ROUNDTABLE DISCUSSION

Internal Audit’s evolving role in enterprise cost optimization & recovery

Learning Objectives

- Consider the scenarios in today's landscape presenting many organization's objectives to "do more with less"
- Understand why Internal Audit's enterprise-wide, risk-informed perspective makes it well suited to identify cost opportunities beyond traditional assurance work
- Propose near-term audit or advisory actions that help management improve efficiency without undermining control effectiveness or independence

Today we will discuss:

1. Today's trends in enterprise-wide cost pressures and how they are playing out across a wide range of organizations
2. The impact of those cost pressures on Internal Audit's own operations as a function,
3. How internal audit can bring unique perspective to their leaders, and
4. Deep-dive into at least three (3) illustrative audits that may help organizations to identify cost optimization or cost recovery opportunities

Speaker Introduction

Laura Bellinger, Assurance Partner

A unique crossroad –

As companies strive to "do more with less," Internal Audit it challenged to **streamline its own processes** while also **actively supporting broader** organizational cost-cutting goals. This includes:

1

Assessing risks linked to cost–reduction efforts

Consider:

- Are remaining resources sufficient to uphold a robust control environment after headcount reductions or budget cuts?

2

Identifying opportunities to enhance efficiency

Consider:

- Whether objectives can be achieved through process simplification, automation, or more strategic resource allocation?

3

Uncovering potential cost recovery opportunities across the enterprise

Consider:

- Are there abilities to uncover instances of overpayment, duplicate spending, or unused assets that could be leveraged or reimbursed?

Meeting this dual mandate of cost efficiency and cost recovery requires a strategic, forward-looking approach that **redefines how Internal Audit operates, collaborates, and delivers impact** in an increasingly complex risk landscape.

Enterprise drivers of cost optimization

Organizations across industries are facing unprecedented pressure to optimize costs and drive sustainable value. Several key drivers, both external and internal, are shaping the cost optimization agenda:

US tariff landscape & tax policy

Challenges increase import costs and disrupt supply chains for imported goods, while opportunities exist to optimize costs through tax reductions and incentives

Regulatory & compliance demands

Continuous evolution with increasing requirements around data privacy, cyber security, sustainability & industry-specific compliance – all are demands which increase the cost of doing business

Internal pressures for accountability & ROI

Boards, shareholders, and executives are demanding greater transparency, accountability, and demonstratable return on investment (ROI) from every function

Economic uncertainty & market volatility

Macroeconomic headwinds, inflation, interest rates, global supply chain disruptions prompt organizations to scrutinize every dollar spent

Technological advancement & digital transformation

Rapid advancement in automation, artificial intelligence (AI), and data analytics are fundamentally changing how organizations operate

Competitive pressures & customer demands

Globalization & digital disruption has increased competition; customers now expect seamless, digital-first experiences with rapid delivery and high-quality service – which demands operational efficiency and cost discipline

These drivers are compelling organizations to adopt a holistic and strategic approach to cost management – **balancing efficiency with innovation, risk management, and long-term value creation.**

Impact on internal audit - Rethinking deployment of people, processes & technology

As organizations intensify their focus on enterprise-wide cost optimization, Internal Audit is compelled to fundamentally rethink how it deploys its resources and delivers value.

This shift is not simply a reaction to budget constraints but a **proactive response** to a rapidly evolving business environment where agility, efficiency, and risk management are more critical than ever.

The traditional model, which relies primarily on in-house teams conducting manual, cyclical audits, is giving way to a **more dynamic, technology-enabled, and risk-focused approach**. Several key shifts are shaping this transformation.

Embracing flexible, scalable, alternative delivery models

- Hybrid models with in-house expertise & co-sourcing or outsourcing arrangements
- Ability to flex capacity up and down in response to changing risk profiles, regulatory demands, special projects, & deploying specialized skillsets
- Offshoring of routine or transactional audit activities to lower-cost regions to enhance cost efficiency & support scalability

Leveraging technology for efficiency & insight

- Digital tools
- Advanced analytics
- Continuous monitoring platforms & data visualization
- Generative AI to do more with same or fewer resources

Adopting Agile auditing methodologies

- Emphasizes shorter, iterative audit cycles & cross-functional collaboration
- Accelerates delivery of timely insights
- Allows quick adaptation to emerging issues

