

Powerful Insights. Proven Delivery.®

# Internal Auditing Around the World

*Perspectives From Women in Audit Leadership Roles –  
How Technology Is Impacting Internal Audit Functions*

VOLUME XII



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

## Foreword

*Internal Auditing Around the World XII* is a milestone issue in our annual series: Every internal audit leader we interviewed is female. While we have certainly featured women in this publication many times over the past 11 years, we have observed that the number of women who hold top leadership roles in the profession is increasing. This is a very positive trend, and we believe their success is worth acknowledgement – and celebration.

We also suggest that business leaders reading this publication reflect on this trend in internal audit. It has taken a long time – far too long – for women to be seen as leaders and drivers of positive change in the business world. More women today than ever before are in positions of authority in the boardroom, the C-suite and throughout all other levels of management. They are a small but growing number – and their impact is already considerable.<sup>1</sup>

Yet several studies indicate that women’s potential contribution to business and the global economy remains largely untapped. Consider recent research by McKinsey Global Institute, which suggests that the world could add \$12 trillion to annual gross domestic product in 2025 if every country closed its gender gap at the same historical rate as the fastest-improving country in its regional peer group.<sup>2</sup>

However, research by The World Economic Forum projects that closing the global gender gap will take much longer – more than a century, in fact.<sup>3</sup> Many long-standing obstacles impede women’s progress in business, including being held to higher standards than men, and working for organizations that aren’t ready to hire female leaders.<sup>4</sup>

Diversity and inclusion are organizational priorities at Protiviti. One effort we are especially proud of is our Initiative for the Growth and Retention of Women at Work (iGROWW), which is committed to promoting the professional development and advancement of women in the workplace. iGROWW is designed to empower our women professionals around the globe to become top leaders at Protiviti – and to see themselves as agents of change who can help the company promote diversity and inclusion at all levels of our business.

We are confident that readers will find the 22 women leaders featured in *Internal Auditing Around the World XII* as inspiring as we do. Many of these women are championing technology, including advanced tools like data analytics, to enhance internal audit’s work. Some are ensuring that the function is on the front line assessing risks and opportunities as their company adopts new technologies. All are committed to evolving their department to help the business and management meet the challenges of tomorrow and face the future with confidence.

We hope that the profiles of these accomplished internal audit professionals will prompt every business leader to ask themselves these critical questions: *Are we doing enough to promote diversity and inclusion in our company? Are we helping women succeed in our organization and assume leadership roles? If not, why not? What can we do to improve our efforts – and how quickly can we do it?*

Susan Haseley and Yasumi Taniguchi  
Managing Directors, Protiviti  
July 2016



<sup>1</sup> *The CS Gender 3000: Women in Senior Management*, Credit Suisse Research, 2014: <https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=8128F3C0-99BC-22E6-838E2A5B1E4366DF>. Research found that “companies with higher female representation at the board level or in top management exhibit higher returns on equity, higher valuations and also higher payout ratios.”

<sup>2</sup> “Realizing Gender Equality’s \$12 Trillion Economic Opportunity,” McKinsey Global Institute, 2016: <http://www.mckinsey.com/global-themes/employment-and-growth/realizing-gender-equalitys-12-trillion-economic-opportunity>.

<sup>3</sup> *The Global Gender Gap Report 2015*, World Economic Forum, 2015: <http://reports.weforum.org/global-gender-gap-report-2015/>.

<sup>4</sup> “Women and Leadership,” Pew Research Center, 2015: <http://www.pewsocialtrends.org/2015/01/14/women-and-leadership/>.

# Table of Contents

|  |     |
|--|-----|
| Foreword .....                                       | i   |
| Introduction .....                                   | iii |
| Accenture .....                                      | 1   |
| American Airlines Group .....                        | 5   |
| Aristocrat Leisure Limited .....                     | 8   |
| Barclays .....                                       | 11  |
| Baylor Scott & White Health .....                    | 14  |
| Beam Suntory .....                                   | 17  |
| CNL Financial Group.....                             | 21  |
| Delta Air Lines .....                                | 25  |
| Epiq .....   | 28  |
| The Fresenius Group .....                            | 31  |
| Grupo Financiero Multiva .....                       | 34  |
| Horizon Blue Cross Blue Shield of New Jersey .....   | 37  |
| The Liquor Control Board of Ontario (LCBO).....      | 41  |
| Marriott Vacations Worldwide Corporation .....       | 45  |
| Mayo Clinic .....                                    | 48  |
| Nordstrom, Inc. ....                                 | 51  |
| Obara Group .....                                    | 54  |
| Puget Sound Energy .....                             | 57  |
| Southwest Airlines .....                             | 60  |
| Telecom Italia Group (TIM) .....                     | 63  |
| Universal American .....                             | 67  |
| Victorian Department of Education and Training ..... | 70  |
| About Protiviti.....                                 | 74  |

# Introduction

“Humans are allergic to change. They love to say, ‘We’ve always done it this way.’ I try to fight that. That’s why I have a clock on my wall that runs counter-clockwise.”<sup>1</sup>

**Grace Murray Hopper (1906-1992)**

Pioneering Computer Scientist and U.S. Navy Rear Admiral

In 1941, when The Institute of Internal Auditors (The IIA) was founded, there was no internet, personal computers did not exist and open global communication among private citizens was a dream.

Fast-forward to 2016: Technological innovation is rapid and disruptive, and touches almost every aspect of our lives. People and machines are becoming increasingly interconnected, accelerating digitization and shaping the Internet of Things. And almost every business today is, at its core, a technology business – one that relies on IT not only to operate, but also to innovate and enable future success.

Another dramatic change that has occurred since The IIA’s founding: the number of companies across industries, and the globe, that are positioning women in board-level and leadership positions in increasing numbers. This is why, as The IIA celebrates its 75th anniversary, we chose to interview only female internal audit leaders for the latest edition of our *Internal Auditing Around the World* series. These women represent positive change in the business world and in the internal audit profession. Therefore, we believed they could offer a unique perspective on how technology is transforming internal audit functions for the better.

Without question, the dramatic technological change of the digital age has created a world of new and previously unimagined opportunities for businesses across industries. But it also has made the risk landscape for these organizations more expansive and treacherous than ever before.

Internal audit leaders need to be keen observers of all technological change that could potentially impact the business and its risk profile. Many of these leaders recognized early in the era of digital disruption that technology would transform internal auditing, and moved swiftly to embrace new ways of working in the function. As Dominique Vincenti, vice president of internal audit and financial controls for retailer Nordstrom, Inc., says, “With technology at the heart of the business, we feel technology is also at the heart of what we do as internal auditors.”

Six years ago, in Volume VI of Protiviti’s *Internal Auditing Around the World*, we noted that technology-enabled auditing was already providing “a new level of visibility into what is happening in the organization” and freeing functions to “focus more on strategic ‘big picture’ activities” because they could be more precise, accurate and efficient in their work. Fittingly, today we find many leading internal audit functions around the globe relying heavily on technology tools to help them identify risk and control issues, conduct audits, share results with management and the business, and closely monitor issues to ensure they are resolved.

One “overarching benefit” of technology, according to Anne Mercer, chief audit executive for healthcare organization Universal American, is that it strengthens collaboration – in internal audit and the business. As her team shares information more effectively with the organization, people take more ownership for their processes.

---

<sup>1</sup> “The Wit and Wisdom of Grace Hopper,” from the OCLC Newsletter, March/April 1987, No. 167: [www.cs.yale.edu/homes/tap/Files/hopper-wit.html](http://www.cs.yale.edu/homes/tap/Files/hopper-wit.html).

Accenture's chief audit executive, Kathy Perrott, emphasizes that all of the technology her internal audit function uses – from a customer relationship management (CRM) tool to social media – is designed to help motivate the business to address and mitigate risks in a collaborative manner.

Of particular note, many of the internal audit teams we profile are expanding their use of data analytics so they can bring more efficiency to the audit process. Some functions are using data analytics to identify emerging risks and potential fraud and pinpoint cost-saving opportunities throughout the business. Others are employing data science. They have hired specialists and designated teams to work with big data and derive business intelligence that can help internal audit provide management with insights they can apply to business decision-making.

Technology is helping internal audit functions become more productive and predictive and track business activity on a granular level. At the same time, as technology's roots grow deeper throughout global organizations, internal audit functions and their leaders face new demands. In particular, they must learn all they can about new technologies and the potential risks to the business that accompany the implementation of any application or system.

In our discussions with internal audit leaders, we learned that many have forged collaborative relationships with their company's technology leaders to better understand cybersecurity and information security risks, so that they can, in turn, help to educate management and the board about these issues. Many are also involved in discussions about new IT initiatives, and proactively offer their guidance on governance, risk, control and compliance matters throughout the project life cycle.

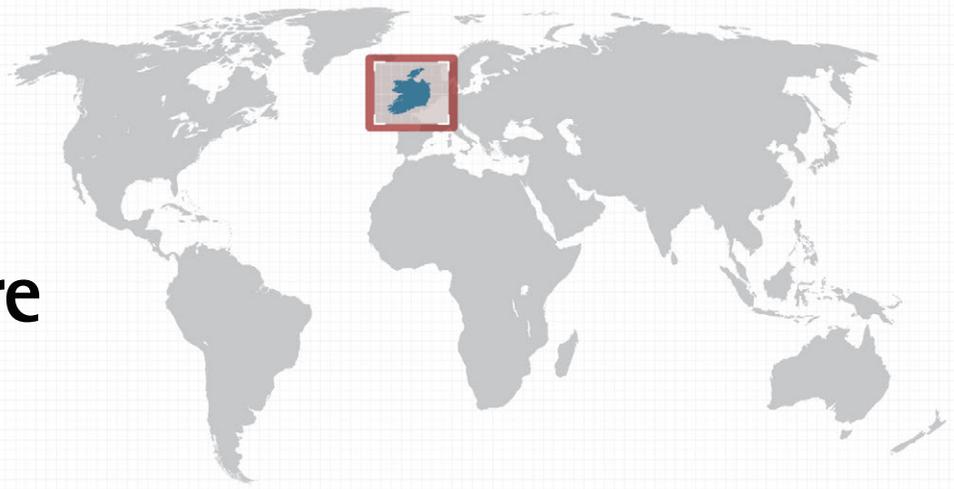
Beili Wong, chief audit executive and executive director for the Liquor Control Board of Ontario, says that given businesses' ever-deepening dependency on technology, it is imperative for internal audit to transcend its traditional role as the third line of defense so it can be present on the front lines as the organization considers adopting new technologies. "We are about more than just defense," she explains. "We should also be a proactive partner at the first line."

The growing number of women in leadership roles in internal auditing is a positive trend that we hope continues, as the internal audit profession, like business itself, can only benefit from having a culture of inclusion and diversity in its leadership. We also hope that the C-level executives and internal audit professionals who read the profiles herein are inspired by how these technology-enabled internal audit functions are helping their organizations to fully embrace the opportunities – and understand the risks – of becoming more data-driven, technology-enabled businesses.

Protiviti  
July 2016

## Acknowledgements

We want to express our appreciation to the inspiring internal audit leaders at leading organizations who so generously shared their insights with us and helped make this year's publication a success. We also wish to acknowledge the 75th anniversary of the premier global audit leader – and our longtime partner – The IIA. For the past 75 years, The IIA has played a pivotal role in advancing the stature of the internal audit profession.



