

# Sony Internal Audit

Presentation to

ISACA Tokyo Chapter

Tuesday, March 12, 2013

Internal Audit Department

Sony Corporation

# Agenda

## 1 Overview of Sony Corporation

Overview of Sony Corporation and Highlights of Financial Results

## 2 Sony Internal Audit Department

IA Structure, Global Auditable Risks, Resource Allocation, Offshore Support

## 3 Case Study: Auditable Risks and Procedures

Advertising and Promotion, Data Analytics, Logistics, BPO

# Overview of Sony Corporation

# Corporate Data

Overview

**Company Name:**

**Headquarters:**

**Founded:**

**Consolidated Sales and Operating Revenue:**

**Headcount:**

**Consolidated Subsidiaries:**

**Sony Corporation**

**1-7-1 Konan, Minato-ku, Tokyo**

**May 7, 1946**

**6,493,200 million yen (FY2011)**

**162,700 (as of March 31, 2012)**

**1,267 (as of March 31, 2012)**



# Sony Corporate History

## Overview

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.

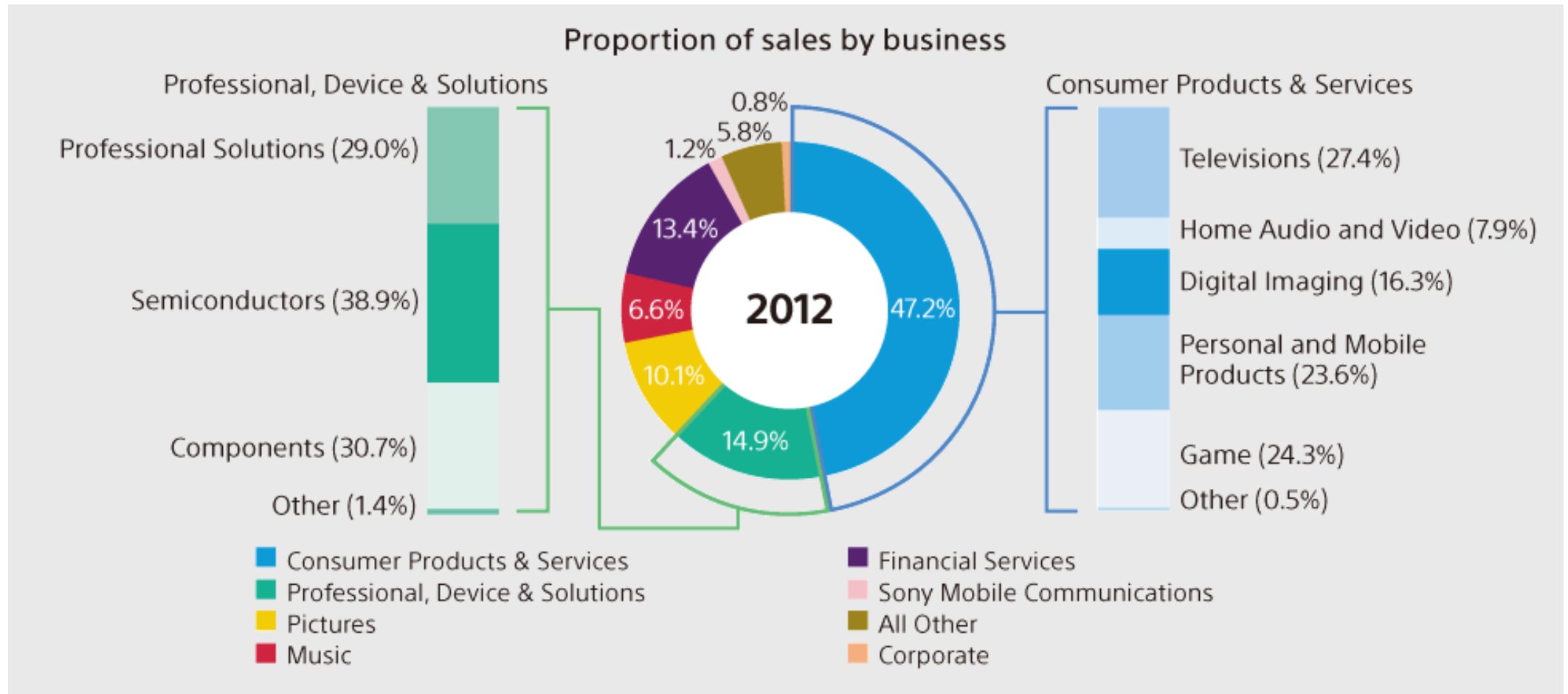
2009 September

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.





