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# Internal Auditing Around the World

*Strengthening the Profile of Internal Audit*

VOLUME XI



**protiviti**®  
Risk & Business Consulting.  
Internal Audit.

## Introduction

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.* Internal auditors know these words from The Institute of Internal Auditors (The IIA) by rote. Central to that statement is the word “independent.” It is a term that places internal audit in a unique position: a core business function that is responsible for providing an objective review of management's conduct.

Since the financial crisis of 2008, the risk management failures that helped it to manifest, and the resulting organizational and marketplace changes, internal auditors, by necessity, have become even more focused on reviewing that conduct to ensure the organization maintains a robust risk culture, from the top down. One especially positive outcome of more frequent interaction and increased dialogue between internal audit and the business has been growing respect and understanding between auditors and management.

In many organizations now, internal auditors are seen less, or not at all, as “policemen,” but as advisers, strategic partners and consultants. Management now looks to leverage internal audit as a strategic resource, recognizing that internal auditors' broad and deep perspective of operations, risks and potential opportunities can help inform business decision-making.

This widening embrace of internal audit by the business is a pivotal turning point in a trend that has been under way the past few years. In Volume IX of Protiviti's *Internal Auditing Around the World* (2013), we observed that the general shift toward collaborative working was creating challenges for both internal auditors and the business: “This is not only because [internal auditors] aren't used to taking center stage, but also because others in the organization – from the board level down – must adapt to interacting with internal auditors more frequently, proactively and strategically.”

Two years later, based on the interviews we conducted for our latest edition of *Internal Auditing Around the World*, it is clear that many organizations and their leadership not only have adapted to an expanded working relationship with internal audit, but also now want to extract as much value as possible from this newfound collaboration.

Internal auditors, meanwhile, find they must perform a very delicate balancing act. They must rise to the call to become more of a strategic partner to the business – a role many internal audit teams have been actively working to achieve for years – while not compromising their independence and objectivity.

Without question, this has the potential of placing internal audit in a difficult position. But the rewards for the business, as a whole, are clear. The more internal auditors understand the needs and challenges of the organization, the more effective their internal audit processes will be – and the more likely their internal audit activities can add real value to the business.

The internal audit leaders we interviewed state it best. As Stephen Frimpong, Vice President of Internal Audit at Kimberly-Clark Corporation, notes, “We cannot just lock ourselves in a room and come up with a plan. We cannot just *think* we understand the business, we have to *know* that we do. We have to shape the audit plan to make sure we deliver impact and drive results.” And as Euroclear's Chief Auditor Peter Sneyers says, “In order to be genuinely seen as a trusted adviser, you need to go beyond providing assurance. You need to work with your stakeholders to help solve their problems while providing new and useful insight.”

Clearly, internal auditors must remain ever mindful of the invisible line between the function and the business as they examine the organization through their unique lens. Yet there are opportunities to do more. “You need to be an auditor first,” says Harsh Mohan, Chief Audit Executive for Etihad Airways.

“That needs to be the foundation of what you do. But when you spend all that time reviewing systems, controls, processes and transactions, you also should always be looking for ways to use that knowledge to add value through process improvements, enhancements and change.”

In this latest volume of *Internal Auditing Around the World*, we find that many internal audit departments, along with their organizations, are in the midst of significant change and transformation – a period of reinvention. Where they are in that journey varies, but the destination is the same. As Dr. Rainer Schwarz, head of corporate audit for Bayer AG, explains, “We want to be able to identify and fix problems before they materialize, which is much more difficult than simply producing big audit reports. Therefore, we have to strengthen our partnerships throughout the organization to become trusted advisers. ... When that happens, we will be much better positioned to know what might go wrong before it actually happens.”

As C-level executives and internal audit professionals read the profiles herein, we hope they gain valuable insights that will help them to continue building mutual trust and more effective collaboration between the business and internal audit – while ensuring that the latter’s mandate to remain independent and objective is preserved.

For more than a decade, Protiviti has covered the evolution of the internal audit profession through the platform of *Internal Auditing Around the World*, and we feel especially fortunate to be doing so during a period of such significant change for many functions around the globe.

Protiviti  
July 2015

## Acknowledgements

We would like to thank the organizations and internal audit leaders who contributed to this year’s publication. We also would like to extend our deepest appreciation to the premier global audit leader, The IIA, for its commitment to advancing the internal audit profession, and for its longtime partnership with our company.

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Company Headquarters — Australia  
Number of Countries Operates in — 10  
Number of Employees in Company — 5,700  
Industry — Financial Services  
Annual Revenues — US\$4 billion  
Number in IA Function — 22  
Number of Years IA Function Has Been in Place — 25+  
IA Director/CAE Reports to — Audit Committee  
(functionally) and CFO (administratively)

“Internal auditors must have a passion for truly understanding the business and being inquisitive within environments that can rapidly change. ... They also must be able to communicate effectively with their stakeholders, connect with external peers and bring insights back to the business.”

David Barry

## Transformational Change at AMP Limited Requires Internal Audit to Focus on What Really Matters

AMP Limited (AMP) is the leading independent wealth management company in Australia and New Zealand. Founded in 1849 as the Australian Mutual Provident Society, AMP today has US\$170 billion in assets under management and expanding retail banking and international investment management businesses. Headquartered in Sydney, AMP provides financial advice, products and services, and investment opportunities to millions of customers in Australia, New Zealand, Asia, Europe, North America and the Middle East.

AMP's key operating businesses include wealth management, insurance, banking and funds management. In 2011, AMP merged with AXA Asia Pacific Holdings, acquiring AXA's business in Australia and New Zealand and subsequently phasing out the AXA brand in those markets. Since the merger, AMP has been focused on achieving three main goals intended to help the company set the course for continued growth and profitability by:

- Becoming a more contemporary, customer-centric business
- Reshaping the organization, so it is more agile and efficient in how it serves customers
- Reaching offshore to serve more customers and find new investment opportunities, primarily through its AMP Capital subsidiary

David Barry is director of internal audit for AMP. He joined the company in 1999 from a leading multinational professional services firm and assumed leadership of the internal audit function in 2006. Today, he leads a team of 20 full-time employees and two co-sourced full-time equivalents (FTEs). Subject-matter experts are brought into the function on an as-needed basis.

Barry reports functionally to AMP's audit committee and administratively to the company's chief financial officer (CFO). He is also supported by three portfolio heads; each has divisional responsibility for one of AMP's key business units and attends the board audit committee meetings for those entities.

## Strategic Analysis of Risk in the “Ecosystem”

Barry says AMP's commitment to continuous improvement and growth is one reason why he has stayed so long with the company. Without question, AMP has changed significantly since Barry took the helm of internal audit nearly 10 years ago, prior to the AXA merger and the company's commitment to becoming more customer-centric. According to Barry, this period of transformational change has had an impact on the internal audit function, especially with regard to the team's focus on enterprise risk management (ERM).

“We must think more strategically when analyzing risks and consider all aspects of the organization's ‘ecosystem,’ including watching for changes in the risk culture,” he explains. “We must collaborate more effectively with other assurance functions. And there is increased focus on assurance through timely and relevant communications with all stakeholders, including executive management and the audit committee.”

Today, AMP's internal audit team assesses not only the control environment, but also management's awareness of risk. “The merger with AXA presented an opportunity for the board, the C-suite and the assurance functions to formalize our view of risk appetite, and align our strategy and objectives around it,” Barry says.

AMP's internal audit team applies these governance metrics and an enterprise approach to risk to challenge its own activity, including how it plans audits and interacts with stakeholders. This has helped bring more focus to internal audit's work, says Barry. “We are now more risk-based where we target our assurance activities to those areas that present the greatest exposure to the business and also provide insights where there are potential opportunities. We focus on what really matters, and ensure our activities align to AMP's risk appetite and the expectations of the board and the C-suite.”

Barry says internal audit at AMP has built an effective partnership with the audit committee, where “open and transparent discussion” occurs on all aspects of the company's governance, risk and control process. “There is a high level of confidence among the nonexecutive directors that internal audit not only strives to meet their expectations, but is also professional, diligent and courageous,” he says.

Barry notes that internal audit's mandate – to provide the board and executive management with an independent, objective evaluation of the adequacy and effectiveness of management's control over risk – places the function in a unique position to provide insight on how AMP is serving stakeholders and achieving objectives. Providing high-quality advice and insight requires the internal audit function to remain agile and connected, says Barry, and “to stay abreast of the changing risk profile.”

## Assessing the Quality of Risk Management

As the third line of defense in risk management,<sup>1</sup> Barry says internal audit plays a key role in assessing AMP's culture. “The culture is what ensures the risk and control environment remains strong,” he says. “Through our interaction with the business, we can assess whether risk management is a part of how things are done and if there is a clear link between business performance and risk management.”

Internal auditors assign an assessment rating to the “quality of risk management,” which Barry says is in addition to a separate rating on control effectiveness. He adds that advising the first and second lines

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<sup>1</sup> *IIA Position Paper: The Three Lines of Defense in Effective Risk Management and Control*, The Institute of Internal Auditors, January 2013: <https://na.theiia.org/news/Pages/The-Three-Lines-of-Defense-in-Effective-Risk-Management-and-Control-Is-Your-Organization-Positioned-for-Success.aspx>.

of defense (management, and the various risk control and compliance oversight functions established by management<sup>2</sup>) on how to improve their approach to risk management is one way that his team adds value to the organization.

“Auditing is about driving enhancement and improvement for the good of all stakeholders,” says Barry. “Our aim is to make risk management less nebulous and easier to manage. Assessing the quality of risk management helps stakeholders to really understand the scope of their risk management duties.”

To ensure expectations about risks and controls are clearly communicated to all stakeholders, and not just through audit and assessment processes, Barry says internal audit works directly with the human resources function to “influence the business on strengthening the enterprise culture.”

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“Auditing is about driving enhancement and improvement for the good of all stakeholders,” says Barry. “Our aim is to make risk management less nebulous and easier to manage. Assessing the quality of risk management helps stakeholders to really understand the scope of their risk management duties.”

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## Big Plans for Big Data

One of internal audit’s short-term goals, according to Barry, is to drive greater efficiency in the audit process through the use of technology. AMP’s internal auditors are using mobile technology when they are out in the field, and paper-based audits have been eliminated.

Looking to the future, Barry has plans to expand his team’s use of data analytics; they are already using data analytics when auditing operational areas of AMP that are heavily transactions-based. “Data analysis can provide effective insights to business management on potential areas of concern,” he says. “We now think, ‘What is the best way to use data when performing an audit to make sure we get broader coverage of the auditable area?’”

Barry says data analytics also helps internal audit to assess AMP’s data security practices, especially around management of customer data. He sees other opportunities, too, particularly with predictive modeling of big data. “We can start to identify emerging trends that we should focus on, and use data more to challenge our view on the residual risks of the organization,” he says.

Data analytics are also essential to helping AMP effectively execute its plan to become more customer-focused, according to Barry. “There is so much more data available today that can tell us about how customers interact with and feel about the company,” he says. “Are they raising complaints or concerns? How do they view the brand? These are things to consider when looking at the risk environment.”

## Striving for Continuous Improvement

The changing business environment, emerging technologies, regulatory demands and increasing stakeholder expectations are all requiring AMP’s internal audit function to expand and enhance its skill sets. Barry’s strategy is to maintain a core team and source capabilities on an as-needed basis.

“We just can’t keep certain technical and specialist skills on hand at all times,” he says. “It makes more sense to maintain a flexible approach and access talent on demand when we need it. And our needs change according to the company’s risk profile, which is always changing.”

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<sup>2</sup> Ibid.

Business transformation activities such as outsourcing, offshoring and international expansion are also bringing new challenges to AMP's internal audit function, such as the need to ensure cultural understanding. "To determine if a co-sourcing arrangement is needed in a particular market, we will first assess our in-house capabilities," says Barry. "Co-sourcing also helps us to ensure coverage in specific locations, without having to travel there."

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"Long term, we look to build a high-performance culture where continuous improvement is seen as an integral aspect of internal audit's operations," says Barry.

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Moving forward, Barry says he expects the function will become a magnet for talent within AMP. There are plans to promote internal audit as an effective training ground for business executive management.

