How can strategy be better embedded in strategic transactions?

See how Internal Audit can provide valuable business insights during mergers, acquisitions, divestments, joint ventures and alliances.
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Internal Audit should be involved in every strategic transaction

Boards and company executives at organizations around the world have long relied on their Internal Audit (IA) function to provide assurance on the system of internal controls. But many internal auditors are going beyond their assurance responsibilities and providing business insights gained through their broad knowledge of the organization and their technical know-how. They are aligning their audit plans with company strategy and focusing on the most significant risks to the organization. Additionally, they are getting involved in company initiatives early on, allowing them to proactively provide input on process and control design.

By balancing assurance and advisory work, internal auditors can bring more value to their organizations and make strides in their journey toward becoming trusted business advisors.

The IA department has many opportunities to provide business insights and perform advisory reviews either as stand-alone projects or as part of assurance audits. For example, internal auditors can assess new policy development for clarity and completeness, harmony with other company policies, and compliance with regulatory requirements. Or they can evaluate business performance metrics as key drivers of process effectiveness. And, given the large number of strategic transactions occurring in the global marketplace, one of the more impactful areas for IA is involvement before, during and after mergers, acquisitions, divestments, joint ventures and alliances.

In the following pages, we will discuss global trends in strategic transaction activities, how IA could help an organization achieve its strategic objectives and the transformational opportunities that some strategic transactions present to the IA function. Deeper involvement by IA is mutually beneficial: it aids the organization by fully deploying a valuable resource, and it allows IA to stretch its boundaries and explore its potential.

According to Mergermarket, a M&A intelligence service, 2015 was a record year for global M&A, with US$4.28 trillion in transactions.¹

How can strategy be better embedded in strategic transactions?

According to EY 2016 Global Capital Confidence Barometer, a survey of more than 1,700 executives from large organizations around the world, the appetite for acquisitions remains strong. The survey revealed that 50% of respondents expect to actively pursue acquisitions in the next 12 months and 74% are considering cross-border investments. The desire for acquisitions spans all sectors and is most prevalent in oil and gas, consumer products and retail, power and utilities, diversified industrial products and life sciences.

We are also seeing significant activity with divestments. According to EY 2016 Global Corporate Divestment Study, the divestment of non-core or underperforming businesses is now widely seen as a key way for companies to fund growth. Based on interviews with more than 1,000 corporate and private equity executives, our study found that all participants have made a major divestment in the past three years and nearly half plan to divest again in the next two years. This represents a noted shift in the perspective of organizations to embrace growth opportunities that help achieve business goals and enable more dynamic business strategies.

Buying and selling can be a transformative means to reshape and refocus the business. Mergers, acquisitions and divestments remain strong options to accelerate strategic plans and offer the prospect of game-changing competitive advantages. However, our Barometer survey also found that alliances are becoming more attractive as companies seek new sources of revenue and earning while looking to manage costs and risk. Although joint ventures are still a viable and often-used way to expand into new markets, access technology or benefit from the complementary skills of partners, alliances offer similar opportunities with more flexibility and speed, making them more attractive to some organizations.

Forty percent of respondents to this year’s EY Global Capital Confidence Barometer survey plan to enter into alliances with other companies, including competitors, to help create value from underutilized assets and take advantage of the knowledge and reach of others.

As organizations make more deals, it is important that they leverage every asset to increase the transaction’s likelihood of success. That includes using the capabilities, knowledge and independent perspective of IA throughout the strategic transaction life cycle.

2 EY Global Capital Confidence Barometer, April 2016.
3 EY Global Corporate Divestment Study.
4 EY Global Capital Confidence Barometer, 2016.
50% of respondents in EY Global Capital Confidence Barometer survey expect to actively pursue acquisitions in the next 12 months.

74% are considering cross-border investments.

40% intend to enter alliances to accelerate top- and bottom-line growth.
Why should IA be engaged during strategic transactions?