Source: Annual Report 2012 (Year Ended March 31, 2012)



# Sony Group Consolidated Results

Overview

## FY12 Consolidated Results Forecast (1)

	FY11	FY12 August FCT	FY12 November FCT	(Bln Yen) Change from August FCT
Sales & operating revenue	6,493.2	6,800	6,600	-2.9%
Operating income	-67.3	130	130	-
Income before income taxes	-83.2	150	150	-
Net income attributable to Sony Corporation's stockholders	-456.7	20	20	-
Operating income	-67.3	130	130	-
Less: Equity in net income of affiliates	-121.7	-5	-5	-
Add: Restructuring charges	54.8	75	75	-
Add: Impairments of long-lived assets	29.3	10	10	-
Operating income, as adjusted	138.5	220	220	-
Capital Expenditures	295.1	210	210	-
Depreciation & Amortization*	319.6	330	330	-
[for property, plant and equipment (included above)]	209.2	200	200	-
Research & Development	433.5	470	470	-
Foreign Exchange Rates	Actual	Assumption (Q2 - Q4 FY12)	Assumption (2H FY12)	
1 US dollar	78.1 yen	Approx. 80 yen	Approx. 80 yen	
1 euro	107.5 yen	Approx. 100 yen	Approx. 100 yen	

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

Sony Corporation Investor Relations 9

## 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.

#### Letter to Stakeholders:

A Message from Kazuo Hirai, President and CEO

## "Sony will change."

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



Strengthening Core Areas >



Turning Around the Television Business >



Expanding Business in Emerging Markets >



Creating New Businesses and Accelerating Innovation >



Realigning Our Business Portfolio and Optimizing Resources >

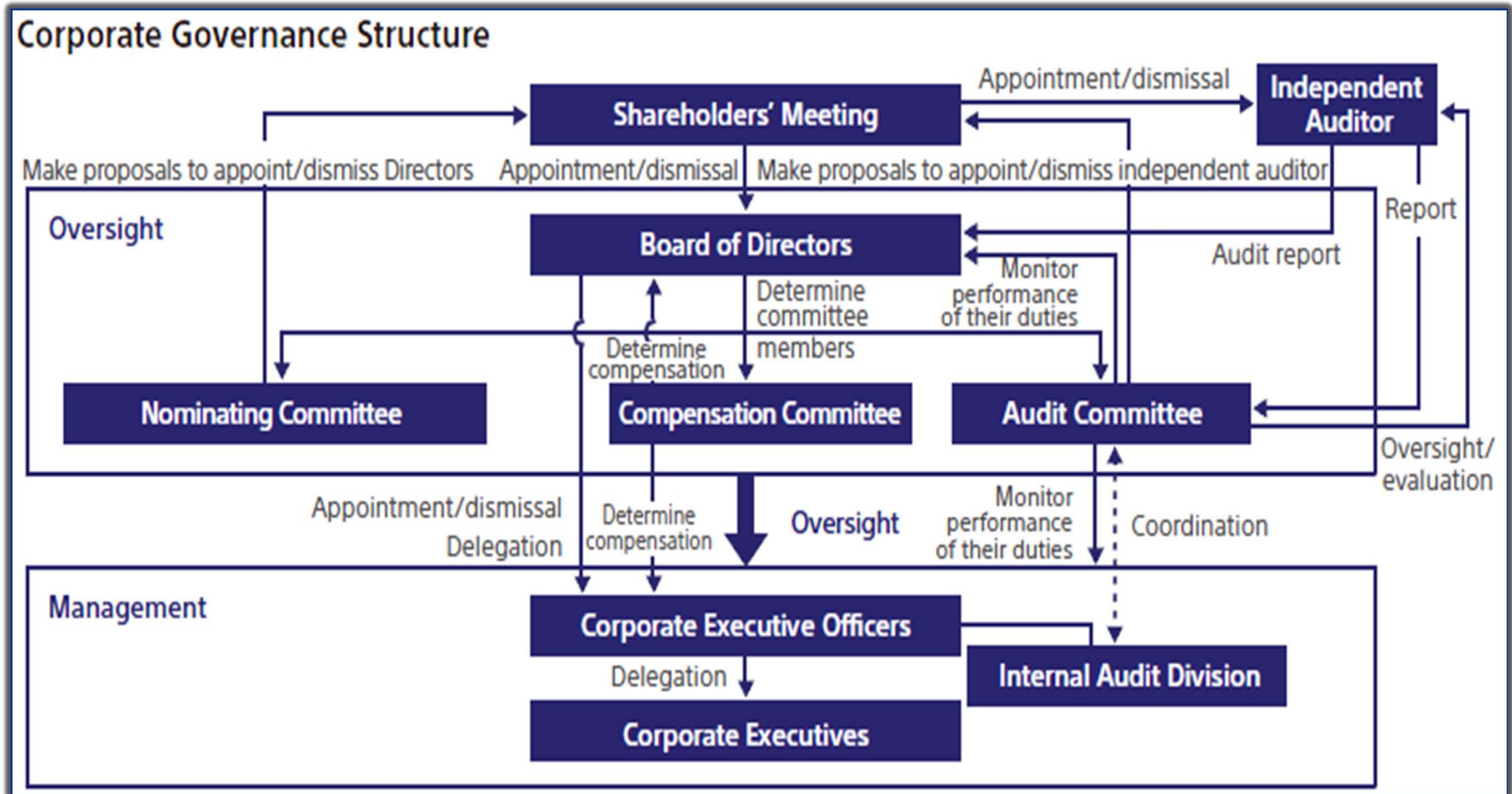
# Sony Internal Audit Department



# Internal Audit Organization

IA Department

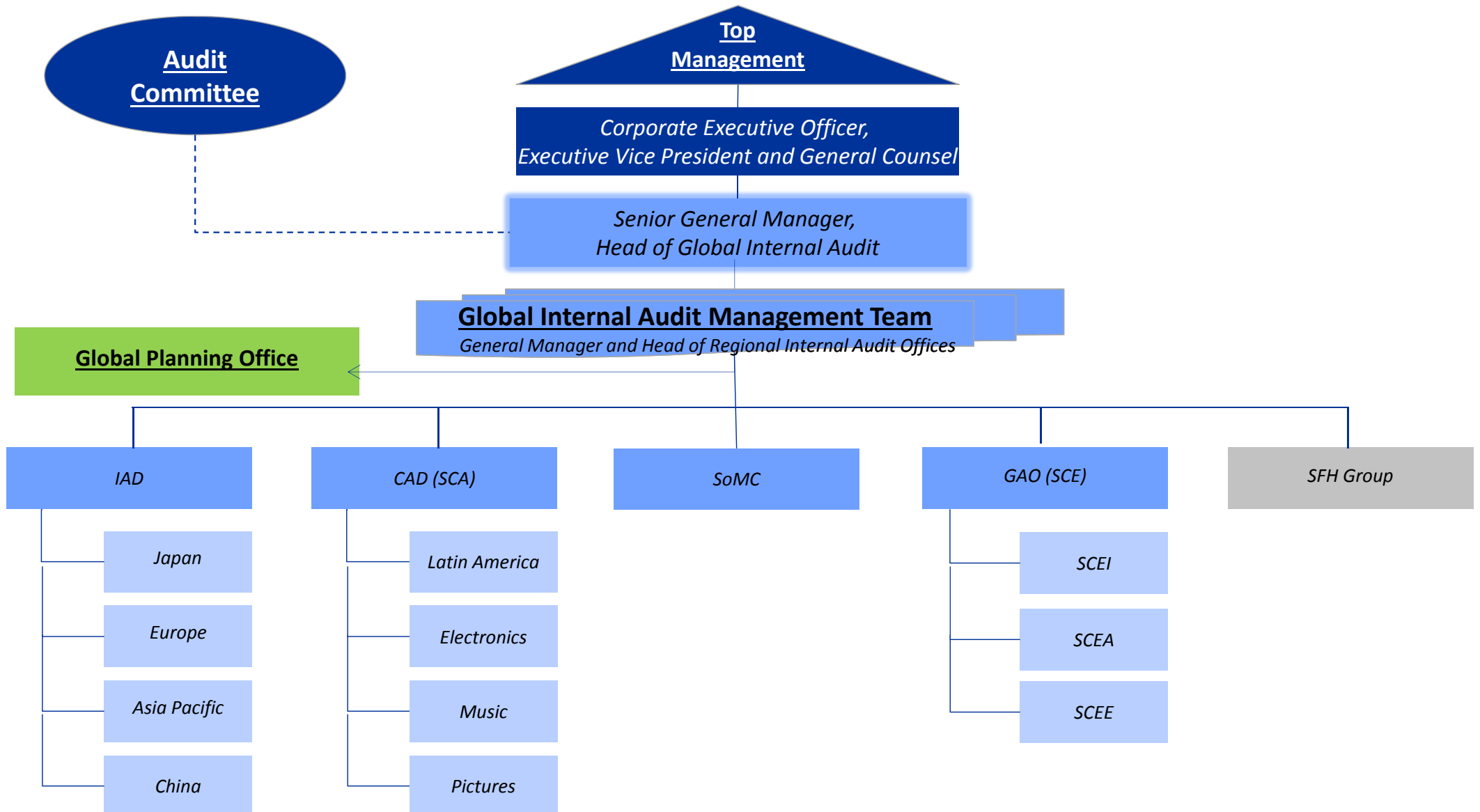
In 2003, Sony adopted the “Company with Committees” corporate governance system under the Companies Act of Japan.