Company Headquarters — Ireland  
Number of Employees in Company — 373,000  
Industry — Information Technology and Services  
Annual Revenues — US\$31 billion (as of August 31, 2015)  
Number in IA Function — 80  
Number of Years IA Function Has Been in Place — 15  
IA Director/CAE Reports to — Chief Financial Officer

“Our initial target was to leverage analytics on 70 percent of the eligible audits we perform, and we now use analytics on 78 percent of those audits.”

**Kathy Perrott, Chief Audit Executive**

## Leveraging Technology Helps Accenture’s Internal Auditors “Connect the Dots”

Accenture PLC is a global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations across more than 40 industries. Accenture is incorporated in Ireland, and has approximately 373,000 employees serving clients in more than 120 countries.

As a leading technology and consulting firm, sharp analyses are Accenture’s bread and butter. So it’s no surprise that the company’s internal audit function has embraced the use of analytics to spot emerging risks, identify potential fraud and unearth valuable cost-savings opportunities throughout the business. Internal audit also leverages social media, and a customer relationship management (CRM) application, and is exploring ways to use cognitive learning processes. However, Accenture chief audit executive Kathy Perrott emphasizes that all of the technology her function uses has a higher purpose: getting the rest of the organization to address and mitigate risks in a collaborative manner.

Perrott emphasizes that her team’s overarching mission is to connect decision-makers throughout the massive global enterprise with each other, and to keep them informed about best practices, as well as emerging ideas and risks. “Thanks to our broad vantage point and everything we see across the company, we can connect different functions around different issues,” she says.

She points to cybersecurity as an example of how internal audit brings different groups together to address a risk area: “We can bring our CIO and our information security, legal, procurement, and risk and compliance teams together in different forums, risk advisory councils or even on conference calls to really dig into cybersecurity and address it from multiple perspectives. And by doing so, an added benefit is that our own internal audit function frequently picks up new learnings about cybersecurity or whatever the area of focus might be.”

## Business Insider

Perrott currently manages a global team of about 80 internal auditors. Her function includes an analytics team and an IT audit team; the latter is headed by a colleague with deep IT experience at the company.

Perrott started her career in audit with Arthur Andersen in 1985. After seven years, she took an internal financial and operational role with Andersen Consulting, which eventually became known as Accenture and went public in 2001. Over the course of the next 20 years, Perrott worked in various financial roles that took her all over the world and provided her with a thorough knowledge of the business through many projects. For example, in the 1990s she helped develop what is now known as the firm’s client financial management (CFM) function, and in the early to mid-2000s she was involved in the early days of what is now known as Accenture’s Global Delivery Network, with initial operations in India, the Philippines and China.

Perrott’s last role before moving into internal audit in 2012 was as the finance director for her company’s North American operations. “I learned a ton,” she says. “About every two or three years I would rotate into a new role that supported a different part of Accenture. All of that experience – the different business areas, the different geographies, and trying to stay on top of the different developments while Accenture grew at an incredible pace – combined with my audit background, helped prepare me for the CAE role.”

## Leveraging CRM to Support Risk Assessments

Technology plays a supporting role in most of the function’s activities, including the risk assessment process that helps set the annual audit plan and the execution of the plan itself.

“We have invested in different technologies in the past two to three years,” Perrott says, “and these tools are helping us reap significant benefits.” The technologies support the risk assessment process and development of the annual audit plan, and also enhance collaboration among internal auditors.

One of these investments – a market-leading CRM tool – may seem a bit out of place in an internal audit function since sales and marketing teams are the primary purchasers of this technology for tracking customer transactions. But Perrott says that the solution provides ideal support for the ongoing risk assessment efforts that underpin Accenture’s annual audit process.

For the risk assessment, internal auditors talk to between 300 and 400 business and functional leaders around the globe each year as well as to several board members. The function uses the CRM application to store, track and analyze all of the risk insights that flow out of these ongoing discussions.

The internal audit function uses the CRM tool specifically to schedule interviews and then record notes, insights and learnings from those interviews. The CRM tool also plays a central role in the function’s annual planning exercise that identifies the top risk priorities each audit plan will address.

The function is now exploring whether it can apply cognitive learning functionality to the CRM application to see if it can proactively identify emerging and growing risk areas throughout Accenture. Currently, internal auditors can conduct keyword searches in the CRM application, but they need to analyze that information on their own to identify trends related to emerging or future risks. The cognitive learning functionality would be able to comb the data, calling attention to emerging risk areas. “We’re just in the early stages of exploring this functionality, and we’re excited about its potential,” Perrott says.

## Utilizing a New GRC Technology Tool

Accenture's internal auditors use a governance, risk and compliance (GRC) tool to support the planning and documentation of audits. This application serves as a repository for all of the function's work papers, findings, recommendations and actions related to those findings and recommendations. The current tool, which Accenture implemented two years ago, supports the entire auditing process from start to finish.

"It took us a while to get up to speed on it, but we're really starting to leverage all of its functionality, especially the dashboards," Perrott reports. "In addition, we've streamlined the organizational structure and alignment of controls we test against to better track issue trends and conduct meaningful discussions with management responsible for those areas."

## Audit Analytics: a 78 Percent Solution

Analytics are an extremely valuable tool for the internal audit team, according to Perrott. "They probably deliver the most tangible benefits among all of the tools we currently use," she says.

Accenture began developing an internal audit analytics capability in earnest four years ago. The department invested in a market-leading analytics tool and created a small team within the department dedicated to analytics. The analytics function spent one to two years developing and testing analytic scripts before internal auditors started leveraging the results in their audit work on a regular basis. "Our initial target was to leverage analytics on 70 percent of the eligible audits we perform," Perrott says, "and we now use analytics on 78 percent of those audits."

"Analytics enable us to look at a data source in its entirety. That helps us pinpoint outliers and unusual items that we may not have been able to detect via a more traditional sampling approach. Our auditing has become much more targeted."

Auditing areas that require qualitative judgments or that do not depend on high volumes of data or transactions are not as well-suited to, or eligible for, auditing analytics, says Perrott. Eligible auditing areas that Accenture has enhanced with the analytics application include revenue recognition, onboarding and offboarding processes in the human resources (HR) function, employee travel expenses, and more.

Internal auditors can contact the internal audit analytics team to request specific analytics to be run. The analytics team either selects analytics from an inventory of over 130 standard analytic scripts or develops custom analytics in support of those audit requests. In some cases, auditors can use analytics dashboards on their own for more routine analytics.

"Analytics enable us to look at a data source in its entirety," Perrott explains. "That helps us pinpoint outliers and unusual items that we may not have been able to detect via a more traditional sampling approach. Our auditing has become much more targeted." The technology also lets internal auditors compare two or more discrete data sources to spot incongruities that may indicate fraud or that help bring to light process improvement opportunities.

For example, a recent analysis of a travel database produced a helpful insight. Accenture consultants and employees are encouraged to make travel plans at least 14 days in advance to get better deals. The analysis showed that a number of road warriors were not doing so, and were forgoing substantial cost savings. Internal audit shared these findings with the business and the projected cost-savings of adhering to the 14-day lead time. "We have seen tremendous benefits from analytics in terms of improved audit capability, as well as value to the business," Perrott reports.

## Knowledge Is Power

Perrott emphasizes that the most significant benefits of leveraging auditing technology are realized when they are coupled with business knowledge. Because Accenture's business is continually evolving, Perrott is also adapting the training approach for internal auditors to ensure that it is keeping pace with the business. Recently, she replaced a comprehensive, immersive annual training exercise with a nimbler and more cost-effective approach.

Internal audit previously brought its global team together every other year for a weeklong session that delivered intense training on technical skills, interpersonal skills, new enterprise technology tools and business developments. Business leaders, as well as outside experts, would join in person or virtually to present updates.

Although the in-person contact and networking opportunities that this approach fostered were valuable, the resource requirements and disruptive length of the weeklong session were not. Perrott realized that too many business, personnel and technology changes were occurring between these biannual sessions.

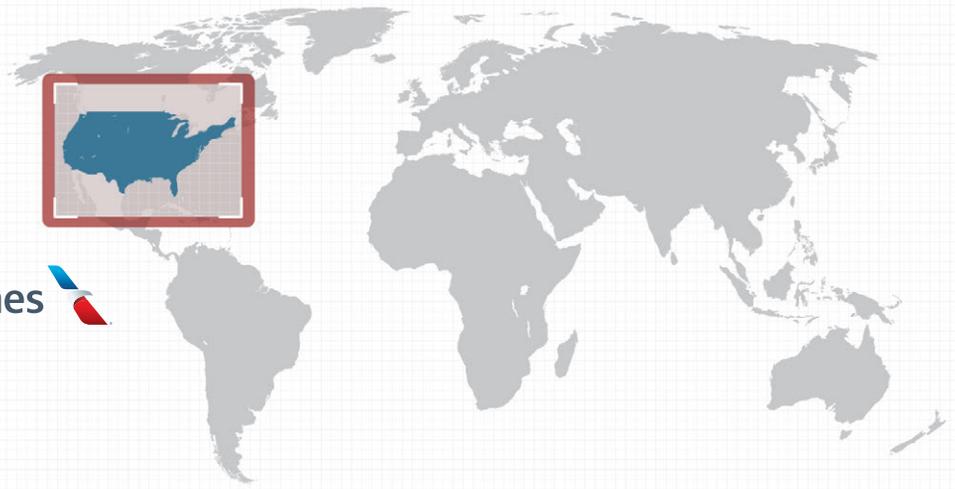
Today, the training approach that is being rolled out favors more targeted content and more frequent training and networking interactions. For example, a subset of the staff may spend two hours learning about IT auditing techniques, or devote one hour to learning about regulatory changes that affect financial audits. The sessions are delivered through a combination of e-learning and classroom-based sessions. Internal auditors, external experts or business colleagues may lead the training sessions.

"We're using a more agile approach to learning, which we call 'snackable training,'" Perrott says.

To stay connected with each other, Accenture's far-flung internal auditors use several forms of collaborative technology. "We conduct many of our meetings through Skype, and we use the video capability as much as possible," Perrott explains. "Since we can't constantly fly around the world to meet in person, we find that being connected visually helps strengthen our relationships."

The team uses Microsoft's SharePoint to share and store report templates and other written information. Internal auditors use Accenture's homegrown social media platform, the Stream, to post and share interesting articles, tips gleaned during training sessions, and other information about their work on their own "IA Circle."

The approach should help Accenture's internal audit function digest more business and professional knowledge faster and more easily. That knowledge is her function's most important asset, says Perrott. "Because of our business knowledge and relationships," she adds, "internal audit helps to connect the dots throughout the organization."



**American Airlines** 

Company Headquarters — United States  
Number of Employees in Company — 118,000+  
Industry — Airline  
Annual Revenues — US\$41 billion (as of Dec. 31, 2015)  
Number in IA Function — Approximately 20 FTEs  
Number of Years IA Function Has Been in Place — 30+  
IA Director/CAE Reports to — Audit Committee

“We’re helping to strengthen data security by performing reviews that compare our internal processes to certain frameworks, such as the NIST Cybersecurity Framework and AICPA’s Generally Accepted Privacy Principles.”