When he does hire for his core team, one of the things Barry says he looks for is a "continuous learning attitude." He explains why this quality is so important: "Internal auditors must have a passion for truly understanding the business and being inquisitive within environments that can rapidly change. They must be able to utilize technology and understand data to provide an early warning on emerging risks. They also must be able to communicate effectively with their stakeholders, connect with external peers and bring insights back to the business."

Continuous improvement is another goal that Barry has set for AMP's internal audit function. He says, "Long term, we look to build a high-performance culture where continuous improvement is seen as an integral aspect of internal audit's operations."



## Australian Taxation Office

Company Headquarters — Australia  
Number of Countries Operates in — 1  
Number of Employees in Company — About 20,000  
Industry — Government (Public Service)  
Annual Revenues — N/A  
Number in IA Function — 30  
Number of Years IA Function Has Been in Place — 20+  
IA Director/CAE Reports to — Audit and Risk Committee

“Our audiences don’t want us to spend a lot of time explaining what’s working well. They want to know what is not working, and what’s being done about it.”

**Greg Hollyman**

## Internal Audit’s Focus on Reinvention Helps Australian Taxation Office Strengthen Its Risk Management Capabilities

The Australian Taxation Office (ATO) is the principal revenue collection agency for Australia’s government. The ATO reports to the Australian treasurer and the assistant treasurer and administers the Australian federal taxation system and superannuation legislation. The ATO’s responsibilities include collecting income tax, goods and services tax (GST), and other federal taxes for the government; managing the Australian Business Register; and administering the country’s Higher Education Loan Program.

Led by Commissioner of Taxation Chris Jordan, the ATO and its nearly 20,000 employees are on a path of reinvention. One of the primary purposes of this journey, which affects all areas of the organization, including internal audit, is to “transform the client experience while continuing to deliver high-quality customer service,” according to the ATO’s vision, mission and values statement.

The ATO’s internal audit function is also on a transformational journey. The reinvention began about eight years ago, when the ATO stopped its long-standing practice of rotating senior executives into the chief internal auditor position and instead hired an external professional internal auditor. According to current ATO Chief Internal Auditor Greg Hollyman, the organization’s internal audit function was not functioning properly at that point. He credits his predecessor for outstanding work in elevating the stature of the function.

“When my predecessor took over, the internal audit function was not focusing on key issues, and it had a poor reputation throughout the ATO,” says Hollyman. “He did a great job restoring internal audit’s credibility. When I took over in March 2012, the function was no longer totally disregarded.”

Hollyman credits his predecessor for restoring organizational trust in the internal audit function. He intends to build on this foundation of restored credibility by improving nearly all of the underlying processes (which help produce high-quality audit reports on time) within internal audit.

“My predecessor found the land and framed the house,” says Hollyman of the internal audit function’s rebuilding process. “I’m the guy who puts in the plumbing, electric, heating and all of the other systems you need to live in the house.”

The “detail” work that Hollyman and his staff of 30 have been conducting for the past three years is certainly practical, but it is also designed to deliver larger, more strategic insights. The underlying purpose of the internal audit reinvention Hollyman is leading is to elevate and sharpen the function’s focus on the goals, strategies and strategic risks the ATO recently identified as part of the strategic planning initiative. The high-level titles of the strategic risks include revenue collection, ICT systems, financial management, relationships, people capability and service expectations. While the titles may seem very broad, there is a lot of detail supporting each one of them.

That support requires extensive collaboration at every level of the organization. Although Hollyman’s staff is extremely lean, they are not alone. To succeed, internal audit must collaborate closely and constructively with several other second-line-of-defense functions within the ATO, including ERM, fraud prevention and conformance. The latter’s mission is to ensure adherence to policies and procedures throughout the organization.

## Remaking the Function and Annual Audit

When Hollyman joined the ATO as head of internal audit, one of his first discussions was with the head of the ATO’s Commission of Taxation. “He said to me, ‘Internal audit is telling us all about the nuts and bolts, but we’re not looking for detail. We want to know the big picture,’” Hollyman says. “I discovered that most of our business partners were looking to us to identify the ‘strategic so-whats.’” Identifying and then conveying these items to the organization, including to the ATO’s three main executive groups (compliance, law design and practice, and people systems and services), required an updated set of internal audit goals and strategies, as well as a revamped auditing methodology.

Hollyman and his team developed these new goals and strategies to intentionally align with and reflect the new overall ATO goals and strategies. The internal audit goals include:

- Making it easy for stakeholders to work with the function
- Providing contemporary and tailored services
- Building purposeful and respectful relationships
- Maintaining a professional and productive team

Each goal is accompanied by three to five outcomes and measures of success. For example, the “Making it easier for stakeholders to work with the function” goal includes the outcome “Stakeholders clearly understand internal audit’s purpose and direction” and the measure “Clearly communicated internal audit charter, goals and strategies.”

The internal audit strategies include:

- Building a culture that embodies [the function’s] values and meets the ATO’s needs
- Simplifying audit processes, maximizing automation and reducing costs
- Connecting with all stakeholders and the profession in meaningful ways
- Influencing ATO risk management and control for more certain outcomes
- Using data to improve decisions, risk management and control
- Reshaping the workforce to optimize capability and performance

“I did not just write these goals and strategies on my own,” Hollyman says. “It was truly a team-driven effort.” It was also a comprehensive effort and, Hollyman emphasizes, necessary to sustain the function’s credibility.

Revamping the audit plan process also marked an exhaustive process, according to Hollyman. It included a complete reconsideration of the underlying auditing methodology, the creation of new reporting templates, a concerted editing effort designed to keep audit reports shorter and more focused on strategic challenges; and the introduction of reports to new audiences.

Although reports previously were sent to the ATO’s audit and risk committee, executive management did not receive regular overarching summary reports during the ATO’s fiscal year. Now, internal audit sends quarterly summary reports to the leadership of the ATO’s three executive groups and also presents updates at their quarterly meetings. The editing – some of which Hollyman still performs personally – is designed to make the reports shorter and sharper. Hollyman says, “Our audiences don’t want us to spend a lot of time explaining what’s working well. They want to know what is not working, and what’s being done about it. We cut out a lot of the good news and get straight to the point.”

Another key area related to reporting is a focus on getting reports out the door as quickly as possible after completing fieldwork. In consultation with the audit and risk committee, Hollyman has introduced the benchmark of having reports finalized with management comments and issued within 20 working days of completion of fieldwork. Hollyman adds, “It does place a lot of pressure on the team, but the result has been positive, with only a few reports not meeting the benchmark and usually for very valid reasons (for example, due to a complex issue that needs careful consideration and consultation).”

## Understanding How Risks Trickle Down

The ATO’s internal audit function is just wrapping up another major overhaul: mapping the organization’s risk and assurance “universe.” The initiative started with the strategic risks the organization is now focused on and then identified the impact of those risks (and related sub-risks) throughout the entire organization. After producing this risk map, internal audit identified which internal controls and which people (the first and second lines of defense) are responsible for providing assurance over all of these risks and sub-risks.

The effort will produce several benefits, including stronger assurance and more effective and efficient risk management oversight. Hollyman emphasizes that the effort, designed to provide a single risk and assurance tool that can be used throughout the ATO, is bigger than the internal audit department’s universe. He also describes the risk and assurance map as a “management tool.” “Internal auditors are just one key contributor,” Hollyman explains. “Although we’re driving the development, the idea is that the risk management team and all of our second-line assurance functions throughout the ATO will use this tool.”

Developing the tool required hundreds of hours of document reviews, a process supported by the use of outside consultants. “If we stacked all of the planning documents, policies and procedures, questionnaires, audit plans, business plans, and other documents, the pile would be taller than I am,” Hollyman says.

The current tool consists of a spreadsheet displaying strategic risks, related risks, key controls, risk ratings, first line of assurance responsibility, second line of assurance responsibility, quality of assurance and more. “We will be able to see if we have any gaps in risk and assurance coverage or any issues in quality of coverage,” says Hollyman.

The tool also will help prevent risk and assurance overlap by clearly showing who is responsible for providing assurance. If more than one assurance function is responsible for a particular area, that overlap can be eliminated. “We often tripped over each other in the past, and that is not helpful to the business,” Hollyman notes. “We might have scheduled an internal audit of procurement, only to hear them say, ‘But the external auditors were just in here, and fraud prevention was here just before that.’”

Prior to this mapping effort, Hollyman says he suffered sleepless nights wondering if the annual audit plan was neglecting important areas. The tool is giving him peace of mind because the audit plan is created based on the ATO's entire universe of risks, not only those within internal audit's family orbit. "We now have a very management-driven audit plan," Hollyman says.

By clarifying the nature and quality of the assurance provided by the first and second lines of defense, the tool also will help internal audit focus more time and energy auditing second-line-of-defense functions. "We will look more at our second-line functions to determine the quality of their assurance," he adds. "That should deepen the quality of assurance throughout the organization."

## Measuring Performance

Because Hollyman is deeply committed to enhancing the quality of service and expertise his function provides, he is now focusing on what "value-add" means. Specifically, Hollyman wants to identify and apply key performance indicators (KPIs) that reflect the value internal audit is adding to the ATO.

Hollyman recently met with the ATO's audit and risk committee to discuss how internal audit will reflect its overall effectiveness and the value it adds to the organization. They will begin by looking at three types of measures:

- 1. Traditional internal audit function measures:** These metrics relate to the overall management of the internal audit function and include measures on delivery management (e.g., plan completion), time management (e.g., staff productivity rates), staff management (e.g., staff development plans), financial management (e.g., budgets), and quality management (e.g., external quality assurance review results).
- 2. Stakeholder satisfaction measures:** These metrics will be generated by responses to questionnaires internal audit distributes after conducting an audit in a specific part of the organization. In addition, Hollyman and his team will distribute similar questionnaires about their service and performance to all key executives on an annual basis. All of these questionnaires ask the same highly specific question: "What value has internal audit added to your function?"
- 3. Improvement-related measures:** "This is where it starts to get a bit trickier," Hollyman says. The idea here is to track the outcome of the management actions taken to address the issues that internal audit shares with different parts of the organization during or after an audit. For example, if an internal audit issue resulted in the redesign of a business process, internal audit will check six months after the due date for completion to find out whether the new process has successfully strengthened risk management and increased value in that area.

## Managing Talent

Although Hollyman's team is able to focus on "pure internal audit" thanks to the existence of other second-line-of-defense functions, the function is extremely lean. And it is likely to stay that way for some time, given policies currently restricting public sector hiring throughout Australia. These challenges place even greater pressure on talent management strategies and help to explain why Hollyman seeks to develop "specialist-generalist" internal auditors. It also helps to explain why he recently introduced a rotational program in which business partners work temporary assignments within internal audit and internal auditors complete temporary assignments in other parts of the organization.

Hollyman defines a "specialist-generalist" as "an internal auditor who is a business-minded strategic thinker." He says, "I want people who can look at any part of an organization and be able to ask 'What could go wrong?' and 'What's being done to prevent that from becoming a problem?' and – most importantly – 'What can make this business area, process, system or activity better?'" An internal auditor needs to be a generalist in terms of understanding how a business works, regardless of

whether the organization is private or public. Beneath that generalist layer, the internal auditor should possess a highly specialized skill set.” For example, one of Hollyman’s auditors has a deep human resources (HR) background. Another possesses a master’s degree in taxation. In some cases, Hollyman co-sources or partners with external firms to add specific types of hard-to-find internal audit expertise (e.g., IT auditing).

“I’ve always thought internal audit makes a great training ground for people who want to become senior executives because this is where they learn how an organization actually works,” Hollyman says. This thinking was behind the rotational program Hollyman developed about four months ago. Internal auditors serve three-month stints in other parts of the ATO, and business partners (currently one from HR and one from IT) rotate onto the internal audit team for three-month temporary transfers.

Hollyman says he hopes the rotational program will also deliver some internal marketing benefits as internal auditors and business colleagues (who complete internal audit assignments) can spread the word about internal audit’s good work.

On that count, Hollyman appears to be getting more than he bargained for. “One of the biggest challenges I’ve had recently is having my best people poached by other areas of the ATO,” he says. “Honestly, I celebrate when that happens because it’s a great opportunity for our auditors. It also underscores our success in developing our staff and shows that more people are spreading the word about internal audit. Then, I cry a bit because we still have to deliver on all of our objectives with one less auditor.”