As the demands of stakeholders continue to increase and the overall business landscape evolves, organizations are turning to IA not only to fulfill core assurance responsibilities, but also to be agile and proactive in support of the company’s key strategic initiatives and transactions. According to EY’s 2015 global governance, risk and compliance survey,5 strategic transactions are viewed as both a challenge and an opportunity in today’s global risk landscape. Many organizations view risk only as something to be avoided or mitigated; however, some risks, if properly understood, can enable an organization to seize competitive advantage.

As part of a well-coordinated risk management strategy, organizations are looking to IA functions for the appropriate skills and experiences to help identify and address these opportunities and challenges. IA has a unique ability to view risks from an independent perspective because the assessment of risk has traditionally been part of its mandate. By teaming with the organization on strategic transactions, IA can help identify cost savings and offer guidance on areas where a loss of opportunity has traditionally occurred or increased investment has been required because of missed issues. It can also spot risks that might not have been considered because of a limited view of operations. Best practice calls for IA to be embedded throughout the transaction life cycle. IA can leverage its diverse skill set not only to partner with the organization to provide advisory services but also to provide assurance that risks are identified, assessed and mitigated.

As organizations continue to execute more sophisticated, potentially cross-border strategies, internal auditors have the opportunity to clearly demonstrate their skills in areas that are critical to the business strategy. When an organization is working through a strategic transaction, IA help provide an objective outlook on the whole spectrum, from the initial strategy to separation or integration and beyond.

According to the Institute of Internal Auditors, Inc. (IIA), IA’s value proposition is to:

- Provide assurance on the organization’s governance, risk management and control processes to help the organization achieve its strategic, operational, financial and compliance objectives
- Provide insight and recommendations based on analyses and assessments of data and business processes
- Commit to integrity and accountability and provide value to governing bodies and senior management as an objective source of independent advice

5 There’s no reward without risk: EY’s global governance, risk and compliance survey, 2015.
During leverage points in the strategic transaction life cycle, IA can act as an advisor to the program management team to help assess and monitor program management activities, review controls and provide insights while maintaining objectivity.

**IA’s role during strategic transactions**

- Provide increased insight into key risks related to strategic transaction changes, i.e., highlight potential finance, IT, human resources and operational risks
- Reinforce that risks and controls are the responsibility of management
- Identify gaps in the integration or separation project management plan
- Suggest opportunities for additional synergies that would boost the acquisition's return on investment (ROI) or cost savings
- Identify the impact that the acquisition and its integration, or the divestment, may have on other parts of the business
- Highlight potential gaps in the internal control structure and the impact that risk culture might have on the organization
- Support management's prioritization of transitional risks and organizational readiness for the efficient allocation of resources to address risks and controls
IA plays a crucial role in five key areas of a strategic transaction life cycle.

**Program management**

IA should be part of the program management team regardless of the type of strategic transaction so that it can assess and monitor program management activities and provide insights. IA can also review program management office (PMO) activities to assess its oversight. For example, IA objectives could include determining whether the PMO highlights process gaps, assesses project adherence to timelines, obtains appropriate approvals and identifies areas of future improvements.

Strategic transactions usually take months to complete and IA resources are not unlimited. As a result, a risk assessment and well-thought-out audit plan spanning the entire life cycle will enable IA to focus on key points to deliver maximum value.

In the following pages we address the four critical components of strategy, due diligence, deal approval and close, and execution across different types of transaction. Where the objectives are the same or similar, the areas of focus may be the same or similar, but there are specific and crucial differences that should not be overlooked and must be activated.
Mergers and acquisitions