# Internal Audit Organization

IA Department

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



# Purpose of Internal Audit

IA Department

## IAD's Mission: Identify Gaps Between Strategy and Execution

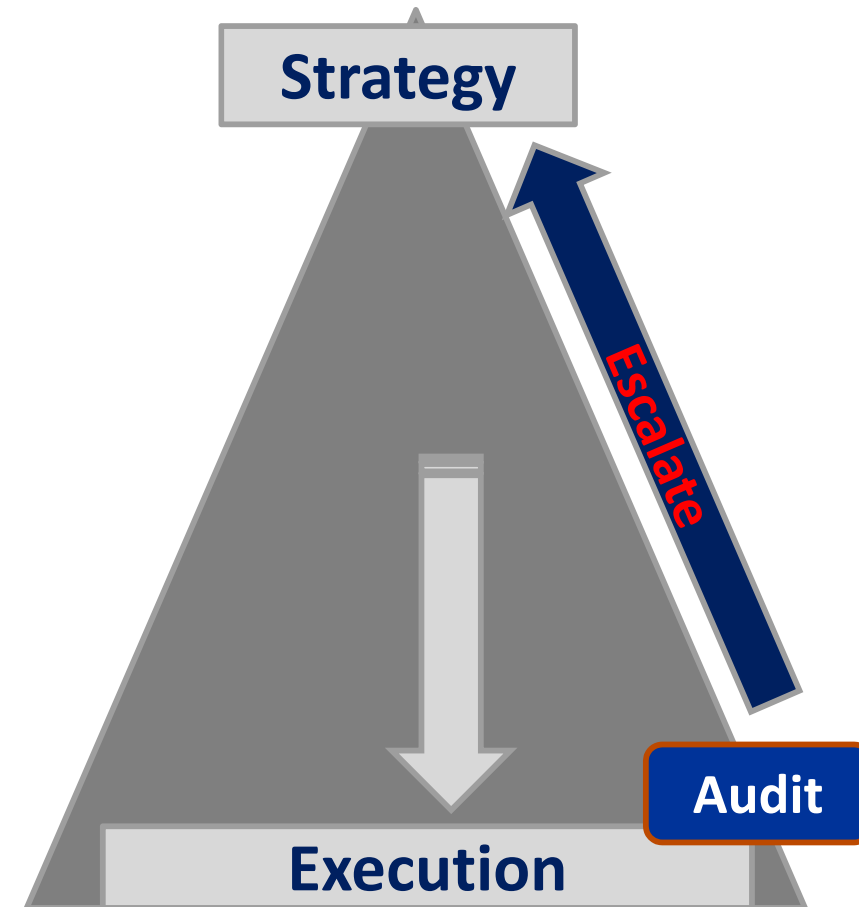
- The Internal Audit Department (IAD) establishes and maintains the internal audit organization and internal audit activities and formulates internal audit policies for the Sony group.
- IAD plans and executes its activities utilizing a risk-based approach for the purpose of providing an objective and independent assessment on governance, risk management and control processes for the Sony group.

