



Internal Auditing Around the World

Building on Experience to Shape the Future Auditor

VOLUME X

TENTH
ANNIVERSARY
EDITION

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Notable Internal Audit Milestones



Foreword

Almost a decade ago, we published a book consisting of 13 “Performer Profiles” that highlighted the internal audit and risk management practices of leading international organizations. In that publication’s introduction, we expressed the hope that the book might serve as a “helpful and informative guide” to the internal audit profession at a point “when effective internal auditing is more essential to the international business community than at any time in history.”

Somewhat unexpectedly, our project became an annual endeavor, thanks to positive feedback – not only from internal audit, but also from audit committee members, corporate directors, CEOs, CFOs and other executives and professionals. As we celebrate the 10-year anniversary of the *Internal Auditing Around the World* series, it also appears clear that effective internal auditing is far more essential to global companies than it was in 2005.

Our initial *Internal Auditing Around the World* installment began by describing internal audit as a genuine business profession characterized by, among other qualities, a dedication to its craft, a set of standards and ethical guidelines, and continuing professional education. Subsequent editions honed in on the profession’s innovative use of technology, its rising visibility throughout the organization, the ways in which it adds strategic value and its integral role in fostering enterprise risk management, among other themes. Last year’s volume documented how internal audit functions were taking the lead in fostering more meaningful collaboration and deeper levels of trust with boards of directors, C-level executives and the rest of the business.

Although it is tempting to describe the evolution of internal audit functions documented throughout the previous nine *Internal Auditing Around the World* installments as a “transformation,” doing so would be only partially accurate. While the profession’s development in the past decade qualifies as dramatic, it is hardly shocking. The internal audit function’s growth from a tactical contributor to a genuine strategic business partner has progressed in an intentional fashion under the guidance of The Institute of Internal Auditors (IIA). The growing influence of The IIA can be seen in the expansion of its membership from 114,775 in late 2005 to 189,200 by the end of 2013.

Through the single, global nature of its *Standards*, as well as its comprehensive research of current and emerging business and internal audit issues, The IIA shapes and guides internal audit in a way that sets the profession apart from all others. The *International Standards for the Professional Practice of Internal Auditing* engender quality and consistency for global internal audit functions; yet, the *Standards* also contain flexibility and adaptability that have served the profession extremely well in its evolution during the past 10 years. This guidance and service reflect The IIA’s legacy of strong leadership.

We’re honored to be associated with The IIA’s nurturing of the profession. We’re also honored, as shown on the following Acknowledgements page, that so many internal audit executives from the world’s leading organizations have dedicated their time and insights to the profiles presented in the first 10 *Internal Auditing Around the World* installments.

We look forward to sustaining this endeavor by keeping close tabs on how internal audit leaders will continue to improve, expand, evolve and grow even more essential to their organizations during the next decade.

Brian Christensen
Protiviti Executive Vice President
Global Internal Audit

Robert B. Hirth Jr.*
Former Protiviti Executive Vice President
Global Internal Audit (2002-2011)

*Currently serving as COSO Chairman

Acknowledgements

Our sincere thanks to the leading companies that have participated in our *Internal Auditing Around the World* series over the past 10 years.

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NTT DATA Corporation
Old Mutual plc
Old National Bank
Pan American Silver Corp.
Trustmark Companies
Under Armour

Table of Contents

Notable Internal Audit Milestones i

Foreword iii

Acknowledgementsiv

Introduction vii

ABN AMRO 1

Atlas Air Worldwide 5

Baidu 8

Barclays PLC..... 11

Booz Allen Hamilton 14

Bupa 17

Estée Lauder 20

FIS 23

HSBC Holdings Group plc..... 26

National University of Singapore 29

NTT DATA Corporation 32

Old Mutual plc..... 35

Old National Bank..... 38

Pan American Silver Corp. 41

Trustmark Companies 44

Under Armour 47

About Protiviti 50

Other Thought Leadership from Protiviti..... 51

KnowledgeLeader® Provided by Protiviti 52

Protiviti Internal Audit and Financial Advisory Practice – Contact Information 53

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Introduction

“Leadership is about making others better as a result of your presence and making sure that impact lasts in your absence.”¹

Sheryl Sandberg, Chief Operating Officer of Facebook

Atlas Air Worldwide Vice President of Internal Audit Charles Windeknecht knew for certain that his internal audit function was making the company better as a result of its assurance and advisory work when an audit committee member approached him several years ago to share two choice words: “You’re relevant.”

Relevance means having demonstrable, practical bearing on the matter at hand. In this case, the board member was referring to internal audit’s positive impact on the outsourced aircraft and aviation services company (which provides exclusive training to Air Force One pilots). Although Windeknecht portrays the compliment as a “turning point,” he also emphasizes that he and his staff have moved beyond the achievement of relevance by applying their hard-earned credibility to finding new ways to help Atlas achieve its strategic goals.

Similar turning points crop up in nearly all of the 16 internal audit profiles within this volume. To celebrate the tenth anniversary of this book, we asked internal audit executives from some of the world’s leading organizations to look back on the evolution of their function during the past decade, in addition to weighing in on what the future may hold for the internal audit profession. At their core, these engaging accounts of internal audit’s evolution tend to cover a number of major transitions: from the shadows of Sarbanes-Oxley compliance to the frontiers of enterprise risk management (ERM), from tactical practitioners to strategic business partners, from internal controls and financial audits to risk management and governance, and from assurance-only to assurance and advisory.

Although the profile subjects once again this year represent a diverse slate of industries and confront unique strategic risks, their approaches to fostering internal audit functions that contribute to their organizations’ overall success remain remarkably similar. What’s even more striking, however, is the extent to which this year’s profiles describe and build upon themes identified in the previous nine *Internal Auditing Around the World* installments in regard to how their functions have progressed in the past 10 years. Among other concepts and practices, these themes include adding value as a business partner, becoming more collaborative, investing in technology-enabled auditing, and embracing a risk-based auditing approach.

For instance, Bupa Director of Internal Audit Nicola Wood reports that her staff regularly monitors the healthcare company’s business transformation and IT initiatives for potential risks. “[M]ajor change projects are always under way,” she notes. “We get involved at the early stages of these initiatives, so we can work alongside the business to help add value.” As Booz Allen Hamilton’s internal audit function launches an ERM program and adopts advanced data mining and continuous auditing technology, the consulting firm’s Director of Internal Audit Sandra Masino has enhanced her team’s flexibility, expertise and agility through a collaborative approach that extends beyond the public company’s four walls. “We have a core audit team, but we reach out to external resources when we need them,” she shares. “I think that’s happening more and more across industries in the overall execution of internal audit. Internal audit leaders have had to recognize that and tap into the right relationships.”

¹ Sandberg, Sheryl, *Lean In: Women, Work, and the Will to Lead*, Knopf, 2013.

Internal audit's global scope – and its ever-present need for greater efficiency and greater reach – also figures prominently in these profiles. For instance, Barclays PLC Head of Internal Audit Michael Roemer has guided his group through a period of tremendous cultural change at the financial services giant: Most of the 600 audits the team conducted last year included separate reviews of risk, culture and fraud. Roemer also spearheaded the effort to redesign and simplify Barclays' governance, risk and compliance (GRC) framework as part of the company's transformation. "GRC is now built into the onboarding process for the organization, and it's a part of every employee's accountabilities and performance assessment at the end of the year," he reports.

The magnitude of change that has taken place within these internal audit functions during the past decade may be staggering, but it is not entirely surprising given the nature of economic upheaval (an historic global financial crisis), regulatory change (the finalization of the Sarbanes-Oxley Act, as well as Dodd-Frank and the Basel Accords, to name only the largest), and technology-fueled transformation (social media, big data and the emergence of powerful analytics tools). As these leading internal audit executives look ahead, it is clear that these forces will enact more frequent and intense changes to their enterprises and, in response, to the nature of internal auditing itself.

For example, this year's profile subjects refer to still-emerging concepts such as values-based auditing and behavioral monitoring; and Kangping (Kevin) Shi, head of internal audit, control and compliance at Baidu, uses the term "modern auditor" to portray the way his team is simultaneously becoming more risk-focused and technologically empowered. Recent Protiviti thought leadership uses a related phrase, "Future Auditor," to describe a dozen ways that internal auditors will contribute value in the coming decade.² Some of these contributions include:

- Providing early warning on emerging risks
- Broadening the focus on operations, compliance and non-financial reporting issues
- Improving information for decision-making across the organization
- Watching for signs of a deteriorating risk culture

Given the pace and magnitude of business change, as well as the broad nature of these 10-year anniversary discussions, it initially seems difficult to pluck a single theme from this collection of profiles. A deeper look, however, suggests that a single concept very much unites the themes these internal audit executives describe: strategic leadership.

In the past 10 years, most internal audit functions invested the sweat and smarts necessary to establish relevance. Today's leading internal audit functions are moving beyond relevance to the type of strategic leadership that brings about and sustains impactful improvements. The future auditor will conduct even greater levels of collaboration, wield more powerful technology, and assume an even sharper risk focus while taking on a greater leadership role, as well. The two qualities that Pan American Silver Corp. Director of Internal Audit Hik Park often hears his audit committee chairs identify as must-haves for internal auditors are business acumen and humility. Neither of these traits can be learned in business school; they must be acquired on the job and, increasingly, through the internal audit's growing leadership activities throughout the organization. That helps explain Park's rosy forecast for internal audit in the coming years as a "trusted adviser."

Protiviti
June 2014

² *The Bulletin*, "The Future Auditor: The Chief Audit Executive's Endgame," Volume 5, Issue 6, Protiviti, 2014: www.protiviti.com.



Company Headquarters — The Netherlands
Number of Countries Operates in — Approximately 30
Number of Employees in Company — 22,289 (as of year-end 2013)
Industry — Banking
Annual Revenues — US\$10 billion (as of Dec. 31, 2013)
Number in IA Function — 140
Number of Years IA Function Has Been in Place — At least 30
IA Director/CAE Reports to — Chairman of the Managing Board of ABN AMRO and Chairman of the Audit Committee

“Internal audit functions should not be simply putting recommendations on paper and waiting for management to take action. The internal audit functions should take the action, spearheading change and improvement.”

John Bendermacher

ABN AMRO’s Chief Audit Executive Looks Back at a Decade of Change

ABN AMRO, a Dutch bank headquartered in the Netherlands, provides products, services and financial advice for retail, private and commercial banking customers around the world. John Bendermacher is the chief audit executive for ABN AMRO, leading the company’s Group Audit function, which consists of 140 audit professionals who provide assurance and added value to ABN AMRO management, along with a host of strategic objectives, including:

- Risk-based and scalable audit planning
- A flexible, highly capable staff
- An audit approach aligned with quality communication and solution management
- Follow-up monitoring
- Cooperation within the bank’s “three lines of defense”

In the past 10 years, ABN AMRO has undergone significant organizational change – what was once an organization with 80,000 employees across 70 countries was subject to a merger and a de-merger before it was ultimately split up and then nationalized. “Throughout all of that change, Group Audit remained a strong entity within the bank,” Bendermacher says. “Some functions had to be built again from the ground up, but Group Audit survived with a solid position as a highly valued partner to the bank’s various business units.”

Three lines of defense

The three lines of defense model, which has been implemented in many financial institutions, involves three tiers of assurance for the organization: The first line of defense is typically provided by operational management; the second line is owned by risk management and compliance; and the third line is internal audit.

“Fifteen years ago, the internal audit profession as a whole was primarily focusing on financial audits. In a sense, I see that trend returning a bit, as regulators are seeking more assurance and comfort around regulatory reporting, especially with financial institutions and insurance companies,” Bendermacher says. At the same time, the regulators are asking that attention be paid to fundamental principles related to how to build and maintain an organization’s governance structure. “Right now – and for the past two to three years – we have seen a shift toward more governance control auditing, management control auditing, and soft controls auditing,” he says. “There is a certain set of highly sought-after and critical skills to be gained, and experience to be leveraged, by conducting these types of audits. Five to 10 years ago, the Group Audit function conducted a great deal of internal control testing. Recently, that nature of testing was moved to the second line of defense.”

An impending IPO

According to Bendermacher, while the skill sets of audit leaders have changed over the past 10 years, they have not changed enough. The skills and experience levels that he thinks will shape the next generation of audit leaders include more governance skills, regulatory and legal acumen, and soft-control assessment capabilities. Certainly, this will be true in the coming years at ABN AMRO.

“After ABN AMRO was nationalized, the Minister of Finance has had to decide when the bank will go public again,” Bendermacher says. “This will most likely take place in 2015 or 2016. Between now and then, when the IPO is issued, it is critical that the governance, risk management and internal control structures of the bank are firmly in place. This has been a wake-up call for all of us, in many ways. Our board of directors has encouraged all of the business units, and leadership, to establish clear action plans in order to fill every gap and fix every deficiency that we see so that we can provide regulators, external auditors, and all other stakeholders with the assurance that we are ready for any due diligence.”

Taking action

In the Netherlands, many internal audit functions are working the way they should by providing assurance to their organizations’ risk management and control structures, while also implicitly adding value. However, according to Bendermacher, there are still improvements to be made. “Internal audit functions should not be simply putting recommendations on paper and waiting for management to take action,” he says. “The internal audit functions should take the action, spearheading change and improvement. We have to make sure that any and all opportunities for improvement are realized.”

Bendermacher says that the optimal way to conclude an audit is to conduct a closing meeting, describe the findings and the risk, and together, identify the actions, including who owns each action and how deadlines will be met. Reporting should provide senior management with the solutions, not with the problems. “If you wait, it takes much longer to get the action going,” he says.

While Bendermacher has only been in his current position for about six months, he takes a long and strategic view of the Group Audit function. He says that the key benefits that ABN AMRO has realized from the strong positioning of the Group Audit function include the overall strength of Group Audit in the bank’s governance structure and the fact that Group Audit has become a truly trusted partner, by both the board of directors and senior management alike. “Everyone knows what we are doing, accepts our role, and works with us,” he says. But the work, and the change, has only begun for him and his management team.

“We have recently realized that our audit planning has to be much more flexible than it was before, especially since the primary project of the bank now is to be compliant with the scrutiny and regulations imposed on us by the European Central Bank. From a Group Audit point of view, we have to accomplish many things, and this can only be achieved through a flexible planning and staffing approach,” he says.

A decade’s worth of trends and change

An emphasis on controls, stemming from legislation, as well as from an evolving public perception of corporate governance, has had the biggest impact on the internal auditing profession in the past decade, according to Bendermacher. “These are very important trends we have seen over the past 10 years,” he says. “They mean that internal auditing has shifted from controls testing to a much broader view of management and governance controls. The implementation of the three lines of defense has also been important, at least in the Netherlands,” he adds.

In the past decade, many organizations have made a priority of integrating risk management into their processes for formulating and executing audit plans. This intensified focus on risk management created benefits for ABN AMRO by shifting the roles and responsibilities of the Group Audit function. “Evolving away from controls testing toward high-quality assessment of governance and management controls means that you need auditors who are more experienced, who have seen more and understand more,” he says. “They must be prepared to embrace management control framework knowledge – such as COSO – and they need to have a more comprehensive internal auditing and internal controls background.”

Bendermacher also maintains that the development of a common risk management language is essential. “We have to align the wording and the systems of risk analysis with operational risk management and compliance,” he says. “This is an opportunity that must be seized. Currently, risk management, compliance and audit are too siloed. Adopting a common language and view of risks would help tremendously. We should also work more closely with external auditors, who have made great strides in controls testing; for example, the types of testing we conduct at the bank. So it makes sense to work together, and collaborate more closely with senior management, to understand what worries them and what they would like us to be auditing. All of these factors should have an impact on our risk analysis. It would be highly constructive to have all of this input in the coming years.”