Prioritizing risk-based resource allocation

- Guided by dynamic, risk-based planning
- Leverage real-time risk intelligence and data-driven assessments
- Concentrate on areas of highest risk & potential value

Upskilling & reskilling the audit workforce

- Growing emphasis on data literacy, technology fluency, business acumen
- Upskilling with specialist backgrounds like cyber & data
- Foster a culture of continuous learning to stay ahead

Enhancing collaboration across the enterprise

Increasingly collaborating with other assurance, risk & compliance functions to:

- Share insights
- Reduce duplication
- Drive enterprise-wide efficiency

Breaking down silos and leveraging shared data and technology platforms can provide more holistic assurance & support broader organizational goals

The impact of enterprise cost optimization on Internal Audit is profound. With some rethinking - Internal Audit can **deliver greater value, improve efficiency, and strengthen its role as a strategic advisor** to the business.

Internal Audit's unique role

Unlike operational or business unit leaders, Internal Audit has visibility across the enterprise, enabling it to identify inefficiencies, redundancies, and value leakage that may not be apparent within individual silos.

Identify inefficiencies & redundancies	**Enterprise-wide perspective** | Provide actionable insights that can inform process redesign, resource reallocation, and strategic investment decisions
Safeguard controls amid cost initiatives	**Undermining impacts** | Assess whether initiatives create new risks, or whether cost management efforts compromise compliance, data integrity, or operational resilience
Support a culture of continuous improvement	**Create accountability** | Share leading practices, benchmarking data, and lessons learned – to help management teams increase efficiency and excellence
Act as a trusted advisor	**Collaborate with leaders** | Leverage insights and risk lens to help the organization balance cost pressures with the need for robust controls, innovation, and long-term value creation
Enable tech-driven transformation	**Enhance reliability & timeliness** | Advocate for the adoption of enabling technologies that align with core missions: safeguarding value, managing risk, and supporting organizational objectives

Internal Audit delivers value **far beyond traditional assurance**: helping organizations achieve their cost optimization goals – without compromising on risk or compliance.

Evaluating & enabling cost recovery

Internal Audit's role in cost management extends beyond driving efficiency – it also includes identifying and enabling direct financial recoveries for the organization.

Uncover tax refunds and conduct a rapid historical tax review

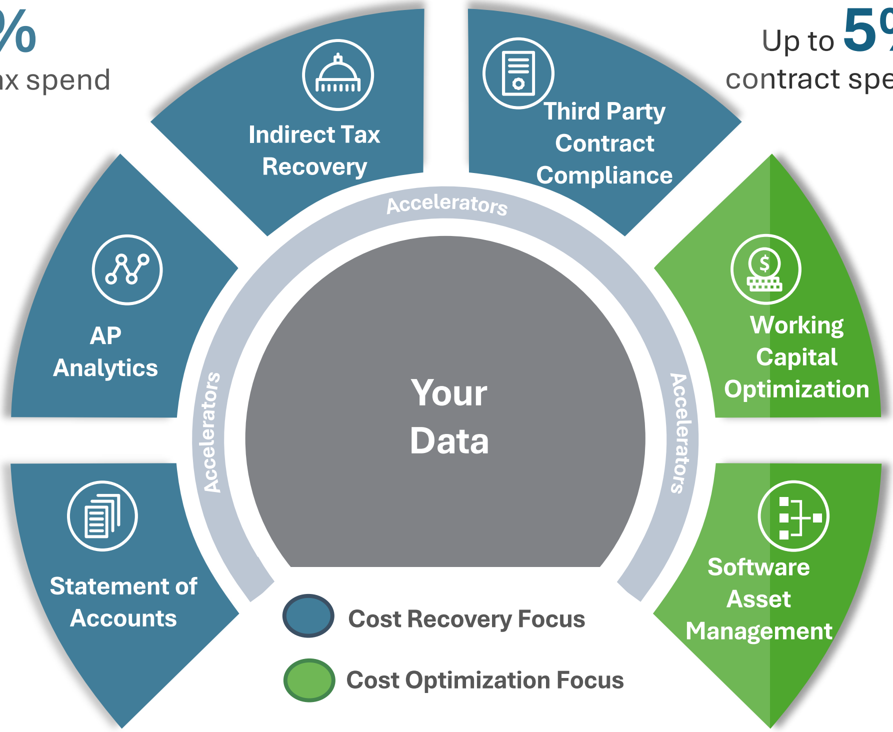
Up to **5%** indirect tax spend

Inspect **100% of AP data** to promptly identify **recovery opportunities**

Up to **5%** analyzed spend

Identify **unapplied credits and improvement opportunities**

Up to **2%** analyzed spend



Up to **5%** contract spend

Identify **third-party contractor cost recovery and process improvement** opportunities