### *Ability to:*

**Identify** critical issues

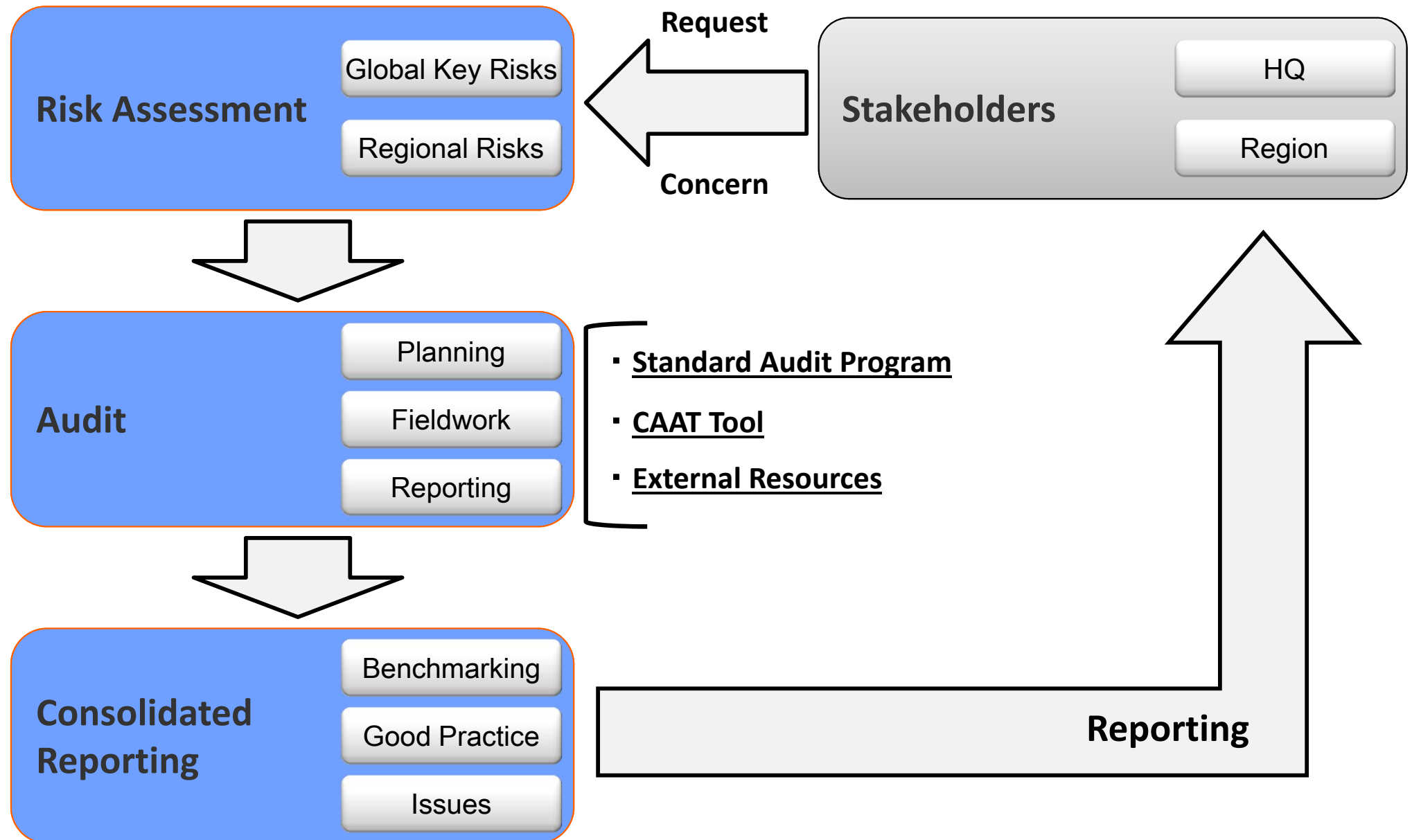
**Escalate** to senior management

Make **recommendations** for improvement



# Internal Audit Process

IA Department



# History of Sony Internal Audit Department

IA Department

- 2011 ▼ Sony Group Global Key Auditable Risk Areas
- '09 ▼ Global Internal Audit Charter
- '05 ▼ Global Issue Tracking
- 2004 ▼ Global Audit Summary Reporting
- 2003 ▼ Renamed the Internal Audit Department (IAD)
- 2003 ▼ Audit Committee established in Sony Corporation
- 2002 ▼ Internal Audit Office established in Latin America (IALA)
- 2002 ▼ Internal Audit Office established in China (IAC)
- 2000 ▼ Renamed the Global Audit Department
- 2000 ▼ Started Knowledge Sharing
- '99 ▼ First Risk Assessment for Sony group
- '98 ▼ Institute of Internal Auditors Japan Chairman's Award
- 1996 ▼ Global Internal Audit Policy Developed
- 1996 ▼ Internal Audit Office established in Singapore (IAAP)
- 1993 ▼ Internal Audit Office established in Europe (IAE)
- 1993 ▼ First Sony Internal Audit Newsletter Issued
- 1987 ▼ Internal Audit Function separated from Accounting
- 1968 ▼ Internal Audit Office established in America (SCA)
- 1968 ▼ Internal Audit Function established in Accounting

1997 Global Internal Audit

1999 Risk based Audits

## □ 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

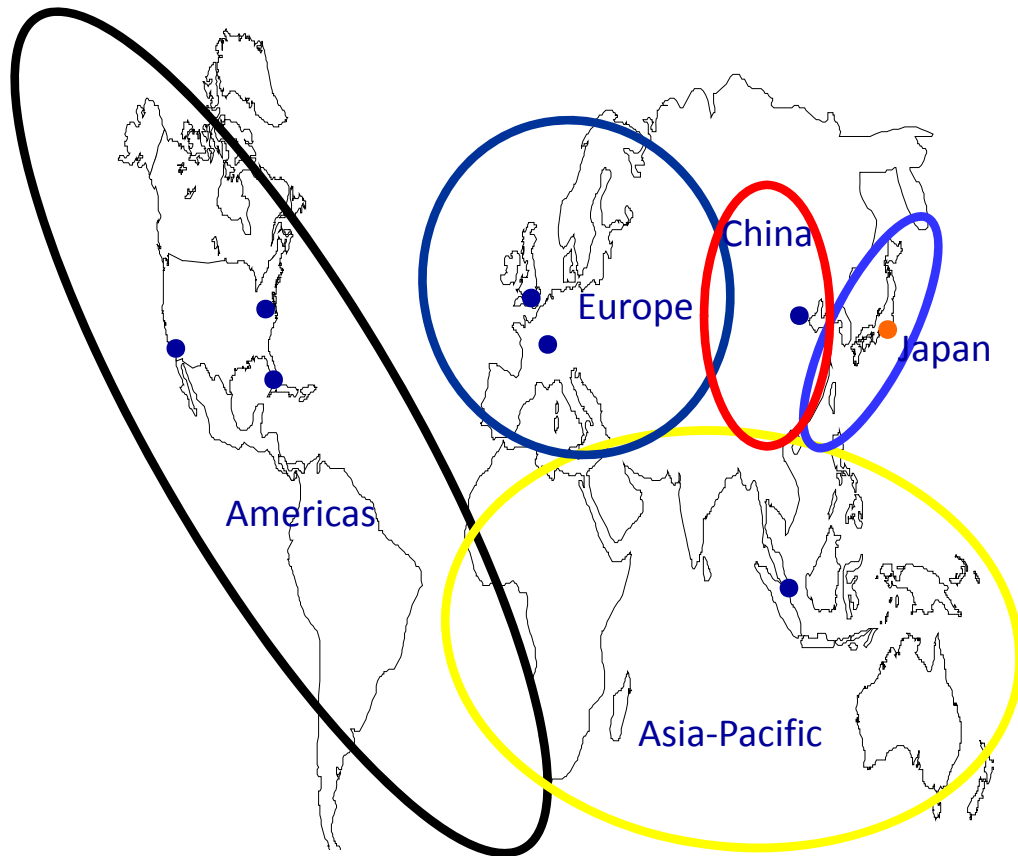
- Quarterly Regional Meeting
- Annual Internal Audit Leaders Meeting