Changes in technology and a new awareness of control

ABN AMRO, like most financial institutions and other organizations around the world, leverages technology and audit tools to streamline workflow, improve testing, and communicate audit findings to stakeholders. “All of these tools have of course had their impact over the past decade,” Bendermacher says. But technology also ushers in risk.

“Data quality and data warehousing – in those areas I have seen many changes. Cybercrime and cloud computing have created very real risk. Banks are helping each other, and in the Netherlands, the larger banks are very effective and fast in reacting to these threats, but the danger is growing. In this era of increased threats, internal audit should play a role in continuous auditing and monitoring of all traditional and emerging risks.”

Bendermacher says that 10 years ago the main focus was on key controls, a focus that spread from the United States to Europe in the wake of Sarbanes-Oxley. “I said then, let’s not overemphasize the key controls. Being in control is not only about key controls – you have to look at non-key and soft controls, too. Otherwise, you will develop a lack of real internal control awareness. You will rely too heavily on simply checking off the boxes. In my opinion, that era actually eroded true control.”

The decade ahead

In the next decade, Bendermacher expects to see the reporting line of internal audit become more independent, and reporting of non-financial risks to be combined between the second and third lines of defense. He would also like to see a stronger stance on solution management – not simply the writing of recommendations, but true communication and follow-up.

“I think that skill sets will need to continue to change and evolve,” he says. “The internal audit professional will need to broaden skills. More communication skills, more comprehensive business knowledge, a broader definition of control, a greater awareness of technology-related risks, and a better understanding of how to connect all the dots for senior management to take action.”

“The key takeaway is that CAEs embracing the future auditor vision are better positioned to demonstrate to executive management and the board the value contributed by internal audit through their comprehensive risk-focus and forward-looking, change-oriented and highly adaptive behavior.”

– “The Future Auditor: The Chief Audit Executive’s Endgame,”
The Bulletin, Volume 5, Issue 6, Protiviti,
www.protiviti.com/en-US/Pages/The-Bulletin.aspx



Company Headquarters — United States
Number of Countries Operates in — 124
Number of Employees in Company — 1,800
Industry — Aviation
Annual Revenues — US\$1.6 billion (as of Dec. 31, 2013)
Number in IA Function — 7
Number of Years IA Function Has Been in Place — 9
IA Director/CAE Reports to — Audit Committee and Chief Financial Officer

“Now, everyone on the team thinks to ask, ‘How can we do this better?’”

Charles Windeknecht

Internal Audit Reduces SOX Burden to Raise Profile and Help Atlas Remain More Risk-Focused

Atlas Air Worldwide (Atlas) is the world’s largest operator of Boeing 747 freighter aircraft. It moves just about everything: military vehicles, Formula 1 race cars, rock stars, Olympic hockey players, thoroughbred horses, college marching bands and more. Atlas also provides exclusive training to the pilots of Air Force One, the U.S. president’s aircraft. Atlas is the parent company of Atlas Air, Inc., which launched in 1993 with one aircraft, a Boeing 747-200, to become a leading global provider of outsourced aircraft and aviation operating services for commercial and military customers.

Atlas reported revenues of US\$1.6 billion in 2013. Based in Purchase, N.Y., the company has four primary operating segments: ACMI, AMC Charter, Commercial Charter and Dry Leasing.

- **ACMI:** Historically, the core of Atlas’s business has been providing cargo aircraft outsourcing services to customers on an ACMI (aircraft, crew, maintenance and insurance) basis in exchange for guaranteed minimum revenues at predetermined levels of operation for defined periods. Also included in the ACMI segment are the results of operations for CMI. CMI provides crew, maintenance and insurance services, with the customer providing the aircraft.
- **AMC Charter:** This segment primarily provides full planeload charter flights to the Air Mobility Command (AMC). In addition to cargo flights, the AMC Charter segment includes passenger flights, which the company began providing in the second quarter of 2011.
- **Commercial Charter:** Atlas’s Commercial Charter business segment provides full planeload cargo and passenger capacity to customers for one or more flights based on a specific origin and

destination. Commercial Charter customers include charter brokers, cruise ship operators, freight forwarders, direct shippers and airlines.

- **Dry Leasing:** Atlas's Dry Leasing segment provides for the leasing of cargo and passenger aircraft and engines to customers. Through this segment, customers are provided a specific aircraft or engine without crew, maintenance or insurance.

Charles Windeknecht has been vice president of internal audit for Atlas for six years. He reports directly to the board's audit committee, and administratively to the chief financial officer. Atlas's team of seven internal auditors is based at the company's headquarters. The function is provided additional support through outsourcing arrangements as business needs and audits dictate.

The internal audit department at Atlas was established in 2005. "When I got here, the function was driven primarily by Sarbanes-Oxley (SOX) testing," says Windeknecht. "The internal audit team did not seem to be achieving all that it was capable of. They did not have a prominent position within the organization and therefore may not have had the credibility to be completely effective."

Windeknecht made improving internal audit's image in the organization a top priority. "In my first two months at the company, I met with all of the department heads and the leadership team and asked them, 'What's your view of internal audit?' I wanted to know their perceptions to better understand our current state. I also conducted a self-evaluation against The Institute of Internal Auditors' *Standards* and shared the results with management. The *Standards* provided a reference point and helped us to identify a number of gaps and other issues."

Less SOX, more focus

One issue that was making it difficult for the internal audit function at Atlas to build a positive image was the way it performed audits and presented findings – in short, there was no defined process. "So, I got right in the middle of it, right away, to address this," says Windeknecht.

Trimming down the amount of SOX work was job one, according to Windeknecht, because the burden of that work was preventing internal auditors from focusing on anything else. "SOX gave life to the original internal audit function here, and that was good. But we were devoting more than 10,000 hours per year to testing. The hard part was that I couldn't get a sense of how efficient or effective those hours were. I told management and the audit committee that we had a lot of focus on financial reporting risk and not much else – and that became an important area of focus for me."

Windeknecht says the internal audit function at Atlas has made a "tremendous amount" of progress since defining their current state and setting a course for greater efficiency and effectiveness. One milestone was achieved in 2010, when an audit committee member approached Windeknecht and said, "You're relevant."

"That was a turning point," Windeknecht says. "It was clear we were on the right track, and people were noticing internal audit and the good things we were doing."

The second milestone, according to Windeknecht, was earning high marks for the internal audit function following an independent third-party review in 2012. "It was a testament to our efforts to continually improve," he says. "Now, everyone on the team thinks to ask, 'How can we do this better?'"

A chronology of risk

Today, the strategic objective of the internal audit function at Atlas is to provide independent assurance that the company's risk management and internal control processes are working effectively so it can achieve its strategic goals. The internal audit function's objective is to be a business partner and a trusted adviser to management. The team's mission is to provide an independent and objective assessment of strategic, operational, financial, regulatory, and information technology risks and control effectiveness to management and the audit committee, according to Windeknecht.

He says, “We recognize and accept the role of being one of the company’s key risk management processes. We also want to deliver tangible value by making practical recommendations that help support Atlas in achieving its strategic objectives.”

Another key objective for the company is, of course, making sure its aircraft are operating optimally. Windeknecht says: “When they’re utilized, we’re making money. So, one of our key objectives as a company is to make sure we have great reliability and full utilization of our planes. Anything – safety issues, compliance issues, security issues – that could impair our ability to have high degrees of reliability is a concern. We work closely with management to ensure we have the proper controls in place to manage the risks that could potentially impair our key objectives.”

As part of their annual risk assessment, the internal audit team at Atlas now provides a tool to help management focus more on strategic issues. “We provide a chronology – a five-year view – of what the top 10 strategic risks have been for Atlas,” explains Windeknecht. “This has had a significant impact on moving the organization toward issues of strategic importance.”

Finding a voice

Another reason Windeknecht knows internal audit is now making more of a difference at Atlas is that the team is being approached to do things outside of their traditional role, such as special projects and consultative reviews.

Internal audit is also adding value to Atlas proactively. For example, the team introduced a survey on the fraud risk assessment process and made it part of an important compliance review. When management saw the results, they asked internal audit to do the surveys every year so Atlas could start trending the data. “We plan to use this tool more, as appropriate, to build a database over time so we can spot trends and potential risks,” says Windeknecht.

The internal audit team is also working to help Atlas refine its risk management process, and make better use of annual enterprise risk assessment findings to get more clarity and visibility around risks and how well the company is managing them.

It has taken most of a decade for internal audit at Atlas to move squarely out of the shadow of SOX, earn more respect, and have more of a voice in the organization – but Windeknecht says his job is far from over. “I have to sell the credibility of the function every day because it’s too easy for people to see internal audit only in a traditional role,” he says. “I think it has been, and still is, a challenge for internal audit functions everywhere to find their voice. You need credibility first, though – otherwise the voice is not heard as well, or at all. But to earn credibility, sometimes you have to push back. The trick is learning how to do it right.”



Company Headquarters — China
Number of Countries Operates in — 6
Number of Employees in Company — 31,000
Industry — Internet Services
Annual Revenues — US\$5.3 billion (as of Dec. 31, 2013)
Number in IA Function — 30
Number of Years IA Function Has Been in Place — 10
IA Director/CAE Reports to — Chief Financial Officer and Audit Committee

“I feel it is very important for internal auditors today to understand the business – what it really does, what its objectives are, and what people in the business are concerned about. You cannot understand risk if you do not understand the business.”

Kangping (Kevin) Shi

Internal Auditors at Baidu Look to Data Analysis to Help Make Risk Assessments Less Subjective

Baidu operates Baidu.com, the most widely used Chinese Internet search engine in China – and in the world. Headquartered at the Baidu Campus in the Haidian district of Beijing, Baidu is the largest Internet provider in China and employs 31,000 people around the globe. The company’s name was inspired by a poem about the persistent search for the ideal, written more than 800 years ago during the Song Dynasty; the literal meaning of the word “Baidu” is “hundreds of times.”

Baidu was founded in 2000 by Internet pioneer Robin Li, who is now the company’s chief executive officer. Li started Baidu with a mission to create an Internet search engine that provides intelligent, relevant search results specifically for a Chinese audience. According to Baidu’s website, the company attributes its success largely to its “deep understanding of Chinese language and culture.”¹ It underscores the extreme complexity of the Chinese language, and the challenge of serving the more than 560 million Internet users in that country effectively, by noting that there are at least 38 ways of saying “I.”

In addition to China, Baidu operates in Brazil, Egypt, Japan, Indonesia and Thailand. It offers more than 50 Internet and web search services, as well as the world’s largest user-generated Chinese-language encyclopedia (similar to Wikipedia). The company also offers Wireless Application Protocol and PDA-based mobile search. Baidu listed on NASDAQ in August 2005 and in December 2007 became the first Chinese company to be included in the NASDAQ 100 Index. It reported 2013 revenues of US\$5.3 billion – a 43 percent increase from 2012.

¹ “The Baidu Story,” Baidu.com: <http://ir.baidu.com/phoenix.zhtml?c=188488&p=irol-homeprofile>.

Kangping (Kevin) Shi is head of internal audit, control and compliance for Baidu; he joined the company in 2011 after working as a financial controller for a leading global software company. He reports directly to the company's chief financial officer, with a soft line to the board audit committee. Shi has 30 direct reports in the internal audit department, and all are based in China.

Moving toward a consulting role

Internal auditors at Baidu are organized into three teams: One team is responsible for traditional audits, such as financial and process audits; another handles all information technology (IT) audits, including audits of Baidu's infrastructure and internal systems; and the third is responsible for construction audits. The company established the third internal audit team because the business has taken charge of building its own facilities to keep pace with its rapid growth; as of April 2013, Baidu had four major construction projects under way in China.

According to Shi, the internal audit team's short-term goals are to help Baidu balance risks, and improve processes throughout the organization so it can save costs and increase efficiency even as the company grows rapidly. Longer term, Shi says the internal audit function looks to assume a more strategic role, providing consultation to the management team and helping to facilitate more informed business decision-making.

The internal audit function at Baidu has been in place since 2004; initially, the department had only two auditors performing basic audit work. In 2005, the team was expanded to help Baidu meet compliance demands related to Section 404 of the U.S. Sarbanes-Oxley Act (SOX). Under Shi's direction, the internal audit staff has more than doubled from 12 to 30 since 2011.

"The risk landscape for Baidu is growing just as fast as the company is," says Shi. "We need more people in the department specifically so we can cover more risks, especially as Baidu makes more acquisitions and builds its presence in markets around the world."

Baidu has been in a strong acquisition mode of late, starting with the purchase of video portal iQiyi in 2012. In 2013, the company acquired Android app store 91 Wireless, group buying site Nuomi, video portal PPS, and e-bookstore Zongheng. Baidu has plans for more acquisitions in the near future as it looks to expand its presence in three target regions: Southeast Asia, the Middle East, and North Africa.

Watchdog and partner

While compliance work still consumes a significant amount of the internal audit function's time at Baidu, Shi also credits SOX demands with helping to raise internal audit's profile in the business. "Another benefit of SOX work is that it helps new auditors to learn the business very quickly because they have to interact with many people and groups across the organization," he explains.

Shi says he believes more people at Baidu are starting to view the internal audit function as an objective consultant to the business, although his team must still devote a lot of time to explaining their purpose to others. "I think the internal audit function is viewed as both a watchdog and a partner – it depends on which people you ask," says Shi. "Ideally, we would like to reach a point where we can spend half of our time on traditional audit work, and the other half on consulting to the business."

Baidu's internal audit team is currently trying to add value to the company in three specific ways, says Shi. One is by staying apprised of technology trends and developments, both inside and outside of Baidu. "We need to focus on technology risks because every day there are new ideas and innovations emerging. And for a business like Baidu, any new advancement in technology could have a significant impact on our structure, strategy and profitability," says Shi.

Second, the internal audit function is proactive about sharing best practices throughout the business – particularly with newly acquired companies that need to adapt to Baidu’s approach to risk and control. Shi says, “Internal audit has a broader view of the company than other functions, so we can more easily see opportunities to apply knowledge and processes that can benefit different parts of the business.”

The third way internal audit is working to add value at Baidu is by consulting to management and the board. This is not the same level of consulting Shi envisions for internal audit in the future. Internal audit is working its way toward that goal by encouraging proactive discussions with management and the board about risks. Shi says this dialogue is helping to build awareness at senior levels within Baidu that the function can offer much more than just traditional auditing work.

Data analysis and the modern auditor

Baidu’s internal audit department is much larger than functions in most Chinese companies, according to Shi. He says that in China, the typical role for internal audit is essentially a “policeman,” with a strong focus on SOX work. In these types of functions, he says, “traditional thinking prevails” as most auditors typically come from an accounting background and think of themselves primarily as “financial people.”

Shi says these types of auditors cannot help companies navigate risk and move forward: “I feel it is very important for internal auditors today to understand the business – what it really does, what its objectives are, and what people in the business are concerned about. You cannot understand risk if you do not understand the business.”

The biggest trend in internal auditing during the past decade, according to Shi, has been the transformation in many countries and organizations of the traditional auditor into a “modern auditor.” The modern auditor has a more risk-based perspective toward the business and to their auditing approach, Shi says. This type of auditor also relies on data analysis to help identify risk – which is what internal auditors at Baidu are doing now. “Risk is somewhat subjective, but data is objective,” Shi explains. “I expect to see more internal auditors using data analysis more often in the future to determine potential risks and issues.”

To succeed in the coming decade, Shi says internal auditors will need the ability to learn the business fast; communicate issues effectively, like consultants; and identify risks and opportunities for their organizations. If they can do all three, they can break away from their traditional role.

“Management will not pay much attention to the function otherwise,” says Shi. “So, the biggest challenge for the internal audit profession in the next decade, in China and elsewhere, is doing a better job of demonstrating our ability to help businesses grow and reduce risk, so they can be healthier.”