Up to **30%** AP, AR & inventory

Identify working capital improvements in AP, AR, and inventory

Up to **20%** software spend

Evaluate licenses that are **owned and not deployed** or are **owned, deployed but not in use**

Classify spend and **identify cost reduction opportunities**, **prioritize**, and **sequence** category sourcing initiatives

Internal Audit can help organizations reclaim funds, correct errors, and strengthen financial discipline **to deliver immediate and measurable value** alongside traditional assurance activities.

Statement of Accounts

What is Cash Preservation

An efficient "self-funding" solution enabling direct cash flow benefits as unapplied credits are identified and collected with minimal organizational disruption.

- Increasing transparency

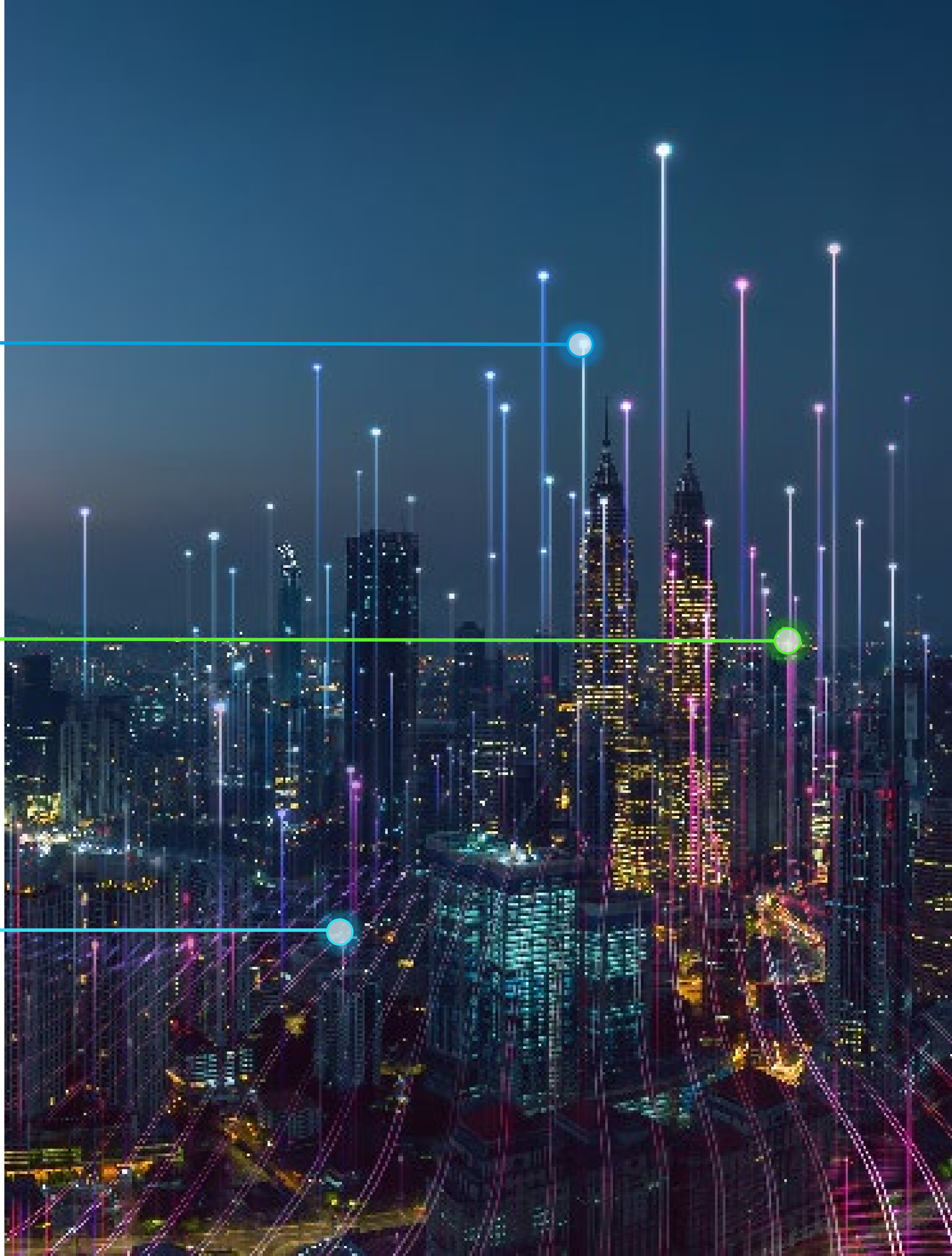
Statement of Account reviews identify **unprocessed/unapplied credits** that currently exist on vendors ledgers but have not been distributed. These are credits that are already accounted for on vendors books but have not been provided back or processed by your AP department, **impacting current cash positions**.