Strategy
An organization may have a target in its sights, but before it makes a move, IA should review the corporate strategy process, assess the risks to the organization and evaluate the business case process. This will help support the organization in determining from the start whether the merger or acquisition target aligns with the organization's corporate growth strategy.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Review the corporate strategy process</th>
<th>Assess the risks to the organization</th>
<th>Evaluate the business case process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areas of focus</td>
<td>▶ Alignment with corporate vision ▶ Process for targeting acquisitions ▶ Management and board involvement ▶ Formal strategy documentation</td>
<td>▶ Identification and prioritization of potential risks related to: ▶ Reputation ▶ People ▶ Customers ▶ Business operations ▶ Finance and IT infrastructure ▶ Remediation efforts</td>
<td>▶ Costs and projections ▶ Synergies ▶ ROI projections and monitoring ▶ Legal considerations ▶ Stakeholder analysis ▶ Regulatory considerations</td>
</tr>
</tbody>
</table>

Due diligence
During due diligence, IA can assess the valuation process, the risks and internal control environment, and the synergy validation process. This assessment will help enable the organization to determine whether the price is right and provide early insights on any risk or control issues that may exist.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Assess the valuation process</th>
<th>Assess the risks and internal control environment</th>
<th>Assess the synergy validation process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areas of focus</td>
<td>▶ Purchase price support: valuation with and without synergy considerations ▶ Revenue and profitability projections ▶ Financial statement analysis ▶ Tax implications</td>
<td>▶ Risk coverage, controls and management: ▶ Strategic – governance, reputation ▶ Financial – IT systems, credit/economic risks, tax ▶ Operational – IT systems, customer, supply chain ▶ Regulatory compliance</td>
<td>▶ Synergy assumptions and variables ▶ Deal synergies and the feasibility of fully realizing stated synergy goals ▶ Transaction value</td>
</tr>
</tbody>
</table>
**Deal approval and close**

Before the organization signs the agreement, IA can review the deal approval process to determine if short and long-term goals are defined. IA can also assess the monitoring of the valuation process leading up to close to determine the impact that any changes in the risk and control environment may have on the company.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Assess the deal approval process</th>
<th>Assess monitoring of the valuation process leading up to close</th>
</tr>
</thead>
</table>
| Areas of focus | ▶ Documentation provided to executive management and the board:  
▶ Business valuation and purchase price  
▶ Cost-benefit analysis of synergies  
▶ Evaluation of risks and controls  
▶ Approval of long- and short-term goals | ▶ Purchase price adjustments  
▶ Impact of any changes in risks  
▶ Impact of any changes in anticipated synergies:  
▶ Synergy achievement  
▶ Impact of any changes to business or key personnel |

**Integration**

IA should be part of the integration team and should assess integration design and planning processes, monitor integration execution and assess the transaction value.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Assess integration planning</th>
<th>Monitor integration execution</th>
<th>Assess the transaction value</th>
</tr>
</thead>
</table>
| Areas of focus | ▶ Human resources  
▶ Finance  
▶ Systems  
▶ Operations  
▶ Sales and marketing  
▶ Customer management  
▶ Products and services  
▶ Supply chain | ▶ HR personnel changes:  
▶ People issues triggered by the merger  
▶ Synergy tracking  
▶ Finance and systems transitions:  
▶ Policies  
▶ Treasury  
▶ Financial reporting  
▶ Legal entity consolidation  
▶ Merged operations | ▶ ROI analysis  
▶ Gap analysis  
▶ Process improvement opportunities  
▶ Impact assessment on existing business due to the attention given to the acquired business |
### Mergers and acquisitions – questions that IA can help answer

#### Strategy
- Is there alignment with the corporate vision for growth?
- Have potential risks related to people, customers, business operations and finance and IT infrastructure been prioritized?
- Have synergies been identified and projections clearly stated?

#### Deal approval and close
- Have executive management and the board been provided with appropriate business case analyses and supporting documentation?
- Have the following been monitored?
  - Purchase price adjustments
  - Impact of changes in risks and controls
  - Impact of changes in business and personnel

#### Due diligence
- Does the purchase price support valuation with and without synergy considerations?
- Have regulatory requirements been appropriately considered?
- Are revenue and profitability projections reasonable?
- Is the control structure commensurate with company policy?
- What level of remediation is required?