Of course, as internal audit expands its role, maintaining objectivity will remain an imperative. “There is a red line internal auditors cannot step over,” says Shi. “We will always need to be mindful of striking the right balance between building stronger relationships with the business and maintaining our independence.”



Company Headquarters — United Kingdom
Number of Countries Operates in — 50+
Number of Employees in Company — 140,000
Industry — Financial Services
Annual Revenues — GB£28 billion (as of Dec. 31, 2013)
Number in IA Function — 621
Number of Years IA Function Has Been in Place — 100+
IA Director/CAE Reports to — Audit Committee and Chief Executive Officer

“Internal audit is now the facilitator and champion of GRC across the organization.”

Michael Roemer

A Time for Transformation: Internal Audit Helps Guide Barclays in Mission to Become “Go-To” Bank

Barclays PLC can trace its roots back to 1690, when two goldsmith bankers, John Freame and Thomas Gould, started trading in Lombard Street, London. More than 300 years later, the financial services provider has built an extensive international presence in more than 50 countries across four continents. It’s also credited with a number of firsts, including offering the first credit card in the United Kingdom in 1966 – the Barclaycard – and introducing the world’s first automated teller machine (ATM) in 1967.

Barclays’ operations include personal banking, credit cards, corporate and investment banking, and wealth and investment management. The company reported GB£28 billion in revenue in 2013. The major U.K. retail bank operates Barclaycard under its own brand in the United Kingdom, Germany, and several other countries, and offers a cobranded card in the United States. Barclays is also a major investment bank in the United States and the United Kingdom. Additionally, it has a major presence in Africa, operating in 14 countries on the continent.

Michael Roemer joined Barclays as head of internal audit in January 2012, taking over the role from an interim chief auditor. He came on board in a year that would prove to be one of Barclays’ most challenging in its long history. First, the company was changing its shape, moving from a federated or vertical model to a more horizontal structure. Second, while it was in the process of restructuring, the LIBOR scandal hit in July 2012, and both Barclays’ chairman and chief executive resigned soon after.

As was subsequently recognized by a number of parties, including the investigating authorities, the fact that the LIBOR submission process was an unregulated activity – and until the financial crisis, was deemed low risk – meant that there was not the level of focus on scrutinizing this activity as compared

to others deemed higher risk. Part of the bank's philosophy is to ensure it seeks to learn from these instances for the future.

A fundamental but necessary shift

In August 2012, Barclays named a new chief executive, Antony Jenkins, who was previously chief executive for Barclays' Retail and Business Banking business. He launched a transformation program with a corporate goal of turning Barclays into a "Go-To" bank. Roemer says, "It sounds simple, but it's a very complex goal to achieve."

As part of this effort, Barclays developed a Purpose and Values program and framework for the entire organization. Barclays' newly defined purpose is "to help people achieve their ambitions – in the right way." The company also has committed to measuring and rewarding its people "not just on commercial results, but how they live [Barclays' values]." Those values include respect, integrity, service, excellence and stewardship. All 140,000 employees at Barclays are required to participate in structured training specific to this program.

This new focus for Barclays is a fundamental but necessary shift, says Roemer: "Senior leadership discussed the impact of what the behaviors and attitudes of a few people in the company had done to Barclays' reputation, brand and market capitalization. Out of these discussions came an understanding that Barclays' culture needed to change."

Another part of Barclays' transformation, according to Roemer, is a concerted effort to try to make every strategic and tactical decision through the "lens" of the customer. "If we're going to create a new product, for example, we consider why we're creating it, which customers will use it and how they will benefit, and whether the product is priced fairly and is easy for customers to understand," he explains.

Focus on the "Four P's"

Like Barclays itself, the company's internal audit department has a long history. The function began in the late 19th century as the "Inspection" department, which employed one inspector. Today, there are 621 internal auditors on Barclays' internal audit team.

When Roemer arrived at Barclays in 2012, he spent time gathering feedback from clients, regulators and auditors. Through that effort, he identified opportunities to move the internal audit function to the next level and implemented a "very robust people agenda" for internal audit. This includes sharing the performance objectives of the chief auditor, which are set by the board audit committee. "These are publicized to the whole group and the performance objectives for the rest of the team cascade from them," Roemer explains.

Roemer also instituted the "Four P's" concept in the function: people, partnership, process and performance. Each of the P's is designed to help internal audit at Barclays focus on becoming more effective. For example, Roemer says the "people" aspect includes initiatives such as a guest auditor program, and efforts under "partnership" include moving internal audit away from its image as a "police function" and more toward becoming a strategic partner with management.

"Process" was definitely an area with opportunity for improvement, says Roemer: "We were conducting about 300 audits per year – 3,000 hours per audit, 20-30 pages per report. It was difficult for the business to understand what was important. So, we retooled our methodology and simplified the technology our auditors were using. In the old system, 400 fields of data were required to start an audit. Now, it's down to 70, and we're trying to reduce that number even further."

These changes have allowed Barclays' internal audit team to expand their coverage significantly. "In 2012, we conducted 450 audits. Last year, it was 600. In 2014, we expect to reach 700," Roemer says. "The audits now average about 600 hours, and they're much more focused. We use a risk assessment

to fine-tune our approach. Reporting is also simplified; our reports are mobile device-friendly and now average three to six pages.”

Another change: Internal audit has added a management control approach rating to complement both its control environment assessment and Barclays’ Purpose and Values program, Roemer says. Additionally, as of 2014, most audits at Barclays now include reviews of risk, culture and fraud.

Roemer spearheaded the effort to redesign and simplify Barclays’ governance, risk and compliance (GRC) framework as part of the company’s transformation. One outcome of this effort is a comprehensive guide, available on the company’s website, that outlines how Barclays operates – from its governance structures and control environment to employees’ code of conduct and management’s strategic decision-making process.

“Internal audit is now the facilitator and champion of GRC across the organization,” says Roemer. “GRC is now built into the onboarding process for the organization, and it’s a part of every employee’s accountabilities and performance assessment at the end of the year.”

A destination for top talent

When Roemer joined Barclays as head of internal audit, one of his goals was to help make Barclays the employer that “every internal auditor in the world wants to work for.” He says he wants the company to be known for its emphasis on professional development for internal auditors, and its effective use of technology to help save the audit team time and “free up their minds.”

Roemer says the company is making progress: “The changes we have made so far are intended to help remove bureaucracy. As a result, we’ve been able to expand our audit coverage exponentially without increasing the size of our staff. Also, our continuous auditing and monitoring work is leading to a more predictive and proactive approach to risk and audits. Our internal auditors now have more time to look at risk and understand the business.”

Other results, according to Roemer, include a “dramatic” decline in turnover in the department. Internal audit is receiving more requests from the business to conduct audits. The chief auditor is now invited to every executive committee meeting. And people in the organization are clearly starting to view the function differently. Roemer says: “In January 2014, we had 100 requests to participate in our guest auditor program. The view now internally is that internal audit is a fun place to work, as well as a place to develop professionally and make a huge impact on how Barclays does things in the future.”

He adds, “I do think that since the financial crisis the internal audit function, especially in the financial services industry, is looked at more as a place of reason – and as the conscience of the organization. When internal audit is supported and viewed in a positive way by the organization, it can be a very exciting place to be.”

Company Headquarters — United States
Number of Countries Operates in — 17
Number of Employees in Company — 23,000
Industry — Management and Technology Consulting Services
Annual Revenues — US\$5.8 billion (as of March 31, 2013)
Number in IA Function — 13
Number of Years IA Function Has Been in Place — 5
IA Director/CAE Reports to — Audit Committee and Chief Financial Officer

“There should not be a timeline for adding value – you need to be adding value all the time.”

Sandra Masino

Booz Allen Hamilton Internal Audit: Value-Adding Partners from the Beginning

Sandra Masino is the recently appointed director of internal audit of Booz Allen Hamilton Holding Corporation (NYSE: BAH), the parent company of the strategy and technology consulting firm that provides management consulting, technology, and engineering services to the U.S. government in defense, intelligence and civil markets, and to major corporations, institutions and not-for-profits. Masino oversees a team of 13 full-time auditors, supplemented by external contract providers. She reports to the audit committee and the company’s chief financial officer.

The mission of the internal audit team is to provide independent objective assurance and consulting for Booz Allen Hamilton (Booz Allen), while adding value and capturing opportunities for improvement through effective risk management and governance.

In the current Booz Allen corporate structure, the internal audit function is only five years old. In 2008, Booz Allen Hamilton Inc. spun off its old commercial consulting business as a separate company, and Booz Allen Hamilton Holding Corporation was formed as the successor to Booz Allen’s much larger government consulting business. The commercial business retained most of the legacy internal audit group; Booz Allen Hamilton Holding Corporation (Masino’s company), now a FORTUNE 500 public company, had to build its own.

“The last five years have been focused on a shorter-term goal of setting up an internal audit function for Booz Allen,” Masino says. “First, we focused on Sarbanes-Oxley compliance because we wanted to become a public entity. That goal – along with executing our audit plan and achieving IIA compliance – has been our focus. We have come a long way in those five years.”

Now that the function is operating as planned, Masino intends to balance Sarbanes-Oxley work with other areas of audit focus and reviews. “The company is launching an ERM (enterprise risk management) program, and we have purchased a risk compliance tool that we are implementing,” she says. “We also want to advance our auditing technique by using more sophisticated measures such as data mining and continuous auditing. All of this adds up to significant change in the past several years, for our company and our internal audit group.”

During the past few years, the fundamental internal audit skill set needs have not changed. “What has shifted is the pace and expertise required in our work,” Masino says. “So I think it’s critical to have co-sourcing outside partners. Given the level of expertise and rapid deployment needed, it’s simply not cost-effective to fully staff for every situation. We have a core audit team, but we reach out to external resources when we need them. I think that’s happening more and more across industries in the overall execution of internal audit. Internal audit leaders have had to recognize that and tap into the right relationships. Success in internal audit today requires savvy management and a flexible approach.”

Always adding value

When the focus of Booz Allen’s internal audit expanded over the past few years, beyond Sarbanes-Oxley, it touched on the core values of the company, such as ethics and compliance. “We are seen as the experts in process and controls,” Masino says. “In terms of adding value, we have felt valued and part of the management team from the beginning. Culturally that understanding has always been in place. Whereas other companies look at internal audit as a police force, that was never the case here.

“I think companies miss that opportunity when they do not tie the internal audit work to the organization’s top-tier ERM concerns and mitigation opportunities – focusing on those issues that are keeping management awake at night,” she adds.

The ability to stay plugged in to management issues is largely dependent on where the internal audit function is in this growth spectrum. For Masino and her team, getting plugged in meant first getting the company SOX-compliant, setting up the function, and conducting client satisfaction surveys to analyze and improve performance. Along the way, the audit work itself was becoming more and more value-adding. “The point is, there should not be a timeline for adding value,” she says. “You need to be adding value all the time.”

Now, as a strategic resource for Booz Allen, the internal audit team is able to enter into selected transactions early in their life cycle to build control insights into the process. “When we get pulled into strategic discussions, or into larger-impact audits, we can leverage our past experience, tools, methodologies and risk language,” Masino says. “In doing this, we can guide these strategic initiatives to proactively build in strong controls.”

Trends with impact

Trends important to Masino and her team include those that broaden the concept of control beyond being strictly the purview of the internal audit function – such as the codification and publication of guidelines related to ERM and governance, risk and compliance (GRC). “These guidelines and concepts put forth that risk management is everyone’s job,” Masino says. “They have changed the expectation of what internal audit is doing.” This does not mean lessening the requirements of internal audit, but rather making it clear that everyone owns risk management.

“This also means that we have to be aware of business challenges and change,” she adds. “Proactive involvement in key governance committees and routine touchpoints, particularly with senior management, are important.”

Technology, good and bad

While it is inarguable that technology has had a significant impact on the internal audit profession over the past 10 years, Masino believes that there has been both an upside and a downside to the inroads it has made. “The positive aspect is the advancement of electronic mediums, for example, the ability to apply more real-time and robust audit tests, the evolution of work paper creation tools, and the development of more sophisticated information sharing. Connecting across geographies, increasing efficiencies – this creates opportunities for us.”

On the more challenging side, the fast-paced nature of technology creates risk, particularly in reputation. The advancement of social media means the impact to a company’s reputation can be quick, negative and widespread. The Booz Allen audit plan is constantly reevaluating the company’s focus on these types of risk to keep pace with this continuous change.

“Information security is also a top-of-mind concern for most every business today,” Masino says. “It’s critical that the internal audit function helps the business in an increasingly complex cyber threat landscape. We focus on information security in our audit program. The basic security concepts in cybercrime are the same as traditional threats, but given the sophistication of today’s environment, you have to make sure that internal audit is well-coordinated with the IT organization. When an audit is in its planning phase, it’s important to arrange for the skills and the tests to validate that the right things are actually working.”

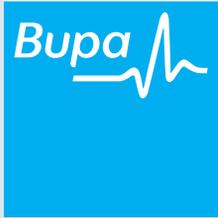
To this end, Masino has created two audit teams: business process and IT. “We have five people in our function devoted to this IT area. Having these skills in-house, making that investment, has made a big difference.”

Everyone owns risk management

“Ten years ago we were all reeling from SOX,” Masino says. “We didn’t understand it. We were not clear on internal audit’s role. There were so many questions: ‘How should we work with external auditors? How do we best interpret the published regulations?’ This was a huge focus for me 10 years ago. As a public company we have figured this out; we are still rightsizing but at least we know how to do it.”

In the upcoming decade, the focus will shift again. “At Booz Allen, everyone owns risks and controls,” she says. “Internal audit is just one piece of the risk management framework. We need to advance our collaborative risk management efforts to optimize the company’s position. For example, our five auditors cannot manage the IT risks of a company; the pace of technology and the rate of change mean that everyone who has a hand in IT in the company has to have a risk mindset. A coordinated plan is also necessary so that everyone is not testing or pulling samples on the same thing. Organizations benefit from having a unified risk management platform and language.”

She adds, “The challenge is to balance the investment in people, tools and technology so that internal audit can be as efficient and effective as possible. Just as important is integrating, collaborating and coordinating with other risk management functions across the enterprise. This helps us to be more proactively involved in the beginning – and more valuable over time.”



Company Headquarters — United Kingdom
Number of Countries Operates in — 190
Number of Employees in Company — 70,000
Industry — Healthcare, Health Insurance
Annual Revenues — GB£9.1 billion (as of Dec. 31, 2013)
Number in IA Function — 20
Number of Years IA Function Has Been in Place — 20+
IA Director/CAE Reports to — Chief Financial Officer and Chairman of the Audit Committee

“When recruiting, I look for the best future leaders for Bupa ... Recruiting talent for internal audit is an investment.”

Nicola Wood

24/7 Internal Audit Team Helps Bupa Pursue Ambitious Growth Around the Globe While Managing Risk

“Longer, happier, healthier lives” is the purpose of global healthcare company, Bupa. Founded in 1947 as the British United Provident Association with a mission to provide healthcare to the general public, Bupa funds and provides quality healthcare in a range of settings, including clinics, dental centers, hospitals and long-term care facilities. Its services range from complex acute care to wellness management. The company also sells medical insurance both domestically and internationally.

Bupa is a provident organization; it has no shareholders and therefore reinvests all of its profits back into improving services for its more than 22 million customers in 190 countries. While Bupa is headquartered in the United Kingdom, more than 70 percent of its profits come from its operations in international markets, including Australia and Spain. The company employs about 70,000 people around the world. In 2013, Bupa reported group-wide revenues of GB£9.1 billion.

Bupa’s director of internal audit, Nicola Wood, has been with the company for 14 years. “One reason I’ve stayed so long is that Bupa is an incredibly dynamic organization,” she says. “It’s always changing according to how it needs to grow. It’s always fresh. And everything we do at Bupa really does go back to our purpose. We don’t just care for people when they’re sick. We help them to stay well.”