Company Headquarters — Germany

Number of Countries Operates in — 75

Number of Employees in Company — 118,888+

Industry — Healthcare, Agriculture and High-Tech Polymer Materials

Annual Revenues — €42.2 billion  
(as of December 31, 2014)

Number in IA Function — 110

Number of Years IA Function Has Been in Place — > 80 years

IA Director/CAE Reports to — CEO

“We want to be able to identify and fix problems before they materialize, which is much more difficult than simply producing big audit reports.”

**Dr. Rainer Schwarz**

## Internal Audit at Bayer AG: Enhancing the Role, Rewriting Reports, Developing Career Paths and Introducing Performance Management

Bayer was founded as a general partnership in 1863 by a dye salesman and a master dyer. The venture quickly distinguished itself from Germany’s many other 19th-century dye factories on the strength of its research and development (R&D) capabilities and international reach. Today, Bayer AG continues to stand out in many ways, including through its impressive longevity.

A global enterprise with core competencies in the fields of healthcare, agriculture and high-tech polymer materials, Bayer AG, headquartered in Leverkusen, Germany, operates as a strategic management holding company. The holding company defines the values, goals and strategies of the entire corporation, including its three primary businesses: Bayer HealthCare, Bayer CropScience and Bayer MaterialScience. In total, Bayer consists of nearly 300 consolidated companies in 75 countries. The internal audit function at Bayer is comprised of 110 auditors, 60 of whom work from the Leverkusen headquarters. Remaining team members are based in Brazil, China and the United States. Staff responsibilities are organized and assigned by business subgroups, regions and business functions.

After holding several positions within the company, Dr. Rainer Schwarz stepped into the head of the corporate audit role in July 2014 with the intention of bolstering the partnership between the function and its numerous stakeholders. “My mission is essentially twofold,” Schwarz says. “One side is traditional internal audit work. The other is forward-looking, doing preventive work.”

He continues, “We want to be able to identify and fix problems before they materialize, which is much more difficult than simply producing big audit reports. Therefore, we have to strengthen our partnerships throughout the organization to become trusted advisers – a role that we have not yet fulfilled. When that happens, we will be much better positioned to know what might go wrong before it actually happens.”

As audit reports are one of the function’s most essential activities, Schwarz is working to make them less bulky and much more relevant to the different audiences who read them. He is also focused on enacting other major changes, including rewriting the career paths of Bayer’s internal auditors, making auditing more data-driven, and introducing new ways to drive internal audit’s performance. “We are also conducting some special projects, and constantly responding to changing business needs,” says Schwarz.

In September 2014, for example, Bayer’s Board of Management announced plans to float Bayer MaterialScience on the stock exchange as a stand-alone, publicly listed company by mid-2016 at the latest. This strategic shift will transform Bayer into a pure life sciences company. This change requires a split of resources to enable efficient internal auditing at the new company. This requirement has forced the function to review its audit universe and to recalibrate how it devotes time to conducting traditional audit work, as well as an advisory to the business – in addition to its own transformation initiatives.

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“We have to strengthen our partnerships throughout the organization to become trusted advisers – a role that we have not yet fulfilled. When that happens, we will be much better positioned to know what might go wrong before it actually happens,” says Schwarz.

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## Writing to Three Audiences

Feedback is important to Schwarz, who says he wants to establish more of a “feedback culture” in the internal audit function. Schwarz holds off-site meetings of the full department on a regular basis. At these gatherings, he invites the top management members to speak on a variety of important and current topics. “I always ask the speakers to share with us what impresses them about our reports and what they would like to see changed or improved,” Schwarz says.

Board members have pointed to the length of the audit report as an improvement opportunity. This feedback has been valuable, Schwarz says, because many of his less experienced internal auditors have not yet worked closely with senior managers or board members, whose information diets rarely have room for 45-page analyses. But senior management and the board represent only one audience. While these executive readers prefer brief summaries – with an emphasis on what requires fixing and plenty of bullet points – other internal audit stakeholders have different information preferences.

To address these preferences, Schwarz says internal audit will take “a three-pronged approach when writing audit reports.” That means addressing the distinct expectations and preferences of different audiences in a single report. “We must have a highly condensed executive summary with the absolute right message for the board of management,” he explains. “For others, like the concerned division or function heads, we provide an additional five or 10 pages of deeper analysis of the same issue. Addressing the auditees, we also investigate, for example, our R&D organization or project teams responsible for large investments, which primarily consist of scientists and engineers. They ask for every detail, so we must be able to meet their requirements as well. Our reporting should allow for each and every interested party to easily access the precise level of detail they need.”

## Blazing a Career Path Through Audit

One of the first initiatives Schwarz launched when he took over as head of internal audit involved the career progression of internal auditors. “I felt we needed a framework in place so internal auditors could have a better idea of how their careers would develop,” says Schwarz, whose framework sounds as if it could one day serve as a strong leadership development program for the enterprise.

“Corporate is an important entry position for graduates at Bayer,” he says. “We want to hire really good people from top universities in Europe and have some of them staying in internal audit for up to five years before they move into the business.” During these early years, freshly hired internal auditors are exposed to many different business units and geographic locations. “They absolutely have to get to know the company as well as they possibly can,” says Schwarz, who has amassed years of experience throughout Bayer, with management positions covering control, finance, accounting, IT and strategic planning in Germany and in many other locations around the world.

Along with an intensive introduction to the company through at least four different assignments, new auditors are challenged by activities that require heavy interaction with senior management. “From there, we want them to deepen their knowledge of a function, such as accounting or control,” Schwarz continues. “After that, we want to give them broader leadership experience, perhaps as an audit group manager abroad. Or, they might become, for example, a CFO of one of our smaller businesses.” At that point, the auditors are ready to take on larger leadership positions inside or outside the internal audit function. The rigorous career path Schwarz describes helps develop the business savvy, leadership experience and functional expertise that internal auditors need to operate as trusted advisers.

## Preventing Problems With Data-Driven Auditing

Another way Schwarz is helping internal audit to be perceived within Bayer as a trusted adviser is by demonstrating greater auditing efficiency through the use of technology. “We’re currently in about 90 percent of our larger business units once a year,” Schwarz says. “We also want to get into our smaller units more frequently than every four or five years.” He adds that computer-assisted auditing tools and related audit analytics will play a key role in determining how many auditors will need to review processes and controls in those smaller units, and how often.

Bayer’s internal audit function is developing a form of continuous auditing that has been applied to 10 pilot projects to date. The technology is designed to churn through large supplies of financial transaction data to detect anomalies that might point to developing problems. “The technology keeps us in the loop,” Schwarz says. “We can quickly follow up when an issue warrants it,” he explains. “The technology and our mitigation actions are designed to prevent negative issues from arising.”

If the team applies this approach to more business units in the future, the findings will help determine which entities internal auditors visit in person, according to Schwarz. Units with more issues that qualify as higher risks to the company will, of course, receive more frequent visits. Schwarz says the units that have worked with the technology have so far reacted positively. “Because we share many issues with them before these issues become larger problems, they’re interested in the results.” Other functions are interested in the technology as well. Schwarz reports that Bayer’s procurement function has asked about adapting the application for its own review purposes. “It is homegrown technology with some limitations,” Schwarz says, “but the feedback so far has been very encouraging.”

## Enhancing Performance Management

Schwarz is now in the process of editing how internal audit's performance is measured. "Almost every day, my staff wonders why I want to measure everything," Schwarz says with a laugh. While the claim has its merits, it is not entirely on the mark. Schwarz clarifies that he wants to measure the right things on the journey to becoming a world-class audit function that fulfills the role of a trusted adviser.

"Coming from corporate control, where measurement really is everything, I was surprised that there were almost no performance metrics in internal audit," Schwarz says. The primary performance indicator, such as it was, only tracked whether the internal audit plan was executed in a qualitative way.

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"I want us to become the type of trusted adviser our business people call before making major decisions," Schwarz says, "so that we can guide them on how to deal with risk and control matters."

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Since taking on his current role, Schwarz has experimented with new key performance indicators (KPIs), including the length and number of audits each auditor conducts per year. "Considering the scope of our audit approach, we now know that an auditor performs seven to eight audits each year," he says. "We have some team members doing 14 audits per year and others doing much less. We've just started looking into how we can more effectively measure our performance."

This assessment may soon lead to a new internal audit KPI: number of requests for early help. "I want us to become the type of trusted adviser our business people call before making major decisions," Schwarz says, "so that we can guide them on how to deal with risk and control matters."



Company Headquarters — Italy  
Number of Countries Operates in — 85  
Number of Employees in Company — 82,300  
Industry — Energy  
Annual Revenues — €110.948 million (as of 2014)  
Number in IA Function — 128  
Number of Years IA Function Has Been  
in Place — 15 years  
IA Director/CAE Reports to —  
Chairman of the Board of Directors

“I think acting as a consultant to the business is the new frontier for the internal auditor. (We) have very broad knowledge of processes and risk and control issues, so we can make a tremendous contribution in supporting our colleagues beyond normal audit activities.”

Marco Petracchini

## Internal Audit at Eni S.p.A. Enters “New Frontier” as Business Consultant, but Keeps Focus on Maintaining Independence

Eni S.p.A. is a multinational, integrated energy company. Its logo is a mythical, six-legged, fire-breathing dog, with four legs symbolizing the four wheels of a car and the other two representing the legs of the driver. The Italian government owns nearly a third of the public company, which was founded in the mid-1950s, evolving from another oil and gas company, Agip, established in 1926. Eni operates in 85 countries and maintains headquarters offices in the Italian cities of Rome and Milan.

Eni focuses primarily on finding, producing, transporting, refining and marketing oil and gas. Among its core oil field areas for exploration and reserve placement are North and Sub-Saharan Africa, the Barents Sea, Indonesia, Kazakhstan and Venezuela. In addition, it operates in engineering, construction and drilling, both offshore and onshore, for the oil and gas industry through Saipem, a subsidiary listed on the Italian Stock Exchange (Eni’s interest is 43 percent). Eni operates downstream businesses that produce and refine chemicals, polymers and bioproducts, as well as lubricants and other products. It also has extensive natural gas and power generation operations that supply energy to millions of customers in Italy, Europe and other international markets.

Eni’s internal audit function performs audit activities for Eni S.p.A. and for all Eni subsidiaries except for listed subsidiaries that have their own internal audit departments, such as Saipem. In addition to auditing the operating effectiveness and adequacy of Eni’s internal control and risk management system, the audit team provides advisory services to Eni’s management, recommending ways to improve the efficiency and effectiveness of, and the integration of controls in, Eni’s processes.

Marco Petracchini, senior executive vice president and director of internal audit for Eni, oversees a team of 128 full-time auditors. He reports hierarchically and functionally to the board of directors and, on its behalf, to the chairman, without prejudice to its functional dependence on the control and risk committee and on the chief executive officer (in his capacity as director in charge of the internal control and risk management system).

Petracchini assumed leadership of Eni's internal audit function in 2011, originally joining the department in 1999 from ExxonMobil group in Italy. His colleague, Lucia Latrofa, is vice president, audit methodologies, internal control system, community and knowledge compliance management. She was hired into her current position in 2012 from a leading multinational professional services firm. Both Petracchini and Latrofa are based in Eni's Rome office, but Petracchini spends about half his time working at the company's Milan location.

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“We safeguard our independence by playing a ‘listener role.’ We give suggestions, but management maintains the final responsibility for decisions made,” says Petracchini.

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## Increasing Collaboration – and Knowledge

In 2010, Eni defined a new regulatory system, characterized by the shift from a traditional approach organized by corporate functions to one based on business processes. Consequently, four years ago, Petracchini reorganized the internal audit department, creating units in charge of audit on specific processes among different business areas. This allows the internal auditors to be closer to the business and to acquire a deeper knowledge of related activities and risks.

According to Petracchini, the internal audit function “has always been a partner to Eni's management.” Petracchini and his team have been working to deepen that partnership in recent years by participating in the company's major projects; for example, the function helps to implement risk management practices, and to establish compliance and anti-corruption programs and keep them up to date. Petracchini also attends monthly executive committee meetings.