#### Integration
- Does the integration plan include human resources, finance, systems, sales and marketing, customer management, products and services and supply chain?
- Have integration risks and issues been identified and mitigated?
- Has an impact assessment on the existing business been performed?
Divestments

Strategy
As with M&As, internal auditors can evaluate the corporate strategy for divestments. They should assess whether there is clear ownership of risks by management and whether strong governance over the responsibilities of stakeholders is in place. IA could also help management identify, assess and prioritize potential risks to the control environment.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Review the corporate strategy process</th>
<th>Assess the risks to the organization</th>
<th>Evaluate the business case process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areas of focus</td>
<td>▶ Alignment with corporate vision ▶ Management effort on value-creating initiatives, e.g., near- and medium-term goals ▶ Management and board involvement ▶ Formal strategy documentation</td>
<td>▶ Identification and prioritization of potential risks related to: ▶ Reputation ▶ People ▶ Customers ▶ Business operations ▶ Finance and IT infrastructure ▶ Remediation efforts</td>
<td>▶ Costs and projections ▶ Consideration of expected savings ▶ Assumptions for exit ▶ Legal considerations ▶ Stakeholder analysis ▶ Regulatory considerations ▶ Financial impact</td>
</tr>
</tbody>
</table>

Due diligence
IA could assess the valuation process and provide important insights on the risks and the internal control environment related to strategic (governance and reputation), financial (credit and operational), operations (customer, supply chain and IT) and compliance (regulatory readiness) risks.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Assess the valuation process</th>
<th>Evaluate the risks and internal control environment</th>
<th>Assess the separation process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areas of focus</td>
<td>▶ Purchase price support ▶ Revenue and profitability projections ▶ Financial statement analysis ▶ Tax implications</td>
<td>▶ Risk coverage, controls and management: ▶ Strategic — governance, reputation ▶ Financial — IT systems, credit/economic risks, ▶ Operational — IT systems, customer, supply chain ▶ Regulatory compliance</td>
<td>▶ Contract development and negotiation ▶ Potential stranded costs ▶ Process changes and transfers ▶ Financial statements ▶ Transition service agreements and costing</td>
</tr>
</tbody>
</table>
Deal approval and close
IA should identify whether there are any changes to the control environment and assess the effectiveness of “interim” controls put in place to mitigate risks. IA should also monitor the operation of high-risk controls during the transition.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Review the deal approval process</th>
<th>Assess monitoring of the valuation process leading up to close</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areas of focus</td>
<td>▶ Documentation provided to executive management and the board</td>
<td>▶ Purchase price adjustments</td>
</tr>
<tr>
<td></td>
<td>▶ Business valuation</td>
<td>▶ Impact of any changes in risk profile</td>
</tr>
<tr>
<td></td>
<td>▶ Cost-benefit analysis</td>
<td>▶ Value leakage</td>
</tr>
<tr>
<td></td>
<td>▶ Evaluation of risks and controls</td>
<td>▶ Deal execution costs</td>
</tr>
<tr>
<td></td>
<td>▶ Approval of long- and short-term goals</td>
<td>▶ Impact of any changes to business and key personnel</td>
</tr>
</tbody>
</table>