Wood reports to the chief financial officer at Bupa on an administrative basis and has “unrestricted access” to the chair of the group audit committee. She oversees a team of 20 internal auditors spread across Bupa’s operations and joint ventures in Australia, England, India, Spain, and in the U.S. city of Miami, Fla. “They all report directly to me, so we are a truly independent third line,” says Wood.

Technology goes a long way toward helping the internal audit team overcome its geographic diversity, according to Wood: “We are a 24/7 operation. Australia can ask a question at the end of their day, go home, and when they start work the next morning, the rest of the world has given their answers.”

An expanded scope for internal audit

Over the past 14 years at Bupa, Wood has seen many changes in the internal audit industry. But in her view, new guidelines issued in 2013 by the Chartered Institute of Internal Auditors (CIIA), which represents the internal auditing profession in the United Kingdom and Ireland, have been perhaps the most significant change of all – at least, for internal audit functions in the insurance sector. *Effective Internal Audit in the Financial Services Sector*¹ has the overall aim of enhancing the effectiveness of internal audit and its impact on the U.K. financial services industry, which includes insurance.

“This guidance has changed what we do, and will continue to do so as regulators start to measure our performance against it,” Wood explains. “For example, our scope is now expanded to include risk and control culture, outcomes of processes, real-time auditing of high-risk areas, and information presented to the board for strategic and operational decisions.”

Since the CIIA issued its guidance, Wood says she’s been focused on helping her team to adapt to these new expectations. This includes identifying and addressing any potential skills and resources gaps. “We’ve added two more people to our team and we’re considering potential co-sourcing and guest auditor arrangements,” she explains. “Those arrangements would enable us to look at areas, such as actuarial and technical areas, that a small team of auditors would not necessarily have in their skill set.”

Wood points to the Solvency II standard as another catalyst for change for the internal audit industry in the United Kingdom – and another reason why she’s adding more resources to her internal audit team. Solvency II, a European Union directive, is scheduled to go into effect January 1, 2016. It requires insurers to focus on managing all risks their organization faces and ensure that they have enough capital set aside to provide reserve funds to cover all insurance claims they’re likely to receive.²

“We need to make sure we have the right skill set available to look at capital and risk in more detail,” says Wood.

A delicate balancing act

The move in the business world in recent years to split internal audit and risk into two functions has been another big change, according to Wood. But it’s one she believes has led to positive outcomes for many organizations, including Bupa. “When I joined Bupa, the internal audit and risk functions were handled by us – one team,” she says. “Now that risk is its own function, internal audit can be a true third line of defense, with risk as the second line.”

She continues, “The emergence of dedicated risk teams – and the development of risk frameworks with appetites and tolerances – is really strengthening the role of the chief risk officer, too. It’s helping to ensure the CRO is at the top table with management, and that risk is seen as a function in its own right. In our organization, we’ve also seen the emergence of very strong CROs in all of our business units, who report to local directors, have a seat at the top table, and are very senior in the organization.”

While the internal audit team at Bupa may no longer be responsible for risk management, Wood says they are still very risk-based in their approach and in their annual plan. Clinical risk is particularly on the radar for a healthcare business like Bupa. “Our ambition is to be seen as a healthcare partner to millions,

¹ *Effective Internal Audit in the Financial Services Sector: Recommendations from the Committee on Internal Audit Guidance for Financial Services*, Chartered Institute of Internal Auditors, July 2013: http://www.iaa.org.uk/media/354788/0758_effective_internal_audit_financial_webfinal.pdf.

² “Solvency II FAQs,” Association of British Insurers: <https://www.abi.org.uk/Insurance-and-savings/Topics-and-issues/Solvency-II>.

and we can't be unless we really understand the clinical risks that the business faces and can manage and monitor them properly," Wood says.

Business transformation and IT initiatives are other potential risk areas where Bupa's internal audit team works to add value: "In a dynamic organization like Bupa, major change projects are always under way. We get involved at the early stages of these initiatives, so we can work alongside the business to help add value. We're able to do more real-time auditing that way."

Wood says her team always receives more audit requests from the business than it can address. "I think that's a good indication of the reputation we have and the desire from the business to have us help and support them. I do think internal audit is viewed as a partner at Bupa. But ultimately, we report to the board, and provide assurance over the governance, risk and internal controls facing Bupa. So, our primary customer is the board – the audit committee."

She adds, "It's a delicate balancing act, providing your primary customer with what they want and being seen as a business partner to management."

Support for ambitious growth

Another way Bupa's internal audit function works to add value to the business is by conducting post-acquisition reviews. "Bupa is very acquisitive. We did six major deals just last year," says Wood. "Internal audit looks at the acquisition process not only to confirm that management complied with controls in place, but also to identify lessons learned and best practices to reference in the future. This is not something we would have done – or been asked by management to do – a decade ago."

Wood says Bupa's chief executive officer has announced "ambitious goals for Bupa" in terms of growth for the next few years. "Internal audit, risk and compliance are fundamental to achieving that growth. If you have poor controls, time is wasted correcting them," Wood says. "We want the business to grow, of course, but we also want to ensure controls are dealt with in a stable and sustainable way so energy can be directed into developing the business."

Talent recruitment: an ongoing priority

New regulatory demands, changing business models, and heightened expectations by stakeholders inside and outside of Bupa are all prompting Wood to recruit a different type of auditor for her team than she might have hired in the past. "Fourteen years ago I would've looked for the best internal auditors," she explains. "When recruiting, I look for the best future leaders for Bupa who can learn internal audit. Internal audit is a place to come learn about the business, and then move out into the business."

Like many audit leaders, Wood expects talent recruitment to be an ongoing priority, and challenge, for her organization in the coming decade. That's why she works closely with Bupa's talent directors, and also reaches out directly to potential candidates through the professional networking site, LinkedIn.

"To me, internal audit is all about the individuals. If I invest time to make sure I get the very best people for the team, those with the potential to become great Bupa leaders, then we'll have a strong internal audit function with a great reputation," says Wood. "Recruiting talent for internal audit is an investment. I have to do it and I want to do it. It's a non-negotiable part of my job."

Company Headquarters — United States
Number of Countries Operates in — 135
Number of Employees in Company — 40,000
Industry — Consumer Products
Annual Revenues — US\$10.2 billion (as of June 30, 2013)
Number in IA Function — 20
Number of Years IA Function Has Been in Place — 30+
IA Director/CAE Reports to — Audit Committee Chair and Chief Financial Officer

“Internal audit is a much more interesting and challenging job than it was 10 years ago. A lot depends upon how your company views the function.”

Bob Tyler

The Changing Face of Internal Audit at Estée Lauder

Estée Lauder Companies, founded in 1946 in New York, is a world leader in makeup, skin care, fragrance and hair care products. Estée Lauder products are sold in more than 135 countries and territories around the world.

Bob Tyler, corporate vice president and chief internal control officer, has been with the company for more than 25 years. He leads a group of 20 professionals, and reports to the audit committee chair and the CFO. The internal control team at Estée Lauder focuses on risk assessment, operational and compliance reviews, Sarbanes-Oxley testing and compliance, and managing internal talent to ensure the function is at peak performance in the midst of ongoing change and evolution throughout the company.

“Estée Lauder’s business model has changed significantly,” says Tyler. “Fifteen years ago we were basically a wholesaler. Today we are a wholesaler/retailer and in the near future, we will be our second largest customer, apart from Macy’s. We are opening stand-alone company-branded stores in several key global locations, such as Brazil, India, China and Africa, where high-end department store distribution does not presently exist. Instead of waiting for that distribution to happen, we are opening our own branded stores including MAC, Clinique and Estée Lauder. The company is also increasingly ‘locally relevant’ by developing products that align with ethnic skin around the world. We recently created a skin care line named Osiao, specifically for Asia.”

Additionally, the Estée Lauder Companies’ portfolio contains major brands including Origins, Clinique, Bobbi Brown, MAC, Jo Malone, Smashbox and Aveda, and has developed licensing agreements with many designers, including Tom Ford, Ermenegildo Zegna, Donna Karan and Tommy Hilfger.

In this culture of change, the internal control team has to keep pace. “A decade ago internal audit was viewed as a necessary function, one that had to be tolerated,” Tyler says. “Today, it’s a function that provides value. We have adapted our ERM (enterprise risk management) process over the years by adopting a subcommittee ERM approach that deals with major topics such as reputation, strategy, technology, human resources, emerging markets, and more. The subcommittees identify risks related to those topics, and funnel the risks and related mitigation plans to the internal audit team for inclusion into their risk universe and profile.” In addition, a member of the internal control team sits on each subcommittee in order to have a voice in the process.

Developing strategies and new skills

Ten years ago, the internal control function at Estée Lauder did not have a stated or defined strategy. Five years ago, Tyler and his team developed one, and presented it to executive management and the audit committee. Now, they share the updates to the strategy and their progress once a year with senior management and the audit committee. They also have quarterly updates on audit results with the CEO and the heads of the company’s business functions.

The internal audit function today also has new skills criteria for its auditors. “We primarily recruit from top accounting firms. We look for candidates to have the appropriate certifications (CPA, CIA or CISA) or a master’s degree, or they have 18 months to get it to remain on the team. The company supports their efforts to obtain these credentials with tuition reimbursement assistance,” Tyler says.

This requirement stems from collaborating with Estée Lauder’s external auditors. “They rely on the work of the internal control department to the maximum allowed by professional standards related to the SOX testing we do, so we need to demonstrate that we have a professional, educated group whose work they can rely on. At the end of the day, Estée Lauder is a very competitive organization. The more education and credentials you have, the better it is for your next opportunity here. I strongly believe in the internal audit function being a talent developer and talent exporter for the company, so I encourage my team to focus on their own improvement and growth.”

Taking the initiative

“I think that internal audit has to continually push the envelope,” Tyler says. “We have to proactively put a lot of our services in front of business owners for them to see our value and capabilities and leverage us. The real challenge is motivating business units to ask for our services. Sometimes people want to fix things themselves, and not involve us. Eventually, of course, they have to involve us, and I explain that we could have helped them earlier, and more effectively, if they came to us first.”

Tyler now sits on the Corporate Ethics and Compliance committee along with the heads of the legal and human resources functions and the CFO. Achieving this level of visibility and acceptance has at times not been easy. “Again, it required demonstrating that internal audit provides value and insight,” he says. “Be a proponent and take the initiative.”

Estée Lauder’s brands encompass a digital ecosystem made up of 17 websites. The internal audit team works with the appropriate departments to ensure that the company has controls in place. It is important that everything, from back-end integration to external-facing components such as social media, is consistent. Reputation risk, cyber risk, e-commerce risk – all of these are top of mind for Tyler and his team.

“Years ago, the key area of concern for internal audit was identified risks,” Tyler says. “Today, we are giving a lot more attention to evolving risks such as digital risks, including the pervasive threat of cybercrime and the reputational risk associated with social media. We have accepted the challenge to understand all of the exposures and controls and build a program around what we can do to validate the effectiveness of those controls. In today’s digital landscape, if you have a real or perceived issue, the whole world knows about it in 15 seconds.”

Technology risks

Of all the factors that have contributed to the evolution of internal audit, technology is likely the most significant. From automated work papers to audit tools and knowledge-sharing vehicles, the function has been completely reshaped by technological advancements.

For Tyler, harnessing big data and understanding how best to apply analytics are two key areas for enhancement in the coming years. “Few if any internal audit departments are going to have the additional headcount or resources to keep up. We have to be able to do our work more quickly and smarter, and the only way we can achieve that is through technology. This represents the biggest opportunity for us as a profession, and few are probably as knowledgeable or skilled today as they will need to be.”

He says that another challenge is to merge business process auditors and IT auditors. “Right now, I have a business process staff and an IT staff. Over time, their skills will need to be blended,” he says.

The next chapter

“Internal audit is a much more interesting and challenging job than it was 10 years ago,” Tyler says. “A lot depends upon how your company views the function. Some people hide behind the concept of independence. While you have to adopt an independent view, you are still part of the company. There are ways to be independent in a constructive, collaborative way and the more that internal audit can achieve that balance, the better it will be.”

He believes that everyone needs to get comfortable with what the internal audit function can and should do versus what it should *not* do.

“We have to consider what management wants and what the audit committee wants,” Tyler says. “Many times, those are different goals. The audit committee, which performs an oversight role, wants comfort that processes and risks are well managed, that the numbers are correct, and that there is a system in place to limit the potential for fraud. Management wants those things too, but they also want operational and financial efficiencies. To satisfy all of your stakeholders who are looking at risk from a top-down basis and checking it from a bottom-up basis – that will be a challenge.”

“Internal auditors want to take their collaboration with business partners to a new level – Internal audit’s longstanding desire to improve collaboration with the rest of the business has intensified, as is evident in the priority that CAEs and respondents place on communicating, and even marketing, the expertise and value that internal audit provides to the rest of the enterprise.”

– *Assessing the Top Priorities for Internal Audit Functions: 2014 Internal Audit Capabilities and Needs Survey*, Protiviti, www.protiviti.com/IASurvey



Company Headquarters — United States
Number of Countries Operates in — 110+
Number of Employees in Company — 39,000
Industry — Financial Services
Annual Revenues — > US\$6 billion (as of Dec. 31, 2013)
Number in IA Function — Prefer not to disclose
Number of Years IA Function Has Been in Place — Prefer not to disclose
IA Director/CAE Reports to — Audit Committee of the Board of Directors

“It’s tough. Risk and security are top of mind for our executives. We have to generate respect for the internal audit function; otherwise, people will close up. So when we are communicating the results of an audit, I make sure that our auditors truly explain why and provide context. We have worked diligently to get this right.”

Katy Thompson

Security by Design at FIS

FIS™ is the world’s largest global provider dedicated to banking and payment technologies. With a long history deeply rooted in the financial services sector, FIS serves more than 14,000 institutions in over 110 countries. Headquartered in Jacksonville, Fla., FIS employs more than 39,000 people worldwide and holds leadership positions in payment processing and banking solutions, providing software, services and outsourcing of the technology that drives financial institutions.

Katy Thompson is the chief audit executive of FIS. Prior to joining the organization, Thompson began her career as a bank auditor for eight years, then worked in internal audit consulting for 15 years, including at Arthur Andersen, and then at Protiviti, as a managing director.

“FIS has a strong stance on governance,” Thompson says. “Making sure that all FIS employees embrace and own risk management is embedded in everything we do. FIS business units are the first line of defense, and our risk management and information security teams comprise the second line. We, internal audit, are the third line of defense. Our job is to independently test controls and risk management effectiveness.”

FIS is a dynamic company. Founded in 1968, the organization has grown to more than US\$6 billion in revenue with locations in nearly every corner of the world. The challenges that shape the FIS risk landscape today include global competition, technology innovation, customer satisfaction, regulatory scrutiny, data protection and threats from cybercriminals. “Our first priority is to protect our clients’ and their customers’ financial interactions. Everything we do is viewed through the lens of security,” Thompson says. “Vigilance and scrutiny are constant.”

In this type of environment, where the data security stakes are so high, it is imperative for internal auditors to be viewed as valued and trusted business partners – and at FIS that is exactly the case. “Absolutely we are perceived as a partner,” Thompson says. “My team and I have worked very hard for that.”

“It’s tough. Risk and security are top of mind for our executives. We have to generate respect for the internal audit function; otherwise, people will close up. So when we are communicating the results of an audit, I make sure that our auditors truly explain why and provide context,” she adds. “We have worked diligently to get this right.”

Communication – the key change

In the past 10 years, the internal audit profession has seen many changes: new areas of focus, emerging technologies, and shifting roles and responsibilities. For Thompson, the key change has been communication.

