Sony Internal Audit

Presentation to

ISACA Tokyo Chapter

Tuesday, March 12, 2013

Internal Audit Department

Sony Corporation
<table>
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<th>Overview of Sony Corporation</th>
<th>Overview of Sony Corporation and Highlights of Financial Results</th>
</tr>
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<td>IA Structure, Global Auditable Risks, Resource Allocation, Offshore Support</td>
</tr>
<tr>
<td>3</td>
<td>Case Study: Auditable Risks and Procedures</td>
<td>Advertising and Promotion, Data Analytics, Logistics, BPO</td>
</tr>
</tbody>
</table>
Overview of Sony Corporation
Company Name: Sony Corporation
Headquarters: 1-7-1 Konan, Minato-ku, Tokyo
Founded: May 7, 1946
Consolidated Sales and Operating Revenue: 6,493,200 million yen (FY2011)
Headcount: 162,700 (as of March 31, 2012)
Consolidated Subsidiaries: 1,267 (as of March 31, 2012)
Sony Corporate History

1946 May
Tokyo Tsushin Kogyo K.K. (Tokyo Telecommunications Engineering Corporation), also known as Totsuko, established in Nihonbashi, Tokyo.

1958 January
Company name changed to Sony Corporation.

1961 June
Sony became the first Japanese company to offer shares in the United States in the form of American Depositary Receipts (ADRs) on the OTC market of the New York Stock Exchange.

1979 August
Sony Prudential Life Insurance Co. Ltd., a 50-50 joint venture with Prudential Insurance Co. of America, established. It was renamed Sony Life Insurance Co. Ltd. in April 1991.

1988 January
CBS Records Inc. the records group of CBS, acquired. It was renamed Sony Music Entertainment Inc.

1989 November
Columbia Pictures Entertainment, Inc. acquired. It was renamed Sony Pictures Entertainment Inc.

1993 November
Sony Computer Entertainment Inc. established.

1995 November
Sony Communication Network Corporation established. It was renamed So-net Entertainment Corporation.

2001 April
Sony Bank established in Japan.

2003 June
Corporate shift to "committee-based" organizational model.

2004 April
Sony Financial Holdings Inc. established.

2009 September
Sony Group unveils new brand message "make.believe".

2010 June
Sony launches “NEX series”, the world’s smallest and lightest interchangeable lens digital still camera series.
Sony Business Segments

Proportion of sales by business

Professional, Device & Solutions
- Professional Solutions (29.0%)
- Semiconductors (38.9%)
- Components (30.7%)
- Other (1.4%)

Consumer Products & Services
- Televisions (27.4%)
- Home Audio and Video (7.9%)
- Digital Imaging (16.3%)
- Personal and Mobile Products (23.6%)
- Game (24.3%)
- Other (0.5%)

2012

Source: Annual Report 2012 (Year Ended March 31, 2012)
Sony Group Consolidated Results

Corporate Strategy
Key Initiatives to Transform Sony

On April 1, 2012, under the leadership of President and CEO Kazuo Hirai, Sony announced “One Sony”: an integrated new management approach designed to accelerate decision making across the entire Sony Group. The new approach marks the beginning of a transformation aimed at driving growth and creating new value. This section provides an overview of the five key initiatives Sony is undertaking to revitalize and foster growth in the electronics business.

“Sony will change.”

Sony is reinvigorating itself to deliver new and exciting experiences to our customers around the world.

Letter to Stakeholders:
A Message from Kazuo Hirai, President and CEO

FY12 Consolidated Results Forecast (1)