However, while internal audit may be more visible and active in major initiatives at Eni, Petracchini says his team takes great care to remain independent and objective, always emphasizing their assurance activities over any advisory activities. “We concentrate our assurance activities on known risk areas,” he says. “But we also cooperate with management to identify potential future risk areas and determine how internal controls should be implemented to mitigate those risks.”

He adds, “We safeguard our independence by playing a ‘listener role.’ We give suggestions, but management maintains the final responsibility for decisions made.”

The internal audit team also steers clear of getting involved in strategic risk management activities for the company and its subsidiaries, says Petracchini. His view: “The internal audit department should not have an active role in strategic risk management, but should review the risk management process independently.”

While internal audit may avoid weighing in on strategic management issues, the team does work closely with Eni's risk management department. Another key change instituted by Petracchini, following the implementation of the risk management system three years ago, was establishing a line of communication with the company's risk management team. “We receive information about risks and remediation activities from them on a regular basis,” says Latrofa. “We use this information as a basis to define our internal audit plan. We also share the results of our audit activities.”

Internal audit collaborates with Eni's chief financial and risk officer (CFRO) to perform testing of internal controls for U.S. Sarbanes-Oxley Act compliance. The department also maintains a close working relationship with Eni's anti-corruption unit, performing testing of anti-corruption controls and procedures. Additionally, internal audit performs testing on behalf of the "Watch Structure," which is responsible for Italian Legislative Decree No. 231 compliance program monitoring. Known also as "Model 231," the Italian law makes it clear that "legal entities, including corporations, may be held liable – and consequently fined or subject to prohibitions – in relation to certain crimes committed or attempted in Italy or abroad in the interest or for benefit of the company."<sup>1</sup>

## Laying the Groundwork for a Stronger Control and Risk Culture

In addition to regular collaboration with departments, as described above, Petracchini and Latrofa point to three areas where the internal audit function is working to add value to Eni:

- Training of Eni employees, through e-learning and on-site workshops, on the principles, roles and responsibilities needed for maintaining an adequate and effective internal control and risk management system
- Monitoring of corrective actions that management must take to remediate issues identified during internal audits
- Providing twice-yearly reports to top management at Eni, which describe significant issues discovered through auditing activities that are relevant for all business lines; in turn, executives share these reports with middle management, so they can address the risks

Looking ahead, Petracchini says internal audit will be working to increase the "control and risk culture" throughout Eni. This effort ties back to internal audit's ongoing training initiative. "One reason we started to provide training was to eliminate a common misunderstanding among people in the business: that internal audit 'owns' the internal control system. We wanted to make it clear that the business is accountable for day-to-day maintenance and assessment of the health of the internal control system – not internal audit," Petracchini explains.

The training is making a difference, according to Latrofa, in terms of helping business owners become more proactive about addressing risk and control issues. "As part of our training, we provide our colleagues with some basic but specific examples, derived from our audit experience, of common problems their particular line of business may face. We also offer suggestions for preventive actions they can take to mitigate those risks," she says.

Training and technology are also leading to a reduction in time needed for remediation, says Petracchini. "We use a shared database to track issues," he explains. "We post our findings, the business shares updates, we check their work, and we close the issues. It is far more efficient to follow up on our recommendations in this way than through email or paper."

Internal audit, in cooperation with the human resources department, also oversees the IN&OUT program at Eni, an "exchange program" for internal auditors and business-line professionals that Petracchini launched three years ago. About 10 percent of Eni's internal audit team participates in the program each year.

"The IN&OUT program is a way for internal audit to contribute to other functions at Eni by passing on our knowledge of internal controls," says Petracchini. "It also gives us an opportunity to access specialized skills in the business, and learn more about the risk and control culture of Eni's management."

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<sup>1</sup> "Model 231," Eni website: [http://www.eni.com/en\\_IT/governance/governance-controls/controls-internal-control-system/controls-model-231/model-231.shtml](http://www.eni.com/en_IT/governance/governance-controls/controls-internal-control-system/controls-model-231/model-231.shtml).

## The “Next Frontier” for Internal Audit

The internal audit team at Eni is in line to receive some training in the near future as well, particularly around IT risks, controls and auditing. Because it is so challenging to find internal auditors with these and other in-demand skill sets, Petracchini and Latrofa say they must develop their own specialized talent. “We look to increase our department’s knowledge base not by hiring, but by growing our own resources in-house,” says Latrofa.

Another area of focus for Petracchini and his internal audit team will be improving and consolidating their new role as consultants to the business. During the past year, the team, under the guidance of Petracchini, has changed its approach from performing basic audits to becoming more like consultants.

Petracchini views this shift in approach as a positive for the business – and for internal audit. “I think acting as a consultant to the business is the new frontier for the internal auditor,” he says. “Internal auditors have very broad knowledge of processes and risk and control issues, so we can make a tremendous contribution in supporting our colleagues beyond normal audit activities.”

But again, Petracchini admits there is risk for internal audit in this new frontier: “Our challenge is to find the right way to contribute while maintaining our independence. Our work and our charter help to make our role clear: providing assurance. However, we still must communicate to the business that when we are acting as consultants, we are only making suggestions. Whether the business decides to implement our suggestions is solely up to management.”



Company Headquarters — United Arab Emirates  
Number of Countries Operates in — 70  
Number of Employees in Company — 24,000+  
Industry — Airline  
Annual Revenues — US\$6.1 billion (as of 2013)  
Number in IA Function — 35  
Number of Years IA Function Has Been in Place — 8  
IA Director/CAE Reports to —  
Chairman of the Audit Committee

“I strongly believe that if we, as auditors, do not evolve and change, we will soon become obsolete. Ninety percent of the job I did 10 years ago has been automated.”

**Harsh Mohan**

## Etihad Airways Quells Conflict, Quantifies Internal Audit Value by Tracking Revenue Enhancements and Cost Improvements

Etihad Airways (Etihad) is the national airline of the United Arab Emirates (UAE). Established in 2003, it operates out of a hub at Abu Dhabi International Airport. In its first decade, it grew to more than US\$6 billion in revenue, with 111 flights serving 67 countries; today, Etihad is the second-largest carrier in the UAE, behind Emirates.

In addition to its flagship, Etihad Airways holds equity interests in seven other airlines, including Aer Lingus, airberlin, Air Serbia, Air Seychelles, Alitalia, Jet Airways and Virgin Australia. It also operates a global loyalty company and holds majority ownership in the loyalty companies of several airline partners, as well as a number of flight support services.

Etihad’s internal audit function was created in 2007. Harsh Mohan joined the audit group in 2011 and has been senior vice president, audit, compliance and risk, since 2013. In that role, he serves as chief audit executive and also oversees compliance and risk. He reports directly to the chairman of the board’s audit committee, and administratively to the president and chief executive officer. Etihad Airways’ team of internal auditors is divided into five specialties, with one group handling internal audit for the flagship airline, another overseeing internal audit for airline partners, a compliance group, IT assurance and risk assessment.

“When I joined the audit group, there was an ‘us versus them’ attitude,” Mohan says. “It was a very traditional internal audit function, and there were many differences between management and internal audit.”

Drawing on his background as a business transformation consultant, Mohan implemented a more collaborative approach, making sure auditors praised managers for their accomplishments, explained the significance of any adverse findings and prioritized recommendations according to business value.

## Seek First to Understand

As independent and objective observers with access to every corner of an organization, internal auditors are uniquely positioned to acquire a deep understanding of operational intentions, historical outcomes, strengths, weaknesses, opportunities and threats. Mohan used that knowledge to align his team's audit goals with stakeholder objectives so that, whenever possible, they make recommendations that help stakeholders achieve their objectives, instead of presenting them with technically correct but strategically insignificant laundry lists of corrective actions.

"Every report that comes to my desk must have a 'so-what' and a 'why' answer," Mohan says.

Mohan sits as an observer in Etihad Airways' strategy/decision-making group, so he has a clear understanding of the company's strategic objectives. He passes that understanding along to his direct reports monthly to align them with the organization's business plan and ensure they are auditing the right risks.

"We work with the audit committee, too, so that they have a full view and vision of what we are doing," Mohan says.

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"Every report that comes to my desk must have a 'so-what' and a 'why' answer," Mohan says.

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## Quantifiable Value

In 2014, the internal audit function at Etihad Airways gave back \$66 million to the organization in profit enhancement initiatives – the yield from about 100 audit assignments and recommendations, including revenue and cost improvements, as well as process changes. That's a pretty specific dollar figure – and Mohan says that's by design.

"Each of our findings or recommendations has a measurable value-add," he explains. "Once an audit has been completed and management has agreed to make a recommended change, it goes to the project management office, and they track it."

That's not to say internal audit has become disproportionately focused on profit-finding initiatives. "You need to be an auditor first," Mohan says. "That needs to be the foundation of what you do. But when you spend all that time reviewing systems, controls, processes and transactions, you also should always be looking for ways to use that knowledge to add value through process improvements, enhancements and change."

## A Mandate for Change

Having worked in consulting and in turnaround projects for airlines, Mohan says he came to internal audit with a mindset focused on business risk controls. One of the first changes he made was to migrate away from referring to his area as "internal audit," now calling it "assurance" instead.

It's a subtle change, but significant. "Assurance" is more closely aligned with Etihad Airways' goal of leveraging internal audit knowledge for strategic insight, casting internal audit in the role of trusted adviser. "That kind of change doesn't happen without the support from the highest levels of the company," says Mohan.

He adds, “We have a very strong tone at the top, from the PCEO [president and chief executive officer] down through the C-suite, when it comes to governance, compliance, ethics and low tolerance for fraud. That kind of support gives us a lot of leverage in terms of acceptability.”

It also requires leadership from within internal audit. “My predecessor and I have both worked toward that end,” he says. “All of our audits are based on risk assessments.”

Beginning in 2011, the internal audit function began meeting in the third quarter of every year to review the risks on their radar and adjust their audit plan accordingly. The group operates on a three-year strategic plan, calibrated annually to prioritize high and high-velocity risks.

“If the risk is high, and the velocity is also high, we give it full priority and assign one, two or three audits,” Mohan says. “We also look to see if the controls are really effective and what we can do to mitigate the risk from our side.”

## New Rules – New Tools

Mohan’s vision of an agile, risk-focused, value-driven internal audit function includes new hiring standards, new expectations for continuing education, more training, greater specialization and new automated tools to facilitate continuous audit and deep data analysis.

On the hiring front, Mohan says, “Anybody who comes to my group has to have a professional designation – such as a certified public accountant, master of business administration or certified internal auditor – which gives me the basic indication of a professional background.” Once those qualifications are confirmed in a potential hire, he looks for “business sense and a can-do attitude, rather than people with very rigid profiles.”

Mohan believes in continuous development for himself and his staff of auditors. He holds four off-site training sessions each year focused on emerging issues. In addition, anyone attending a conference or seminar is required to share learnings with the rest of the team in a one-hour to two-hour summary.

His team has been equipped with specialized tools to increase the scope of their analytic reach and the depth and nuance of their findings. Automated auditing tools have also aided in collaborative reporting to continuous data analysis.

“We’ve taken the drudge work out of our auditing cycle,” Mohan says. “I strongly believe that if we, as auditors, do not evolve and change, we will soon become obsolete. Ninety percent of the job I did 10 years ago has been automated.”

Etihad Airways’ continuous auditing tools monitor critical functions, collecting raw data from various sources every 15 days – reservation data, ticketing data, financials, personnel and flight performance, among others.

A root cause analysis into a refund anomaly resulted in a substantial reduction in refund abuse. Data analysis found that a few agents were locking up excessive inventory, only to refund a high percentage of the sales they had made. The fix recommended by internal audit – a refund fee – substantially reduced refunds, contributing approximately \$3 million to the company’s bottom line.

Audits are performed at the business-unit level, as well as at the process level, according to how a particular risk presents itself. IT risks have become so significant for Etihad that they command their own specialized audit team, which provides IT assurance across the group. This team also conducts penetration testing, looking at virtual clouds and recommending rapid response plans to ensure client data and intellectual property are reasonably safe and that any breach could be rapidly detected and remediated.