“In my world, expectations are high,” she says. “The only way to answer these expectations is through open, honest and frequent communication. I meet with executives regularly and have constant interaction with the audit committee. Communicating with the right people at the right time is the foundation of what we do. In addition to effective communications, the future of internal audit will be shaped by developing innovative and emerging capabilities. In the past, it was fine to have broad-based audit skills, but today, the skill sets have to be honed and targeted. In our world, deep security expertise is critical. Additionally, one of my areas of focus is to increase our maturity around data analytics. That is a strength for the future of internal auditing as a whole, and at FIS, in particular. We need to develop the tools and competencies to continuously analyze trends and anomalies.”

Adding value through a clear focus

Having the unequivocal objective to be the third line of defense means that Thompson is not burdened with creating additional layers of explanation for how the internal audit team adds value to FIS. “I do not focus efforts on trying to recover my costs with cost-saving recommendations. That is not my focus,” she says.

One challenge in being considered a strategic partner at FIS relates to communications around the internal audit team’s methodology on risk ratings. “Persistent threats to data are constant; we have to ensure zero data vulnerability. Due to the increased cyber risk, FIS must make sure we are doing everything right to mitigate those risks. We cannot rely on perimeter controls, and thus we cannot conduct ‘old school’ auditing. We’ve made the cultural adjustment to place a high priority on risks within the innermost security layers.”

One of the most important ways for any internal audit function to add value is to elevate the role of internal auditing across the corporate mindset. In a sense, internal auditing has to be thoroughly integrated into each business process and system. Awareness of risk is not just a set of actions – it is a way of thinking.

“I think many organizations are missing that integration,” Thompson says. “My team is fully integrated at FIS. I also think that the independence of my reporting – that I report directly to the audit committee of the board of directors – is highly valuable. It is a great position to be in – it feels right.”

Three goals for the next decade

Thompson identifies three essential goals for the FIS internal audit team:

1. **Coverage.** As the largest global provider of banking and payment technologies, FIS is heavily regulated. “So while my focus is clear, the execution is complex,” she says. “We conduct three risk assessments – one on enterprise processes, one on products and services, and another on locations. These risk assessments form the audit plan. I want to provide a formalized coverage model of processes, products, services and locations that presents the most significant risk, which means I use risk calculators that are always aligned to the company’s top risks.”
2. **Building skills.** Since joining FIS three years ago, Thompson has focused on growing the team. “I am a believer in the value each of our team members provides – through their technical skills, project management skills, FIS knowledge, industry knowledge, and strategic and opportunistic thinking. I’m also a huge believer in thoughtful co-sourcing.”
3. **Data analytics.** Thompson realizes the need to understand the complexities and vagaries of data. “In 2014, we are focusing on maturing our data analytics processes. I have the specific goal to get my hands on as much data as I can. I’m very interested in what value we can add to FIS in this area,” she says.

Emerging trends

Thompson is following several financial industry trends, including a deliberate focus on cybercrime, direct reporting to the audit committee to improve the stature of internal audit, and building collaborative relationships with leadership, including the chief risk officer (CRO). The CRO role is one that Thompson views as a critical component of the company’s overall security structure. “It’s all about collaboration. Across the financial services industry, I have seen a more intensified focus on integrating risk management into audit planning and execution. It is expected in our world.”

Thompson believes that proficiency with data mining and analytics and building specific subject-matter expertise are key trends. Also important is developing truly deep knowledge of the industry, the organization and the external factors impacting the business. “It’s important for me to be able to talk with FIS executives about, for example, risks inherent in mobile payments,” she says. “To do that, I need deep technology expertise to inform my opinions and my advice. Given the complexity of today’s business environments, we all need more expertise in our internal audit functions.”

“Social media, mobile applications, cloud computing and security (specifically with regard to the NIST Cybersecurity Framework) are critical areas of concern – Social media applications and related risks are top priorities for internal auditors to address, as are risks surrounding mobile applications, cloud computing and security.”

– *Assessing the Top Priorities for Internal Audit Functions: 2014 Internal Audit Capabilities and Needs Survey*, Protiviti, www.protiviti.com/IASurvey



Company Headquarters — United Kingdom
Number of Countries Operates in — 75
Number of Employees in Company — 254,000
Industry — Banking and Financial Services
Annual Revenues — US\$78 billion (as of Feb. 24, 2014)
Number in IA Function — 900
Number of Years IA Function Has Been in Place — 20+
IA Director/CAE Reports to — Chair of the Audit Committee and Chief Executive Officer

“If those of us in internal audit can’t make a positive impact on our organization in today’s environment, then frankly we must be doing something wrong. The opportunity we have right now is immense.”

Manveen Pam Kaur

Internal Audit at HSBC Builds Credibility and Helps Influence Change from the “Top Table” Down

HSBC Holdings Group plc is one of the world’s largest banking and financial services organizations. Established in 1865, HSBC credits the inspiration for its founding to Scotsman Thomas Sutherland, who worked for the Peninsular and Oriental Steam Navigation Company. Sutherland recognized the need for local banking facilities in Hong Kong and on the China coast to help finance growing trade between Europe, India, and China. HSBC is named after its founding member, The Hongkong and Shanghai Banking Corporation Limited.

Today, HSBC is a multinational company headquartered in London. It operates four global businesses – commercial banking, private banking, global banking and markets, and retail banking and wealth management. HSBC serves about 54 million customers through a network of more than 6,300 offices in 75 countries and territories.

Manveen Pam Kaur is head of internal audit and sits on the group management board for HSBC. She joined the company in April 2013, taking over the role from longtime HSBC executive Paul Lawrence, who retired. Kaur has a career in the banking and financial services industry that spans nearly three decades, and joined HSBC from Deutsche Bank, where she had served as head of internal audit since 2011.

At HSBC, Kaur oversees an internal audit team of 900 who work across the world, including at the bank’s affiliates. The team is based primarily in major centers of business for HSBC: London, New York, and Hong Kong. There are also sizable audit teams operating in countries such as China and India, and regional teams, in Latin America and the Middle East.

Kaur has 11 direct reports – many are heads of audit for major HSBC banking entities. Kaur and her team collaborate regularly and meet in person as a group several times a year. Kaur reports functionally to the chair of the audit committee of HSBC's board of directors; administratively, she reports to HSBC's chief executive officer.

Maintaining independence yet exercising influence

Over the past decade, Kaur says she has observed growing pressure on internal audit functions across the globe to respond to “enhanced expectations from a range of stakeholders” – from regulators to executive management. Because of these expectations, Kaur says today's internal audit leaders need to ensure the right skill sets are in the function to make it more forward-looking and driven by outcomes as opposed to just operational and control reviews.

“That's a big shift. Internal audit still has to be very good at what's traditionally been required of the function, of course – being a third line of defense. But it now also must support the sustainability of the franchise from a long-term perspective,” she explains.

While many internal audit functions today strive to be viewed as a partner in their organizations, Kaur says she challenges the use of that term to describe internal audit. She explains, “For internal audit, independence is a critical prerequisite for the credibility of the function. Now, you also should be able to make a difference in the company by objectively influencing decision-making. A good internal audit function supports the organization in improving its control environment, and helps management to anticipate emerging risks and to prepare for them.”

One of the most positive changes Kaur says she has witnessed in recent years in the financial industry is the evolution of the risk function into a “more cohesive and a strong second line of defense.” She says, “If you have a well-developed second line of defense, you can rely on it more because it can be a good indicator of the actual risk culture environment in the organization. You can develop stronger combined assurance maps, which allow you to look at risk profiles more holistically and target audit work appropriately.”

Kaur adds, “Nevertheless, risk functions are still evolving, and I do think that even if a strong risk and business control function exists, internal audit still needs to conduct in-depth testing to gain their independent assurance.”

Internal audit no longer a “backwater”

Kaur says the banking industry, as a whole, can improve in terms of getting more value from internal audit – and that starts by helping to ensure the function is a magnet for talent from all lines of business. “In non-financial services industries, you see internal audit functions that operate like learning academies, a place where high-potential employees spend time as a way to prepare for assuming more senior business roles in the organization,” Kaur explains. “Some companies even make it mandatory for employees to spend a specific number of years in audit or control before moving on to certain roles in the company.”

She continues, “Unfortunately, in financial services, I think there are many people who have worked only in audit during their careers. They haven't had the opportunity to move from audit into the business and back, which I think is quite important if the function is actually going to help drive positive change in the organization and attract talent from other sources.”

Kaur says almost every person on her top team has at least five to 10 years of non-audit experience in senior business roles in financial services. “Balanced experience is necessary because it helps internal auditors to build respect and credibility in the organization,” she says. “When telling someone to make improvements, it helps if that person knows that you understand their business, and their perspective.”

Effective internal audit leaders are essential to building credibility for the function on a broader level, according to Kaur. “How you position the internal audit function is critical to its effectiveness,” she explains. “For example, it’s a known fact that I sit on the group management board at HSBC along with other heads of business and functions. In most organizations, this is not the case. But if internal audit’s leadership is not represented at the top table, the function is at risk of being viewed as subservient to management.”

Kaur says internal audit leaders also have to be able to show they’ve earned their seat at the top table: “An effective audit leader today needs strong interpersonal skills and the ability to influence.”

Looking ahead, Kaur believes many internal audit leaders in the banking and financial services industry will find it easier to recruit non-audit talent into the function: “Many functions have already been able to attract talent since the financial crisis because businesses have not been growing so fast. While internal audit may have once been viewed as a backwater, in a changing world where risks and controls are becoming more of a focus, the importance of the function has grown in the eyes of both executive and nonexecutive stakeholders.”

Adding value – proactively and creatively

Kaur says that the higher profile of internal audit within a business today gives the audit team both opportunity and flexibility to find new ways to add value proactively to the organization. “By monitoring business and regulatory developments and market events, and applying lessons learned, internal auditors can help their company to anticipate future challenges and requirements,” she says. “They can assess today’s control environment and identify potential gaps based on the trends they are observing today. That’s one area where they can add a great deal of value to the business.”

Internal audit is uniquely positioned to provide an end-to-end perspective on what’s happening in the business and anticipate what could impact it in the future, Kaur says: “Internal audit is perhaps the only function with the mandate and the ability to look at all business functions within an organization and see how the various pieces fit – or don’t, as the case may be.”

Kaur says internal auditors should not be afraid to think creatively in order to find other ways to add value to the business. One suggestion she offers is to evaluate major change initiatives, like information technology system implementations, to compare the business case to what was actually achieved.

“If those of us in internal audit can’t make a positive impact on our organization in today’s environment, then frankly we must be doing something wrong,” says Kaur. “The opportunity we have right now is immense.”



Company Headquarters — Singapore
Number of Countries Operates in — 6
Number of Employees in Company — 10,000
Industry — Education
Annual Revenues — US\$1.7 billion (as of March 31, 2013)
Number in IA Function — 12
Number of Years IA Function Has Been in Place — 30+
IA Director/CAE Reports to — Chairman of the Audit Committee

“Work that is termed as ‘value-adding’ today will be the norm in the profession in the next decade.”

Audrey Han

Internal Audit Embraces Role of Change Agent in National University of Singapore’s Vision to Be a World-Class Teaching and Research University

The National University of Singapore (NUS) is the oldest and largest higher-learning institution in Singapore. It employs about 10,000 faculty and staff, and has a student population of 37,000 from 100 countries. NUS was founded in 1980 following a merger between the University of Singapore and Nanyang University, although it can trace its roots back to the Straits Settlements and Federated Malay States Government Medical School in 1905.

In 2006, NUS was corporatized as a nonprofit organization so it could have more autonomy to develop into a leading teaching institution on the global stage and a world-class center for research. NUS operates 16 schools and faculties and 26 research centers and institutes, including partnerships with U.S. universities such as Yale University, Duke University, Harvard University, and Johns Hopkins University. As part of the NUS Overseas Colleges program, the university also has offices in three countries where it collaborates with partner universities such as Stanford University and the University of Pennsylvania (United States); Fudan University and Tsinghua University (China); and the Royal Institute of Technology (Sweden).

The internal audit department at NUS is headed by the chief audit officer, Audrey Han, who oversees a staff of 12 and reports directly to the chairman of the audit committee of the NUS Board of Trustees. NUS brought in a new internal audit team as part of its process to transform from a government agency into a corporatized nonprofit organization.

“The audit team has played the role of a change agent to help build up the university’s governance and control environment,” says Han. “To prepare for this role, research into the education industry was carried out to gather knowledge so that we could conduct audits effectively, and add value and offer best practice recommendations as NUS entered this new era.”

Engaging the specialists

The internal audit team benchmarked its department’s practices against internal audit functions at well-established universities in the United Kingdom and United States. The benchmarking exercise is one reason why Han decided to round up expertise in her department by designating internal auditors to serve as “domain experts.” These specialists have in-depth knowledge in areas such as fundraising and research, which have become important to NUS since its change in status. For highly specialized areas where the department does not have the necessary skill set, external consultants are engaged on a co-sourcing basis to address these areas.

“As NUS transitions into a research-intensive university with an international student population, there is greater emphasis on accountability and performance,” says Han. “For example, besides the need to comply with various fundraising and research regulations, there is also the need to ensure proper utilization of research funds to achieve research output and to fulfill donors’ intent. So, we need to have subject-matter expertise in our department to be effective to ensure achievement of those intentions.”

Promoting risk management and controls to university staff

As the control environment matures at NUS, Han says the internal audit department intends to introduce self-sustaining programs to help maintain that environment. Programs under consideration include cross-faculty/department audits, peer auditing, and staff rotation into internal audit, so management staff can build risk management and control skills.

The internal audit function at NUS also maintains a department website that features industry best practices and articles and papers – many created by Han and her team – so that NUS staff members are kept aware of risk and control issues. Internal audit also collaborated with the human resources function to incorporate governance, risk and compliance information into the orientation program for new hires.

“All these little efforts help to create value and raise the profile of internal audit as a valued partner in the management of risk and control,” says Han. “We want to be a one-stop shop, providing real-time advice and useful resources to the NUS community so that problems are addressed up front rather than waiting for traditional audits to determine where the organization may be falling short. We promote our services so that staff needing advice on risk and governance matters can come readily to us for consultation.”

Once NUS has reached a steady state with its governance environment, Han says she looks to further extend internal audit’s present advisory services so that the team can become an effective partner in the management of NUS. In fact, with this vision in mind, the internal audit staff adopted the tagline, “Internal Audit, Your Partner in Management,” when the new function was established. Han says internal audit has been gaining management’s recognition and making “steady progress” toward that vision ever since.

“Managing an academic environment is a lot less top-down compared to the private sector and there is a greater emphasis on consultation,” she explains. “The pace in which value-adding initiatives are undertaken needs management’s trust and buy-in, which also takes time.”

Proactively seeking ways to add value

According to Han, internal audit's institutional knowledge of the university's operations and its direct reporting line to the audit committee have allowed it to objectively address issues that cut across different functions or are not presently addressed by any other function in NUS. For example, the team instituted and operates a whistleblowing hotline. It also established a fraud risk universe and database and now conducts fraud investigations. Additionally, internal audit initiated the adoption of an enterprise risk management (ERM) framework at NUS.

“By driving the ERM exercise when risk management was not formally overseen by any department at NUS, we not only increased the awareness of risk and controls in the university, but also enabled everyone in the organization to speak a common risk language,” says Han. “This effort has allowed us to gain a better understanding of the risks involved in running a world-class university; in turn, this shapes how we select and perform certain audits.”

The risk management function has since been formalized at NUS. Han has also introduced continuous auditing and data analytics to address specific areas of risk on a real-time basis.

Han says implementing value-adding activities has been “a journey” for her team and advises internal audit leaders eyeing a similar path to start targeting areas where internal audit is best able to add value. Quick wins can help gain the trust and confidence of management so they will be receptive to internal audit undertaking bigger and more complex projects, she explains.

