

EIGHT PRIORITIES FOR 2013

With a newly reelected president in the United States and an epic natural disaster along the country's Northeast coastline, the last few months have been anything but ordinary. In fact, the implications of these events coupled with the already unpredictable, sluggish economy may cause organizations to reassess their goals for next year. A review of several "top 10" lists published in the fourth quarter of 2012



reveals that certain core issues are on the top of everyone's mind for 2013 — from the board and audit committee members to executive management and the internal auditors. This issue of *Tone at the Top* explores eight key risks and opportunities for organizations to keep on their radar in the New Year:

1 CRISIS MANAGEMENT — Even before Hurricane Sandy devastated the U.S. Northeast, business continuity planning was a key concern of boards and management alike. From natural disasters to data breaches, product recalls, reputational damage, and supply chain disruptions, organizations face an array of possible scenarios that can lead to devastating business interruption, if not a significant change in priorities. A robust crisis response plan is a must, and the plan should be tested and updated regularly.

2 FRAUD AND ETHICS — Sustaining a culture of ethics and integrity continues to be a priority for organizations around the world, especially since the U.S. Securities and Exchange Commission's whistleblower rules became effective in 2011. Executive management's approach to ethics speaks volumes to the rest of the organization and can have a dramatic impact on the bottom line, both in terms of fraud prevention and the more-difficult-to-calculate reputational damage. Those at the top can emphasize the importance of business ethics by "walking the talk," implementing policies that encourage ethical behavior, establishing a whistleblower hotline, and monitoring the organization's fraud risk management effectiveness.

3 REGULATORY COMPLIANCE — Increasing regulations and government policies stemming from the U.S. Dodd-Frank Wall Street Reform and Consumer Protection Act, U.S. Foreign Corrupt Practices Act, U.S. Patent Protection and Affordable Care Act, and UK Bribery Act are having a tremendous impact on companies around the world, particularly those in the health care, energy, and financial services industries. To keep up with the rapidly changing regulatory environment, some organizations are taking an integrated, enterprise-wide approach to compliance management by developing an inventory of all applicable compliance mandates and engaging internal audit to monitor the existing processes that manage the organization's compliance efforts. This approach provides objective assurance to senior management and the board that no compliance-related initiatives will fall through the cracks.

4 SOCIAL MEDIA — Regardless of size, industry, or geographic location, organizations around the world are developing or enhancing their social media presence, embracing the advantages of communicating with stakeholders instantaneously through channels such as Facebook, Twitter, and LinkedIn. To navigate the enticing — yet risky — social media opportunities, organizations must establish a clear social media strategy and policies that align with the corporate culture and the enterprise's overall strategic goals. Organizations should train employees on the proper use of social media, monitor social media activity, and respond quickly to comments that may damage the organization's reputation.



Questions to Ask About Social Media



To develop a clear social media policy, the organization should begin by asking a number of questions regarding social media usage and accountability:

- Does the organization understand the risks and opportunities afforded by social media?
- Are there staff members dedicated to support and monitor social media activities?
- Do employees receive social media training?
- Are employees allowed to represent the organization openly on social media sites?
- Is employees' after-hours use of social media restricted in any way, and do these restrictions conflict with their right to free speech, as protected by the First Amendment to the U.S. Constitution?
- Is social networking and blogging included on the annual audit plan?
- Does internal audit monitor compliance with the organization's social media policy?

5 EMPLOYEE TALENT MANAGEMENT — Although unemployment rates remain high and the current business climate is rife with professionals eager to switch jobs, organizations continue to have difficulty filling open positions with sufficiently skilled workers. In fact, acquiring and retaining qualified staff in today's highly competitive marketplace is another key risk that many executives have yet to figure out how to manage, especially when it comes to IT-related jobs. Organizations must think strategically to reduce

the talent gap and consider options such as hiring interns, offering enticing work-life balance benefits, effectively on-boarding new employees, identifying competency gaps, supporting professional development, and encouraging staff to work collaboratively with other business units to promote “cross-pollination” of knowledge.

6 EMERGING TECHNOLOGIES — Although IT historically has been viewed as a “back office” tool that simply helps organizations run their day-to-day operations, leading companies now recognize it as a major player in an organization’s overall strategy. For many, the increased efficiencies and competitive advantage that come with embracing new technologies — such as data analytics, cloud computing, and mobile devices — are well worth the risks. Still, with rising associated concerns about data security and privacy threats, particularly in the health care and financial services industries, it’s important that those at the top have a firm understanding of the organization’s changing IT risk landscape. Likewise, senior management and the board must play a critical role in directing, evaluating, and monitoring IT to ensure that it fully supports and enables the organization to achieve its strategic objectives.

7 ENTERPRISE RISK MANAGEMENT — Gone are the days when risk management meant simply looking at singular insurable risks across an organization. Today’s interconnected world demands a holistic risk management approach with a broadened scope that addresses strategic, operational, and financial risks and includes human resources, technology experts, and other players who are knowledgeable about what major obstacles the organization is likely to face. The organization’s risk management and internal audit functions should work collaboratively to identify risks and conduct continuous risk monitoring. Additionally, internal audit should enhance its focus on providing organization-wide risk management assurance to boards, audit committees, and executive management.

IT Advice for Audit Committees

- Insist on more frequent and robust communications with the chief information officer.
- Ensure that IT discussions are elevated to a senior management/full board level.
- Help frame the big picture view of the organization’s IT governance efforts.
- Clarify the oversight role(s) of the board, audit committee, and other committees.
- Strengthen the board’s understanding of IT.
- Ensure that the organization undergoes a comprehensive IT risk assessment, with support from internal audit.
- Review the U.S. Securities and Exchange Commission’s Oct. 2011 guidance on cyber security disclosures.

**SOURCE: “ACI’s Ten To-Do’s for Audit Committees in 2012,” KPMG’s Audit Committee Institute, Oct. 2012*

8 GLOBALIZATION AND GEOPOLITICAL RISK — As companies globalize, either through their own expansion or by outsourcing certain activities or relying on vendors, they become more susceptible to varying economic and political issues across the globe. Organizations must proactively assess the risk implications of their business relationships — not only at the time of a singular transaction, but also on an ongoing basis — to manage the enterprise effectively. In fact, many organizations may be operating under the assumption that they are domestic in what they do, when a closer look at their vendors and suppliers would reveal that the business relies — in some cases heavily — on resources and processes across the globe. (*continued on pg. 4*)



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247 Maitland Ave.
Altamonte Springs, FL 32701-4201 USA

About *Tone at the Top*

Tone at the Top is a complimentary bimonthly publication that provides executive management, boards of directors, and audit committees with concise, relevant information and guidance on establishing the appropriate tone at the top concerning governance-related topics such as ethics, risk management, and corporate culture.

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The Institute of Internal Auditors Inc. (IIA) is an international professional association and standard-setting body that serves as the internal audit profession's global

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Without question,
leaders have a full plate
when it comes to ensuring
that their organizations are
on track for a successful
year ahead.

Experienced internal auditors who understand the business strategy and management's top concerns are well positioned not only to provide assurance that the organization's risks are identified and managed appropriately, but also to offer objective insight during strategic planning around many of these areas. By addressing risk concerns on the front-end of new initiatives and building controls into evolving processes, the internal audit activity can help organizations steer clear of potential hazards and capitalize on a wealth of opportunities in 2013.