## Accountability Is Key

Etihad Airways conducts internal client satisfaction surveys after each audit engagement to measure management's attitude toward the internal audit function. Mohan says satisfaction has increased substantially in the past year as conflict has been replaced with collaboration. The audit function is also reviewed by senior management and the audit committee.

Independence and objectivity are especially important in a collaborative environment, where internal audit is vested in the outcomes as a key performance indicator. Mohan says extra care is given to ensure objectivity is not compromised.

“Every assignment we take, we have to review that to make sure our independence is not compromised,” he says. “The result is reported to the audit committee in summary format every quarter. That report is visible to the PCEO – and all other stakeholders. We give a recommendation, but we are never responsible for the implementation. We don't own the rectification/mitigation action.”

As an audit executive in a state-owned enterprise, Mohan is subject to an extra layer of scrutiny. The Abu Dhabi Accountability Authority, which serves as auditor general of Abu Dhabi, provides guidelines and support to the internal audit department of all state-owned enterprises. They also audit the work of these internal audit departments. The Authority had a say in Mohan's appointment, and his continued employment depends on meeting their high auditing standards. They conduct annual audits, and if an internal audit function does not meet the standards in two consecutive audits, it will have direct consequences for the annual performance evaluation of the head of internal audit.

“That's a pretty good incentive to keep everything in an upright manner,” Mohan says.



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Company Headquarters — Belgium  
Number of Countries Operates in — 14  
Number of Employees in Company — 3,566  
Industry — Financial Services/Securities  
Annual Revenues — €1.040 billion (as of Dec. 31, 2014)  
Number in IA Function — 36  
Number of Years IA Function Has Been in Place — 14  
IA Director/CAE Reports to — Chairman of the  
Audit Committee and Chief Executive Officer

“To become an alarm bell for high risks, we had to change the mindset and behavior within internal audit. We had to ask more ‘so-what’ questions, to focus on impacts and consequences, and to understand that we are not paid by the number of issues we find, but by the value we create.”

**Peter Sneyers**

## From Reasonable Assurance to Trusted Adviser, Euroclear’s Internal Audit Odyssey

Euroclear is one of the world’s largest providers of domestic and cross-border settlement and related services for bond, equity, exchange-traded fund (ETF) and mutual fund transactions. The company was established in 1968 by the Brussels office of Morgan Guaranty Trust Company of New York in response to the development of the Eurobond market.

Before the Euroclear system existed, trading was hampered by long delays in the delivery of securities, the loss of certificates, and excessive counterparty and market risks. The market urgently required a settlement environment that was rapid, efficient and risk-controlled. The use of Euroclear’s system minimized risk as transactions within the system settled delivery versus payment (DVP), in which cash and securities are exchanged simultaneously, in electronic book-entry form.

Euroclear SA/NV is the parent company of the international and national central securities depositories (ICSD, CSD) of the group. It owns the group’s shared securities processing platforms and delivers a range of services to the group’s depositories.

The internal audit function was created in 2001, when Morgan Guaranty sold its interest in the company and Euroclear began to function autonomously. Peter Sneyers joined the internal audit group in 2011 after serving as chief operating officer of Euroclear Bank SA/NV, the group’s largest entity. Prior to serving in that role, he was chief executive officer (CEO) of Euroclear Nederland. As chief auditor, he reports directly to the chairman of the board’s audit committee and administratively to the CEO. Euroclear’s team of 32 internal auditors is based in Brussels and is augmented by four external subject-matter experts.

Sneyers inherited an internal audit function with 42 auditors generating 160 reports a year. Although technically proficient and competent, there was a general feeling among stakeholders that there was too much reporting, with too little emphasis on root causes, business impacts and consequences. In short, the audit coverage was perceived to be a mile wide and an inch deep.

“In an organization where a lot of things were going on, nobody had time to look at low-priority issues,” Sneyers says. “Our stakeholders wanted insight and analysis. They wanted us to help prioritize risks and close the most important control gaps, whereas we seemed to be creating administrative burden and conflict.”

The audit committee tasked Sneyers with transforming internal audit from inspector to trusted adviser. Thus began a series of transformation waves designed to deliver sustainable value through a culture of reinvention, collaboration and innovation.

## A Lean Transformation

Sneyers joined internal audit as the department embarked on a Lean transformation, leveraging the expertise built through Lean transformations in other departments and customizing it to suit the requirements of internal audit.

Based on an analysis of stakeholder needs, the department switched from a broad fixed audit rotation to a risk-based rotational audit plan with a six-quarter monitoring horizon. This new rotation is based on an ongoing assessment of present and emerging risks.

The prioritized and quarterly recalibrated approach allows the audit team to provide better insight into key risks while producing fewer reports (down 60 percent) and using fewer and more seasoned resources. “Internal audit is now able to focus available resources on top-of-mind stakeholder concerns, assuming the role of trusted adviser, instead of burying the audit committee with an overwhelming volume of less-actionable reports,” says Sneyers.

Concurrent with the Lean transformation, Euroclear’s internal audit department set about building stakeholder trust, combining an outward-facing communications and alignment plan with an internal culture shift. This move was designed to sharpen the focus of internal audit from providing “reasonable” assurance to serving as an “alarm bell” for high-impact risks and assessing potential consequences.

For Sneyers, as an outsider coming into an established team of career auditors that had little turnover, achieving this fundamental change in mindset was critical to internal audit’s ability to move from inspector to adviser. “It’s easy to look at something and say, ‘This isn’t good,’” he says. “But that just creates a burden for someone else. In moving from control to trust, we created value by addressing the ‘so-what’ and asking: ‘What are the business impacts, and how might they be addressed?’”

## Bringing Judgment Into the Picture

The transformation of Euroclear’s audit team required individual auditors to apply judgment (i.e., to use their “auditor’s nose”). But reliable judgment only comes with experience and seniority, meaning that less experienced auditors typically have less capacity to make reliable judgments. To bridge this gap, Euroclear created the construct of “The College.”

The College is composed of the audit department’s most senior people, who also act as the local heads of audit for Euroclear’s various subsidiaries. The forum itself is designed to bring expertise, experience and a cross-business perspective together.

Before the start of each internal audit, the audit team comes to The College to present scope and objectives. At this point, business context is discussed and scope trade-offs are made by assessing the business risks and controls. A second College session takes place before the final audit report is written, during which the audit team presents its findings and relevant ratings, allowing them to be constructively challenged and discussed.

This pre- and post-audit calibration fine-tunes the audit, helping to ensure the results will be valuable and relevant to the stakeholders.

## Fresh Perspective

With a clear value-creation plan in place, and by leveraging the risk management capabilities of all lines of defense, Sneyers began to diversify the experience range of his internal audit staff, recruiting new staff with business acumen, and transferring people outside of internal audit to broaden their experience base. For guidance, Sneyers says he turned to *The 7 Habits of Highly Effective Auditors*, a resource created jointly by Robert Half and The Institute of Internal Auditors. Those habits include:

- Natural inquisitiveness
- Persuasiveness
- Change management proficiency
- A service orientation
- An ability to recognize and respond to diverse thinking styles, learning styles and cultural qualities
- A global mindset

Sneyers believes this change in culture in Euroclear's internal audit function necessitated a corresponding change in leadership style, moving from a centralized top-down directive approach to a more distributive, team-based approach.

## Wide Visibility of Management Control

Communication is key to building and maintaining both trust and alignment. "The three lines of defense are much more effective if there is transparency of roles and responsibilities and all lines work together. By ensuring transparency among the three lines, one also creates opportunities for valuable stakeholder feedback. In turn, this leads to more effective and actionable reporting to the audit committee," says Sneyers.

A newly created, consolidated "Assurance Map," a visual representation of the assurance provided by the three lines of defense, clarifies the control activities undertaken by each line. Findings are discussed among the business heads, risk management and internal audit in Euroclear's Group Risk Committee.

The board's risk and audit committee now also receives a biannual, fully transparent report, which includes the independent assessment of both risk management and internal audit confirming, nuancing or informing that of line management. For any differences of opinion, senior management's conclusion is incorporated into the report as an explanation of how decisions were made. This approach helps trigger an active dialogue.

"Too often, organizations develop custom tools at subsidiary or departmental levels because they lack an aligned viewpoint of what they want to achieve," Sneyers says. "Fortunately, Euroclear does have this aligned view. And we are now investing in an efficient communications and analytic backbone. This allows everyone within the three lines of defense to have visibility and provide input into all risk assessments. These kinds of discussions are extremely important because they add substance to your files and make a difference between a report and a report that has impact."

The new report has given the three lines of defense at Euroclear far more insight than before, according to Sneyers. It has added consistency to the risk and control narratives presented to top management, the audit committee and regulators. In addition, it has helped to foster trust because stakeholders can now see and contribute to reports in progress. It also eliminates rewriting and consolidation, which has a tendency to dilute key messages, says Sneyers.

## Measurement and Evaluation

Talking about adding value is all fine and good. But value, like beauty, is in the eye of the beholder – or, in this case, the stakeholder. “In order to be genuinely seen as a trusted adviser, you need to go beyond providing assurance. You need to work with your stakeholders to help solve their problems while providing new and useful insight,” says Sneyers.

Euroclear has a culture of high corporate accountability. The value of internal audit is measured through a 360-degree review process, looking at the value of internal audit from all sides – top down, bottom up, peer to peer, externally and internally.

Euroclear’s internal audit department conducts an annual stakeholder survey to measure not only how they performed in that year, but also how perception is trending year-over-year. Sneyers also polls audit committee members and speaks personally with outside board members to take their pulse on the value provided by internal audit, what they could do better, and what they should take into consideration. Internal audit at Euroclear also conducts an annual self-assessment and benchmarks against the internal audit functions at similar organizations.

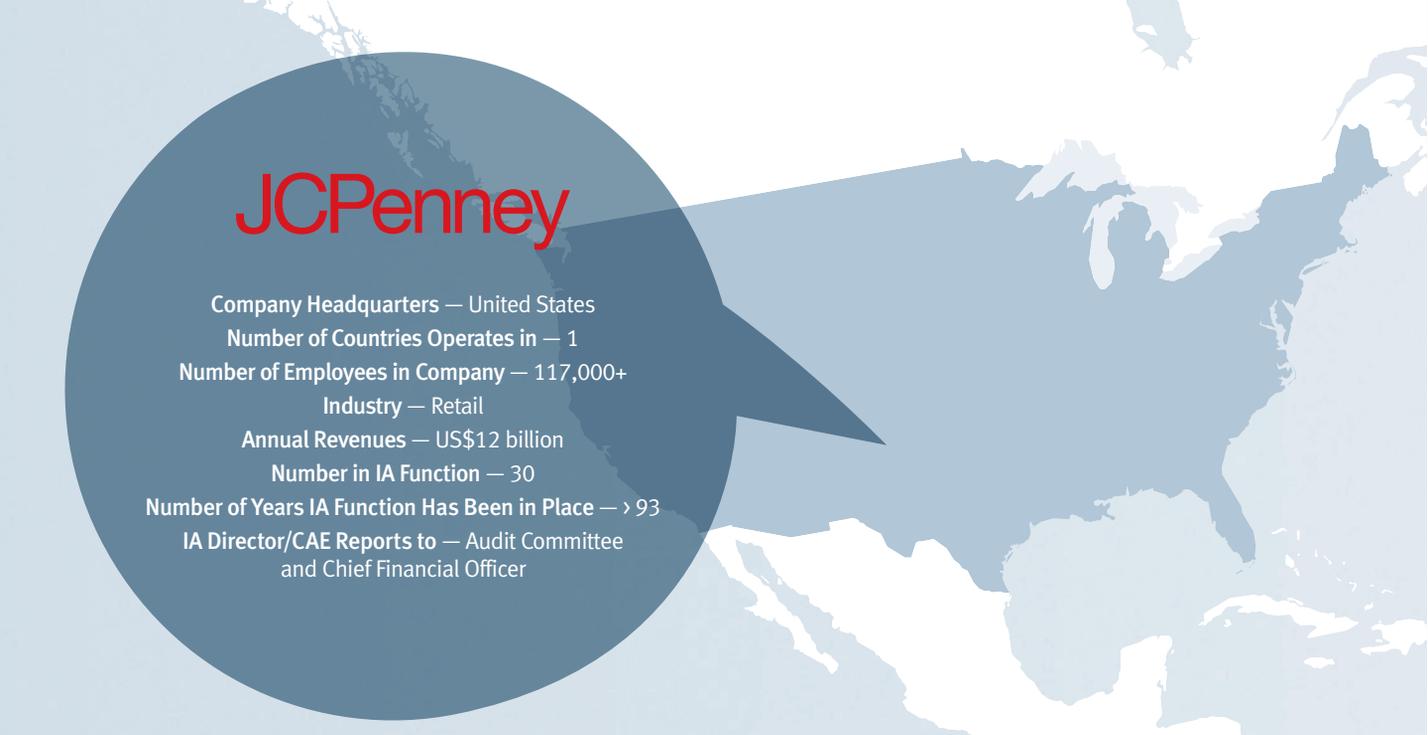
Sneyers and peers at other organizations have created a European chief audit executive (CAE) forum that meets quarterly to exchange views and best practices.