### 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**

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



Audit	Resources
Nordic	Europe, Japan
India	Asia Pacific, Japan, Europe
Japan	Japan, Europe
South China	Japan, Asia Pacific, Europe
Hong Kong	Japan, Europe, Asia Pacific
Pan Asia	Japan, Europe, Central Support Team
Japan	Japan, Europe, Central Support Team
Japan	Japan, Europe, Central Support Team
Japan	Japan, Europe, Central Support Team
Vietnam	Asia Pacific, Japan
Gulf	Asia Pacific, Europe, Central Support Team



# Regional Meetings

IA Department

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

IA Department



## 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.





# Central Support Team – Benefits

IA Department

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

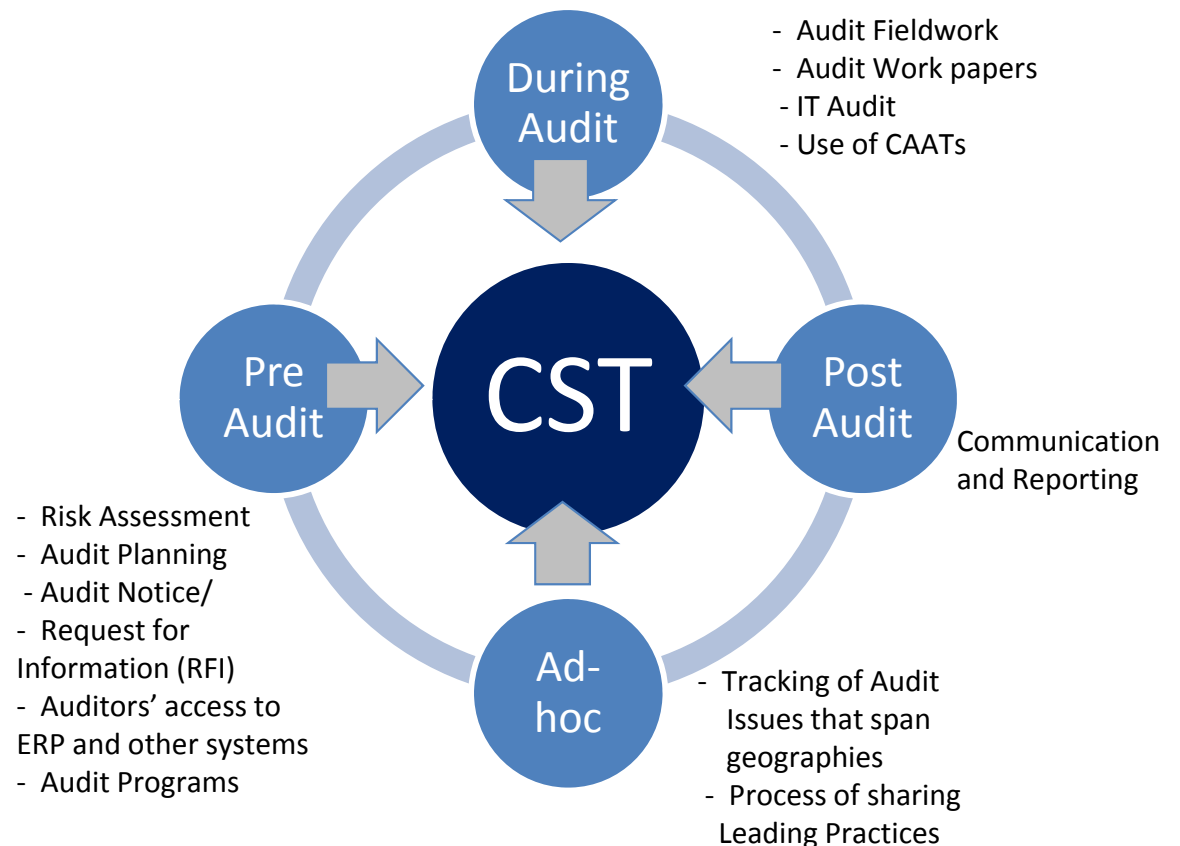
- Minimise regional internal audit costs while maintaining a high standard of audits

## More Benchmarking Opportunities

- Overview of issues that cross borders
- Share best-practices amongst internal audit offices