- Rapid cash recovery

As there are minimal to no interpretation required to validate the credits quick recovery of credits is possible. Typically, **up to 26% of global vendors reviewed have recoverable credits** of various sizes.

- Self-funding capabilities

Effective programs utilize established risk models to identify the immediate recovery opportunities. **AI & RPA tools enable automation of mass, simultaneous outreach, collection, and analysis**. This allows the solution to operate on a contingent basis (i.e., if outsourced), **enabling a self-funding program**.



Approach to Statement of Accounts – Internal Audit Programs

Effective Statement Review Audit Programs start with a broad scoping exercise to identify the immediate recovery opportunities. Indicators of unapplied credits typically include medium-to-high spend over the period, high frequency and quantity of invoices, and inherent category-level risks based on prior experience. Upon program customization, suppliers will be contacted in mass, simultaneously.

Scope	Customize	Execute	Recover & Enhance
Prioritized list of suppliers	Customized workflow, KPI reporting, request letter, and email templates	• Distribute Statement of Account requests • Identify recovery opportunities	• Support recovery efforts • Identify root cause of leakage and enhance processes/strategies
ACTIVITIES	**ACTIVITIES**	**ACTIVITIES**	**ACTIVITIES**
• Collect **AP spend data** and **supplier contract information** • Remove entities, business units, or parties **not in scope** • **Identify and prioritize** known high risk suppliers or categories	• **Customize the tracking** and reminder settings to monitor suppliers' responses • Confirm **email templates** for standard supplier responses • Customize the workflow for managing supplier responses and associated **KPI reporting**	• **Mass-distribute Statement of Account requests** to in-scope suppliers • Analyze Statement of Account responses with **advanced analytics tools** and clarify supplier questions, as needed • **"Follow-Up"** with non-responsive suppliers to determine participation	• For statements showing potential credits, **confirm with the supplier** that they are payable to you • Share the recovery opportunities with you **to confirm findings** • Process the collections to **realize recovery** • Summarize findings and root causes to **identify trends** across the enterprise
REPORTING	**REPORTING**	**REPORTING**	**REPORTING**
• **Visualize** AP spend data into a reporting module • **Identify priority suppliers** for inspection	• Capability and flexibility to **customize the mailing approach** to meet requirements • **Maintain transparency** throughout the Statement Review Audit process	• **Track supplier responses** in near real-time • **"Follow-up" non-responsive suppliers** on a pre-determined schedule **increase the response rate**.	• Summarize findings and root causes, and visualize trends across the enterprise to **inform future process enhancements**

AP Analytics

Seizing the potential for accounts payable recovery

Rapid deployment, generating quick wins for the overall program

1

- Determine AP Recovery scope
- Develop, review and finalize AP analytics testing plan
- Obtain data / system access
- Customize analytics scripts

2

- Perform data normalization
- Execute AP testing and analytics to identify potential anomalies
- Examine results with stakeholders to further reduce false positives

3

- Review analytics results and supporting documentation to discard false positives
- Share vetted results with stakeholders to initiate recovery with suppliers

Outcomes

Identify duplicate invoices / payments and / or **inappropriate** payments on significant annual spend to create potential for meaningful recoveries.

Improve vendor intelligence (e.g. vendors with higher levels of misbilling) to drive future ongoing monitoring and process changes.