**Mary Lynn Mills, General Auditor**

## Internal Audit Integrates Control Into Emerging Technologies at American Airlines Group

American Airlines Group, Inc. (AAG), a publicly traded airline holding company based in Fort Worth, Texas, was formed by the 2013 merger between AMR Corporation, American Airlines’ parent company, and US Airways Group, parent company of US Airways. AAG operates a major network carrier through its principal wholly owned mainline operating subsidiary, American Airlines Inc., along with wholly owned regional airline subsidiaries and third-party regional carriers operating as American Eagle. As of December 31, 2015, AAG employed more than 118,000 people.

Although the Federal Aviation Administration christened the merger in April 2015 when it granted a single operating certificate to both of AAG’s major airlines, business integration continues. This work is a complex undertaking, with numerous implications for AAG’s internal audit function, as well as for its general auditor, Mary Lynn Mills.

“Change in and of itself can increase risk, and integration drives a great deal of change in both systems and processes,” Mills says. “Where integration has not occurred, the environment is complicated by duplicate systems and processes. So, the risk is elevated in those areas as well.”

## Auditing in a Combined Company

The post-merger integration represents a major internal audit focal point. The function also addresses other risk priorities, such as monitoring the company's use of mobile and cloud technology and conducting reviews of its cybersecurity capabilities.

The newly combined company's structure contains some beneficial features from an internal auditing standpoint. "Even though the operations are dispersed, most administrative functions, including IT, are managed centrally," Mills explains. "This helps simplify the risk assessment process and allows for company-wide coverage when one of those administrative areas is audited."

Additionally, several internal compliance teams work closely throughout AAG's operations. "Rather than internal audit serving as the main form of direct oversight, we can validate the compliance teams' work and better manage the amount of time internal auditors spend in the field," says Mills.

Although the size of the audit staff fluctuates during the year in response to changing auditing work volumes, Mills manages an average of approximately 20 full-time-equivalent (FTE) internal auditors through a co-sourcing relationship.

Over the short term, Mills says internal audit's focus at AAG is "to continue supporting the successful integration of the airline by providing ongoing feedback to key project teams to mitigate risk in real time." She adds, "These integration projects are one-time exercises, and waiting until after the fact to provide recommendations is not valuable."

Internal audit also monitors areas of the company that have been integrated already to ensure controls are sound and processes are efficient and effective as the business moves forward. "Beyond integration, we are also providing advisory services with regard to new initiatives within the company," says Mills.

Longer-term internal audit goals include focusing more on the company's strategic initiatives and increasing the function's use of data analytics. "Our plan is to build data analytics models that not only bring efficiency and greater added value to our internal audit results, but that also can be handed over to the business for more efficient and ongoing monitoring," Mills explains. "We have plans to work collaboratively with the business, operations and IT teams as the organization continues to expand its use of business intelligence, big data and cloud-based services."

## Mobile and Cloud Technologies Take Flight

Those collaboration plans are important, given the prevalence of new and emerging technologies currently used throughout the large company. For example, all pilots, flight attendants and maintenance personnel now use mobile technology in their day-to-day work.

"The technology makes them more efficient in what they do and, in many cases, reduces weight on the aircraft," Mills notes. "They can access information more quickly, which makes them more efficient and helps enable improved customer service."

Other forms of technology – such as self-service kiosks in airports that speed the check-in process, and airplanes equipped with wireless connectivity – also have been deployed by the airline to improve the customer experience. Behind the scenes, AAG has increased its use of cloud technology, which lowers operating costs while giving the company an easier way to stay current with technology and upgrades.

Mills' team monitors emerging technology trends by staying abreast of what new initiatives IT is planning. "Those projects are a clear indication of where the company is headed," Mills says.

The internal audit function's annual risk assessment and its planning processes that inform the annual audit plan also help identify emerging technology use and risks in the organization. In addition to these technology-monitoring mechanisms, Mills and her auditors review capital and operating plans to help ensure visibility into company initiatives.

Finally, Mills says that her function's monitoring of the company's compliance with the Payment Card Industry Data Security Standard helps identify emerging technology trends within the organization.<sup>1</sup>

The internal audit function also devotes a portion of its budget to what is referred to as "special project/management requests." This line item, Mills says, "lets us respond quickly to new challenges when they arise."

In all internal audit assessments of new and emerging technology, Mills says her team evaluates data security, change management, IT general controls and the stability of the new technologies. The function also determines whether any systems or devices capture personally identifiable information (PII). "The security of this information is critically important," she notes, "so that aspect is always considered."

## Cybersecurity: Using NIST as a Baseline

In addition to monitoring emerging technology throughout the company, the internal audit function helps strengthen organizational cybersecurity – a priority for AAG's board of directors.

"We're helping to strengthen data security by performing reviews that compare our internal processes to certain frameworks, such as the National Institute of Standards and Technology's (NIST) Cybersecurity Framework and AICPA's Generally Accepted Privacy Principles," Mills says.

Using these frameworks as a baseline, internal audit identifies opportunities to reduce information security risks and shares those recommendations with the IT function and other relevant areas of the business. Some of these recommendations are designed to ensure that sound risk management processes are in place. Other recommendations focus on ensuring that the company monitors not only external cyberthreats, but also changes in the IT and business environment that could create additional cybersecurity risks.

"We don't just look at these reviews from a technology viewpoint," says Mills. "We also work with other functions within the organization, such as legal, compliance, key operational functions, training and communications, to help ensure these risks are understood and managed across the organization."

## Communication Crucial to Effective Integration

The practical collaboration internal audit engages in to monitor organizational cybersecurity reflects the function's overall approach to communication and relationship building, which is important in the wake of the integration. "A lot of change has happened," Mills explains. "Legacy American Airlines people and legacy US Airways people are coming together and developing new relationships. As internal auditors, we need to build relationships with new people at the same time that they are figuring out how to work with each other."

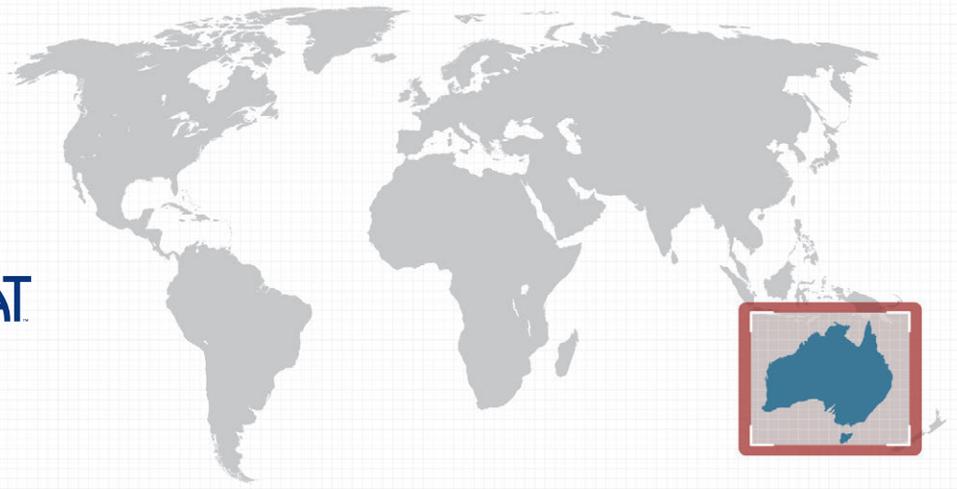
When establishing relationships with new business counterparts, Mills likes to begin with an introductory call or meeting before wading into risk and auditing discussions. "You should build trust first," she says, noting that it is also important to listen more than talk during those initial meetings. "That shows that you want to learn, from them, what's going on in their area of the business."

Mills hopes that this careful approach to communication will help build relationships and allow internal audit to show new colleagues at AAG the value that the function can add to their areas.

"The value that internal audit brings to the organization is being able to provide independent oversight and assurance, as well as filling an advisory role," Mills says. "We look across the full landscape of risks and target areas that have the potential to disrupt the accomplishment of company objectives if they are not well-controlled or managed. We work to help the company not only avoid negative surprises, but also be as efficient and effective as possible across all aspects of the business."

---

<sup>1</sup> For more, see PCI Security Standards: [www.pcisecuritystandards.org/pci\\_security/](http://www.pcisecuritystandards.org/pci_security/) and Protiviti's Governance Portal for the Payment Card Industry Data Security Standard: [www.protiviti.com/grc-software/Documents/ResourceDocs/GP-PCI-DSS-prodsheet.pdf](http://www.protiviti.com/grc-software/Documents/ResourceDocs/GP-PCI-DSS-prodsheet.pdf).



Company Headquarters — Australia

Number of Employees in Company — 3,500

Industry — Gaming

Annual Revenues — US\$1.1 billion (as of Sept. 3, 2015)

Number in IA Function — 6

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

IA Director/CAE Reports to — CFO and Board Audit and Risk Committee

“When considering technology risks, you need to realize that things you might have thought were impossible really aren’t given the skill sets of today’s cyberthreat actors. As soon as you think something won’t happen, that’s when it becomes dangerous.”

**Darani Brown, Group Risk and Audit Manager**

## Internal Audit and IT Collaboration Enables Aristocrat Leisure Limited to Take Command of Complex Information Security Challenges

Aristocrat Leisure Limited, headquartered in Sydney, Australia, is one of the world’s leading providers of gaming solutions. Founded in 1953, the company revolutionized the gaming industry with its introduction of “The Clubmaster” – the first slot machine to offer multiline and scattered payouts, in addition to other innovations. Aristocrat today offers a diverse range of products and services, including electronic gaming machines, social gaming and casino management systems.

The company is listed on the Australian Securities Exchange, and is licensed in 240 gaming jurisdictions and operates in 90 countries around the world. To help accelerate its overall presence in North America and the Class II tribal gaming market, Aristocrat acquired Video Game Technologies, Inc. (VGT), based in Nashville, Tennessee, for US\$1.3 billion in 2014.

That acquisition prompted the internal audit team at Aristocrat, which also oversees the company’s risk agenda, to refine its long-term strategic goals. Darani Brown, group risk and audit manager for the function, explains: “The change Aristocrat has experienced with the recent

acquisition means there are new business processes and initiatives underway all of the time. So, we are looking to be a function that can really partner with the business to help them identify risk, enhance how they take ownership of risk, and give assurance to senior management and the board against risks as they evolve.”

She says that the internal audit function is already actively partnering with the business as Aristocrat continues to integrate VGT’s operations, expands its digital business and executes a major enterprise resource planning (ERP) upgrade. These and other initiatives, according to Brown, are intended to help the company operate and grow globally in a “more robust fashion” over time.

## A “Process Under Development” Approach to Internal Auditing

Brown reports on a hard line to the audit and risk committee of the board of directors, and administratively to Aristocrat’s chief financial officer. When she joined the company in 2012 after serving for 16 years as a director for a leading global professional services firm, Aristocrat had been relying primarily on outsourced service providers for internal auditing. The function has since moved to a co-sourced model.

Brown describes the current structure of the internal audit team: “I lead the function globally out of Australia. I have one consultant here in Sydney, one director based in Las Vegas and a team of three (one director, one IT manager and one senior auditor) at VGT in Tennessee. Our team engages specialists in a range of disciplines from our co-source partners to deliver the internal audit program.”

According to Brown, the internal audit function tries to take a risk-based “process under development” approach to internal auditing whether they are asked to participate in an IT system implementation, a new product release or another significant business initiative.

“We get involved with these projects from the start, sitting alongside the business as project plans and governance structures come together, providing input and insights along the way,” she says. “We are also performing assurance projects at appropriate points throughout the projects. This assurance helps to keep track of whether projects are on time, on budget and on quality.”