Separation
At the time of separation, IA needs to monitor separation project management, execution of transition service agreements and operational activities, e.g., data transfer and HR initiatives, including payroll. IA should also identify value leakage during separation.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Assess separation planning</th>
<th>Monitor separation execution</th>
<th>Assess the transaction value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areas of focus</td>
<td>▶ Human resources</td>
<td>▶ HR personnel changes:</td>
<td>▶ ROI analysis</td>
</tr>
<tr>
<td></td>
<td>▶ Finance</td>
<td>▶ People issues triggered by the divestment</td>
<td>▶ Gap analysis</td>
</tr>
<tr>
<td></td>
<td>▶ Systems</td>
<td>▶ Finance and systems</td>
<td>▶ Process improvement opportunities</td>
</tr>
<tr>
<td></td>
<td>▶ Operations</td>
<td>▶ Policies</td>
<td>▶ Impact assessment on existing business due to the attention given to separation activities</td>
</tr>
<tr>
<td></td>
<td>▶ Sales and marketing</td>
<td>▶ Treasury</td>
<td></td>
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<tr>
<td></td>
<td>▶ Customer management</td>
<td>▶ Financial reporting</td>
<td></td>
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<tr>
<td></td>
<td>▶ Products and services</td>
<td>▶ Transition service agreements</td>
<td></td>
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<td></td>
<td>▶ Supply chain</td>
<td></td>
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</tbody>
</table>
Divestments – questions that IA can help answer

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Deal approval and close</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Is there alignment with the corporate vision for growth?</td>
<td>▶ Have executive management and the board been provided with appropriate business case analyses and supporting documentation?</td>
</tr>
<tr>
<td>▶ Have costs been identified and is there a clear statement of projections?</td>
<td>▶ Has the impact of any changes to business and key personnel been monitored?</td>
</tr>
<tr>
<td>▶ Have potential risks to separation been identified and prioritized?</td>
<td></td>
</tr>
<tr>
<td>▶ Are assumptions for exit costs accurately applied in the business case?</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Due diligence</th>
<th>Separation</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ Have revenue and profitability projections and financial statement analyses been performed accurately?</td>
<td>▶ Is the separation plan being executed appropriately?</td>
</tr>
<tr>
<td>▶ Are transition service agreements, including performance metrics and price, adequate?</td>
<td>▶ Is there an adequate plan for internal and external communications?</td>
</tr>
<tr>
<td>▶ Have resources been appropriately allocated and will they be sufficient after separation?</td>
<td>▶ Does the project management office have procedures to monitor adequacy of resources, milestones and timelines, identification and mitigation of risks, and implementation of improvement plans?</td>
</tr>
</tbody>
</table>
Joint ventures and alliances

Strategy
IA can assess the corporate strategy and whether the objectives and terms of the joint venture or alliance are well defined. IA could also assess whether there is clear understanding and ownership of risks by the participants and whether strong governance over the responsibilities of various stakeholders is in place.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Review the corporate strategy process</th>
<th>Assess the risks to the organization</th>
<th>Evaluate the business case process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areas of focus</td>
<td>• Alignment with corporate vision and goals • Process for targeting potential partners • Governance framework • Formal strategy documentation • Intellectual property ownership • Definition and documentation of strategy and expectations</td>
<td>• Identification and prioritization of potential risks related to: • Reputation • People • Customers • Business operations • Finance and IT infrastructure • Regulatory requirements • Governance processes</td>
<td>• Costs and projections • Synergies • ROI projections and monitoring • Legal considerations • Stakeholder analysis • Regulatory considerations • Compensation plans • Exit strategy</td>
</tr>
</tbody>
</table>

Due diligence
Providing a strong foundation for success entails having a clear understanding of the transaction’s goals, scope and roadmap. The structure, control and responsibilities in a joint venture or alliance can vary widely depending on the transaction objectives and the industry, and they can also be influenced by geography and the regulatory environment. Other variables include the nature of the transaction, such as ownership, structure and control. As a result, the participants’ management teams, joint venture teams and IA should work together to identify and appropriately address the relevant risks, including strategic, reputational, financial, legal, operational and regulatory.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Assess the valuation process</th>
<th>Assess the risks and internal control environment</th>
<th>Assess the synergy validation process</th>
</tr>
</thead>
<tbody>
<tr>
<td>Areas of focus</td>
<td>• Risk culture compatibility • Terms of the agreement • Revenue and profitability projections • Financial stability • Tax implications • Communication both internally and externally</td>
<td>• Risk coverage, controls and management: • Strategic – governance, reputation • Financial – IT systems, credit/economic risks, tax • Operational – IT systems, customer, supply chain • Regulatory compliance</td>
<td>• Synergy assumptions and variables • Deal synergies and the feasibility of fully realizing stated synergy goals • Transaction value</td>
</tr>
</tbody>
</table>
### Deal approval and close

