk of greenwashing even more:
 - Organizations may be tempted to avoid any kind of proactive sharing. But there are too many business benefits to prioritizing ESG. And even if it’s not a priority for you, it’s likely to be a priority for your competitors.
 - Investors are using ESG factors in decision-making and consumers want to know about the brands they buy.
- ▶ [The Corporate Finance Institute](#) says greenwashing is “when the management team within an organization makes false, unsubstantiated, or outright misleading statements or claims about the sustainability of a product or a service, or even about business operations more broadly”

Read our recent article on [How to Avoid Greenwashing in Corporate Sustainability Reporting](#).



Key Considerations

- ▶ Have you developed a strategy for incorporating ESG considerations into your audit planning process and audit testing procedures?
- ▶ Are you considering how ESG risks and opportunities may impact your organization's financial reporting and internal controls, and developing plans to address any identified risks?
- ▶ Are you collaborating with other functions in your organization, such as sustainability or corporate social responsibility teams, to gain a deeper understanding of ESG risks and opportunities?
- ▶ Have you identified the data and metrics needed to assess ESG risks and opportunities, and developed plans to collect and analyze this information effectively?
- ▶ Are you considering how ESG risks may impact other risk areas within your organization, such as reputational risk, and integrating this into your audit planning and risk assessment process?



Appendix

SEC Proposed Rules to Enhance & Standardize Climate-Related Disclosures for Investors

On March 21, 2022, the SEC proposed rule changes requiring certain climate-related disclosures. The disclosures are modeled in part on the [TCFD disclosure framework](#) and draws upon the [Greenhouse Gas \(GHG\) Protocol accounting standards](#).

The SEC reporting requirements would be phased in based on filer status beginning in the year following the effective date, with further phase in for attestation requirements. The final rules are expected by May 2023.

Climate-Related Disclosure:

Reg S-K Subpart

Climate-Related Disclosure:

S-X Footnote

Other Climate-Related Disclosures:

Oversight, governance, transition plan, scope 1, 2 and 3 metrics, etc.



- ▶ Click [here](#) to access the proposed rule
- ▶ Click [here](#) to access the fact sheet
- ▶ Click [here](#) to access the SEC's press release
- ▶ Click [here](#) to access speeches and statements from Chair Gensler and Commissioners
- ▶ Refer to BDO's Insights [here](#).

SEC Proposed Rules to Enhance & Standardize Climate-Related Disclosures for Investors

PHASE-IN PERIODS AND ACCOMMODATIONS

The following tables assume proposed rules adopted with an effective date of December 2022 and filer has a December 31st fiscal year-end:

Registrant Type	Disclosure Compliance Date		
	All proposed disclosures, including GHG emissions metrics: Scope 1, Scope 2, and associated intensity metric, but excluding Scope 3	GHG emissions metrics: Scope 3 and associated intensity metric	
Large Accelerated Filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	
Accelerated Filer and Non-Accelerated Filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	
SRC	Fiscal year 2025 (filed in 2026)	Exempted	
Filer Type	Scopes 1 and 2 GHG Disclosure Compliance Date	Limited Assurance	Reasonable Assurance
Large Accelerated Filer	Fiscal year 2023 (filed in 2024)	Fiscal year 2024 (filed in 2025)	Fiscal year 2026 (filed in 2027)
Accelerated Filer	Fiscal year 2024 (filed in 2025)	Fiscal year 2025 (filed in 2026)	Fiscal year 2027 (filed in 2028)

EU CSRD - Corporate Sustainability Reporting Directive

The European Commission's rule revises the non-financial reporting directive (NFRD) from 2014 and will ensure the robustness of companies' commitments by introducing the following new features:

- ▶ An extension of the scope to all large companies and companies listed on a regulated market (except listed micro-companies)
- ▶ A certification requirement for sustainability reporting
- ▶ More detailed and standardized requirements on the information to be published by companies
- ▶ Improved accessibility of information, by requiring its publication in a dedicated section of company management reports
- ▶ First standards adopted November 2022
- ▶ Refer [here](#) for more information



CSRD TIMING AND SCOPE

Year ending 31 December 2024

- ▶ Companies within scope of current NFRD (approx. 12,000)
 - Large PIEs with >500 employees

Year ending 31 December 2025 (approx. 50,000)

- ▶ All listed companies, and all companies meeting two of the following “general scoping” criteria
 - >250 employees
 - >EUR 40m turnover
 - >EUR 20m assets

Later

- ▶ Non-EU companies that generate > EUR 150m revenue in EU
- ▶ Listed micro entities
 - <10 employees
 - < EUR 2m turnover or assets

EU CSRD - Application to Non-Eu Parent Company

The CSRD applies to non-EU incorporated companies if they meet the following criteria:

- ▶ the company carries on substantial activity in the EU, with company’s net turnover in the EU in two consecutive financial years was over €150 million per annum
- ▶ and the company has at least one:
 - i. branch in the EU that has a net turnover of at least €40 million; or
 - ii. subsidiary in the EU that meets at least two of the large company requirements (“general scoping” criteria in previous slide).