<table>
<thead>
<tr>
<th>FY11</th>
<th>FY12 August FCT</th>
<th>FY12 November FCT</th>
<th>Change from August FCT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales &amp; operating revenue</td>
<td>6,493.2</td>
<td>6,800</td>
<td>6,600</td>
</tr>
<tr>
<td>Operating income</td>
<td>-67.3</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>Income before income taxes</td>
<td>-83.2</td>
<td>150</td>
<td>190</td>
</tr>
<tr>
<td>Net income attributable to Sony Corporation’s stockholders</td>
<td>-456.7</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Operating income</td>
<td>-67.3</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>Less: Equity in net income of affiliates</td>
<td>-121.7</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Add: Restructuring charges</td>
<td>45.0</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Add: Impairments of long-lived assets</td>
<td>29.3</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Operating income, as adjusted</td>
<td>130.5</td>
<td>220</td>
<td>220</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>296.1</td>
<td>210</td>
<td>210</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization*</td>
<td>319.6</td>
<td>300</td>
<td>330</td>
</tr>
<tr>
<td>(for property, plant and equipment (included above)</td>
<td>299.2</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>433.5</td>
<td>470</td>
<td>470</td>
</tr>
<tr>
<td>Foreign Exchange Rates</td>
<td>Actual</td>
<td>Assumption (Q2–Q4 FY12)</td>
<td>Assumption (Q2–Q4 FY12)</td>
</tr>
<tr>
<td>1 US dollar</td>
<td>78.1 yen</td>
<td>Approx. 80 yen</td>
<td>Approx. 80 yen</td>
</tr>
<tr>
<td>1 euro</td>
<td>107.5 yen</td>
<td>Approx. 100 yen</td>
<td>Approx. 100 yen</td>
</tr>
</tbody>
</table>

*Includes amortization expenses for intangible assets and for deferred insurance acquisition costs.

Strengthening Core Areas
Turning Around the Television Business
Creating New Businesses and Accelerating Innovation
Realigning Our Business Portfolio and Optimizing Resources
Expanding Business in Emerging Markets

Internal Audit
Sony Internal Audit Department
In 2003, Sony adopted the "Company with Committees" corporate governance system under the Companies Act of Japan.
Internal Audit Organization

Organizational independence through dotted reporting line to Audit Committee, and direct line to EVP.

- **Audit Committee**
  - **Top Management**
    - Corporate Executive Officer, Executive Vice President and General Counsel
      - Senior General Manager, Head of Global Internal Audit
        - Global Internal Audit Management Team
          - General Manager and Head of Regional Internal Audit Offices

- **Global Planning Office**
  - IAD
    - Japan
    - Europe
    - Asia Pacific
    - China
  - CAD (SCA)
    - Latin America
    - Electronics
    - Music
    - Pictures
  - SoMC
  - GAO (SCE)
    - SCEI
    - SCEA
    - SCEE
  - SFH Group
IAD’s Mission: Identify Gaps Between Strategy and Execution

- The Internal Audit Department (IAD) establishes and maintains the internal audit organization and internal audit activities and formulates internal audit policies for the Sony group.

- IAD plans and executes its activities utilizing a risk-based approach for the purpose of providing an objective and independent assessment on governance, risk management and control processes for the Sony group.

**Ability to:**

- **Identify** critical issues

- **Escalate** to senior management

- **Make recommendations** for improvement
# History of Sony Internal Audit Department

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968</td>
<td>Internal Audit Function established in Accounting</td>
</tr>
<tr>
<td>1987</td>
<td>Internal Audit Office established in America (SCA)</td>
</tr>
<tr>
<td>1993</td>
<td>Internal Audit Office established in Europe (IAE)</td>
</tr>
<tr>
<td>1996</td>
<td>First Sony Internal Audit Newsletter issued</td>
</tr>
<tr>
<td>’98 ’99 2000</td>
<td>Global Internal Audit Policy Developed</td>
</tr>
<tr>
<td>’98 ’99 2000</td>
<td>First Risk Assessment for Sony group</td>
</tr>
<tr>
<td>’98 ’99 2000</td>
<td>Institute of Internal Auditors Japan Chairman’s Award</td>
</tr>
<tr>
<td>2002</td>
<td>Renamed the Internal Audit Department</td>
</tr>
<tr>
<td>2003</td>
<td>Global Audit Summary Reporting</td>
</tr>
<tr>
<td>2004</td>
<td>Global Audit Charter</td>
</tr>
<tr>
<td>2005 2009 2011</td>
<td>Global Key Auditable Risk Areas</td>
</tr>
<tr>
<td>2000</td>
<td>First Sony Internal Audit Newsletter issued</td>
</tr>
<tr>
<td>2002</td>
<td>Global Audit Summary Reporting</td>
</tr>
<tr>
<td>2003</td>
<td>Global Audit Charter</td>
</tr>
<tr>
<td>2005 2009 2011</td>
<td>Global Key Auditable Risk Areas</td>
</tr>
</tbody>
</table>

- **1997 Global Internal Audit**
- **1999 Risk based Audits**
Global Coordination

- **Global Internal Audit Structure:**
  - How to focus on better coordination i) among IA offices and ii) with other audit activities?