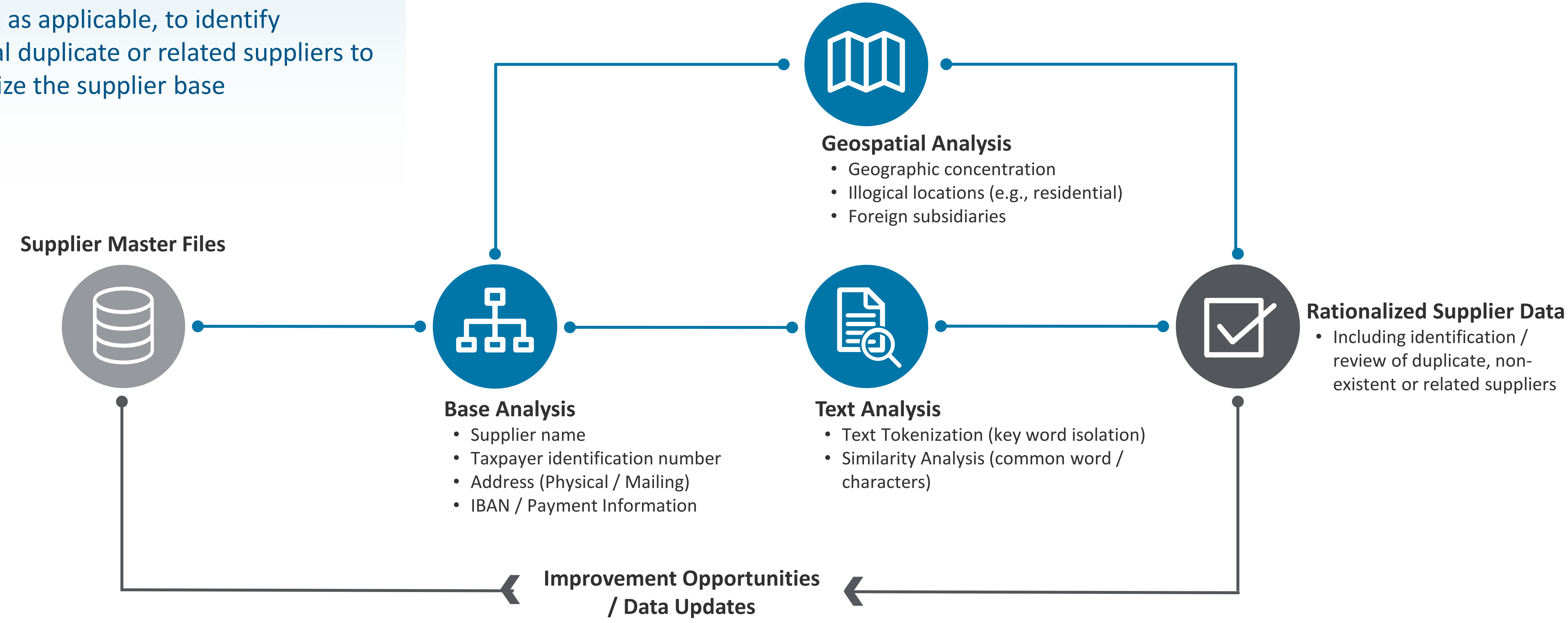
Identify areas for additional analytics (e.g. deeper dive working capital analytics to identify opportunities to unlock work capital opportunities).

Identify improvement opportunities for Supplier Master File and invoice attestation / review processes.

Identifying Duplicate, Related, and / or Erroneous Suppliers

Identify duplicate and/or related suppliers with structured data fields, propriety text analytics, geospatial analysis, and machine learning

Supplier master files are analyzed across three different levels, leveraging machine learning as applicable, to identify potential duplicate or related suppliers to rationalize the supplier base