## A Strong Partnership With IT

In the past two years, the IT function at Aristocrat has “fundamentally refreshed” under the direction of a new chief information officer (CIO), according to Brown. “The CIO has been an active driver of managing IT risk,” she says. “IT has become one of our most engaged partners, and the ability to discuss issues freely with them has been very helpful to us. Our team is receiving regular updates on IT risks, which is enabling us to drive action to address those risks.”

As is the case for any modern business, information security is a top risk for Aristocrat. “We knew this cyber risk was inherently important for Aristocrat,” says Brown. “So, we conducted a cyber-risk assessment to understand what information our company has that other people might want, and what types of cyberthreat actors are in the landscape that we need to be concerned about.”

Through that process, subject-matter experts helped Brown and her team to determine that Aristocrat must be vigilant about data security on several fronts. For example, there is both financial and employee data to consider – the types of information any business needs to protect. But the fact that Aristocrat is a public company and operates in a highly regulated industry creates even more complexity around information security. In addition, Aristocrat’s intellectual property must be well-protected.

Brown says the cyber-risk assessment provided internal audit with the insight it needed to help Aristocrat’s audit and risk committee better understand the importance of information security and how the organization is addressing risks.

## The Ability to Show the Full Picture

As Aristocrat implements its ERP system throughout its global operations, internal audit will also be deploying continuous auditing techniques for identifying potential fraud and other red flags more broadly, says Brown. She also anticipates that the ERP system will improve her team's ability to apply data analytics in their work.

“The use of disparate systems throughout the organization in the past made it difficult for the business, and for internal audit, to gather and use data in a meaningful way,” she explains. “That will change with the ERP upgrade. We will definitely be using data analytics for continuous monitoring but also for predictive work. We'll also use data to understand how the ERP system is being used in the organization and to help management identify potentially problematic transactions.”

The use of more relevant data insights can help internal audit partner with the business more effectively by providing a way for auditors to explain risks and controls more clearly to stakeholders, according to Brown. “With hard data, we are better able to have more meaningful conversations with our stakeholders and gain their buy-in because we can show them exactly what we're talking about,” she says. “There is much less judgment involved in explaining what could go wrong if a control is not effective – it is there, in black and white. We can say that we've looked at all of the transactions, not just a representative sample.”

## The Need to Look at Risk Differently

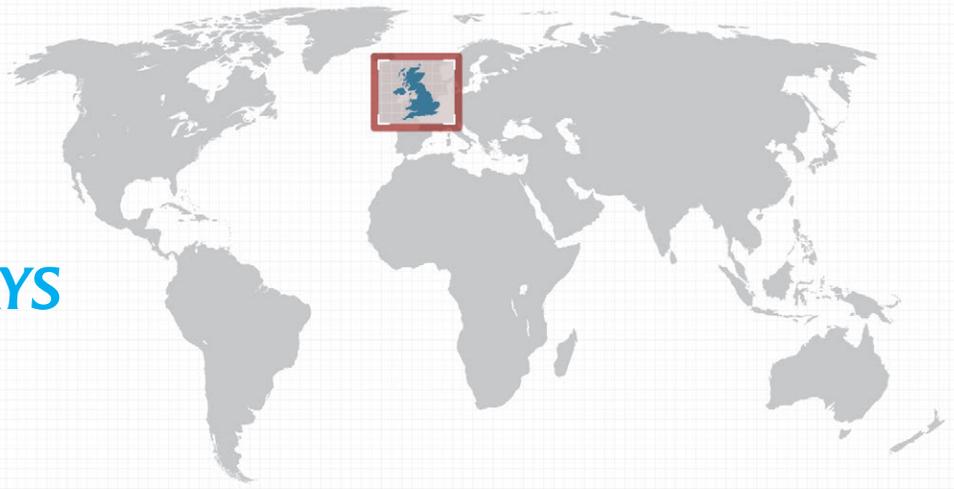
The changing risk environment, especially around technology, is influencing how Brown assembles talent for her internal audit team. “When recruiting, I look for people who are very IT-savvy,” she says. “IT skills are paramount. But I also want people who are passionate, and willing to challenge how things are done and recommend a different approach.”

Brown explains why her team needs to think differently about IT risk: “When considering technology risks, you need to realize that things you might have thought were impossible really aren't given the skill sets of today's cyberthreat actors. As soon as you think something won't happen, that's when it becomes dangerous.”

When Brown engages IT specialists from outside Aristocrat to support her team in certain technical areas, she is also very discerning in her selection process. “I want resources that can get on board with us very quickly, understand our risks, and have a dynamic conversation with us in our language. I don't just want to see a slide deck of offerings.”

As an internal audit leader, Brown says it is imperative that she works continually to bring together the right skills and experience to help the business manage its many diverse risks.

“I think the important thing for the future of internal audit is that internal audit plans are not limited by the skill sets of an in-house team,” she says. “Being aware of the significance of risks means that we've identified a need to assemble an internal audit team of people who understand these risks, how they have impacted other organizations and how they are evolving, in order to add value to our business.”



Company Headquarters — United Kingdom  
Number of Employees in Company — Approximately 130,000  
Industry — Banking and Finance  
Annual Revenues — GB£20.3 billion (as of April 14, 2016)  
Number in IA Function — N/A  
Number of Years IA Function Has Been in Place — N/A  
IA Director/CAE Reports to — Chair of Board Audit Committee and the CEO

“I can essentially project my audit plan to infinity. I know today where we’ll need to assign more auditors in Q3 of 2017.”

**Sally Clark, Chief Internal Auditor**

## Barclays’ Internal Audit Function Harnesses Data Visualization to Gain a Clear Picture of Business Risks

London-based Barclays is a multinational banking and financial services company that offers products and services across personal, corporate and investment banking, credit cards, and wealth management. Operating in more than 40 countries and employing about 130,000 people, Barclays moves, lends, invests and protects money for customers around the world.

The global bank also supports innovation. Through its Accelerator Program, leaders of technology-focused startups receive 13 weeks of guidance and mentoring from Barclays’ financial technology (FinTech) experts, as well as access to the bank’s extensive network and knowledge base. Considering this commitment to technology, it is perhaps no surprise to find that its chief internal auditor, Sally Clark, can simply tap a data visualization app on her Apple iPad to scan the status of every current internal auditing issue across the massive company.

“I can sort each issue according to who is affected by it, who owns it and how long it has existed,” Clark says. “It’s quite a win for me to be able to have this level of visibility. I’ve spoken with internal audit leaders at other companies, and it’s relatively rare to have all of this information together in one spot and to be able to access it on a tablet.”

In addition to iPads and data visualization apps, Barclays' internal audit function deploys a variety of innovative tools, including data analytics, videoconferencing and business intelligence (BI). Some of Clark's auditors recently completed a course on distributed ledger (or "blockchain") technology to learn more about its potential industry applications and its potential risks.

Internal audit also evaluates Barclays' cybersecurity capabilities; recent audits have examined the company's threat management and penetration testing capabilities. "We feel we're at the forefront of cyber-risk auditing," Clark says. "Cyber is one of the areas where we have attracted professionals with deep technical knowledge from the industry to learn to audit and lead the team. This builds toward our credibility as an audit function in complex technical areas. In addition, we have an incredible chief information security officer, who we have a strong relationship with."

Internal audit's cybersecurity assurance includes auditing Barclays' cybersecurity structure against the National Institute of Standards and Technology (NIST) Cybersecurity Framework and then evaluating opportunities for improvement. "Parts of our cyber-risk approach, like threat intelligence, are cutting-edge," Clark says, "but we have some way to go to align our controls with our intended framework."

Clark emphasizes that all of the technology her function deploys helps to fulfill the team's vision of being "Leaders in Assurance." About 680 internal auditors are based in four primary hubs in the United Kingdom, United States, South Africa and Singapore. There are about 140 IT auditors within the wider function, led by Vandana Siney. Barclays' internal audit function will increase its staff size this year in response to growing regulatory demands, notes Clark, who reports directly to Mike Ashley, the chair of her board's audit committee, and administratively to Barclays' chief executive officer, Jes Staley.

## More Technology, Less Travel

In addition to being able to view the status of all internal audit issues with a swipe of her iPad screen, Clark can assess what her future staffing needs look like under different scenarios. She gains that visibility by entering different assumptions into another data visualization application called Tableau, which includes elements of BI technology. "I can essentially project my audit plan to infinity," she says. "I know today where we'll need to assign more auditors in Q3 of 2017."

Clark and her team use less cutting-edge technology to support their drive to operate more efficiently. "We're big users of videoconferencing technology, and we have our own intranet site that can be accessed by the entire team wherever they are based," she reports. "We use WebEx technology to train the entire department at times, sharing information much more efficiently while cutting down on travel."

Data analytics also figure prominently in Barclays' internal auditing work. "In many cases, the old-fashioned approach to auditing where you select manual samples equates to looking for a needle in a haystack," Clark says. By using continuous auditing and monitoring tools, internal auditors can run automated tests on massive data sets. "We've recently used data analytics, which incorporated a test containing 147 million discrete data items," says Clark.

While the internal audit function at Barclays has been using data analytics for a number of years, Clark says her team's current focus is on applying analytics to more areas and to larger data sets while helping the business make use of the technology.

"We might run an automated test of a particular data set when we conduct a specific audit," Clark explains. "But the business may want to run similar queries and routines every month so that they can identify and address any issues as they arise. So we hand over the tests into their automated testing library for them to use as part of their business-as-usual testing."

As the bank strengthens its focus on what it calls the "customer journey" in response to new U.K. regulations on conduct risk put forth by the Financial Conduct Authority (FCA), Clark and her team are applying data analytics to new areas, including language. "We're in the process of using data analytics to perform word searches of customer interactions," Clark says. "The objective is for internal audit

to identify how effective the business has been in identifying financially vulnerable customers so that the bank can help them address financial difficulties as early as possible while helping to prevent them from taking on deeper debt.”

The principle, according to FCA rules, is to find a win-win solution that protects customers and limits the bank’s liabilities. The data analysis identifies verbal clues – evidence of a job loss or other financial struggles, health problems, and similar indicators – that suggest a banking customer is at risk of falling behind on mortgage payments, for example. Once at-risk customers are identified, they are assigned to Barclays’ specialists, who have been trained to help people alleviate financial stress.

“Our tools let us analyze the full population of customers rather than manually scrutinizing a sample of customers,” Clark adds. “That means our work has more impact, and adds more value, to the business.”

## Be Brilliant, Impactful and an Enterprise Leader

The three elements of internal audit’s “Leaders in Assurance” vision reflect how the function strives to continually increase the value it provides to Barclays. The first component, “Be Brilliant,” refers to the internal audit function’s goals of delivering high-quality assurance; recruiting, developing and retaining top talent; and exhibiting “leading-edge” thinking. “Leading-edge thinking is about scanning what’s next on the horizon in terms of auditing practices and business risks,” Clark explains.

The second component, “Be Impactful,” refers to internal audit’s relationships with the rest of the business, the internal auditing profession (via a supportive relationship with The Institute of Internal Auditors), and the communities in which Barclays operates.

“Yes, we need to perform high-quality audit work with the business,” Clark says, “but we also need to have honest and open relationships with the business. Without a truly collaborative relationship with our business partners, all of our good auditing work may not amount to much.”