- **Audit Collaboration**
  - Joint audit team with diversified experts from regional internal audit offices:

- **Collaboration with Regional Internal Audit**
  - Collaboration with regional internal auditors in audit activities, e.g.
    - Scheduling
    - Risk/scope assessment
    - Internal knowledge-sharing

- **Regional Meeting / Global Internal Audit Leaders Meeting**
  - Regional meeting held to share knowledge and experience among internal audit offices, and conduct audit planning workshops
    - Quarterly Regional Meeting
    - Annual Internal Audit Leaders Meeting

- **Central Support Team (CST)**
  - Established **CST team in India**, consisting of 6 members with professional backgrounds, centrally support the global audit activities in terms of:
    - Data analysis by CAAT tool
    - Information Security
    - System controls and IT projects management
Audit Collaboration

Resource sharing is essential to share expertise and knowledge of the audit process in reality.

<table>
<thead>
<tr>
<th>Audit</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nordic</td>
<td>Europe, Japan</td>
</tr>
<tr>
<td>India</td>
<td>Asia Pacific, Japan, Europe</td>
</tr>
<tr>
<td>Japan</td>
<td>Japan, Europe</td>
</tr>
<tr>
<td>South China</td>
<td>Japan, Asia Pacific, Europe</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Japan, Europe, Asia Pacific</td>
</tr>
<tr>
<td>Pan Asia</td>
<td>Japan, Europe, Central Support Team</td>
</tr>
<tr>
<td>Japan</td>
<td>Japan, Europe, Central Support Team</td>
</tr>
<tr>
<td>Japan</td>
<td>Japan, Europe, Central Support Team</td>
</tr>
<tr>
<td>Japan</td>
<td>Japan, Europe, Central Support Team</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Asia Pacific, Japan</td>
</tr>
<tr>
<td>Gulf</td>
<td>Asia Pacific, Europe, Central Support Team</td>
</tr>
</tbody>
</table>
Regional Meetings

Update internal audit team members on Business results/management direction, internal audit projects and various audit planning topics. Provide an opportunity to listen to Sony/Internal Audit management’s voice and also, have common understanding of internal audit projects/audit planning status and discuss next actions.

Learn from Management
- Enjoy the management presentations and participate

Benchmark Results
- Utilize the Audit Workshops to discuss and benchmark

Team Sharing
- Continuously share between regional teams
Team Building Activities – Sony Futsal Cup

Sony Futsal Cup 2012

Team Building Activities – Sony Futsal Cup

Sony Futsal Cup 2012
Establish a Central Support Team in India:

- Provide internal audit services, such as data analytics, data mining, continuous monitoring, etc. to all internal audit regional offices.
- Allow regional internal audit offices greater flexibility to meet business changes. Supply talented and experienced resources to all IA regions.
- Scaleable resources – minimise regional internal audit costs while maintaining a high standard of audits.
- Provide additional support to each regional internal audit office.
Established the Sony Internal Audit Central Support Team (CST) in Bangalore, India.

The cost advantages of utilizing India Off-Shore model are as follows:

**Increased Flexibility**
- Scale up and down

**Reduces Costs**
- Minimise regional internal audit costs while maintaining a high standard of audits

**More Benchmarking Opportunities**
- Overview of issues that cross borders
- Share best-practices amongst internal audit offices

**Culture**
- Tolerant of misunderstandings
- Patient
- Cheerful

**Risk Assessment**
- Audit Planning
- Audit Notice/
- Request for Information (RFI)

**IT Audit**
- Auditors’ access to ERP and other systems
- Audit Programs

**Audit Fieldwork**
- Audit Work papers
- Use of CAATs

**Tracking of Audit Issues that span geographies**
- Process of sharing Leading Practices

**Communication and Reporting**
- Ad-hoc
- Pre Audit
- During Audit
- Post Audit
Case Study: Advertising and Promotion
Case Study: Data Analytics
Why Data Analytics? Background

- Able to draw on **multiple data sources and systems**
- **Define a repeatable approach** for integrating analytics into a cycle
- Analysis of data to identify anomalies, trends and risk indicators
- Analysis based on large population of transactions instead of sample
- Used to supplement or replace other procedures - inspection, inquiry, observation, and re-performance

**Increased Audit Coverage**
- Test 100% of transactions
- Improved compliance with CAP

**Improved Audit Efficiency**
- Analytics tests supplement traditional audit work steps
- Audit tests focused on exception analysis

**Quantifiable Audit Results**

**Fraud Detection** - Increasing the focus on fraud detection and monitoring

**Provides a basis for Continuous Monitoring** - Well designed analytics can evolve into continuous monitoring tools

**Broader Audit Coverage** - Audit results are based on a significantly larger population than sample-based approach is used
Data Analytics – Usage of ACL

**Decide who does what!**

- It is essential to define the roles within the IA team

**Work together closely.....**

- Hybrid approach: ACL experts and non-experts understand both the tool and audit process.
- Since field auditors understand the background of the analysis, they can investigate potential issues effectively.