Accounts Payable Recovery Testing Library

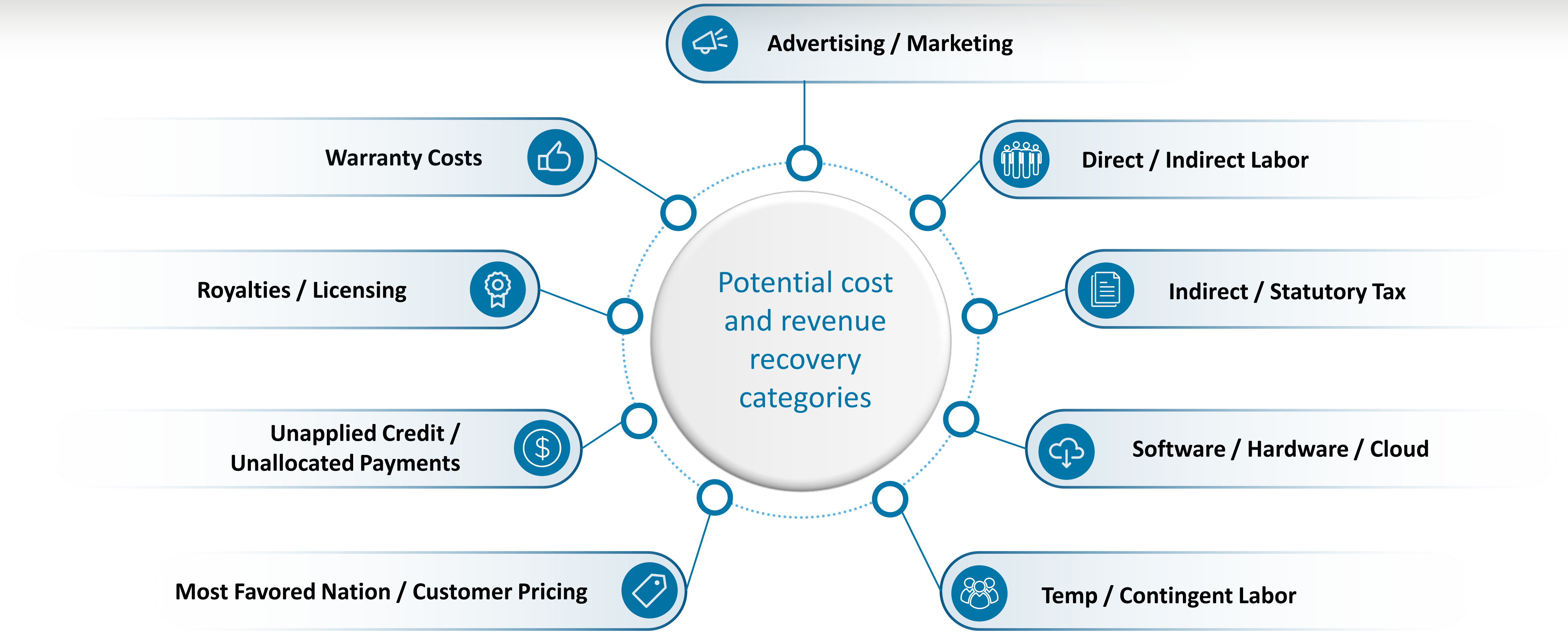
Below are illustrative test types that might be performed by Internal Audit working through Cost Recovery opportunities to perform an evaluation of Accounts Payable transactions.

Test Category	#	Test Type
A. Cost Recovery Focused	A.1	Duplicates testing—Multiple invoices with same numbers
	A.2	Duplicates testing—Transposed numbers in the invoice numbers and amounts
	A.3	Duplicates testing—Same vendor invoice numbers and amount, but different vendor ID
	A.4	Duplicates testing—Leading or trailing characters
	A.5	Outstanding credits testing
	A.6	Check invoice anomalies
B. Other Potential Financial or Fraud Impact	B.1	Evaluate Returns after cutoff date
	B.2	Evaluate Early Payments for lowering working capital requirement
	B.3	Evaluate Most Favored Customer Pricing
	B.4	Validate potential indicators of FCPA violations
	B.5	Analysis of invoices for fraudulent activities
	B.6	Analysis on supplier attributes