IA can review the approval process to assess whether short- and long-term goals are defined before the deal closes. IA could also assess the monitoring of the valuation process leading up to close to determine how any changes in the risk and control environment may affect the company.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Assess the deal approval process</th>
<th>Assess monitoring of the valuation process leading up to close</th>
</tr>
</thead>
</table>
| Areas of focus | ▶ Documentation provided to executive management and the board:  
▶ Financial objectives and profit/cost sharing  
▶ Cost-benefit analysis of synergies  
▶ Evaluation of risks and controls  
▶ Approval of long- and short-term goals | ▶ Valuation adjustments  
▶ Impact of any changes in risks  
▶ Impact of any changes in anticipated synergies:  
▶ Synergy achievement  
▶ Impact of any changes to business and key personnel |

### Integration

Governance, oversight and monitoring help form a strong foundation for a joint venture or alliance, and the nature, level and frequency of monitoring and reporting are also vital. IA needs to establish a risk-based approach coordinated with the risk management and IA functions of other transaction participants to periodically assess the performance of the partnership or alliance.

<table>
<thead>
<tr>
<th>IA objective</th>
<th>Assess integration planning</th>
<th>Monitor integration execution</th>
<th>Assess the transaction value</th>
</tr>
</thead>
</table>
| Areas of focus | ▶ Roles and responsibilities regarding:  
▶ Human resources  
▶ Finance  
▶ Systems  
▶ Operations  
▶ Sales and marketing  
▶ Customer management  
▶ Products and services  
▶ Supply chain  
▶ Organizational and operating agreement  
▶ Management and monitoring responsibilities | ▶ Exchange / sharing of information  
▶ Synergy tracking  
▶ Management framework  
▶ Control design and implementation  
▶ Reporting responsibilities and monitoring  
▶ Management focus | ▶ ROI analysis  
▶ Gap analysis  
▶ Process improvement opportunities  
▶ Achievement of agreement terms and conditions |
Joint ventures and alliances – questions that IA can help answer

### Strategy
- Is there alignment with the corporate vision?
- Are risk cultures compatible?
- Has a risk profile been developed and prioritized?
- Have costs been identified and is there a clear statement of projections?
- Have key strategic decisions been made, e.g., intellectual property rights?

### Deal approval and close
- Have management and the board been provided with business case analyses and documentation?
- Has the impact of any changes to business and key personnel been monitored?
- Does the agreement address governance and reporting during the partnership or alliance and how the agreement will conclude?

### Due diligence
- Have revenue and profitability projections and financial statement analyses been performed accurately?
- Are all relevant functions, e.g., finance, legal, risk management, compliance and operations, involved in due diligence?
- Are there any control issues that should be addressed before the deal is closed?

### Integration
- Is there an adequate plan for governance, monitoring, and internal and external communications?
- Does the project management office have procedures to monitor adequacy of resources, milestones and timelines and implementation of improvement plans?
- Is there a plan to monitor and report ongoing operational performance?
An opportunity for IA to transform

Most organizations understand the value that IA can bring during business as usual. What they do not often think about is the value that IA can provide before, during and after a strategic transaction.

The objective of strategic transactions is often to gain efficiencies or cost savings—a process that can have a significant impact on people, processes and technology within an organization. Similarly, IA faces the need to change its staffing, skill sets, methods, processes and technology. With mergers and acquisitions, IA must combine two functions that once existed separately. When part of the organization is spun off, IA may have to transfer some of its staff to the new company. These required changes present the chief audit executive (CAE) with an opportunity to transform the function while responding to organizational needs.