## Learnings

Euroclear’s internal audit transformation journey began in 2011 with a mandate for change. Busy executives and board members didn’t have time to digest the sheer volume of reports the organization was producing. As a result, internal audit was perceived as more “necessary” than “valuable.” Stakeholders made it known they wanted and needed internal audit to do a better job of digesting information, weighing it for impact, and serving as an alarm bell for high risks.

The organization addressed this concern by bringing in a new CAE. Applying proven business principles, the new leader adopted a risk-based audit rotation, and aligned departmental objectives with stakeholder expectations through a combination of face-to-face communication and collaborative tools that increased transparency and reduced fear and conflict.

“A good internal audit strategy does more than just move an organization toward a goal or vision,” Sneyers says. “It honestly acknowledges the challenges being faced, and provides an approach to overcoming them. Even the most visionary of strategies cannot be implemented without supporting operations and governance. The world is not static, and internal audit must adapt in order to not only survive, but thrive.”



# JCPenney

Company Headquarters — United States

Number of Countries Operates in — 1

Number of Employees in Company — 117,000+

Industry — Retail

Annual Revenues — US\$12 billion

Number in IA Function — 30

Number of Years IA Function Has Been in Place — > 93

IA Director/CAE Reports to — Audit Committee  
and Chief Financial Officer

“Business process improvement is an area where internal audit can really add value as a strategic partner ... [however], internal audit has to be careful not to impair its independence.”

Benita Casey

## For Internal Audit at J.C. Penney, Finding Opportunities to Improve Efficiency and Enhance Processes Never Goes Out of Style

James Cash Penney opened his first store – a Golden Rule – in Kemmerer, Wyoming, in 1902. The Golden Rule dry goods chain was founded by Guy Johnson and Thomas Callahan, who made Penney, one of their star salesmen, their third partner. By 1907, Penney had bought out Callahan and Johnson, and by 1912, had incorporated the retail chain under the new name, J.C. Penney Company, with headquarters in Salt Lake City, Utah.

Today, J.C. Penney Co., Inc., is based in Plano, Texas. In 2002, it became the holding company of J.C. Penney Corp., Inc., (JCPenney), which operates more than 1,000 midrange department stores in the United States and Puerto Rico. JCPenney sells everything from apparel and shoes for men, women and children, to furniture and luggage. Its private-label brands, such as Arizona Jeans, account for approximately 50 percent of its revenue. Many JCPenney stores feature distinctive offerings such as Sephora inside JCPenney, Disney Store, beauty salons and custom decorating departments.

Like any company that’s been in business for over a century, JCPenney has seen its share of ups and downs. Once one of the top catalog operators in the United States, the retailer exited that business in favor of expanding JCPenney.com, one of the first online apparel and home furnishings websites. The company is now working to emerge from one of the most challenging chapters in its history following an unsuccessful makeover. Its new focus: omni-channel retailing. Ironically, as part of that move, JCPenney just introduced a home catalog, a smaller version of its famous “Big Book” catalog.

“Omni-channel is one of the areas of focus for the company,” says Benita Casey, senior vice president of internal audit for JCPenney. “Many people still want to walk into a department store to see, touch and try on the products. But many customers are also now researching products online via smartphones and tablets and personal computers before they go to the store to make a purchase or vice versa. So, we have to be sure we can connect with them through all channels and offer a seamless customer experience.”

## Giving “Worker Bees” More Exposure

Casey joined JCPenney in January 2014; she reports directly to the audit committee and administratively to the company’s chief financial officer (CFO). Previously, Casey served as vice president of corporate audit for Dr Pepper Snapple Group, where she built the soft drink company’s internal audit department from the ground up. At JCPenney, Casey oversees a team of 30 auditors, focused predominantly on core business processes, such as international sourcing, supply chain and omni-channel.

Casey has senior-level auditors mapped to certain functions so they can continue to build strong relationships and inherent knowledge with business partners. The remaining team members are assigned as needed on key audit projects determined from a risk-based assessment. This allows junior auditors to get more exposure to different areas of the business and audit teams, furthering their development. This is by design: Since Casey joined JCPenney, she has been focused on bringing more balance to the function, in terms of the mix of experience on her team.

“Historically, auditors were aligned to a specific audit team that supported certain business functions,” she explains. “For example, there may have been a team that worked almost exclusively on human resources and procurement projects. While it was good for auditors to gain in-depth knowledge, this approach was also a bit limiting.”

Casey continues, “I now have some senior staff members with subject-matter expertise who serve as the go-to people for the business, while junior staff and specialists – the worker bees on my team – get more exposure cross-functionally. That way, staff-level auditors can gain expertise from senior leaders in areas across the business and not be exposed to only a few aspects of the company.”

Because Casey advocates a risk-based audit approach, she says her staffing strategy also helps to ensure internal audit can apply the right resources in the right places whenever they are needed. Long term, she says she wants the function to become a talent pool for all of JCPenney by transferring internal audit “superstars” into the business after two or three years. In the past, senior team members in internal audit typically stayed in the department on a long-term basis.

“The function was very top-heavy,” says Casey. “When I came on board, about 70 percent of the team was working at a manager level or above. Over the past year, we’ve achieved more of a 50/50 split. We are in a good balance whereby we have tenured expertise developing some of the newer talent.”

## Prioritizing Transparency

Another change Casey implemented in her first year at JCPenney was making audit reports available to all key stakeholders. “Audit reports used to be given primarily to the management team that was being audited. There was no standard distribution list,” she explains. “Now, the reports are also sent to the executive team – the CEO, CFO, general counsel and controller – and the audit committee, too. This process helps to provide transparency and accountability as leadership now has visibility into what opportunities exist.”

Casey says the business has had to adjust to this new approach, but the end result is more accountability for, and ownership of, audit findings for both auditees and auditors. “We need to make sure that what we are recommending is being implemented,” she says. “Otherwise, we’re not being effective – and the risk of an internal control gap remains.”

To help business owners prioritize audit findings and remediation, Casey says JCPenney's internal auditors take care to emphasize the most important items in their reports: "Before we include a recommendation in an audit report, we challenge ourselves and ask: 'Why is this important? What is the risk? What is the root cause?'"

According to Casey, the team also does a lot of planning up front to help make the audit process more efficient and engage business owners. "We really try to partner with the business to manage expectations, avoid surprises and address competing priorities," says Casey.

Because JCPenney has a strong corporate culture, Casey says earning the trust of people in the business is critical. "One of the things that attracted me to JCPenney was the strong loyalty that people have to the company," says Casey. "But you need to earn the respect of those who work here, and make them feel engaged and comfortable – which isn't easy when you are in audit. So, I've been focused on building relationships and showing how audit can assist the business in reaching its goals."

### Another Balancing Act to Master

Over the past year, JCPenney has made changes in both the board and management team to help lay the foundation for new beginnings. Its internal audit function has changed a great deal during this time as well. Casey says she is now thinking of how to take internal audit to the next level, by making it more of a strategic partner for the business – although that will require another balancing act.

"Business process improvement is an area where internal audit can really add value as a strategic partner," she says. "Auditors are great at telling people what's not working well and identifying root causes for problems. But sometimes, the business needs project and process expertise in improving a process that may lead to internal audit assisting in the redesign. Internal audit has to be careful not to impair its independence and audit our own work."

As JCPenney pursues its omni-channel strategy, Casey says there are many opportunities for internal audit to partner with the business as it rolls out new initiatives; identifying potential risks and putting control measures in place before implementation are two examples.

"Are we, as auditors, in a position to tell the business that a strategy isn't going to work? No," Casey says. "However, we can partner with them, and tell them where potential risks and control issues are that may impact the success of that strategy."

Improving efficiency is also an ongoing priority for the internal audit function, according to Casey. She explains: "When I joined JCPenney, I asked each team member where they saw opportunities for improvement within the department. Some staff-level auditors noted that managers had different ways of doing things, which created confusion. So, I suggested we start with a blank slate and decide what we wanted our audit methodology to be. The team was empowered to develop that new methodology, and they did a fantastic job."

Now that JCPenney's internal audit team has a new reporting structure, audit reporting process and audit methodology, Casey says the team is adjusting to their new way of doing things and will be ready for the next era of positive change for the whole company.

"A lot of changes have occurred in the internal audit function and at JCPenney during my first year; however, I think the results so far are paying off," says Casey. "I told our CFO and audit committee that we need to allow the changes to absorb and focus on letting everyone on my team know they are valued, their ideas are valued and that they belong."



Company Headquarters — United States

Number of Countries Operates in — 35

Number of Employees in Company — 43,000

Industry — Consumer Packaged Goods

Annual Revenues — US\$19.7 billion (as of 2014)

Number in IA Function — 30+

Number of Years IA Function Has Been in Place — 40+

IA Director/CAE Reports to —  
Senior Vice President and Legal

“We cannot just *think* we understand the business; we have to *know* that we do. We have to shape the audit plan to make sure we deliver impact and drive results.”

Stephen Frimpong

## Building a Culture of Excellence at Kimberly-Clark Corporation

Every day, one-quarter of the world’s population purchases a Kimberly-Clark product. Founded 143 years ago, the global consumer packaged goods (CPG) company today employs 43,000 in 56 countries, with manufacturing operations in 35 countries, and sells its iconic brands in more than 175 countries. In 2014, Kimberly-Clark Corporation (K-C) reported sales of US\$19.7 billion.

K-C helps people live cleaner, more organized and healthier lives, and its internal audit team is also focused on wellness – the company’s wellness. “Audit is a wellness check, not a test,” says Stephen Frimpong, vice president of internal audit at K-C for the past five years. “We provide feedback in terms of the overall health of the organization, and how to improve and add value to the business.”

This new attitude toward internal auditing represents a significant change to the internal audit landscape at K-C in the past five years. The audit team consists of 33 professionals, with teams in Asia-Pacific, Latin America and North America. The mission of the internal audit organization is to provide assurance on controls across K-C and bring in talent as a pool for future leaders for the business. Since Frimpong joined K-C half a decade ago, the team has helped to transform the way internal audit interacts with business units and leaders throughout K-C.

### A Team in Transition

Similar to the internal audit team, K-C itself has been undergoing a transition – becoming a more global company, but with a regional presence that allows employees to shape their own destiny and work environment. The result is not only greater job satisfaction throughout K-C, but also greater commitment to the company; this, in turn, has spurred growth and expansion for K-C.

“In the midst of all this change, we knew we needed to step back and redesign the internal audit function,” says Frimpong. “We are now regionally focused and regionally shaped. This gives us greater connection to the business, as well as more alignment with various cultures and languages.”

With this approach, the internal audit team can conduct risk assessments at a regional level, making the assessments more detailed and accurate. Although it takes time – about four months, on average – to collect, analyze and synthesize the data, the benefits are clear.

The regional approach ensures that internal audit is well known throughout the regions it serves. Frimpong says, “We have a seat at the table, and business leaders proactively contact us to become involved in new projects or initiatives. We cannot just lock ourselves in a room and come up with a plan,” he says. “We cannot just *think* we understand the business; we have to *know* that we do. We have to shape the audit plan to make sure we deliver impact and drive results. You simply cannot underestimate the power of engagement.”