Third Party Contract Compliance

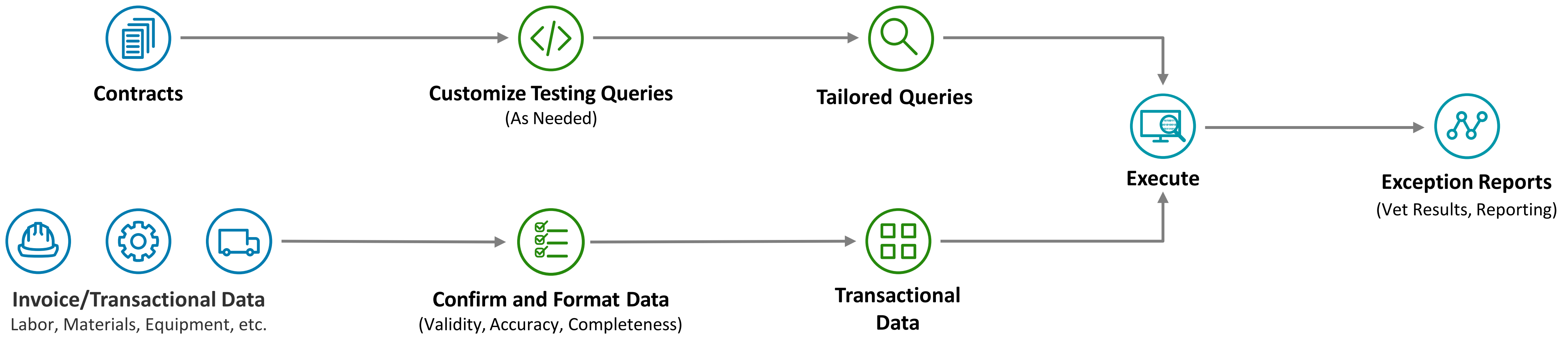
Spend categories subject to elevated risk and potential cost recovery or savings

Cost and revenue categories with higher risk of contractual non-compliance lead to cost recoveries and / or savings



The third-party contract compliance process

Tools, accelerators, and advanced data analytics enable substantive reviews



Work with vendors **early identify key risk areas** and assess pervasiveness

Analyzing **100% of transactions** instead of using sampling
Complete and factual discussions with third-parties

Potential **overcharges** identified on third-party audits
Using data analytics, average up to **5% of contract spend**

Leverage contract audits to **identify improvements** in procurement, operations, and finance.

Representative Case Study

Overcharged Frac Sand Delivery Fee

Overview of project

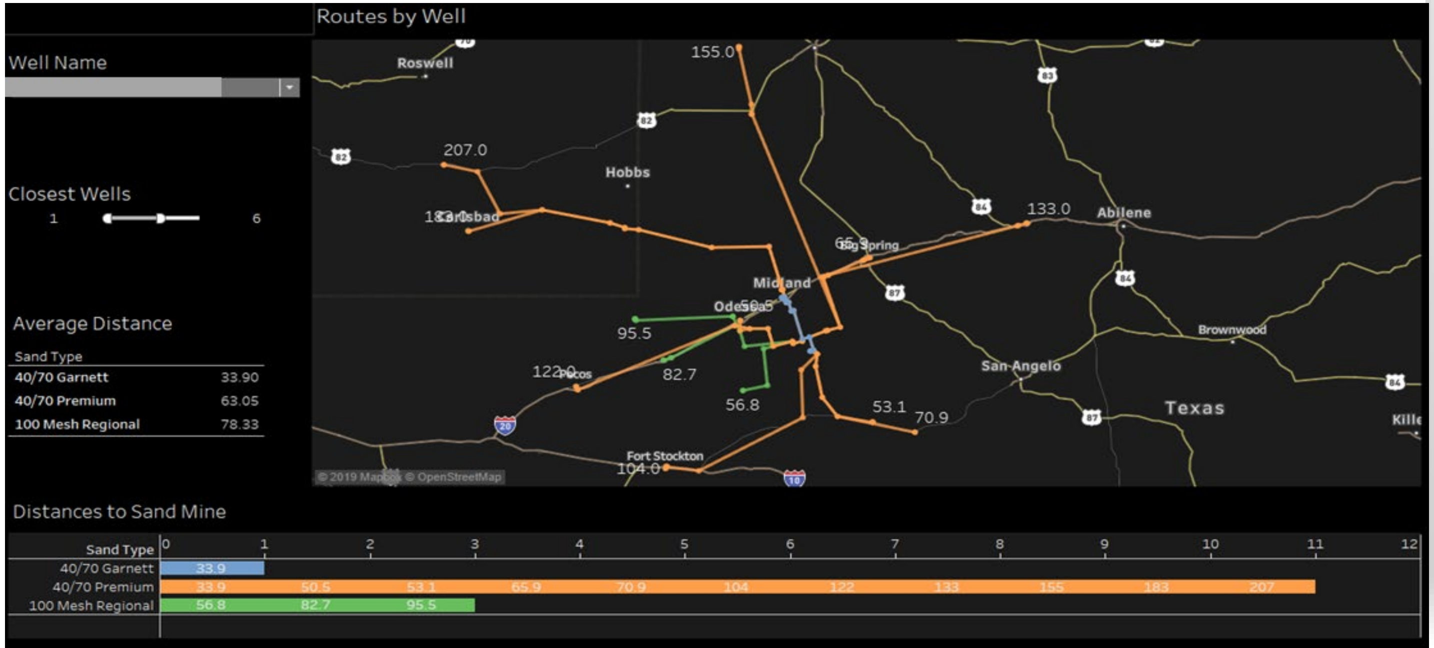
Using GPS coordinates from the frac sand mines to the well heads, a geospatial analysis was performed to determine if the sand delivery charges passed on to the Company were accurate and/or reasonable based on the pricing guidelines agreed between the Company and Drilling Contractor. Key points include…