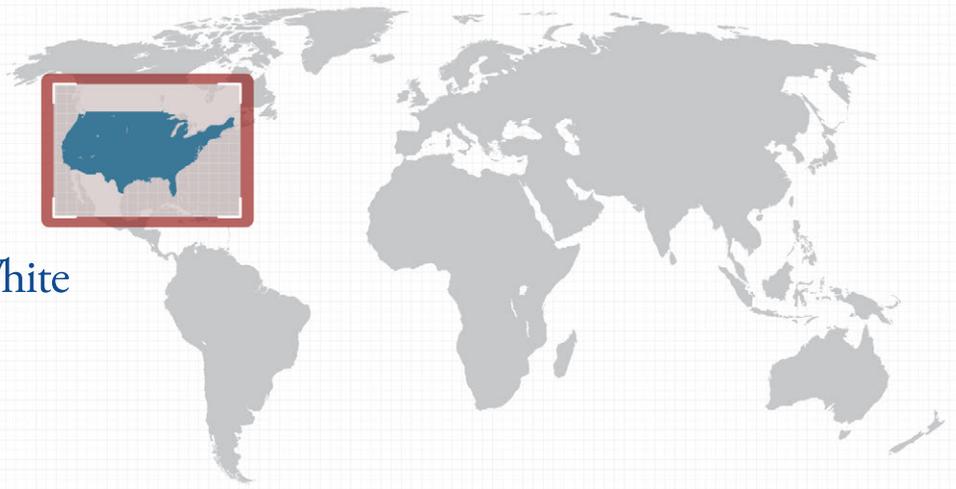
As for internal audit’s community impact, the team helps to support numerous corporate citizenship activities that Barclays supports as a company. “We have a number of outreach programs,” Clark reports. “For example, I’m very supportive of our auditors engaging in volunteer programs that impart life skills and financial skills to young people.”

The final component of internal audit’s mission is to operate with a helicopter view, thinking about the firm first, demonstrating how it acts as an enterprise leader. In addition, she’s an advocate of the “trusted adviser” concept. “If you’re a trusted adviser, you can tell the person you’re auditing the bad news as well as the good news,” Clark says. “By being open and honest with them, they’re more likely to trust you when you come to them with issues, and to come to you to discuss them.”

To sustain her department’s enterprise and assurance leadership position, Clark developed an “Auditor of the Future” project to identify how her function, and internal auditors’ skill sets, will need to evolve. “We’re looking forward five years and identifying how what’s currently happening in banking and in our company will affect how we audit in the future,” Clark explains. “We know that the ways that consumers use mobile and digital technologies are changing banking. We also feel that we can adapt agile and lean methodologies to improve the efficiency and effectiveness of our auditing.”

The “Auditor of the Future” project, which recently launched pilot programs related to lean auditing and agile auditing, functions as a lab for Clark and her team to test hypotheses and new ways of operating.

“When we look forward three to five years, we expect that all auditors will need to be more comfortable using data analytics and to understand how basic IT systems work,” Clark says. “Historically, there has been a division between IT auditors and financial auditors. We’re trying to see how we might operate when that division no longer exists.”



Company Headquarters — United States

Number of Employees in Company — 44,000

Industry — Healthcare

Annual Revenues — US\$7.5 billion (as of June 30, 2015)

Number in IA Function — 14

Number of Years IA Function Has Been in Place — 34

IA Director/CAE Reports to — Audit and Compliance Committee (administratively to Chief Compliance Officer)

“Everyone in the organization knows the road map of how the audit process works. They also know that we’re fair people. I think they know this because we always try to spend more of our time listening than talking.”

**Monica Frazer, Vice President of Internal Audit**

## Cybersecurity Requires a Healthy Dose of Collaboration at Baylor Scott & White Health

Baylor Scott & White Health is the largest not-for-profit healthcare system in Texas, and one of the biggest in the United States. The company was formed by the 2013 combination of Baylor Health Care System and Scott & White Healthcare. The two organizations serve adjacent regions in Texas and operate on a foundation of complementary values and similar missions, according to the now-merged company mission statement. Baylor Scott & White Health operates 48 hospitals and more than 900 patient care sites, with over 6,000 active physicians and more than 40,000 employees.

The post-merger integration effort continues today, as does the ongoing evolution of regulatory requirements and emerging risks that the organization’s 14-person internal audit team must monitor. A number of unique business processes within the healthcare industry pose challenges to internal auditors, especially those who are new to the healthcare sector.

When internal auditors who are new to the healthcare industry join the company, “It takes a significant amount of time for them to get up to speed on how billing, payments and other industry-specific processes work,” says Monica Frazer, vice president of internal audit for Baylor Scott & White Health. “Staying abreast of changing regulations and new technologies is also an ongoing challenge in this industry.”

Given the healthcare industry's unique process and regulatory challenges, Frazer says she keeps her team focused on risk-based fundamentals, regardless of whether they're evaluating a traditional human resources system implementation or identifying the security vulnerabilities linked to electronic health records (EHR), patient "wearables," and other cutting-edge healthcare technology.

## Keeping Pace With Technology Risks

Baylor Scott & White Health is in the process of implementing EHR throughout the organization to meet the requirements of the Patient Protection and Affordable Care Act. When the internal audit team made EHR assessment a part of their annual audit plan 18 months ago, they quickly identified system access issues and related segregation of duties (SoD) shortcomings around EHR that required attention. In response, internal audit is now partnering with the company's revenue cycle group to conduct a major security access review.

"As you can imagine, doing a segregation of duties audit in a large healthcare system like ours is a big deal," Frazer says. "Partnering is crucial. The revenue cycle folks use an automated tool that identifies where potential problems might be. And then we take a closer look at those issues." The findings and responses to this review are being used to improve future EHR rollouts throughout the company, according to Frazer.

The EHR work, with its focus on system access and SoD, requires the same type of internal audit assessments that have long been applied to financial and accounting systems and similar information systems. Other new and emerging healthcare technology, such as biomedical devices and wearables, pose data-security challenges and related IT risks, but Frazer notes that these new auditing subjects also can be addressed with familiar risk-based approaches.

For example, internal audit monitors new technology investments for Baylor Scott & White Health to ensure purchases are made according to the company's procurement standards. The team also evaluates how new technology impacts data security. "We're involved from the beginning, when equipment is purchased," Frazer explains. "We need to make sure equipment that uses data has mechanisms for encrypting data. And then we monitor how well data is encrypted, and we also make sure that devices that need to be locked down *are* locked down." She says her team also monitors maintenance-related controls on a wide range of devices and systems. The company's compliance department has responsibility for overseeing the security of EHR. The compliance team will, for example, monitor whether employees are accessing those records appropriately. Frazer's function is responsible for monitoring, and partnering with, the compliance function to ensure it has the proper controls in place to fulfill EHR oversight responsibilities.

## Three Steps Toward Improving Cybersecurity

A similar risk-based focus applies to how the internal audit function monitors cybersecurity risks. Baylor Scott & White Health's audit committee has become increasingly interested in knowing how the organization manages cybersecurity. To help answer the audit committee's questions about cybersecurity, and ensure that internal audit stays on top of this growing risk area, Frazer and her team took two key steps:

1. They included an enterprise security assessment, which covers cybersecurity, within each of their past three annual audit plans.
2. Internal audit has been proactive about strengthening the function's relationship with the organization's chief information security officer (CISO). Frazer and different members of her team hold a standing meeting with the CISO each month – or more often, depending on what cybersecurity issues materialize.

Additionally, the IT department provides a 15-minute cybersecurity update at each formal audit committee meeting.

“Cybersecurity is a buzzword that everyone is using right now, but we’ve been doing our independent assessments of enterprise security for several years,” Frazer says. “And we will continue to do so while helping our information security team’s education efforts.”

She adds, “It’s important for the organization and the board to know that it is impossible to be completely free of cybersecurity risks. The key, as our CISO will tell you, is to have a good response plan when there is a breach. We know breaches will happen. What’s more important is how fast we can shut them down and keep our information secure.”

## An Emphasis on Relationship Building

Given all of the above challenges for internal audit, it’s easy to understand why Frazer prefers to hire experienced internal auditors. She says she places a priority on finding candidates with sharp internal auditing skills because she and her team can teach new hires about healthcare industry nuances. Many of Frazer’s most recent hires are millennials with a few years of public accounting experience.

New hires for internal audit at Baylor Scott & White Health undergo extensive training to hone their relationship-building skills. The ability to collaborate and communicate effectively is critical, given that internal auditors are expected to meet with a different business unit leader each quarter. During these meetings, the auditors provide updates on the risk issues their function is monitoring, and the business leaders report on activities within their business units.

To promote relationship building within the function – and to help support Baylor Scott & White Health’s overall mission of caring for a wide range of stakeholders – Frazer has developed some off-site volunteer projects for her team, such as working at local food banks. “Yesterday, we spent the afternoon hauling medical equipment to underserved areas,” she says. “We were out of the office together and doing something totally different than what we typically would be doing, while giving back to our own health system.”

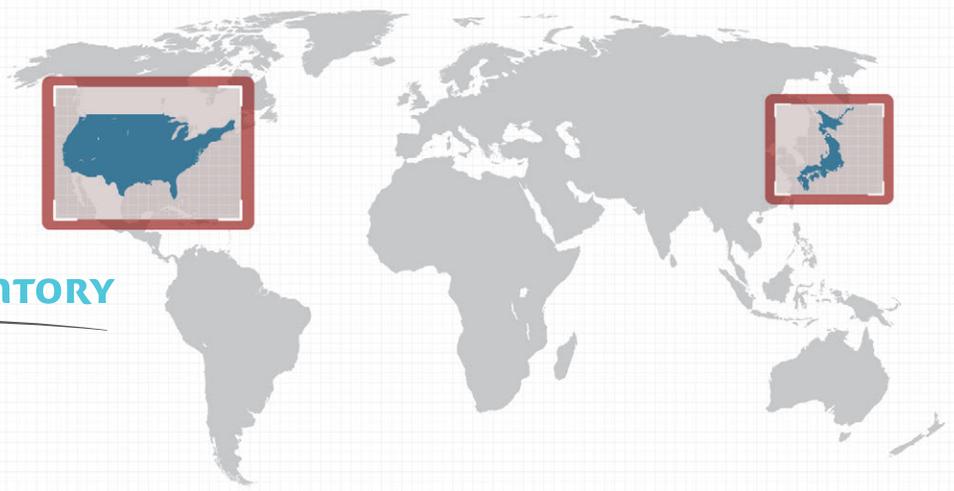
Frazer says she makes a point of instilling relationship-building skills in her team members because of an unexpected promotion several years ago that taught her how valuable relationship building, presenting and other interpersonal competencies are to an internal auditor’s professional success.

Frazer began her career in public accounting working with oil and gas clients. After joining a competing firm and auditing real estate companies, Tenet Healthcare recruited Frazer as the youngest of three internal auditing vice presidents who reported to the top internal audit executive. After a relatively short time in that role, the audit committee threw Frazer a curveball in the form of a career-defining opportunity. “They came to me, told me that my boss is retiring, and then asked if I wanted his job,” she recalls. “It was kind of crazy. I mean, I had been to one brief audit committee meeting.”

In addition to helping to develop her team’s interpersonal abilities, Frazer has implemented a rotational program to help them build IT auditing skills. Through the program, operations-focused internal auditors participate in IT audits with the function’s four IT auditors. The collaborative relationships that internal audit maintains with their colleagues in the information security function and other areas of the business are a product of the reputation Frazer’s function has developed.