## Hiring for the Future

“To make sure we keep up with the needs and expectations of our K-C stakeholders, we carefully consider the profiles of the individuals we hire,” Frimpong says. “We want people who have the ability to deliver ‘critical-thinking’ – who think about risk in many different, specific ways. On the other hand, we also want ‘elastic thinking’ – those who can consider issues more broadly and connect to the big picture.”

## Driving Cultural Change

“The internal audit team at K-C impacts cultural change by performing impactful audits that transform the way we look at risk management in the company. Our objective and focus is to conduct audits that affect the risk landscape and support a culture of accountability,” says Frimpong.

Training and education is another aspect of cultural renewal at K-C. The internal audit department’s Centers of Excellence, as well as the Internal Audit University, provide training and mentoring for internal auditors to become subject-matter experts in a range of topics, from SOX to audit technology.

“Technology is a primary focus for us,” Frimpong says. “When it comes to big data, we are looking forward to a future when technology is a true enabler for internal audit. Our auditors are highly engaged in the evolution of the audit work at K-C. We rotate auditors regionally on a regular basis, which is an exciting way to build expertise and share knowledge and cultural insights across teams.”

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“We want people who have the ability to deliver ‘critical-thinking’ – who think about risk in many different, specific ways. On the other hand, we also want ‘elastic thinking’ – those who can consider issues more broadly and connect to the big picture,” says Frimpong.

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## London Stock Exchange Group

Company Headquarters — United Kingdom

Number of Countries Operates in — 1

Number of Employees in Company — 4,700

Industry — Global Market Infrastructure

Annual Revenues — Total Income £1,381.1 million,  
excludes nonrecurring items and unrealized losses/gains  
(as of December 31, 2014)

Number in IA Function — 30

Number of Years IA Function Has Been in Place — >10

IA Director/CAE Reports to — Chairman of the  
Audit Committee

“We’re moving from a position of preserving the assets and value of the Group to a position of enabling *controlled* change and growth.”

Hervé Geny

## Five Ways London Stock Exchange Group’s Internal Auditors Meet Stakeholders’ Expectations and Enable Controlled Growth

London Stock Exchange Group (LSEG or “the Group”) is a diversified international market infrastructure and capital markets business that can trace its history to 1698. It operates a broad range of international equity, bond and derivatives markets, including London Stock Exchange; Borsa Italiana; MTS, Europe’s leading fixed-income market; and the pan-European equities platform, Turquoise. Headquartered in London, with significant operations in Italy, France, North America and Sri Lanka, LSEG employs about 4,700 people.

Post-trade and risk management services are a significant and increasing part of LSEG’s growing business operations. LSEG operates CC&G, the Rome-headquartered CCP; Monte Titoli, the European settlement business; and globeSettle, the Group’s newly established CSD based in Luxembourg. It is also a majority owner of LCH.Clearnet, the multi-asset global CCP operator. LSEG offers customers a range of data products, including Sedol, Unavista, Proquote and RNS and is a global leader in indexing and analytic solutions through the FTSE and Russell Index. It is also a leading developer of high-performance trading platforms and capital markets software, as well as trading, surveillance and post-trade technology.

LSEG’s growth track is one of the reasons Hervé Geny joined the company as head of internal audit in December 2012. That growth also poses significant and complex challenges – including integrating different auditing functions, as well as addressing different cultural perceptions of internal audit – for LSEG, most of which require Geny to apply his deep corporate finance and risk management expertise. “We are a fast-growing organization, and internal audit has to adapt to a very, very dynamic environment,” Geny says. “It forces us to maintain a balance between depth and breadth. We could

go very deep in some topics and do only 10 audits, we could do 100 more superficial audits, or we can do something in-between. But we have to mix the depth and the breadth of our audits, and there is no scientific recipe for doing so.”

In the past eight years, LSEG has acquired more than a dozen companies (and counting). These additions, coupled with organic growth, reflect the vision of Xavier Rolet, chief executive officer (CEO) of LSEG. That vision focuses on diversified growth through acquisition and development of interrelated and complementary businesses, says Geny, who views the mission of the Group’s 30-person internal audit function as helping make this growth possible and sustainable.

“We’re moving from a position of preserving the assets and value of the Group to a position of enabling *controlled* change and growth,” he says. In practice, according to Geny, that means LSEG’s internal auditors may fly to Sri Lanka to audit the software business (MillenniumIT) one day, and then return to London to review corporate governance and examine financial controls before jetting to Italy for yet another audit.

To execute internal audit’s mission in this fast-changing, far-flung and complex environment, Geny focuses on five areas:

### Area #1: Stakeholder Management

LSEG’s internal audit stakeholders are extremely diverse in terms of the businesses and processes they oversee, the organizational structures of the group entities they belong to, and the way they relate to internal audit. Newly acquired companies bring with them different organizational cultures and perceptions of auditing, says Geny. “Some groups are quite open to audits and tend to be easy to work with,” he explains. “Other groups can be more challenging, so you need to have the right discussion at the right level to get them over that hump of resistance. For me personally, it means I must get more involved in some audits, especially at the beginning of the process, when we discuss the terms of the audit, and at the end, when we discuss the results and the report.”

As soon as he joined LSEG, Geny says he insisted on attending meetings of the LSEG Executive Committee, where the company’s latest strategic ideas and plans are discussed. He also started attending meetings of the company’s other top-level committees, including the operational risk committee, the financial risk committee and the new products and markets committee. “This involvement helps me shape our audit plans so they remain aligned with LSEG’s strategy,” he says.

### Area #2: Strategy and Planning

Geny’s internal audit strategy and planning must remain flexible and agile given LSEG’s rapid pace of change. “I must map the audit plan to the company’s strategic plan in terms of coverage and topics,” he explains. “I cannot use a purely cyclical audit view. While many audit functions can systematically return to the very same topic or process every two or three years, depending on the level of risk, we also have to take into account the fact that our audit universe this year is going to be very different from our audit universe last year.”

LSEG’s acquisitions of companies such as LCH.Clearnet and Frank Russell Company in the past two years have caused Geny and his team to move quickly to integrate more audits into their plan. “It adds quite a lot of complexity to our audit universe and challenges us to ensure that we’re addressing our entire auditing universe on a regular basis,” he says.

LSEG’s internal audit function addresses this complexity by considering risks across several dimensions: by business entity, by process and by IT system. “We must maintain alignment between our audit priorities and the Group’s risk appetite,” Geny says.

Although the risk appetite and risk register (i.e., the status of different risks) change, Geny says his attendance at executive-level committees helps internal audit to stay on top of those changes.

### Area #3: Mission Execution

Geny acknowledges that his function's mission to make growth possible sounds lofty, but he asserts that executing this purpose is "about much more than concepts, and requires a highly practical approach." Specifically, he points to the importance of planning, continuous monitoring and collaboration.

"You have to plan your audit cycle around the auditee's workload," Geny says. Given the changes occurring within LSEG, most parts of the organization – especially at the middle-management level, Geny notes – contend with burgeoning to-do lists. They're focused on integrating acquisitions, which include revamping processes and moving to common technology platforms. These activities are in addition to the "business as usual" work.

"We have to be quite careful when planning our audit cycle," Geny says. "This means communicating auditing plans to business units as soon as they're finalized and then being flexible to adjust those plans when necessary."

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"Clearly, as internal audit we have to provide assurance on our own, but there are some opportunities to leverage knowledge from elsewhere in the organization to increase our effectiveness and our coverage," says Geny.

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He adds, "We actively engage with people in the business units to understand when is the best time for us to come in and do productive and value-adding work. Otherwise, we are just like the proverbial fly buzzing around the horse, and they will want to get rid of us."

As for continuous monitoring, Geny says this means internal audit stays informed of any issues or risks related to large projects – such as financial systems work or post-merger integration – on an ongoing basis rather than evaluating those endeavors only during scheduled visits. "We want to raise flags when we see things are not going as well as they should be, so that changes can be implemented quickly to prevent disruption," he says. "It's very important for us to have a real-time impact rather than just producing big reports."

Collaboration with other assurance functions, such as risk management and compliance, also helps enable continuous monitoring, according to Geny. "Clearly, as internal audit we have to provide assurance on our own, but there are some opportunities to leverage knowledge from elsewhere in the organization to increase our effectiveness and our coverage," he says.

### Area #4: Resource and Knowledge Management

When Geny joined LSEG, the internal audit function had fewer full-time employees and relied more on co-sourcing arrangements. As the scope and complexity of internal audit's work increased, Geny has hired more full-time internal auditors while using co-sourcing arrangements more strategically to access highly specialized expertise, such as in the pension arena. The team brings a wealth of experience with many having previously worked for some of the world's largest financial services companies.

"So far, my guiding principles for hiring are that candidates must be experienced auditors, have an entrepreneurial mindset and must understand the rigors of working in a highly regulated environment," Geny says. "We will continue to develop the team through a mixture of external hires, training and, in the longer term, the rotation of people from within the wider Group."

For now, Geny wants self-starters who, like savvy entrepreneurs, can spot and leverage opportunities to improve the internal audit function and help LSEG to grow. "When I interview candidates," Geny says, "I tell them, 'You will be exposed to all levels of the firm. One day you will operate in a

local business unit, and the next day you'll come with me to talk to the Group CEO or to the Group Audit Committee.”

Geny also emphasizes the importance of expanding the function's overall knowledge through internal training and participation in external networking and practice-sharing activities. For example, Geny belongs to internal audit associations and working groups. “We have working sessions and dinners where we exchange views on best practices,” he says. “I also belong to a working group with the heads of audit in my particular sector. We share methodologies, best practices and emerging topics, such as whether – and how – we can audit an organizational culture.”

## Area #5: Communication and Engagement

Geny prioritizes early and frequent communications with audit stakeholders to more effectively set and manage expectations around the timing and scope of audits. He personally engages with executives as much as possible, such as through his participation in meetings of the executive committee and risk committees. Geny's audit managers also participate in the steering committees of large corporate projects, so they can keep current on any issues or risks that arise.

At the global audit team's annual off-site meeting, Geny invites a member of the executive committee (such as a CEO of one of LSEG's businesses or LSEG's chief financial officer) or a nonexecutive director to explain what he or she expects from internal audit. “Last year, I had the chair of the audit committee explain to us what his expectations were,” Geny says.

To sustain healthy engagement with audit stakeholders, Geny also borrows a page from marketing playbooks by applying the Kano model. Created by educator, consultant and customer satisfaction pioneer Noriaki Kano, the model classifies drivers of customer satisfaction (and dissatisfaction) into different groups. Geny and his team have identified specific “satisfiers,” “dissatisfiers” and “delighters” for each of several key stakeholders, such as the CEO and the chair of the audit committee. He says it is important for internal auditors to always keep in mind that different stakeholders have different drivers of satisfaction.

“For example, the chairman of the audit committee would be highly dissatisfied if we only completed 50 percent of our audit plan,” Geny says. “For some executives, however, that would be less of a negative, so long as we covered the key audit topics in their businesses and reached quality conclusions.”

LSEG's internal audit function has created a high-level grid of satisfaction drivers for key stakeholders that auditors can use to better manage expectations. “It's a pretty powerful way of looking at the world because you understand up front what your stakeholders are really interested in,” Geny says. “You can really focus your discussions on topics that they truly care about.”

That makes internal auditing more exciting – no small task, Geny says. “I was in risk management before joining LSEG,” he adds. “Making risk management exciting to business people is difficult, but making internal audit exciting is 10 times more difficult.”



Company Headquarters — Singapore  
Number of Countries Operates in — 19  
Number of Employees in Company — 20,000+  
Industry — Financial Services/Banking  
Annual Revenues — S\$7.5 billion  
Number in IA Function — 200+  
Number of Years IA Function Has Been in Place — 40+  
IA Director/CAE Reports to — Chief Executive Officer  
and Audit Committee  
(As of December 31, 2014)

“You have to make sure the assurance function is sound before you can be trusted with additional responsibilities. ... If the CAE focuses only on assurance, however, that person won’t recruit the right talent who can grow into business consultants to other departments within the Bank.”