## Culture

Tolerant of misunderstandings  
Patient  
Cheerful



# Case Study: Advertising and Promotion

# Case Study: Data Analytics

- 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



## Decide who does what!

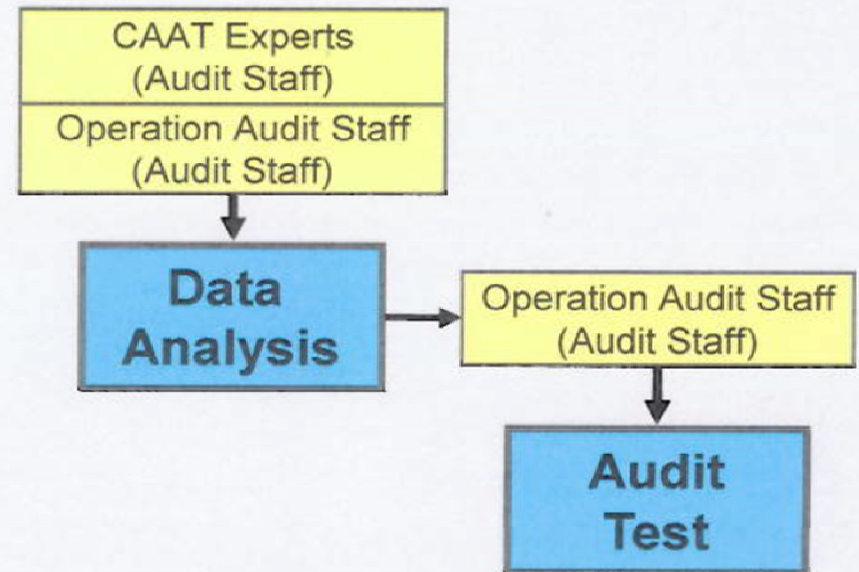
- It is essential to define the roles within the IA team

## Work together closely.....

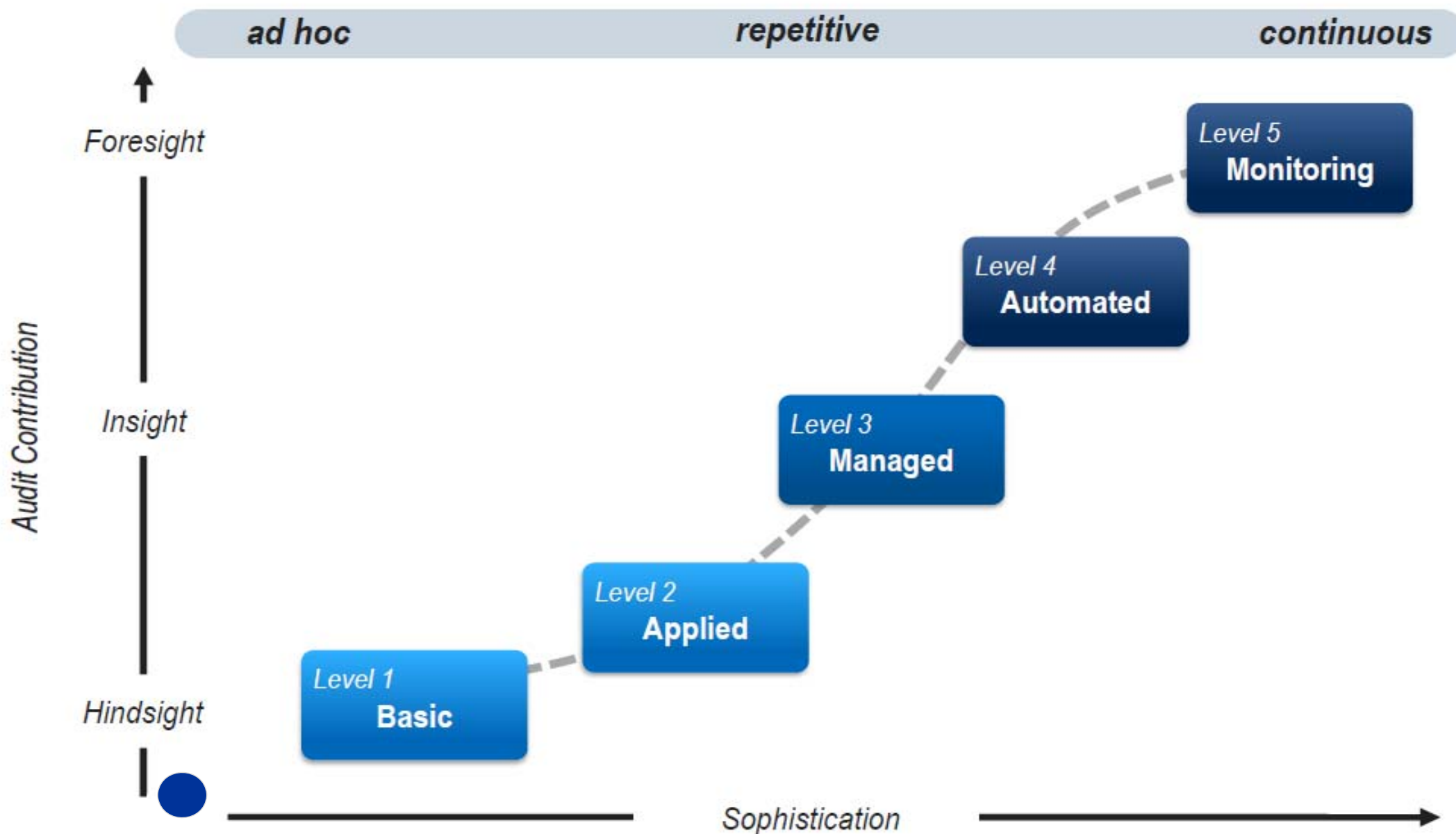
- Hybrid approach: ACL experts and non-experts understand both the tool and audit process.
- Since field auditors understand the background of the analysis, they can investigate potential issues effectively.