They built this reputation, according to Frazer, by managing expectations and “exercising their ears more than their mouths.” She explains: “We’ve always made a point of clearly setting expectations in advance when we conduct audits. Everyone in the organization knows the road map of how the audit process works. They also know that we’re fair people. I think they know this because we always try to spend more of our time listening than talking. That’s a big thing.”

Frazer adds that internal audit frequently requests feedback from the business so they can ensure they are meeting – and hopefully, exceeding – expectations. The company’s internal auditors travel frequently – Frazer estimates that her team spends about two weeks each month on the road – to conduct work at the organization’s 900 care facilities throughout Texas. After every audit, internal audit conducts a survey about the service they provided and their colleagues’ experiences. These results, Frazer says, demonstrate that “we’re really viewed as a trusted business adviser.”



Company Headquarters — United States (parent company in Japan)

Number of Employees in Company — 4,400

Industry — Spirits

Annual Revenues — US\$5 billion (as of Dec. 31, 2015)

Number in IA Function — 6

Number of Years IA Function Has Been in Place — 5

IA Director/CAE Reports to — Chief Financial Officer

“We’re helping to ensure that our global IT security leader gets the support he needs to build a successful cybersecurity program.”

**Luci Roberts, Vice President of Internal Audit and Chief Audit Executive**

## Internal Audit Plays Leading Role in Promoting Cybersecurity Risk Awareness at Beam Suntory

Beam Suntory, the spirits business of Tokyo-based Suntory Holdings Limited, is the world’s third-largest premium spirits company with heritage that dates back to 1795. Based in the Chicago area, Beam Suntory distills spirits in the United States, Mexico, Canada, Scotland, Spain, France, Ireland and Japan and sells its brands in more than 100 global markets.

The organization is structured by region, as well as by function, with some unique exceptions: The IT function reports to the strategy team due to the large volume of technology enablement programs that IT is instituting for Beam Suntory’s commercial and marketing organizations.

“We are a global business, facing varying requirements by region, so we set global guidelines and allow the markets to execute locally,” says Luci Roberts, vice president of internal audit and Beam Suntory’s chief audit executive (CAE). “That’s been my strategy in controls and risk management, being mindful of business context in the markets.”

Roberts reports to Beam Suntory chief financial officer Mauricio Restrepo, and she leads an internal audit team of five people. She augments her team with auditors from Protiviti. Roberts also facilitates regular meetings of Beam Suntory’s internal audit committee, which includes Restrepo, general counsel Kent Rose and several Suntory executives. This committee functions as an audit committee with characteristics of a publicly listed company.

## A Hybrid Governance Structure

Beam Suntory's governance structure reflects a hybrid of public company preferred practices and privately held company practices. For example, Roberts was recently asked to implement U.S. Sarbanes-Oxley (SOX) compliance requirements in the company's Japanese spirits business, which is not required to comply with the U.S. SOX mandate. However, the subsidiary already complies with "J-SOX," the Japanese compliance requirements that resemble Sarbanes-Oxley Act Sections 302 and 404.

"One of the themes for our team this year is to simplify requirements and add more clarity across the languages and cultures we work in. That means we strive for simplicity and clarity in our communication and our expectation-setting for risk management and controls around the world."

Roberts' background makes her well-suited for this task. She was hired by Beam in 2010 to prepare the company for its transformation. Beam was a subsidiary of Fortune Brands, which spun off its home and security business as a stand-alone, publicly traded company now known as Fortune Brands Home & Security. Roberts spearheaded the SOX compliance effort as Beam was introduced on the NYSE in 2011 as part of the transformation. In 2014, Suntory Holdings acquired Beam, taking the company private.

Roberts now applies her deep knowledge of internal controls and risk management expertise to establishing a healthy risk and control environment as her company's integration with Suntory Holdings continues.

"One of the themes for our team this year is to simplify requirements and add more clarity across the languages and cultures we work in," she says. "That means we strive for simplicity and clarity in our communication and our expectation-setting for risk management and controls around the world."

## A Shift in Technology Focus

At Beam Suntory, the internal audit team focuses on three main areas: encouraging the adoption of global standards and processes to achieve a "One Beam Suntory" way of working; strengthening internal controls; and working with business partners to identify potential remedies when internal controls require improvement.

In recent years, technology has become an area of great focus for the internal audit team at Beam Suntory. In 2015, for example, the internal audit plan included an evaluation of how technology purchasing is managed throughout Beam Suntory.

Roberts and her team were not surprised to hear that the IT function was concerned about "rogue" tech buying. The issue had surfaced during the internal audit function's 2014 enterprise risk management (ERM) evaluation. "We wanted to get to the bottom of the issue from a controls perspective," Roberts says. "However, we started to question whether our work would generate the larger business benefits we always want to deliver."

After taking a deeper look at the IT governance process over procurement, the internal audit function decided not to include the matter in its annual audit plan. "We chose not to conduct the evaluation because our time could be better spent somewhere else," Roberts explains. Instead, the function zeroed in on a larger, and related, IT risk.

“Cybersecurity risk started cropping up in executive discussions and in the ERM program that I facilitate globally,” says Roberts. Suntory Holdings has also expressed increasing interest in cybersecurity and is focused on developing more internal expertise in the area.

“I thought, ‘OK, now we’re talking!’ This is a crucial area that’s not well-understood in the business,” Roberts continues. “That’s a problem because it really is a matter of *when* a company is going to get attacked, not *if*. As an increasingly pervasive risk, cybersecurity needs more attention throughout the company. So, we shifted our audit focus.”

Roberts and her team also believed that a stronger focus on cybersecurity risk management might help focus the IT procurement discussions within the business on risk rather than on who controls the purse strings. Now, as the company builds its formal cybersecurity program, the internal audit team is on hand to offer its objective risk-based assurance, advice and insight.

“It’s a matter of understanding how the program is progressing and where we can provide the best level of assurance,” Roberts explains. “We’re not in a position to design or implement the program. We’re helping to ensure that our global IT security leader gets the support he needs to build a successful cybersecurity program. To the extent that we can exert our influence to do that, we will. But we’re on the sidelines cheering and coaching right now.”

“It’s important for us to convey a consistent message throughout the organization that cybersecurity is about more than avoiding a costly attack. It’s about having a sound program that cultivates constant awareness and vigilance among the entire employee population.”

That’s a bit of an understatement, as Roberts and her team have actively promoted the value of strengthening the company’s cybersecurity program through several steps, including:

- **Raising awareness:** Roberts arranged for her company’s global IT security leader, Seth McCallister, to present an overview of his responsibilities, priorities and challenges to the internal audit committee. Internal auditors also help spread the word about the need for stronger cybersecurity. “It’s important for us to convey a consistent message throughout the organization that cybersecurity is about more than avoiding a costly attack,” Roberts notes. “It’s about having a sound program that cultivates constant awareness and vigilance among the entire employee population.”
- **Facilitating:** Internal audit’s focus on cybersecurity as a growing strategic risk has helped spur Suntory Holdings to intensify its attention on the matter. McCallister has participated in the IT security policy enhancements that Suntory’s leadership team recently designed. Suntory Holdings is also in the process of developing minimum global cybersecurity standards for all of its subsidiaries.
- **Staying informed – and prepared:** Roberts proposed to the internal audit committee that her team evaluate Beam Suntory’s cybersecurity program in late 2016. If Suntory Holdings’ global minimum standards have been finalized by then, the team will evaluate the program against those standards. If not, Roberts says they will use the U.S. Commerce Department’s National Institute of Standards and Technology (NIST) Cybersecurity Framework as the basis for the assessment.<sup>1</sup>

<sup>1</sup> Protiviti Flash Report, “Cybersecurity Framework: Where Do We Go From Here?”, February 25, 2014: [www.protiviti.com/en-US/Documents/Regulatory-Reports/Information-Technology/IT-FlashReport-NIST-Cybersecurity-Framework-Where-Do-We-Go-From-Here-022514-Protiviti.pdf](http://www.protiviti.com/en-US/Documents/Regulatory-Reports/Information-Technology/IT-FlashReport-NIST-Cybersecurity-Framework-Where-Do-We-Go-From-Here-022514-Protiviti.pdf).

Cybersecurity is not the only technology risk area internal audit is tracking – Robert’s team conducted a social media governance assessment two years ago – but cybersecurity is currently the most important area. And it turns out the decision to shift internal audit’s attention from IT procurement to cyber breaches was a savvy one. “The business recognized on its own that there needed to be better governance around the IT procurement process,” Roberts reports. “They put some processes in place to enable that governance, and the issue has really worked itself out.”

## Knowledge vs. Checklists

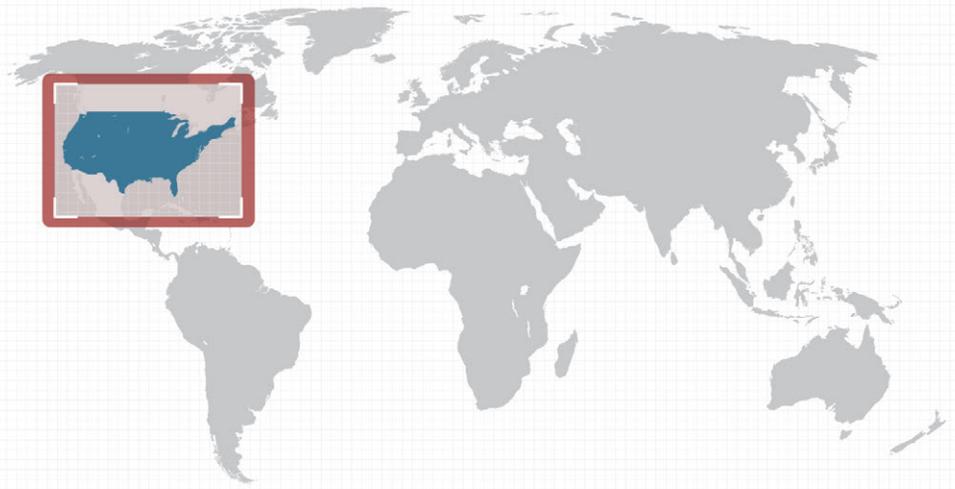
Roberts expresses confidence in her function’s ability to help management make informed decisions about cybersecurity risk management because she knows firsthand what it takes to operate as a partner to the business.

Although Beam hired Roberts in 2010 to help lead the SOX compliance effort needed to complete the company’s public offering, she was not brought in as the top audit executive. That changed shortly after Beam went public, when the audit committee asked her to replace the former CAE. At the time, Beam’s internal audit function was perceived by the rest of the organization as more of a “policeman” than a business partner. “I worked really hard to change that perception,” says Roberts.

She achieved this through a combination of hiring, collaborating and communicating. For example, after stepping into her new role, Roberts brought colleagues from the finance function with whom she had collaborated on SOX compliance work because she knew they possessed a “high level of integrated knowledge of the business.” They not only knew their own domains, they understood how the company worked and how different areas of the business worked together.

Roberts also encouraged the internal auditors to continuously sharpen their knowledge of the business, and to use that acumen to guide how they worked with their internal clients. “We spoke the language of the business,” she explains. “When we went into a difficult audit situation, we would say, ‘We understand why this is difficult for you; we know the nuances of your work. However, we’re still going to evaluate these critical control objectives in your domain to make sure they’re met.’”