Becoming a source of future business leaders

Over the past decade, Han says she has watched the required skill sets of audit leaders change as the responsibilities of the internal audit function have expanded – and she expects they will continue to evolve. “The next generation of audit leaders will need to be multi-skilled, and have a good understanding of business, finance, accounting, and information technology. They also will need to be comfortable moving further away from the traditional ‘back room’ role to engage management in addressing emerging risks on a real-time basis.”

Han expects the internal audit profession to see fewer audit leaders coming from a traditional source: external auditing firms. Instead, she predicts more will emerge from within the organization because of the need for their institutional knowledge and their business and operational experience.

Internal auditors, generally, will need to take a more proactive role in partnering with management to provide assurance and consulting services in the areas of risk and control, according to Han. “Work that is termed as ‘value-adding’ today will be the norm in the profession in the next decade. Although traditional audits will still be carried out, the manner in which they are performed will be more innovative in order to achieve efficiency.”

Already highly selective in her hiring practices, Han anticipates it will be an ongoing challenge for almost all audit leaders to find internal auditors with the right skills and mindset. This is why Han is now looking for talented professionals who may not have an accounting background, like engineers, but can be taught to audit and can bring fresh perspectives to the organization.

Promoting the internal audit function

For internal audit to achieve its full potential in any organization, internal auditors, and especially audit leaders, need to “promote” their expertise so people understand how the team can offer help and advice, says Han.

“The Institute of Internal Auditors has done a lot to help leverage internal auditors’ profile in the organization,” she says. “But for internal audit to progress to the next level, we have to improve ourselves by continuously reinventing to stay relevant.”

NTT DATA

Company Headquarters — Japan
Number of Countries Operates in — 40
Number of Employees in Company — 75,000
Industry — IT Services/Data Communications
Annual Revenues — 1,302 billion yen (as of FY 2012; ending March 2013)
Number in IA Function — 44
Number of Years IA Function Has Been in Place — 26
IA Director/CAE Reports to — Chief Executive Officer and Executive Vice President

“We will need to adopt a ‘common language’ that will allow us to perform our jobs effectively among all internal audit groups around the world. ... The Institute of Internal Auditors’ *Standards* could serve as that language.”

Satoshi Takaishi

“Audit Global One Team” Initiative Helps Internal Audit Bridge Communication Gaps as NTT DATA Expands Internationally

NTT DATA Corporation, a subsidiary of Japanese telecommunications giant NTT Group, is the largest information technology (IT) services provider headquartered in Japan. NTT Group formed NTT DATA when it spun off its data communications business in 1988. NTT DATA specializes in systems integration (SI), especially mission-critical systems, such as banking systems and government administration systems, which could cause great disruption to society if service were suspended. NTT DATA offers many related services, as well, including network system services, consulting, and business IT outsourcing. It also provides Internet access, intranet development, and a wide range of e-commerce services.

NTT DATA has long dominated the Japanese IT market, and many industries, such as banking, health-care, manufacturing and transportation, rely heavily on its services in Japan. However, the 21st century brought a time of change for NTT DATA. The company was facing limited growth potential in Japan’s IT market due to saturation, and globalization of the economy was causing many of its clients – major Japanese companies – to transform into multinational players. Those clients wanted NTT DATA to offer seamless services regardless of business location. Therefore, NTT DATA set globalization as a key growth strategy so it not only could survive, but also keep growing.

NTT DATA began major mergers and acquisitions (M&A) activity overseas in 2008 – and now operates in 40 countries around the world. It acquired two German companies: itelligence, a leading international IT full-service provider for SAP, and Cirquent, an IT consulting and professional services provider, in 2008. In 2010, it acquired Keane International, a multinational SI provider headquartered in the United

States. NTT DATA continues to pursue global expansion through M&A; in February 2014, it acquired Everis Group, a relatively new SI provider in Spain.

NTT DATA aims to become a top-five global company by evolving into a corporate group that provides a wide range of IT services to its clients on a global scale – essentially, a one-stop shop service provider. To that end, it is working to unify all NTT DATA brands as “Global One” to enhance collaboration and information sharing, and better align specialized skills and resources, among its geographically dispersed businesses. Another motivation for the initiative is to strengthen the presence of the NTT DATA brand and eliminate regional and resource overlap. Since 2011, the company has established several Global One Teams, including SAP; Business Intelligence (BI); Oracle; Telecom; and Testing.

Helping to support this new focus for NTT DATA is the company’s internal audit function, led by Satoshi Takaishi, head of the Internal Audit Department (IAD) at NTT DATA’s Tokyo headquarters. The internal audit function at NTT DATA has been increasing both its size and scope to keep pace with the company’s rapid international expansion. The team has more than doubled in size since 2007, from 18 to 44 staff members.

Growth brings new challenges

With each acquisition comes the complexity of the integration process – and the need for target companies to move away from their already-established systems and processes to meet NTT DATA’s requirements. Each acquired business also has its own unique history and culture, which must be acknowledged as NTT DATA’s values and practices are introduced. There are also regulatory differences to consider, as well as each company’s style of internal control.

“The challenge for IAD is to communicate to the newly acquired businesses the value of NTT DATA’s approach to internal control,” says Takaishi. “We begin by setting the expectation of what the minimum level of internal control should be, and we build from there.”

Only a few years ago it would’ve been next to impossible for NTT DATA’s internal audit team to even find time to help support the company’s global growth strategy and integration challenges. Internal auditors were overwhelmed with work related to the Sarbanes-Oxley Act (SOX) in the United States, and the Financial Instruments and Exchange Law (J-SOX) in Japan. In 2010, IAD established a project management office specifically for SOX- and J-SOX-related work and by NTT DATA’s 2012 fiscal year, the number of deficiencies identified by internal or external auditors had declined by almost half.

“SOX and J-SOX compliance was a nightmare for us five years ago, but now, we have overcome such a tough period and compliance activities have become kind of routine,” says Eiji Nakada, senior manager of IAD and direct report to Takaishi. “Full compliance is still a challenge, of course, because every year we face new issues – such as the introduction of new regulations and participation of newly acquired companies that have either no knowledge of or experience with SOX or J-SOX compliance.”

The Audit Global One Team

To help facilitate sharing and deployment of best practices, IAD at NTT DATA took inspiration from the company’s efforts to unify global operations and formed the “Audit Global One Team.” Before this initiative was launched in 2012, NTT DATA Tokyo had been performing all of the audits for the company’s subsidiaries outside of Japan – from New York to Brisbane to Milan.

In the first meeting of the Audit Global One Team, held in Boston in July 2012, Takaishi proposed that each regional headquarters (RHQ) location perform the audits for their region, and NTT DATA Tokyo IAD review their activities, setting the implementation target for fiscal year 2014. RHQ North America (Boston) and RHQ Business Solutions (Bielefeld, Germany) have established their own internal audit teams. RHQ EMEA (London), RHQ APAC (Singapore) and RHQ China (Beijing) are in the process of setting up dedicated internal audit functions.

For the latter three RHQs, NTT DATA Tokyo IAD conducts joint audits with staff in charge of internal audit to help them understand audit processes and control requirements and learn how to meet certain compliance expectations. All RHQs except China have their own audit committees. Nakada is helping those audit committees' activities through his participation as an observer, giving advice on internal audit best practices. The Audit Global One Team, as a whole, meets annually.

“Through better collaboration, we are creating one effective internal audit function throughout NTT DATA,” says Takaishi. He explains that the Audit Global One Team concept is allowing internal auditors and senior executives from across the company to build relationships, which goes a long way toward building trust and being proactive about sharing information and raising issues.

“As internal auditors, sometimes we have to deal with uncomfortable issues, such as fraud and scandal. If we don't have good relationships, people won't feel comfortable coming to us with problems. By meeting in person on a regular basis, instead of just relying on communication via email or phone, we can break down these barriers. The Audit Global One Team initiative is a major factor in helping to make this possible,” says Takaishi.

Communication skills necessary to help influence change

The more new markets NTT DATA expands into, the more likely it is that internal auditors will encounter some frustration and even resistance from people unfamiliar with the company's audit process or with certain compliance expectations. This means auditors must be able to communicate with such new participants to understand and accept the need for change and make necessary improvements, and to help NTT DATA identify and avoid potential risk.

“NTT DATA is pursuing growth in emerging markets, so we are now entering risky countries,” says Nakada. “For example, the company received an order to create a system for the Central Bank of Myanmar. In Myanmar, there is almost no framework for securing internal control effectively. Also, the company is considering doing business, with assistance from the Japanese government, in some African countries where there seems to be no legal framework or even a sense of compliance.”

Takaishi adds, “We cannot avoid these markets because they are strategic to NTT DATA's growth objectives. So the challenge for the company and IAD is figuring out how best to explain to these companies why their business customs are not acceptable to us from a global point of view. We must have this conversation: If and when a small business group in one region commits fraud, or a crime, the negative impact on NTT DATA might pervade globally in just an instant.”

As NTT DATA continues to grow through acquisitions, internal audit will need to assist each new entity with designing, equipping and maintaining a certain level of internal control, says Takaishi. “Maintaining the core competency of newly acquired subsidiaries and transforming them into real members of NTT DATA Group, with shared visions and values, will remain an ongoing responsibility for our team.”

There is another challenge ahead for internal audit, as well. Takaishi expects that as NTT DATA becomes more diversified culturally, it will be even more difficult for internal auditors to find common ground with the various businesses they must audit. “We will need to adopt a ‘common language’ that will allow us to perform our jobs effectively among all internal audit groups around the world,” he says. “I believe The Institute of Internal Auditors' *Standards* could serve as that language.”



Company Headquarters — United Kingdom
Number of Countries Operates in — 20+
Number of Employees in Company — 56,800+
Industry — Financial Services
Annual Revenues — GB£19.8 billion (as of Dec. 31, 2013)
Number in IA Function — 290
Number of Years IA Function Has Been in Place — 30+
IA Director/CAE Reports to — Chairman of the Audit Committee and Chief Executive Officer

“The bar is continually being raised – especially for functions in the financial services industry – so internal audit cannot afford to stand still.”

Paul Marshall

Pushing at the Door: Internal Audit Focuses on Agreed Actions, Not Recommendations, to Influence Positive Change at Old Mutual

Old Mutual plc is a leading international long-term savings, protection, banking and investment group that serves more than 16 million customers in over 20 countries around the world. Old Mutual was founded in South Africa in 1845 as a mutual insurance company, The Mutual Life Assurance Society of the Cape of Good Hope. In 1999, Old Mutual demutualized and relocated its corporate headquarters to London, listed on the London Stock Exchange, and embarked on a program of international expansion.

Since then, Old Mutual has become a member of the FTSE 100 Index – and has grown assets under management to more than £293.8 billion.¹ The group has also changed its structure, simplifying operations so it can concentrate its resources primarily in three geographic areas: the United Kingdom, where Old Mutual is headquartered and its wealth management business is based (London); the United States, where its asset management business is located (Boston, Mass.); and Africa, where the group has a long-term savings and investment business and a property and casualty insurer.

Old Mutual is also a majority shareholder in one of South Africa’s four largest banks, Nedbank Group, Ltd. While South Africa remains a core market of focus for the group in Africa, Old Mutual has been working to build a greater presence on the continent with a mission of “Becoming Africa’s Financial

¹ Total assets under management as of December 31, 2013.

Services Champion.” So far, it has expanded its operations in the growing countries of Botswana, Ghana, Kenya, Lesotho, Malawi, Namibia, Nigeria, Swaziland, and Zimbabwe.

Old Mutual has also streamlined its internal audit department in recent years, reducing staff from 360 to 290. Paul Marshall is the group internal audit director, and joined Old Mutual from Protiviti in 2008. He explains the staff reduction strategy: “We wanted to bring in more resources with deeper capabilities in a range of specialized or technical areas. So, we now have fewer but more highly skilled people, and we’ve been able to boost the expertise of teams in different markets.”

Most of the new talent in internal audit has come from outside the business, according to Marshall, even though he prefers recruiting people from inside the business whenever possible. But internal audit can be a tough sell, Marshall says: “Our function has certainly raised its profile and credibility over the past decade. However, we’re not quite yet at the stage where internal audit is perceived as a place where talented individuals on the fast track in the organization should come to learn more about the business.”

Marshall says internal audit’s approach to staff training has also changed so specialized talent can be developed. “We seek auditors with more expertise and experience, and a good blend of technical and general auditing skills. We should not have to train them much on the mechanics of auditing; instead, we want to invest in targeted training that can enhance the auditor’s specialist capability.”

Choosing the right words

Since joining Old Mutual, Marshall has been working to improve the way internal auditors communicate with the group’s management and the board. “We try to refrain from using language only internal auditors really understand. We now articulate our purpose in words that our chief executive has often used to describe what he wants from and values in an internal audit function. So, instead of saying our mission is to give independent assurance on the most significant risks, we say our purpose is to help the board and executives to protect the assets, reputation and sustainability of the group. We think that sums up pretty neatly what we’re here to do.”

Marshall says this change also fits well with new guidelines issued in 2013 by the Chartered Institute of Internal Auditors (CIIA), which represents the internal auditing profession in the United Kingdom and Ireland. *Effective Internal Audit in the Financial Services Sector*² is intended to enhance the effectiveness of internal audit and its impact on the U.K. financial services industry. (The CIIA committee that developed these recommendations was chaired by the chairman of Old Mutual’s audit committee.)

“I think these new guidelines, along with everything we’ve been doing since 2008 to raise our game, are helping internal audit to be more effective – and therefore, more widely perceived as a strategic partner in our organization,” says Marshall.

Marshall provides this example of how internal audit is operating on a new canvas: “I went to a meeting of the board risk committee today to discuss a potential transaction one of the group’s business units is considering. Among the information presented was a short paper from internal audit outlining our work related to this transaction, including confirming that due diligence was robust and comprehensive. So, we’re not forming an opinion as to whether it’s the right transaction for the organization to carry out, but we’re telling the board that we think they have all the information they need to know on which to base their decision.”

He continues, “We think it’s strategically important for internal audit to be involved in mergers and acquisitions activity in this way. But we would not have done something like this a few years ago. It’s an example of how we’re pushing at the door.”

² *Effective Internal Audit in the Financial Services Sector: Recommendations from the Committee on Internal Audit Guidance for Financial Services*, Chartered Institute of Internal Auditors, July 2013: http://www.iaa.org.uk/media/354788/0758_effective_internal_audit_financial_webfinal.pdf.

More focus on trends and themes

A greater focus on risk, along with a clearer connection between risk, control and governance, are helping internal audit functions to evolve into strategic partners in many organizations today, says Marshall. However, he does note that it's still a challenge for many functions to shake their image as a "policeman."

One way internal audit at Old Mutual is working to change perceptions is by using their work holistically to identify recurring or similar issues across the business. Then, instead of just flagging them, the team influences management to make a formal plan to address them. "Stimulating different behavior takes work," Marshall says. "However, when management is more aware of risk, and mindful of it whether internal audit is looking at it or not, then the organization can change the emphasis of the internal audit function to focusing more on adding value."

In addition to identifying trends, Marshall and his team are centering more of their work on what he calls "themes," such as information security or major change initiatives, which are important to the organization's success and need to be executed well. "This is also a challenge for us because themes are not about risk and control, the typical things on which internal audit concentrates. It's more about culture and behavior, and changing attitudes so you can influence people to be accountable for things."

That's why communication skills – speaking, writing, listening, interpreting – and the ability to persuade will only become more critical for internal audit leaders to possess as the function works to raise its profile and meet stakeholder expectations in the coming decade. Marshall says, "The ability to engage and build strong relationships with others is critical to the success of the function. Internal audit leaders must be able to understand the motivations of different people so they can get the most from their team and from people outside of the function. It cannot only be about command and control."