## IA Teamwork

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



SOURCE: **protiviti**  
Independent Risk Consulting



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 → ↑risk coverage, ↑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.

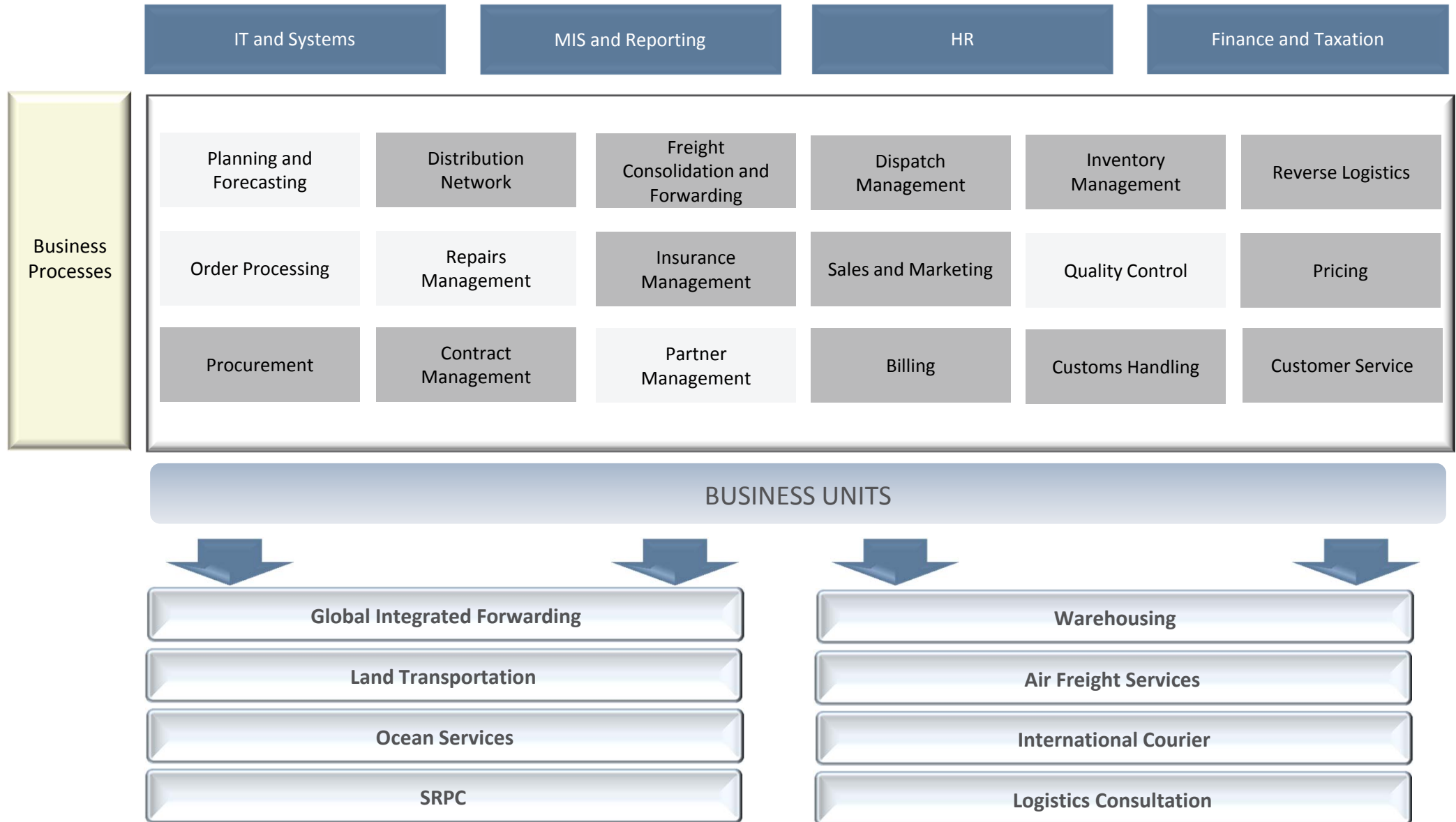
Level 5  
Monitoring

- Ability to provide monitoring results.
- Identify “red flags” prior to audits or occurrence of issue.

## Case Study: Logistics

# Logistics – Complexity of the Business

Logistics



# Logistics Standard Audit Program

Logistics

## Process and Assessment Area

## Key Audit Program

Business Unit/Factory

Request for Logistics

Pick-up Arrangement

Warehouse Management

Transportation Delivery, PoD

Supplier Invoice  
Customer Billing

KPI, Cost Efficiency

### 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



## Audit Scope:

RISK	SCOPE	Service Level	Efficiency	Compliance	Information
Process Efficiency/Effectiveness		✓	✓		
Contract Compliance		✓	✓	✓	✓
Vendor Performance / Monitoring		✓	✓		
Vendor Education / Compliance		✓	✓	✓	✓
Vendor Control / Process Visibility		✓	✓	✓	✓
Billing from Vendor / Cost			✓		
SoD / System Access Right				✓	✓
Information Security				✓	✓
Business Continuity Planning			✓		

## 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?*



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