That approach marked a departure from the internal audit function’s previous mode of operation. “It was not uncommon for the former audit team to expect change to happen automatically,” Roberts adds. “They came from the position of a checklist, without enough business context built into their conversations and arguments. We want to come from a position of knowledge. And that’s something we continue to emphasize at Beam Suntory today as we hire new people to our team.”



Company Headquarters — United States

Number of Employees in Company — 300+

Industry — Investment Management

Annual Revenues — N/A

Number in IA Function — 10 associates, including internal and co-sourced resources

Number of Years IA Function Has Been in Place — 11+

IA Director/CAE Reports to — Directly to Six Audit Committees of Boards of Directors and Administratively to Four Chief Financial Officers

“Internal audit has to constantly evolve what we are looking at based on where the organization is going.”

**Julie Eason, Vice President of Internal Audit**

## CNL’s Internal Audit Function Taps Technology and Co-Sourcing to Help Extend Reach of a Lean In-House Team

CNL Financial Group (CNL), based in Orlando, Fla., is a privately held investment management firm that provides real estate and alternative investment opportunities. Founded in 1973, its six current programs are at different stages in their life cycles. Four nontraded real estate investment trusts specialize in senior housing and healthcare properties, lifestyle properties (such as ski resorts and gated attractions), and multifamily properties. And two nontraded business development companies invest in the debt of privately held American companies.

Eleven years ago, Julie Eason was hired by CNL as internal audit director for one of the investment programs. At that time, CNL maintained separate internal audit functions for each of its offerings. Over time, the platform streamlined program administration, consolidating internal audit into a shared services model, with Eason responsible for overseeing the internal audit of all investment offerings.

“One of the things my team knows best is that we need to add value,” Eason says. “We need to complete our audit plans and conduct controls testing efficiently and effectively, as well as strive to become more of a strategic partner.”

## One Department, Multiple Charters

Because CNL's programs are not traded or listed on a stock exchange, the firm's external auditors do not issue a Sarbanes-Oxley (SOX) Section 404 opinion. However, because there are investors, management still goes through the full SOX exercise. Internal audit assists management with their SOX compliance efforts. Eason estimates 70 to 80 percent of her group's work is SOX-focused, with the balance being substantive testing for the external auditors.

"In-house testing, conducted according to external audit's standards, adds value by streamlining the external audit and reducing audit costs," says Eason.

"One of the things my team knows best is that we need to add value. We need to complete our audit plans and conduct controls testing efficiently and effectively, as well as strive to become more of a strategic partner."

"Substantive testing includes going to, say, one of the owners of property within one of the programs, looking at the controls around ensuring that the revenue is accurately and completely stated, and that it is being consolidated up to the parent company," Eason explains. "If there's any construction in progress in any of the programs, we do substantive auditing around that, as well."

Eason uses the services of 10 professionals in her internal audit department – two internal resources directly employed by CNL (including herself), and the balance from co-sourced providers. Her department has six charters, one for each investment offering. The function has a direct reporting line to the audit committee of each of the programs, and an administrative reporting line to each program's chief financial officer (CFO), and also an administrative line to the enterprise CFO.

"Because the shared services department does some of the work on behalf of the investment offerings, we will look at certain processes that the shared services team provides," says Eason. "I don't have a CNL internal audit charter, but if CNL is providing accounting services, we absolutely audit the result of those accounting services through the lens of the investment offerings."

## Streamlined but Strong

At CNL, the internal audit department's short-term strategic goals are to identify a plan for the year, based on an enterprise risk assessment for each one of the programs, and to successfully complete those plans.

Longer-term goals are to add value by reducing or streamlining the annual SOX testing effort while maintaining a solid control environment, and to make sure internal audit maintains strong relationships and communication with the audit committees and independent directors for each of the programs.

"Internal audit has to constantly evolve what we are looking at based on where the organization is going," Eason says.

One example of that has been in the area of audit technology, where CNL's fiscal stewardship has encouraged her to consider alternatives to investing directly in such tools. By leveraging the state-of-the-art tools and technology of her co-sourced auditors, Eason has been able to advance the internal audit function's capabilities, while remaining agile enough to adapt to the ebb and flow of CNL's various investment products.

This combination of strength and agility positions the internal audit function to serve as consultants to the audit committees of CNL's various investment programs. The committees are composed of directors who come from a variety of backgrounds and rely on the experience and expertise of Eason and her team.

“We are the troops on the ground for our audit committees – the arms and legs that get things done. That is a huge value-add to the organization because it strengthens the overall corporate governance,” says Eason. “We have solid boards and audit committees that are actively doing their duty of monitoring and making sure that whatever the organization is doing is in the best interest of the shareholders.”

## Creating Value Through Strategic Consulting

In addition to streamlining SOX testing, the internal audit team at CNL is constantly looking for ways to apply technology to add value across the organization. Take data analytics, for example. Tests developed for a specific data sample or population in one program’s portfolio are regularly evaluated for applicability across multiple programs.

In this regard, Eason says, her department is seen as both a strategic partner and as a policeman, and feels internal audit has to be both to be effective. “Again, we have that fiduciary responsibility to our audit committees,” she says.

CNL’s business model, which calls for the continuous creation, development and liquidation of investment opportunities, demands scalability within the shared services functions. Internal audit was a strategic partner in evaluating what processes could be outsourced and what had to be done in-house so that the control environment remained intact, according to Eason.

Internal audit also partners with management in evaluating new technology. One recent example is a data warehouse being developed for some programs that automates management reports and allows for better data mining. Internal audit plans to review the data warehouse to ensure that the reporting used for the U.S. Securities and Exchange Commission (SEC) filings is secure, accurate and complete.

Eason says she hopes to encourage management to automate more reports because it is much easier for her team to test an automated process. “In some cases, you can test one centralized automated process and be done with it, versus testing many manual controls using a lot of resources,” she explains.

## Internal Audit Capabilities and Needs

Although CNL’s internal audit function has advised program managers on technology implementations, Eason says her team does not yet use a great deal of technology in audits.

“We do use a tool,” she says. “But it is more of a database where we maintain our testing results. It has reporting capabilities, and we can run queries, but we are always asking ourselves, ‘How can we utilize that tool more, to be more efficient and effective?’”

Internal auditors interact regularly with other departments, however, especially IT, to stay abreast of new technology deployments, from both a risk management and potential internal audit application standpoint.

“We are the troops on the ground for our audit committees – the arms and legs that get things done. That is a huge value-add to the organization because it strengthens the overall corporate governance.”

One area Eason is particularly interested in is leveraging technology to expand internal audit’s data mining capabilities. CNL’s internal audit function currently relies on data mining performed by external auditors to flag unusual combination journal entries. Internal audit then reviews the journal entries as direct assistance to the external auditors. Eason says she would like to be able to perform similar analytics in-house. Such capabilities, applied to population data, will enable her team to more effectively and efficiently select testing samples and quantify audit observations that will strengthen internal audit’s role, she says.

With so much of Eason's forward-looking focus on analytics, it's not surprising that two of her top criteria for potential new hires are technology savvy and an analytical mind. Of course, given CNL's lean internal audit staff, that candidate would also have to have good communication skills and a strong background in SOX compliance and accounting.

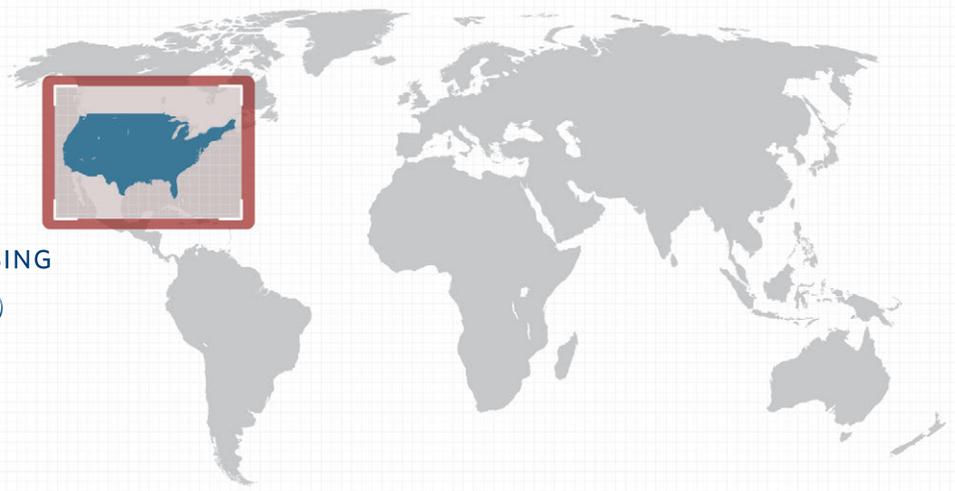
"Someone with all those skills would be a dream candidate," she says.

## Co-Sourcing for Success

Many internal audit functions supplement through co-sourcing. CNL has taken the contracted services model to a new level, keeping overhead low while providing world-class assurance on a tight budget. Although this is not technology per se, it is consistent with the cutting-edge "Everything as a Service" collaborative commerce model that is disrupting the economy in fields ranging from taxi service to healthcare.

CNL's co-sourcing partner not only serves in the traditional roles of supplemental staff and subject-matter expert, but also as an internal audit technology service and training resource. Eason recently teamed with her co-sourced subject-matter experts, and CNL's chief information officer, for a presentation to program audit committees on cyberthreats, cybersecurity trends, observations from other industries, and insights from recent high-profile data breaches.

"CNL is such an interesting company. We're always starting, growing and launching programs," Eason says. "We're not necessarily making huge technology investments. When I don't have the tech internally, I rely on my co-sourced partners."



Company Headquarters — United States

Number of Employees in Company — Approximately 80,000

Industry — Airline

Annual Revenues — US\$40.7 billion (as of Dec. 31, 2015)

Number in IA Function — 19, plus co-sourcing

Number of Years IA Function Has Been in Place — 7 for post-merger team

IA Director/CAE Reports to — Audit Committee Chairman

“Some people complain about Gen Y, Gen X and millennials, but I have had great experiences with professionals from these demographic groups. I am in awe of how hard they work, how effective they can be and how smart they are.”

**Kiko Harvey, Vice President of Corporate Audit and Enterprise Risk Management**

## Staying Ahead of the Digital Curve at Delta

Delta Air Lines has enjoyed a groundswell of popularity in recent years, which has helped the carrier earn a spot on many sought-after lists. In 2016, for example, Delta was named to *Fortune's* top 50 Most Admired Companies list, and was voted the most admired airline by *Fortune* for the fifth time in six years. Delta has also ranked number one in the *Business Travel News* Annual Airline Survey for five consecutive years.

With its global network, Delta provides service to 324 destinations in 58 countries on six continents. From its headquarters in Atlanta, Georgia, the airline employs 80,000 people and serves 180 million customers annually.

Kiko Harvey has been the vice president of corporate audit and enterprise risk management (ERM) at Delta since March 2009. The corporate audit team is centralized, but global in scope, and focuses attention on Delta's major business areas: commercial sales, cargo operations, alliances and joint ventures, airport customer service, fleet, flight operations, in-flight services, fuel operations, real estate and construction, technical operations, regional jet operations, marketing, international operations, and subsidiaries such as a private jet business, global staffing service, and a vacation travel service.