Victor Ngo

## United Overseas Bank Builds on Solid Assurance to Expand Internal Audit Into Strategic Advice and Risk Management

United Overseas Bank Limited (UOB or “the Bank”) was incorporated in Singapore on August 6, 1935, as the United Chinese Bank. The Bank catered initially to the island’s Fujian population from mainland China. In the nearly 80 years since it was founded, UOB has grown organically and through a series of acquisitions. It is now a leading bank in Asia.

UOB owns four separate banking subsidiaries, including United Overseas Bank (Malaysia), United Overseas Bank (Thailand), PT Bank UOB Indonesia and United Overseas Bank (China). UOB Group has a network of more than 500 offices in 19 countries and territories in the Asia-Pacific region, Western Europe and North America.

UOB provides a wide range of financial services through its global network of branches, offices, subsidiaries and associates: personal financial services, private banking, commercial and corporate banking, investment banking, corporate finance, capital market activities, treasury services, futures trading, asset management, venture capital management, insurance, and stock brokerage services.

In Singapore, UOB is one of the market leaders for credit cards and private residential home loans. It has the largest market share for small business banking. In 2014, UOB was named the Best Retail Bank in Singapore, as well as the Best Retail Bank in Asia Pacific. The Bank’s asset management arm, UOB Asset Management, has a growing regional presence and is one of Singapore’s most-awarded fund managers. UOB is rated among the world’s top banks, with a rating of Aa1 from Moody’s and AA- from both Standard & Poor’s and Fitch Ratings.

As banking is a highly regulated business, UOB established an internal audit function in the 1970s. Each subsidiary bank maintains its own internal audit function with a chief audit executive (CAE) who reports to the group audit executive.

Victor Ngo was appointed as UOB Group's chief audit executive in 2006. He holds a bachelor of applied science degree in computer science and operations management from the University of Technology, Sydney; a master of business administration from Deakin University, Australia; and an executive master of science degree in finance from Baruch College, City University, New York. While at Baruch College, Ngo was elected to the Beta Gamma Sigma Honor Society. He is a Fellow of the Australian Society of Certified Practising Accountants, a Fellow of the Institute of Singapore Chartered Accountants and a Certified Information Systems Auditor. Ngo has 23 years of experience in the banking industry, both within and outside of internal audit.

## Evolution, Not Revolution

Although the internal audit profession evolved primarily after World War II, banks have been performing internal audits to comply with regulatory requirements since the 1930s. Given the essential need for confidence in the financial markets, it's not surprising that banks would be the bellwether for changes in internal audit practices.

Ngo says that the internal audit profession used to be primarily focused on providing verification and assurance, and assessing the state of internal controls and satisfying regulatory requirements. His accounting background prepared him for those duties when he first joined the Bank. But given his diverse education and experience, and the extended time he spent as a management stakeholder prior to joining internal audit, he says it was natural for him to begin looking for ways to steer the department in a direction that would allow the function to do more than internal audit. He began with infrastructure.

## Building a Platform

"There were a few things I wanted to change in our data collection to make sure we were looking at the right information," Ngo says. "I told my team that we should not focus solely on the reporting, we should also focus on assessing the risks."

That foundational change opened a world of possibilities. UOB's internal audit function began using data analytics to improve auditor productivity and extract data for risk identification and audit scoping. Given that UOB is a financial services organization, stakeholders are particularly interested in credit risk, market risk, operations risks, technology, legal, compliance, and market operations and conduct.

Internal audit worked with each operating entity to determine whether appropriate controls were in place to address key risks, and brought in third-party consultants to validate their audit methodology. Internal audit developed risk profiles to assist them in the audit process and also served as a common body of knowledge to bring new internal audit staff up to speed. This helped the team avoid reinventing the wheel whenever audit assignments were rotated.

## Bridging the Talent Gap

With a new technology platform and risk profiles in place, Ngo next shifted his focus to diversifying the talent pool in the department. He recruited auditors with experience in functional areas across the Bank, including global markets, wholesale and retail banking, and technology. This move augmented the department's progress from generalist to specialist.

"Internal audit was traditionally perceived as being more about providing assurance and satisfying compliance requirements, playing the role of a policeman," Ngo says.

In addition to the functional aptitude, Ngo looked for awareness and attitude in potential hires for his team. He defines “awareness” as “the ability to recognize a problem, drill down to the root cause, and help stakeholders address it.”

“We needed auditors to ask more questions,” Ngo says. “We needed to solve complex problems and have more significant impact and contribution to the Bank.”

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“We are now being invited to participate in strategic projects, such as strategic acquisitions and strategic divestments, and to provide business insight and feedback, even beyond the audit cycle,” says Ngo.

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The effort has added value and credibility to the internal audit function, according to Ngo, and today internal auditors are viewed more as business partners. He added, “We are now being invited to participate in strategic projects, such as strategic acquisitions and strategic divestments, and to provide business insight and feedback, even beyond the audit cycle.”

In addition to their regular responsibilities, internal auditors at UOB are encouraged to work in projects or audits outside of their core expertise or participate in strategic projects.

## A New View

Ngo’s vision for internal audit is “to function as a trusted business partner by consistently delivering insightful advice and innovative solutions to our stakeholders.” Ngo and his team look to achieve this vision with a forward-looking approach that, while remaining well-grounded in an assurance role, also serves as a preventive and preemptive framework.

“You have to make sure the assurance function is sound before you can be trusted with additional responsibilities,” Ngo says. “We started with assurance and grew into advisory and consulting. It depends on the vision of the chief auditor. If the CAE focuses only on assurance, however, that person won’t recruit the right talent who can grow into business consultants to other departments within the Bank.”

This vision is articulated in the four core values of UOB’s internal audit function:

- **Credibility** – *We preserve independence and objectivity at all times, and conduct ourselves with uncompromising integrity. We hold ourselves truly accountable for the role and task we are entrusted with and strive to earn enduring credibility with our stakeholders.*
- **Courage** – *We embrace change and push new frontiers in risk mitigation. We put in findings and advice and are ready to defend them however unpopular they may prove to be.*
- **Competency** – *We strive for insight into and deep understanding of what our stakeholders expect so that we know what to aim for. We continuously develop ourselves to raise the performance bar and achieve excellence in all we do.*
- **Collaboration** – *We are one team and we build robust partnerships within the internal audit department, as well as with our customers and external stakeholders.*

This new vision, technology platform and additional expertise have allowed UOB to reduce its audit cycle from five down to three years, with the exception of high-risk areas that are still being audited annually, according to Ngo.

“We are able to react more quickly to shifts in risk,” he says. “This has helped us to be more effective in planning and consider more emerging risks.”

He adds that audits, though independent and objective, have become more consultative. Auditors now meet with business units outside the audit cycle to identify line management concerns and offer practical solutions, including bringing in outside consultative help.

This new view is incorporated into each auditor's key performance indicators, with emphasis shifted from the number of projects completed to the type of work performed and the value added to the business. Ngo says auditors are encouraged to look outside the business to stay abreast of industry events, new risks, and new products and services.

## An Aligned Approach

Ngo says that his team looks to expand internal audit's traditional role with a more collaborative approach to working with senior management and directors. The team does this by helping senior management fulfill their responsibility for assurance, effective governance, risk management and internal controls.

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“When we present a risk, it's not a singular view of one particular department,” Ngo says. “It is representative across the organization. As a result, the board and management see a bigger picture of the Bank, as a whole, rather than a specific department.”

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“Our consulting and advisory services are designed to strengthen the Bank,” Ngo says. “Basically, our charter is intended to help the group complete its objectives through a systematic and disciplined approach to evaluate the adequacy of internal financial controls, operational controls and compliance controls. More importantly, we want to improve the effectiveness of risk management and governance processes.”

Like many organizations, UOB measures internal audit performance with stakeholder evaluations and post-audit assessments. But the real measure of the function's success, according to Ngo, is in the way his team is now regularly called on to be an active and valued participant in key business decisions.

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## About Protiviti

Protiviti ([www.protiviti.com](http://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 60 percent of *Fortune* 1000® and 35 percent of *Fortune* Global 500® companies. Protiviti and our 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.



Named one of the 2015 *Fortune* 100 Best Companies to Work For®, Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

### About Our Internal Audit and Financial Advisory Solution

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

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## Other Thought Leadership from Protiviti

Visit [www.protiviti.com](http://www.protiviti.com) to obtain copies of these and other thought leadership materials from Protiviti.

- **From Cybersecurity to Collaboration: Assessing the Top Priorities for Internal Audit Functions – 2015 Internal Audit Capabilities and Needs Survey**
- **SOX Compliance – Changes Abound Amid Drive for Stability and Long-Term Value: Highlights from Protiviti’s 2015 Sarbanes-Oxley Compliance Survey**
- **The Updated COSO Internal Control Framework: Frequently Asked Questions**
- **A Global Look at IT Audit Best Practices**
- **Executive Perspectives on Top Risks for 2015: Key Issues Being Discussed in the Boardroom and C-Suite** (from North Carolina State University’s ERM Initiative and Protiviti)
- **Cloud Computing: Internal Audit’s Role in Identifying Risks, Defining Strategy, Evaluating the Implementation Process and Monitoring Vendor Relationships**
- **The Bulletin – “Top 10 Lessons Learned From Implementing COSO 2013”**
- **The Bulletin – “Setting the 2015 Audit Committee Agenda”**
- **The Bulletin – “The Future Auditor: The Chief Audit Executive’s Endgame”**
- **Guide to Internal Audit: Frequently Asked Questions About Developing and Maintaining an Effective Internal Audit Function** (Second Edition)
- **Guide to the Sarbanes-Oxley Act: Internal Control Reporting Requirements** (Fourth Edition)
- **Guide to the Sarbanes-Oxley Act: IT Risks and Controls** (Second Edition)
- **Internal Auditing Around the World** (Volumes 1-10)
- **Powerful Insights (Protiviti’s podcast series)**
  - From Cybersecurity to Collaboration: Assessing the Top Priorities for Internal Audit Functions
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  - Perspectives on Sarbanes-Oxley Compliance: 10 Years Later
  - Technology-Enabled Audits – Increasing Productivity and Delivering More Timely and Reliable Results
  - The Benefits of Outsourcing the Internal Audit Function
- **Improving Organizational Performance and Governance: How the COSO Frameworks Can Help**
- **Spreadsheet Risk Management: Frequently Asked Questions**
- **Testing the Reporting Process – Validating Critical Information**
- **Using High Value IT Audits to Add Value and Evaluate Key Risks and Controls**

# KnowledgeLeader® Provided by Protiviti

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:

- **Audit Programs** – A wide variety of sample internal audit and IT function audit work programs are available on KnowledgeLeader. These work programs, along with the other tools listed below, are all provided in downloadable versions so they can be repurposed for use in your organization.
- **Checklists, Guides and Other Tools** – More than 1,000 checklists, guides and other tools are available on KnowledgeLeader. They include questionnaires, best practices, templates, charters and more for managing risk, conducting internal audits and leading an internal audit department.
- **Policies and Procedures** – KnowledgeLeader provides more than 300 sample policies to help in reviewing, updating or creating company policies and procedures.
- **Articles and Other Publications** – Informative articles, survey reports, newsletters and booklets produced by Protiviti and other parties (including *Compliance Week* and Auerbach) about business and technology risks, internal audit and finance.
- **Performer Profiles** – Interviews with internal audit executives who share their tips, techniques and best practices for managing risk and running the internal audit function.

Key topics covered by KnowledgeLeader:

- Audit Committee and Board
- Business Continuity Management
- Control Self-Assessment
- Corporate Governance
- COSO
- Fraud and Ethics
- IFRS
- Internal Audit
- IT Audit
- IT Governance
- Sarbanes-Oxley

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

Furthermore, with a KnowledgeLeader membership, you will have access to AuditNet Premium Content.

To learn more, sign up for a complimentary 30-day trial by visiting [www.knowledgeleader.com](http://www.knowledgeleader.com). Protiviti clients and alumni, and members of The IIA, ISACA and AHIA, are eligible for a subscription discount. Additional discounts are provided to groups of five or more.

KnowledgeLeader members have the option of upgrading to KLplus<sup>SM</sup>. KLplus is the combined offering of KnowledgeLeader's standard subscription service plus online CPE courses. The courses are a collection of interactive, Internet-based training courses offering a rich source of knowledge on internal audit and business and technology risk management topics that are current and relevant to your business needs.

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