**IA Teamwork**

CAAT Experts cooperate with Operation audit staff to analyze the data. Then operation audit staffs test the analysis results.

SOURCE: protiviti

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**Internal Audit**
Data Analytics – Introducing the ACL CMM

Foresight

Audit Contribution

Insight

Hindsight

ad hoc

repetitive

continuous

Level 5
Monitoring

Level 4
Automated

Level 3
Managed

Level 2
Applied

Level 1
Basic

Sophistication

Internal Audit

SONY
make.believe

Data Analytics

CONFIDENTIAL
Level 0
Non existent
- Pre-training.
- ACL and CAAT tools not used or implemented.

Level 1
Basic / Ad-hoc
- ACL not used or implemented.
- Can leverage experience from other CAAT tools.

Level 2
Applied
- ACL training provided to all team members.
- Training/usage methodology exist, but are not applied.

Level 3
Managed
- “Experts” a resource for regional teams, Ops understand and utilise ACL.
- Consistent use of ACL \rightarrow \uparrow \text{risk coverage}, \uparrow \text{efficiencies}.
- Audit reports and findings are reflective of ACL usage.

Level 4
Automated
- Methodical, systematic use of ACL across all audits.
- Best practices and templates shared across audit teams.
- CAATs scripts are automated.

Level 5
Monitoring
- Ability to provide monitoring results.
- Identify “red flags” prior to audits or occurrence of issue.
Case Study: Logistics
### Logistics Standard Audit Program

#### Process and Assessment Area
- **Business Unit/Factory**
- **Request for Logistics**
- **Pick-up Arrangement**
- **Warehouse Management**
- **Transportation Delivery, PoD**
- **Supplier Invoice & Customer Billing**
- **KPI, Cost Efficiency**

#### Key Audit Program

1. **Scheduling, planning between business unit/factory**
   - Validate the planning process – Business Unit request and Logistics planning communication
   - Verify the start to end operational process flow, and inventory ownership, PIC.

2. **Dispatch management – Transportation pick-up, delivery**
   - Assess vendor selection process, assess shipment, warehouse, custom supplier performance
   - Validate and re-perform – planning, routing, cargo selection, loading/unloading, custom

3. **Warehouse management – Load/Unload, daily maintenance**
   - Review warehouse selection, contract renewal, pricing, insurance
   - Review and recalculate warehouse cost and billing to Business Unit - storage, damage, package, OT, utility

4. **Financials - Tracking, billing, payment, and P&L reporting**
   - Validate Payment/cost - Warehouse/truck tracking, invoice reconciliation, review sample invoice
   - Validate Billing/revenue – Scheduling, storage, custom, PoD, handling fee, sample invoice

5. **KPI, performance measurement, cost efficiency**
   - Review, re-perform KPI details, benchmark with Global finished goods KPI, documentation
   - Assess current management review, involvement in operations, drivers for cost efficiency
Case Study: BPO
BPO – Background

Audit Scope:

<table>
<thead>
<tr>
<th>RISK</th>
<th>SCOPE</th>
<th>Service Level</th>
<th>Efficiency</th>
<th>Compliance</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Process Efficiency/Effectiveness</td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Contract Compliance</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Vendor Performance / Monitoring</td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
<td></td>
</tr>
<tr>
<td>Vendor Education / Compliance</td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Vendor Control / Process Visibility</td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Billing from Vendor / Cost</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>SoD / System Access Right</td>
<td></td>
<td></td>
<td>✔</td>
<td></td>
<td>✔</td>
</tr>
<tr>
<td>Information Security</td>
<td></td>
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<td>✔</td>
<td>✔</td>
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<tr>
<td>Business Continuity Planning</td>
<td></td>
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</tr>
</tbody>
</table>

KEY POINT: AUDIT AGAINST CONTRACT.

Two Phases

1. Contract Design: Are key risks covered?
2. Contract Execution: Is it working as designed? Are we monitoring?