Application for non-EU parent company

```

graph TD
    A[Ultimate parent is non-EU based company] --> B{Did consolidated group generate net turnover > €150M in the EU for each of the last two consecutive years?}
    B -- NO --> C[Ultimate parent company not in scope]
    B -- YES --> D{Does ultimate parent have ≥ one EU subsidiary that meets the ‘general scoping’?}
    D -- NO --> C
    D -- YES --> E{Does ultimate parent have ≥ one branch that generated net turnover > €40M in the preceding financial year?}
    E -- NO --> C
    E -- YES --> F[Ultimate parent company in CSRD scope]
    
```

Timeline for US company

	2025	2026	2028
Scope	Large EU Subsidiaries of US companies or US companies listed on a regulated market in EU	SME subsidiaries of US companies listed on a regulated market in the EU	US companies with >€150M of operations in EU and at least 1 large subsidiary or branch
Standards	ESRS (or equivalent standards)	Standards to be developed	ESRS, or equivalent standards
Reporting level	Stand-alone subsidiary, except the case where information are included in the Parent’s report (prepared according to ESRS or equivalent).		Consolidated group, including non-EU activity
Assurance	Limited assurance		

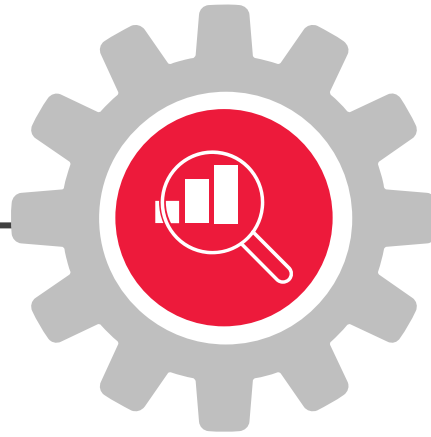
Reading list - Innovative Thinking

Title	Author	Link	Topic
<i>Big Little Breakthroughs: How Small, Everyday Innovations Drive Oversized Results</i>	Josh Linkner	Big Little Breakthroughs: How Small, Everyday Innovations Drive Oversized Results: Amazon.co.uk: Linkner, Josh: 9781642936773: Books	Micro innovation
<i>Turn The Ship Around!</i>	David Marquet / Stephen Covey	Turn The Ship Around!: A True Story of Turning Followers Into Leaders: Amazon.co.uk: Marquet, L. David, Covey, Stephen R: 9780241250945: Books	Leadership
<i>Drive: The Surprising Truth About What Motivates</i>	Daniel Pink	https://www.amazon.co.uk/Drive-Surprising-Truth-About-Motivates/dp/1786891700	Motivation
<i>Thinking, Fast and Slow</i>	Daniel Kahneman	https://www.amazon.co.uk/Thinking-Fast-Slow-Daniel-Kahneman/dp/0141033576	Thinking
<i>Adapt</i>	Tim Hartford	https://timharford.com/books/adapt/	Leadership
<i>Loonshots: How to Nurture the Crazy Ideas That Win Wars, Cure Diseases, and Transform Industries</i>	Safi Bahcall	Loonshots: How to Nurture the Crazy Ideas That Win Wars, Cure Diseases, and Transform Industries: Amazon.co.uk: Bahcall, Safi: 9781250185969: Books	Innovation

Final Thoughts & Takeaways



The internal audit function is bright for teams that take advantage of the opportunities in front of them



Greater collaboration and alignment with other areas of the business are critical



Both technical and soft skills will be needed to meet demands

Questions?



Thank You



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New Global
Internal Audit
Report Coming
Soon!

Internal Audit of the Future: 3 Areas Defining the Profession in the Next 5 Years

*A Special Report from BDO Risk Advisory Services Leaders
Throughout the World*

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2023 **INTERNAL AUDIT**
WEBINAR SERIES

Upcoming Events

2023 INTERNAL AUDIT
WEBINAR SERIES

Robotic Process Automation: Risk and Audit Considerations

Tuesday, September 26, 2023
3:00 – 4:00PM ET / 2:00 – 3:00PM CST

SIGN UP TODAY ▶

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Upcoming Events

2023 INTERNAL AUDIT
WEBINAR SERIES

Best Practices for Internal Audit Related to SOC Reporting

Tuesday, October 24, 2023
3:00 – 4:00PM ET / 2:00 – 3:00PM CST

SIGN UP TODAY ▶

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Upcoming Events

2023 INTERNAL AUDIT
WEBINAR SERIES

Skills Development: Technical Writing for Internal Audit

Tuesday, December 5, 2023
3:00 – 4:00PM ET / 2:00 – 3:00PM CST

[SIGN UP TODAY ►](#)

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