Agreed actions, not recommendations

At Old Mutual, a primary way internal audit measures its effectiveness is by tracking whether management has followed through on their commitment to make changes. "The effort of internal audit is useful only if an action is taken," says Marshall.

To help ensure positive change, Marshall's team has moved away from making recommendations; now, when there's an issue, they push for an agreed action. "We get commitment: who is going to do what by when. Then, we monitor progress. When we're told something has been done, we record it, and if necessary, check to ensure a risk is mitigated and the change made is sustainable. We're measuring on-time remediation, and we're starting to see real improvement."

As the internal audit profession continues to expand its role in the coming decade, Marshall says he expects finding the right balance between meeting stakeholder expectations, including regulators' expectations, and "not doing management's job for them" will be an ongoing challenge for many teams.

"The bar is continually being raised – especially for functions in the financial services industry – so internal audit cannot afford to stand still," he says. "We need to constantly innovate, and to look forward, not just backward, to help the organizations we support to be more successful in the future."



OLD NATIONAL BANK®

Company Headquarters — United States
Number of Countries Operates in — 1
Number of Employees in Company — 2,658
Industry — Financial Services
Annual Revenues — US\$526 million (as of Dec. 31, 2013)
Number in IA Function — 17
Number of Years IA Function Has Been in Place — 30+
IA Director/CAE Reports to — Audit Committee Chair (functionally) and Chief Executive Officer (administratively)

“As we move forward, the challenge will be to keep up with changes in technology and data, and still provide the level and quality of service we provided 10 years ago.”

Dick Dubé

A Decade of Increasing Collaboration and Risk Awareness at Old National Bank

Old National Bank is a wholly owned banking subsidiary founded in 1834 and currently the largest financial holding company headquartered in the U.S. state of Indiana. The bank provides financial services primarily in Indiana, southeast Illinois, western Kentucky, and southwestern Michigan through 200 financial banking center locations. Old National Bank operates primarily in three segments: banking, insurance and wealth management.

Dick Dubé, the bank’s chief audit executive and ethics officer, oversees a group of 17 auditors and reports to the audit committee chair and the bank’s chief executive officer. He has been with the bank for 17 years.

Regardless of size, banks are highly regulated, and internal auditors in this sector spend a considerable amount of their time and resources keeping up with regulatory expectations. However, when rapid growth is involved, scrutiny is even sharper. “We place a significant emphasis on regulatory laws and reforms,” Dubé says. “At times, regulatory emphasis does clash with the risk-based audit methodology that we have in place. This causes us to be more creative in our overall audit plan and strategic focus.”

From janitorial auditing to strategic partner

Internal auditing has undergone tremendous change at Old National in the past 15 years. “When I joined 17 years ago, we coined the term ‘Janitorial Auditing,’” Dubé says. “That is what the function was performing at the time. The folks here were good, and they knew banking in and out, but, for example, they would select a sample of loan files to review and then examine every page and jot down exceptions.

Then they handed the exception lists to management, and asked management to fix those exceptions. The following year, they would perform the same audit, go through the same process with different files, and come up with a list of similar exceptions. They were just cleaning things up, year after year.”

Today, Dubé and his team are more of a strategic resource than a cleanup crew. They test for causality to find out why things are happening and where exactly the breakdowns in the process are occurring. It is now a far more risk-based methodology. Achieving this change of approach meant switching up the internal audit skill sets. “I told everyone at the time to throw away their audit programs, to forget that cookbook approach. Now we audit with a blank page,” he says.

Dubé introduced creating process maps, identifying key controls, a definition of risk, a formal risk language, and more. “Fifteen years later, we are continuing to hone our process,” he says. “We are looking at other, softer skills too: a strategic audit focus, ‘big picture’ thinking, an analytical mindset and professional skepticism. We need our auditors to be able to identify areas where we think we can become much more efficient as a company.”

Training internal auditors for the new role

Three factors led Old National to change its point of view on internal audit. “First, we changed our process because we were not performing the right tasks,” Dubé says. “Second, as we have grown, management has increasingly relied on us for special projects. They respect what we do. Business owners proactively call us if they are going to change a process, to get our input and insights at an early stage. That’s real progress.”

Third, during this time, to capitalize on the momentum he saw, Dubé brought internal audit trainers to coach and guide the internal audit team on goals and methodologies tailored specifically to the bank. “I wanted to make sure we were working collaboratively and effectively with management,” Dubé says. “Interaction with leadership requires proper training. For example, we conduct an annual global risk assessment. Part of this means we conduct face-to-face interviews with senior people in the bank to discuss risks, change, future plans, and more. We want to know ‘what keeps them up at night.’ Our risk assessment analysis is not just about what we think but about what management thinks as well. To interact effectively with management, our internal auditors had to be properly and strategically trained.”

He adds, “We do not operate in a silo. To do our work well, we cannot do it alone. The company created the chief risk officer (CRO) position five years ago, and today there is close collaboration between internal audit and the CRO. We create synergies with external auditors as well. All of this has been great for the folks in our function; management gets to see and appreciate their skill sets. As positions open up throughout the organization, our people are considered for them. All in all, this shift has been a huge benefit for everyone, including the internal auditors.”

Ultimately, achieving this level of respect and visibility requires management support. Dubé assumes that most internal audit teams in other organizations would be eager to meet that challenge, but they are at the mercy of management. “We are fortunate that we have a focused and dedicated audit committee and a chair who takes his role very seriously,” Dubé adds.

The benefits are clear. Because of the changes that have occurred over the past several years, Old National’s internal audit team is:

- More aware of the bank’s risks and emerging risks
- Collaborating more effectively with management
- Seen as a strategic partner that contributes to the overall strength of the bank through daily audit work

Technology's impact

Technology has been a significant factor in the evolution of the internal audit team's vision and mission in the past several years. "Risks are simply more technology-driven today," Dubé says. "Cybersecurity is much more heightened. Everyone we hire going forward will need to be tech-savvy."

Additionally, automated work papers have increased efficiency, especially for traveling audit teams. Analytics in general are much more effective, including data mining and downloading information. "We still have a long way to go, but we are improving," he says.

"I think from a technology standpoint, for the bank itself, brick-and-mortar is not going to go away, but the general customer preference will be much more geared toward mobile-optimized banking," Dubé says. "That will be a major push in all institutions – that's what people want." All of this creates a need for greater security to safeguard customer information.

Data security in a complex landscape

Cybersecurity is, of course, a major risk for any financial institution. Dubé and his team conduct audits specifically designed around data security. "It's amazing how many times we get pinged each day," he says. "Cybercriminals are focused and relentless. We are continually reviewing our security systems to close the gaps. It is an extremely important initiative, and it is not going to get any easier any time soon. As we grow, the focus on security will expand along with our size and assets."

The decade ahead

Dubé believes that the key challenges for the decade ahead will involve technology and big data analytics. "The future belongs to us," he says. "We have it in our hands. As we move forward, the challenge will be to keep up with changes in technology and data, and still provide the level and quality of service we provided 10 years ago."

"Our respondents, including CAEs, place a substantially higher emphasis on marketing internal audit internally compared to previous years of our study (it ranks overall as a top 10 priority this year and in the top five for CAEs). This suggests that internal audit wants to get the word out: *As the organization becomes more data-driven, we can help.*"

*– Assessing the Top Priorities for Internal Audit Functions:
2014 Internal Audit Capabilities and Needs Survey, Protiviti,
www.protiviti.com/IASurvey*



Pan American
S I L V E R C O R P.

Company Headquarters — Canada
Number of Countries Operates in — 5
Number of Employees in Company — 7,300
Industry — Mining
Annual Revenues — US\$824.5 million (as of Dec. 31, 2013)
Number in IA Function — 5
Number of Years IA Function Has Been in Place — 7
IA Director/CAE Reports to — Audit Committee and Chief Financial Officer

“Regulations will not stop. The goal for internal audit is to help management and the organization to stay within the limits and use good sense in their business.”

Hik Park

Internal Audit at Pan American Silver Corp. Prepares to Take Function to the Next Level

Pan American Silver Corp., founded in 1994, is the second-largest primary silver mining company in the world. Headquartered in Vancouver, British Columbia, it employs about 7,300 people and operates mines in four countries: Argentina, Bolivia, Mexico, and Peru. The company also has two silver exploration projects in the United States.

In 2013, Pan American Silver changed its mission from being a leading low-cost silver producer to becoming a preeminent producer of silver. The company reported revenue of US\$824.5 million for 2013, and record production of silver (26 million ounces) and gold (148,800 ounces) for the full year.¹

Hik Park is director of internal audit for Pan American Silver, reporting functionally to the board’s audit committee and administratively to the company’s chief financial officer. He was hired in 2007 to establish Pan American Silver’s first independent internal audit function. “When I came here, there was no independent internal audit function,” says Park. “So, the first document I produced was an internal audit charter. I presented it to the board, the audit committee, and the president for their signatures and said, ‘If I’m going to be the cop, I need a badge, and this is going to be the badge. I need to have the authority to have unrestricted access, and I need that in black and white in a charter.’”

¹ “Pan American Silver reports on fourth quarter and full year 2013 financial results,” media release, Pan American Silver Corp.: <http://www.panamericansilver.com/investors/news/>.

Assembling a team of experts

Charter in hand, Park then set about building a business case for each of Pan American Silver's locations, and hiring four internal audit managers to round out his team – each based in one of the countries outside of Canada where the company has mining operations. Park had limited resources for hiring, so he made the decision from the outset to bring in professionals with specialized talent.

“We each have one area of expertise,” he explains. “For example, my manager in Peru handles all audits in Peru, but he is also a systems engineer. So, he is responsible for all IT general controls audits for every one of Pan American Silver's locations.” The other internal audit managers are experts in International Financial Reporting Standards and internal auditors' training needs (Argentina); accounting (Bolivia); and project planning and management (Mexico).

“This is the most efficient way to hire that I could think of,” says Park. “Although, the downside is that if the company loses one auditor, we also lose that person's skill set.”

Park's specialty? As the only Certified Fraud Examiner in the group, he is responsible for investigating any potential instances of fraud at the company. Park is also responsible for conducting all Canadian audits, but for more complex projects, like Sarbanes-Oxley work, he will bring in one of the internal audit managers. “This type of arrangement helps me because it saves me hours of work, but it's also motivational for my team because they really appreciate the opportunity to come to the head office.”

Non-audit background adds value

That Park made the point to hire specialists with non-audit skills for his team is not surprising, perhaps, given that he started his career as an industrial engineer. “I was hired by a leading accounting and consulting firm to essentially be the translator between the technical guys and the users for whom we were implementing enterprise resource planning systems,” he says. Park later moved into financial and process engineering, and eventually became a business risk services consultant. By his count, Park had the opportunity to observe the operations of internal audit departments in 35 companies during his career before joining Pan American Silver.

“When I got to Pan American Silver – and management and the board told me, essentially, to take the ball and run – it was a great opportunity to build something using the knowledge of internal audit best practices that I'd accumulated over 15 years,” says Park. “I thought, ‘This is an opportunity to build an internal audit department like I had dreamed one should be.’ That was exciting – and a bit of an experiment.”

Park says that's why his first mission at Pan American Silver was to create a charter. “While management and the board are very open to new ideas, they are also very tough. They want to see the business case. So, I followed the book – The Institute of Internal Auditors' *Standards* – to create a basic foundation for the function that we could build on.”

Reaching “Step 3”

Park says it took time for many of Pan American Silver's employees to understand the role of the internal audit function — and how to work with internal auditors. “People had questions,” says Park. “They wanted to know what we were going to do and why. Now, they get it. They understand that helping the company manage risk and maintain controls is part of everyone's job. I also know they respect us. But we need to get to that next level, where people come to us and ask for our input on business decisions. We're not there yet, but it is the goal. That's where I see internal auditors delivering real value in the future.”

That next level for the internal audit function at Pan American Silver is what Park calls “Step 3.” He explains: “Step 1, you build everything. Step 2 is to be good at your work – to be efficient. And Step 3 is moving from respected police officer to trusted adviser.”

Because internal auditors are exposed to “every single reality” of the company, Park says, “We understand how every piece fits and interacts – or doesn’t. Our unique insights can help the company make better decisions and fewer mistakes. We can offer one more valuable opinion from a unique perspective.”

Park says the opportunity to add real value is the reason why he’s committed to maximizing the abilities of the internal audit function. “I don’t want us to stop at compliance,” he says. “I tell my managers we can and should do more and work smarter. Let’s put a fraud management and prevention program into place. Let’s plan small audits that address issues of concern for senior management, so they can feel more confident. Let’s do cost assurance audits to have reasonable assurance that invoices are right. The more we do, and the more meaningful results we can provide, the more people in the organization will seek our input.”

Audit leaders need skills not learned in school

To keep expanding their skills and think of creative ways to help the business improve, internal auditors at Pan American Silver are required to devote 40 hours every year to training. “They have to find an opportunity and take the time to do it,” says Park. “It doesn’t have to be formal. It could be a college course or independent study. As long as it’s relevant, and helps the person to develop professionally, I support it.”

As for the qualities internal audit leaders will need in the future to stay relevant and effective, Park says two rank equally at the top of the list: business acumen and humility. “These are the two skills I hear audit committee chairs mention most frequently,” says Park. “However, neither can be learned in school – only through on-the-job experience and in life.”

Park says future audit leaders also will need the ability to help the company navigate a relentless and ever-evolving regulatory environment. “Whenever good sense fails to prevail, a new law will come. Good sense for internal controls did not work out, and now we have Sarbanes-Oxley. Good sense around offering bribes in other countries did not prevail, so we now have the Foreign Corrupt Practices Act. Regulations will not stop. The goal for internal audit is to help management and the organization to stay within the limits and use good sense in their business.”

And that, says Park, can happen when an internal audit function reaches Step 3 – trusted adviser. He believes that the internal audit profession, as a whole, is heading in that direction: “Ten years from now I think you’ll see a change in mindset among executives. They’ll recognize that internal audit is the best interpreter of regulations and the business. They’ll trust us to show them the way to walk safely.”

Trustmark Companies

PERSONAL. FLEXIBLE. TRUSTED.

Company Headquarters — United States
Number of Countries Operates in — 1
Number of Employees in Company — 5,500
Industry — Financial Services
Annual Revenues — US\$878 million (as of Dec. 31, 2013)
Number in IA Function — 7
Number of Years IA Function Has Been in Place — 25+
IA Director/CAE Reports to — Audit Committee and General Counsel

“We have to be able to create a narrative thread. We have to tell the risk story.”

John Hester

Holding On to the Seat at the Table at Trustmark

John Hester has been the vice president and chief audit executive for Trustmark Companies – a provider of employee benefits products and services headquartered in Lake Forest, Ill. – for four years. He has worked in the internal audit profession for most of his career. In his current role, Hester reports to Trustmark’s general counsel and the audit committee. Beyond his seven full-time auditors, he co-sources IT auditing through Protiviti.

“In the past four to five years, there has been significant change in the health insurance marketplace,” Hester says. “Trustmark operates in the midst of this change and we have to continually adjust and determine what it means for us and the best way to react. The question is where we want to be in the future and how to help our customers achieve financial and physical wellness. To this end, we recently acquired HealthFitness, which is essentially a health management company with two lines of business – one is managing corporate fitness centers and the other is proactive health management, such as biometric screenings and lifestyle coaching.”

In this type of corporate culture – designed to promote wellness, personal responsibility, and proactive problem solving – it is no surprise that the internal audit team is perceived as a partner, rather than a police force. “Even when I first joined, we were viewed as partners,” Hester says. “If I had to describe how it is different now than five years ago, I would say that we have moved toward a better understanding of root causes of issues. When I came in, our auditing was fine but our recommendations were focused on symptoms, rather than causes. Now we spend more time conducting root cause analysis, which has led to taking a hard look at risk management and governance – because these are the issues that are underlying the symptoms.”