The board and executive management are usually reconfigured in a strategic transaction, enabling the CAE to recommend an expanded mandate that includes business insights and advisory services, along with IA’s core assurance responsibilities. The CAE can also re-evaluate the risk assessment approach; IA methods; use of technology such as continuous monitoring and data analytics; IA key performance indicators (KPIs); and the nature and rhythm of reporting, with an eye toward efficiency, innovation and leading practices. Enhancing any of these activities may also result in the need to address gaps in the IA team’s skills.

Regardless of IA’s maturity at the time of the transaction, it ought to seize the moment and advance its reputation in the organization by demonstrating more advanced and strategic thinking, enhancing its skill sets and methods, and expanding its mandate to include business insights and advisory services.
### Key actions for IA during M&As

<table>
<thead>
<tr>
<th>Mandate</th>
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<tbody>
<tr>
<td>- Benchmark leading practices in IA mandates and IA charters</td>
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<tr>
<td>- Refresh current mandate and charter to include assurance, business insights, advisory work, and stress independence and objectivity</td>
</tr>
<tr>
<td>- Gain approval from board and management for the expanded mandate and charter</td>
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<table>
<thead>
<tr>
<th>Governance</th>
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<tbody>
<tr>
<td>- Establish policies and procedures that align with the mandate and charter</td>
</tr>
<tr>
<td>- Develop and implement both qualitative and quantitative KPIs that foster effectiveness, efficiency and innovation</td>
</tr>
<tr>
<td>- Develop comprehensive reporting of IA value to board and management</td>
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<table>
<thead>
<tr>
<th>Organizational structure</th>
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<tbody>
<tr>
<td>- Determine IA organizational structure, size and operating model based on risk assessment of the combined organization</td>
</tr>
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<table>
<thead>
<tr>
<th>Resources</th>
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<tbody>
<tr>
<td>- Evaluate combined staff skill sets to identify gaps</td>
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<tr>
<td>- Work with HR to “right size” the new IA organization</td>
</tr>
<tr>
<td>- Establish a rigorous training program to address the need for skill enhancement</td>
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<table>
<thead>
<tr>
<th>Methods</th>
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<tbody>
<tr>
<td>- Utilize continuous risk assessment aligned with the company’s strategic objectives</td>
</tr>
<tr>
<td>- Leverage the work of other risk, assurance and compliance functions</td>
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<tr>
<td>- Employ audit response based on risk, e.g., continuous auditing, deep dive</td>
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<table>
<thead>
<tr>
<th>IT enablement</th>
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<tr>
<td>- Benchmark audit and governance, risk and compliance (GRC) tools to better enable the audit process</td>
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<tr>
<td>- Embed data analytics throughout the audit process</td>
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How can strategy be better embedded in strategic transactions?

Key actions for IA during divestments (spin-offs)

**Organizational structure**
- Determine IA organizational structure, size and operating model for both companies after spin-off aligned with each company’s operations

**Resources**
- Evaluate current staff to determine who will be in each organization after spin-off
- Recruit additional staff for each organization as needed
- Assess and obtain IA resources with the right skill sets in light of additional work related to spin-off (consider supplementing resources based on specialty skills, temporary needs, etc.)
- Administer search for new Chief Audit Executive

**Governance**
- Align each IA function’s mission and mandate with each company’s strategy and objective
- Recommend reporting relationships for IA in the two companies (audit committee and senior management)
- Advise on board committee structure, policies, reporting relationships, etc.
- Establish key performance indicators to manage IA effectiveness and efficiency

**IT Enablement**
- Explore replication of current IA infrastructure enablement
- Encourage the use of data analytics throughout the entire audit life cycle

**Workpaper transfer**
- Work with the Legal function to determine “ownership” of historical relevant audit workpapers and execute transfer as appropriate
IA can add an invaluable point of view throughout the transaction life cycle

CAEs should be working closely with the board, executive management and corporate development teams to involve IA during the entire strategic transaction life cycle, whether it’s a merger, acquisition, divestment, joint venture or alliance. IA is positioned to add value because of its view across the organization; its understanding of the business; its ability to recommend both a balanced level of controls and, potentially, process improvements; and its independence and objectivity.