- Drilling Contractor charged the Company the cost to deliver sand from the mine to the well
- Delivery charge was contractually based on tonnage per mile as the unit of measure
- Drilling Contractor used a proxy of 100 miles to calculate the delivery charge to the Company
- Geospatial analysis indicated that the 100 mile proxy is unreasonably high

What was the monetary impact?

Drilling Contractor used approximately 20 suppliers to buy sand for the use in drilling wells in the Permian and Delaware basins. It was determined that if the Drilling Contractor were to source sand from the top 7 closest mines to each well, the associated cost would be significantly less. Observation impact spread of using the top 3-7 mine locations is listed below…

# Closest Routes	Error Rate	Average Distance (Mine to Well)	Overpayment Amount
3	25.7%	81.8	$21,015,042
4	18.7%	90.1	$15,300,294
5	14.3%	93.0	$11,655,526
6	9.4%	95.8	$7,691,076
7	4.5%	98.6	$3,693,917



Software Asset Management (SAM)

Mitigating risk, improving control and reducing costs with SAM

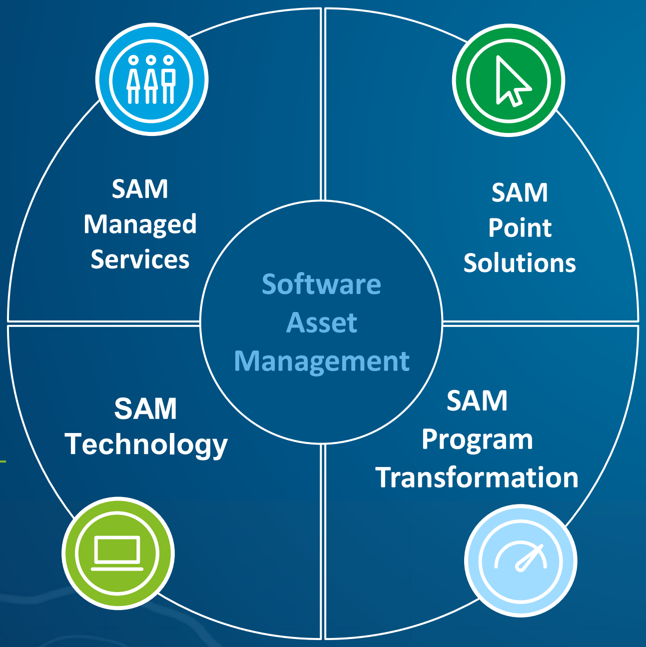
Managing and optimizing the purchase, licensing, deployment, maintenance, utilization, and disposal of software assets

SAM Managed Services

- Various managed service levels provided based on client needs
  - Level 1—Inventories
  - Level 2—Compliance
  - Level 3—Optimization
  - Level 4—Outsourced SAM

SAM Technology

- Implementation and Data Integrations
- Contract/License Entitlement onboarding
- Request Management
- Compliance/Financial/
- Optimization Reporting



SAM Point Solutions

- SAM Baseline Reviews
- SAM Internal Audits
- Software License Optimization
- SAM M&A Services
- SAM Supply Chain Services
- Software Vendor Rationalization

SAM program assessment, design and implementation

- SAM process risk assessments
- Strategy and organizational structure development
- SAM policy, procedures, and roles development
- SAM transformation

"Clients that mature their SAM processes and use tools to focus on license optimization typically report up to
30% spending reductions within one year"

— Gartner

Deloitte.

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