Changing skill sets

The mission of Trustmark's internal audit team is to help senior management and the board of directors fulfill their responsibilities for ensuring effective governance, risk management and internal controls. The skills at Trustmark are evolving along with the focus on risk management and governance. It is more important than ever before for auditors to understand risk management from a holistic perspective and be able to share true areas of concern with senior management and the audit committee, beyond the audit reports. Auditors must be prepared to present information, verbally and in writing, in a way that provides meaningful context around findings. Communication skills have become increasingly important at Trustmark and in the internal audit profession as a whole. "We have to be able to create a narrative thread," Hester says. "We have to tell the risk story."

However, despite the strides made in the internal auditing profession and the culture of partnership within Trustmark, internal audit is not necessarily viewed as a primary strategic resource in the organization. "We are still working with the management team to get them to understand that there are many additional things that internal audit is capable of doing and more value we are capable of adding," Hester says. "As far as leveraging internal audit, this is largely up to our internal audit team – we have to understand how to insert ourselves into the process to add value. It is an evolution. We have to make sure we have a seat at the table."

The internal audit team at Trustmark provides value at the audit committee level, by being the "eyes and the ears" of the committee. "I know from the point of view of the audit committee, our work is valued. Our challenge is deeper in the organization. We are striving to really participate and collaborate with the business units and make sure everyone gets something meaningful out of our work. In our opening meetings with groups we are auditing, we ask, 'What value do you think you will get out of this audit?' It is important for us to set expectations from the outset and even widen our scope if we are to deliver value to our multiple layers of stakeholders," Hester says.

"Process owners often do not see the value of internal audit unless we engage them and help them understand," he continues. "If we can help them articulate a level of perceived value, this is a great way to start. At the end of the audit, I bring that statement up again, and ask them if their expectations were met, and what we can do to improve next time."

The result has been that more people at various levels of the organization are beginning to see the true value that internal audit can add to their work, and the perception has become that Hester and his team are there to improve overall operations.

"Since we are engaging operational management with the audit process, often our audits are now of much higher value," he says. "When management acts as a coach and an advocate, they want to see change happen."

An evolving vision and trends

The vision of the internal audit function has changed in the past several years. "We are much different than we were years ago," Hester says. "Historically, we were very focused on controls. That was the general attitude of the internal audit profession 10 years ago – controls and a narrow audit focus. Now we look at the entire process, end to end, so that we can produce a greater level of assurance. By including financial and operational audits, we are taking a holistic look at the organization, and on top of that we are layering a focus of risk management and governance. This is what I see as the greatest evolution: moving from controls to a true sense of risk management."

Another internal auditing trend is the focus on data analysis and harnessing the power of data. "We are really working to get that competency into our toolkit," Hester says. "So much more can be accomplished if we can get better at obtaining and analyzing data."

The many roles of risk management

Trustmark has several streams of risk management taking root across the organization; Hester is charged with understanding how to bring them together. The risk committee, composed of different members of management, meets monthly to go over high levels of risk and conduct risk assessments. The privacy office focuses on making sure that Trustmark is compliant with the Health Insurance Portability and Accountability Act (HIPAA). The chief compliance officer understands the entire compliance picture. Finally, the chief information security officer focuses on Trustmark's information security posture.

"How do we bring this all together for Trustmark?" Hester asks. "This is a great opportunity for us, and for the company, to really flow information and insights from one group to the next and present a unified vision. In 2014, I want to enable that process. Every one of these groups has something vital to contribute to the view of risk."

Hester wants to incorporate the point of view of management and the external auditors. "The challenge is that information flow," he says. "Better integration would be a tremendous boon. Internal audit has to step up and take a leadership role. Let's fill the void. And let's help our management team."

Technology and information security

In the time that Hester has been with Trustmark, the internal audit team has evolved its working paper platform tool to enable better workflow and report more effectively to management on audit findings. "You need to enable people with information," he says. "It helps the organization really own the risk responsibility, rather than just point the finger at internal audit. That is ultimately the mindset we are working to change. Management has to own risk, and the right technology can support that."

"In various aspects of risk management, we are trying to mature our practices and our risk structure," he adds. "We are helping the business to ensure data security, based on audits conducted by our IT auditors. The challenge, once again, is providing context to senior management. Helping them connect the dots. That means greater communication from internal audit to the organization, and tools can help there, too. For example: HealthFitness has an intranet site that accesses various social channels, including Twitter and blogs. Project teams can share information using these channels. I think it would be great for internal audit to make better use of these types of tools and technologies."

"In the end, we have to make sure we are partners and not traffic cops," he says. "If we begin by establishing additional non-threatening channels, folks will reciprocate as well. Contact and communication from outside of the audit process are some of the most positive [forms of] communication you can have. Folks asking for help are the best indication of how effective internal audit is beyond the audit committee level. So I think that if we can do a better job deeper down in the lower levels of the organization, establishing those relationships will have the greatest and most positive impact."

Remaining relevant

"Looking back, 10 years ago – in 2003 and 2004 – what was internal audit focused on?" Hester asks. "We were heavily involved in Sarbanes-Oxley, and we were deeply immersed in financial auditing and internal controls. Today, remaining relevant is all about risk management and governance. Business is always changing, and our focus needs to adapt and evolve as our organizations do. How do we continue to be called to the table? It's about understanding the challenges facing the business and how to mitigate those risks and provide value and assurance."

"There is a lot of talk about strategy today," he adds. "Internal audit needs to understand its organization's strategy and audit the key programs and initiatives for achieving the strategy."



UNDER ARMOUR.

Company Headquarters — United States
Number of Countries Operates in — 20+
Number of Employees in Company — 7,800
Industry — Apparel
Annual Revenues — US\$2.33 billion (as of Dec. 31, 2013)
Number in IA Function — 6
Number of Years IA Function Has Been in Place — 8
IA Director/CAE Reports to — Chair of the Audit Committee of the Board of Directors

“We wanted to build an internal audit partner for the business, not a check-the-box function. Here we are eight years later, and we feel we have done exactly that.”

Jonathan Schwartz

Building a More Secure Structure, Brick by Brick, at Under Armour

Under Armour, the U.S.-based company specializing in the development, marketing and distribution of branded performance apparel, footwear and accessories, has a mission: Make all athletes better through passion, design, and the relentless pursuit of innovation. Elysa Lipsky, the director of internal audit for Under Armour, and Jonathan Schwartz, the senior director of risk management, also have a mission – to help the company enact positive change.

Internal audit at Under Armour operates within the risk management function, and is staffed by six full-time auditors, including Lipsky. The internal audit team seeks to add value to the company by completing the global internal audit plan, helping management comply with Sarbanes-Oxley, and acting as a business partner on key initiatives.

From 2004 to 2013, Under Armour grew from fewer than 400 employees to nearly 8,000 and from US\$204 million to US\$2.33 billion in revenue. The company continues to expand globally and evolve its product offerings and channels of distribution.

“When the internal audit function was created in 2005 at Under Armour, the company was preparing to go public in November of that year,” Lipsky says. “We were here to establish Sarbanes-Oxley and a baseline control environment. At the time, we co-sourced with a leading global accounting and consulting firm to supplement our limited resources. Fast-forward a decade, and now we’re self-sufficient and in full partnership with the business. It’s a total transformation from a SOX-compliance function to a full scope internal audit business partnership,” Lipsky says. Schwartz adds, “We’ve come full circle and are now determining a longer-term strategy to help us increase our global reach, matching that of our business and operations.”

Over the past 10 years, audit leaders' skill sets have changed, too, from traditional controls testing to more strategic auditing and risk management rooted in a comprehensive understanding of the business. "Today, our auditors have to know what to look for – it's a broad-based endeavor," Lipsky says.

Sheer growth led to better skills

According to Schwartz, sheer growth led Under Armour to leverage the internal audit department as a primary strategic resource. "We had to cover more ground, and we had to learn the business," he says. "As the business pulled us into more significant projects, we were given the chance to really showcase our skill sets. This led to even more demand on our time and resources. The result of these efforts is that we have raised our visibility in the organization."

"I think that in many organizations this type of internal audit visibility and partnership is limited," Schwartz adds. "It's likely not a lack of skills, but a lack of marketing within the organization. Partnership with the business is hard-fought. It takes time to build internal audit's stature within the organization, but it's something you have to be committed to doing, project by project. Virtually every communication between the internal audit team and the business either builds partnership or detracts from it. We live by this rule and always try to add value, even in small ways," he says.

"You are either a traditional 'gotcha' auditor or you are not," Lipsky continues. "For us, adding value has happened organically. When we started building our annual audit plan in the beginning of each year, we would meet with the business unit owners and describe the audits we completed the previous year for them and for other parts of the business. As those discussions took place, we showed the value we can add and the relationships we've built. We started asking, 'If you had resources to perform a project for your part of the business, what would it be?' The answers generally shed light on risks in their operations and opportunities for us to showcase our skill sets to solve their problems, not just manage organizational risks. If you want to build partnerships with the business, you have to make your work relevant to the business leader. The best way to do that is to help solve their problems and make their operations stronger."

"It has been a hard-fought victory over the last decade," Schwartz says. "I remember when Elysa started here. We wanted to build an internal audit partner for the business, not a check-the-box function. Here we are eight years later, and we feel we have done exactly that. But it took time. We had to show the business the value we bring, every day. Under Armour continues to grow globally at a rapid pace. There is no 'halo effect' from work we've done the past eight years. We continue to be challenged to understand the changing risks of our growing business so we can add value for our business leaders."

Building a safe house and better skills

Lipsky and Schwartz use the metaphor of securing a house: When you build a new house it is important to install a security system. Rather than the reactive approach of installing a security system after a crime has occurred, it's smarter to consult a professional who has the insight to build the security structure into the house from the beginning.

Today, the fact that the business units at Under Armour call the internal audit function before they experience problems shows that they understand the true value of the function. "It takes a lot of work to build that level of trust," Schwartz says.

"The internal audit profession has to continue driving the development of necessary skill sets in its internal auditors," says Lipsky. "There is a need to understand the things that impact our profession, such as increased levels of PCAOB (Public Company Accounting Oversight Board) scrutiny on external auditors, high-profile retail fraud cases, and the changing regulatory environment in the global markets. Not a board meeting goes by that data security and data privacy are not topics. Internal audit has to develop points of view on many topics of concern for the board. Our internal audit team steps up to meet this evolving challenge."

Integrating risk management

Schwartz plays an approximate chief risk officer role for Under Armour, with internal audit, risk management and compliance under the risk umbrella. He also functions as the ethics officer and leads the global insurance group. “I have a hybrid role,” he says. “Internal audit’s independence is fiercely protected under this structure. But the integration of all the risk management functions, including internal audit, provides a broad view of risk.”

“We wouldn’t be a risk function if we didn’t try to implement ERM (enterprise risk management). We’ve taken our lumps like many other risk organizations,” he says. “We tried to launch ERM three years ago, and the company was not ready for it – it was too theoretical, not practical enough. It wasn’t linked to the strategy process, so risks didn’t have enough meaning. Now, we are doing it organically. We are building our infrastructure and our approach to ERM brick by brick, right alongside the strategy team.”

Integrating and formalizing risk management into the audit plan and audit processes have not changed the role of internal audit at Under Armour, but they do begin to tie together all the company’s risk management components. “Internal audit is stronger and more focused by having its connection to the other risk functions,” Schwartz says.

In terms of creating synergies with external auditors and senior management, Lipsky says, “You have to be realistic, and you have to be honest. Things are never going to be perfect. As our founder and chief executive officer, Kevin Plank, says: ‘Perfection is the enemy of innovation.’ We focus on understanding key risks and prioritizing our efforts.”

Increasing specialization

Under Armour, like many businesses, operates in fast-changing regulatory environments. In the coming decade, internal auditors will be required to understand new risks and controls, and not just at a superficial level. Auditors will have to focus on specific risks that, if the company is ill-prepared, will seem to crop up overnight. “It’s going to be more specialized because of the increasing speed and scrutiny,” says Lipsky. “This could drive more industry-specific, or even geography-specific, auditors and certifications.”

Schwartz adds, “We are a digital company now. Every company is. This new digital environment ushers in emerging risks, such as those associated with social media and the immediate impact on reputation and brand. Internal audit at Under Armour plays a role in social media, e-commerce and cloud computing. This reality significantly changes the way we look at operations and risks in general. We have to be flexible, keep open lines of communication with our business leaders, and develop relationships with third parties to gain expertise in those areas.”

Lipsky would like to see more universities embrace the internal audit profession. “All The IIA chapters have academic relationships,” she says. “I participate on the Board of Governors for the Baltimore chapter. I would like to see the internal audit profession connect more with business schools to include undergraduate courses in internal audit and risk management. Internal auditing is a good profession – challenging and rewarding. We should get the word out.”

About Protiviti

Protiviti (www.protiviti.com) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit, and has served more than 40 percent of FORTUNE 1000® and FORTUNE Global 500® companies. Protiviti and its independently owned Member Firms serve clients through a network of more than 70 locations in over 20 countries. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

Protiviti is proud to be a Principal Partner of The IIA. More than 700 Protiviti professionals are members of The IIA and are actively involved with local, national and international IIA leaders to provide thought leadership, speakers, best practices, training and other resources that develop and promote the internal audit profession.



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We work with audit executives, management and audit committees at companies of virtually any size, public or private, to assist them with their internal audit activities. This can include starting and running the activity for them on a fully outsourced basis or working with an existing internal audit function to supplement their team when they lack adequate staff or skills. Protiviti professionals have assisted hundreds of companies in establishing first-year Sarbanes-Oxley compliance programs as well as ongoing compliance. We help organizations transition to a process-based approach for financial control compliance, identifying effective ways to appropriately reduce effort through better risk assessment, scoping and use of technology, thus reducing the cost of compliance. Reporting directly to the board, audit committee or management, as desired, we have completed hundreds of discrete, focused financial and internal control reviews and control investigations, either as part of a formal internal audit activity or apart from it.

One of the key features about Protiviti is that we are not an audit/accounting firm, thus there is never an independence issue in the work we do for clients. Protiviti is able to use all of our consultants to work on internal audit projects – this allows us at any time to bring in our best experts in various functional and process areas. In addition, Protiviti can conduct an independent review of a company's internal audit function – such a review is called for every five years under standards from The Institute of Internal Auditors.

Among the services we provide are:

- Internal Audit Outsourcing and Co-Sourcing
- Financial Control and Sarbanes-Oxley Compliance
- Internal Audit Quality Assurance Reviews and Transformation
- Audit Committee Advisory

For more information about Protiviti's Internal Audit and Financial Advisory solutions, please contact:

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- **The Updated COSO Internal Control Framework: Frequently Asked Questions**
- **COSO 2013: Implications for IT Controls**
- **From Cybersecurity to IT Governance – Preparing Your 2014 Audit Plan**
- **Executive Perspectives on Top Risks for 2014: Key Issues Being Discussed in the Boardroom and C-Suite** (from North Carolina State University's ERM Initiative and Protiviti)
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KnowledgeLeader[®] is a subscription-based website that provides information, tools, templates and resources to help internal auditors, risk managers and compliance professionals save time, stay up-to-date and manage business risk more effectively. The content is focused on business risk, technology risk and internal audit. The tools and resources available on KnowledgeLeader include:

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Key topics covered by KnowledgeLeader:

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KnowledgeLeader also has an expanding library of methodologies and models – including the robust Protiviti Risk ModelSM, a process-oriented version of the Capability Maturity Model, the Six Elements of Infrastructure Model, and the Sarbanes-Oxley 404 Service Delivery Model.

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