► Strategically, IA can help determine an organization’s readiness for the transaction.
► During due diligence, IA can alert the organization to potential risk or control or regulatory issues that would cause the organization to overpay or undervalue.
► Prior to deal close, IA can help prevent deal value leakage.
► From a post-transaction perspective, IA can help create organizational efficiencies and ascertain proper control monitoring of new or revised processes.
► Throughout the life cycle, IA can help assess the management of the program to identify improvement opportunities.

IA provides a vital view of deals that many executives may not consider. Without that perspective – right from the start – the organization could find out far too late that the price was not right, that significant risks existed or that it has to spend significant money to fix issues that IA could have helped the organization avoid. IA can also look within its own function not only to respond to changes brought about by the transaction but also to enhance its own activities to bring more value to the organization.

Respondents to EY’s global governance, risk and compliance 2015 survey identified the top five skills or areas of knowledge as most important to enhance their Internal Audit function:

1. Critical/analytical thinking
2. Analytics
3. Risk management
4. Audit
5. Business strategy
Want to learn more?

*Insights on governance, risk and compliance* is an ongoing series of thought leadership reports focused on IT and other business risks and the many related challenges and opportunities. These timely and topical publications are designed to help you understand the issues and provide you with valuable insights about our perspective. Please visit [ey.com/GRCinsights](http://ey.com/GRCinsights).

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If there's no reward without risk, can risk be a good thing?

Risk is a much more risky proposition than it used to be. New risks emerge every day as markets get disrupted, political instability interrupts supply chains and new technology pushes boundaries across the risk landscape. Yet, while many organizations see risk as a negative, good risk management can actually help companies go faster.

For EY Advisory, a better working world means helping clients solve big, complex industry issues and capitalize on opportunities to grow, optimize and protect their businesses. We've shaped a global ecosystem of consultants, industry professionals and alliances partners with one focus in mind - you.

We help you make incremental strategic decisions around risk management to help your business strategy stay on course. We help you look at risk from all angles and across every part of the organization, including cybersecurity, supply chain, internal audit and risk assurance.

Our global connectivity and understanding of your issue inspire us to ask better questions. We then create innovative and disruptive answers that enable you to develop a top-down, risk-based approach to transforming your risk management environment. Together, we help you design better outcomes and realize long-lasting results, from strategy to execution.

We believe that when organizations manage risk better, the world works better.

So, if there's no reward without risk, can risk be a good thing?

Ask EY.
About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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About EY’s Advisory Services

In a world of unprecedented change, EY Advisory believes a better working world means helping clients solve big, complex industry issues and capitalize on opportunities to grow, optimize and protect their businesses.

Through a collaborative, industry-focused approach, EY Advisory combines a wealth of consulting capabilities – strategy, customer, finance, IT, supply chain, people advisory, program management and risk – with a complete understanding of a client’s most complex issues and opportunities, such as digital disruption, innovation, analytics, cybersecurity, risk and transformation. EY Advisory’s high-performance teams also draw on the breadth of EY’s Assurance, Tax and Transaction Advisory service professionals, as well as the organization’s industry centers of excellence, to help clients realize sustainable results.

True to EY’s 150-year heritage in finance and risk, EY Advisory thinks about risk management when working on performance improvement, and performance improvement is top of mind when providing risk management services. EY Advisory also infuses analytics, cybersecurity and digital perspectives into every service offering.

EY Advisory’s global connectivity, diversity and collaborative culture inspires its consultants to ask better questions. EY consultants develop trusted relationships with clients across the C-suite, functions and business unit leadership levels, from Fortune 100 multinationals to leading disruptive innovators. Together, EY works with clients to create innovative answers that help their businesses work better.

The better the question. The better the answer. The better the world works.

EY Risk Advisory leaders are:

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