The corporate audit team consists of 19 full-time auditors who receive additional co-sourced support from an internal audit service provider. The team's goals are varied. In the short term, the auditors are focused on completing the team's risk-based audit plan. Long term, they are focused on technology

changes and emerging risks within the global business environment. “We oversee ERM for Delta,” Harvey says. “We align our audit plan with the work that we do for ERM. Our most important goal overall is to add value in every way we can through meaningful recommendations achieved through practical and thoughtful audit work.”

## Starting an Audit Group From the Ground Up

Harvey brought a previously outsourced audit team in-house when she joined Delta shortly after Delta’s merger with Northwest Airlines. This was not the first time she had formed an audit team. In 2001, Harvey started Starbucks Corporation’s first internal audit function, which was up and running in less than four months.

At Delta, the team was fully staffed within six months with the former outsourced service provider delivering additional support. She says the goal of the function from the outset was “never to fall into the role of being the company cop – but rather, to add value as a strategic business partner.”

Today, seven years after the department was established, Harvey says that corporate audit has become a sought-after group of advisers within Delta. “Delta businesses ask us to look into a variety of issues, from auditing agreements with international joint ventures to performing data analytics across large data sets,” she says.

According to Harvey, Delta’s culture focuses on compliance, and the corporate audit team helps the company to maintain the culture. “When we point out areas that need improvement, we receive support and follow-through from our leaders,” she says. “We are never ignored. We work collaboratively with leadership and across business units to solve problems and strengthen controls. They want us to have the resources we need to do our jobs well.”

In addition to maintaining a compliance focus, Delta is also highly control-conscious. “Management’s role is to identify the steps to take and controls to implement to address risks. Our role is to tell management if the controls they have outlined are effective and operating as designed,” Harvey says. “We perform that assurance.”

It’s this level of interaction between corporate audit and management that has facilitated Harvey’s success in creating an effective audit team. “When I go to conferences and hear other chief audit executives (CAEs) talking about their organizations, I realize that some do not have the kind of open and regular communication that I have with my leadership team,” she says.

Harvey continues, “For example, I’ve learned that some CAEs do not have regular conversations with their audit committee chair outside of the audit committee meeting. But it’s so important to establish a one-on-one relationship with the chair, since they are your boss. You need to know what is important to them and use their input to shape your audit approach. It worries me that some organizations are not making sure that’s happening.”

## Digital at Delta

As a company, Delta tries to be ahead of the technology curve. “We have been proactive along several technology streams within the airline industry,” Harvey says. “Our flight attendants use smartphones to facilitate in-flight purchases by passengers, so we have to ensure mobile data security related to credit card transactions while in flight. We have to look at how we issue the smartphones, how we decommission them, and how we can wipe them of the content if they’re lost. Those types of concerns are all new – smartphones onboard was not really a consideration in 2009.”

A host of digital tools have been added to the airline’s operations in the past several years, according to Harvey. “Pilots now carry electronic flight bags rather than heavy suitcases filled with paper, and electronically enabled aircraft rely on wireless connections for downloading flight plans,” she says. “There are many areas of modernization in all aspects of this industry, and all have some element of risk. Risks can be controlled – if the risks are known and planned for.”

Harvey adds, “One of the biggest risks today is employee awareness related to cybersecurity. Employees can infect their device – and our devices – by simply clicking on a link in an external email and infecting the device with malware. There are more exposure points today than in years past. When attackers cannot get into your system because of the strength of your firewalls, they target human behavior to get in. It’s important to continually train and test your employees to raise awareness and to prevent these doors from opening.”

Harvey cites two key benefits to using technology to enhance corporate audit’s work. “The first benefit is that we are more efficient in our work streams – and the ability to be mobile, working and collaborating, regardless of location, is a big part of that efficiency,” she says. “The second benefit is that we are better communicators. For example, using data visualization software means we can create visually rich, easy to understand testing approaches that highlight transaction outliers and unexpected patterns. Once our audits are complete, we can export these tools to the business units for their use. This helps us create an environment of continuous monitoring at Delta – empowering our employees through technology.”

### Data Security: Technology Is Everywhere

As an airline, Delta takes concerns about all forms of security very seriously. To this end, the corporate audit team has a strong partnership with the cybersecurity group at Delta. “There are many layers of risk related to cybersecurity,” Harvey says. “We start with a risk assessment. We look at policies and procedures, access points, and governance. Our cybersecurity team then performs monitoring and scans on a variety of processes and data streams, and we independently do the same as part of our audit plan.”

Harvey believes that it is corporate audit’s task to figure out where they fit into the cybersecurity landscape. “Do we check the checkers to see if they are performing?” Harvey asks. “Or do we rely on the checkers and just review their results? There has been a significant amount of coordination between corporate audit and the cybersecurity team to date, but we are still evolving our relationship.”

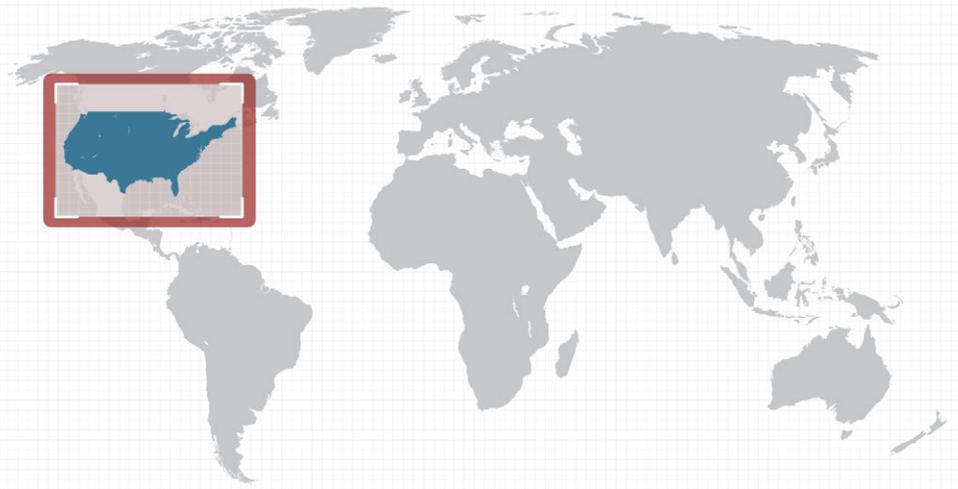
Corporate audit, corporate compliance and cybersecurity recently jointly hosted a “Cyber Summit” with the help of industry experts, which included representatives from operations, legal, IT, compliance, corporate security, technical operations and maintenance. They reviewed cloud security, heard from former FBI and TSA leaders on cybersecurity risks, data privacy, third-party risk, insider threats, and cyber-resiliency in case of attack. “It was an excellent summit and fostered additional cross-functional communication,” she says. “The feedback was very positive.”

It’s Harvey’s belief that since technology is everywhere, it’s everyone’s job to be aware of how to use it and to recognize risks. “We ask people throughout the organization to think about potential risks and be proactive about them,” she explains. “We don’t want people to wait for an audit to find out what to do in the face of a threat – we want them to be prepared.”

### Next Generation of Critical Thinkers

Harvey says she is pleased with the professionals Delta is bringing into the organization. “Some people complain about Gen Y, Gen X and millennials, but I have had great experiences with professionals from these demographic groups,” she says. “I am in awe of how hard they work, how effective they can be and how smart they are. I think they tend to embrace change well, and they work quickly and understand data. In fact, they seem to have a natural tendency to look at and not be swayed by large amounts of data. They are critical thinkers.”

“The only criticism – and this is not a criticism I have with my team, but I watch out for it with less-experienced people – is that they can be very trusting. They need to remember to verify that something is true,” Harvey says. “I always ask the question: How do you know? Auditors have to examine, and re-examine, their results. They cannot accept things at face value. The advice I give to auditors is ‘don’t audit by conversation.’”



Company Headquarters — United States

Number of Employees in Company — 1,341

Industry — Professional Services and Integrated Technology for the Legal Profession

Annual Revenues — US\$506 billion (as of Dec. 31, 2015)

Number in IA Function — 2 (supplemented with third-party consultants)

Number of Years IA Function Has Been in Place — 7

IA Director/CAE Reports to — Audit Committee and CFO

“The pace of technology, business and industry changes, coupled with the ever-increasing expectations of our end clients, will soon render a traditional audit approach unworkable.”

**Melissa Ryan, Senior Director of Audit, Risk and Compliance**

## Epiq’s Internal Audit Team Combines Technology, Blended Resource Models and Collaboration to Manage Change

Epiq is a leading global provider of integrated technology and services for the legal profession, including electronic discovery, bankruptcy, class action and mass tort administration, federal regulatory actions, and data breach responses. Epiq’s clients include top-tier law firms, in-house legal departments at major corporations and financial institutions, bankruptcy trustees, government agencies, and mortgage processors. With corporate headquarters in Kansas City, Kansas, Epiq has offices in New York, Toronto, London, Hong Kong, Tokyo, Washington, D.C., Phoenix, Portland and Frankfurt, as well as operational support centers in India.

Melissa Ryan, senior director of audit, risk and compliance, joined Epiq in 2011. She routinely engages and functionally reports to Epiq’s board of directors’ audit committee, meeting with them for regular audit committee meetings, standing private sessions and informal updates throughout the year.

The audit team is a key strategic and tactical team; that doesn’t mean it is a large team. It is a team that uses a mix of highly efficient and effective internal staff coupled with strong external partners. This builds a strong, independent and diverse audit team.

“Use of external resources might be for straight staffing, when we need additional team members to help get core work done,” says Ryan. “Sometimes, it’s a special-scope project, where a co-sourcing model allows us to bring in specific expertise.”

## Information Sharing and Teamwork

Ryan’s initial focus was to build an effective and efficient internal audit organization and to focus on Sarbanes-Oxley (SOX). Once she refined those processes she moved to operational and strategic areas such as technology, corporate governance and business processes. Today, the annual audit plan covers SOX compliance and a variety of objectives tied to business risks.

In 2014, in concert with inside and outside experts, Ryan was successful in aligning the audit organization with its natural peers of risk and compliance. This, combined with aligning the team within the CFO organization, as well as directly with the audit and risk committees of the board, ensured a path that allowed the team to report meaningful strategic information on these topics to the organizational leadership.

Internal audit also participates in key business projects. For example, Ryan is part of the integration team for company acquisitions.

“We’re making sure that we’re thinking through business process changes and technology changes correctly relative to integration efforts,” she says. “The pace of technology, business and industry changes, coupled with the ever-increasing expectations of our end clients, will soon render a traditional audit approach unworkable.”

Ryan’s audit approach is to get involved earlier in the process and focus on a consultative or advisory role around controls and managing risks, versus simply being a back-end tester and checker.

“I aim to work with our business partners to get as upstream as possible versus the approach of waiting until everything’s done, performing testing and simply issuing a report of things that require remediation,” she says.

She also underscores the value to the business of engaging internal audit early on for technology and business initiatives.

“We will sit with you and work with you until we get it right,” Ryan says. “There will be questions along the way; it may not be perfect. But it will be much better when we are working together.”

## Automating the Tools of the Trade

Strategic thinking takes time, and finding time for the big picture can be difficult, especially for a smaller audit staff like Epiq’s.

“When prioritizing work, components like SOX must be completed before we can focus on broader business risks,” Ryan says. To accelerate and enhance the audit process, Epiq implemented an enterprisewide governance, risk and compliance (GRC) tool. “Technology has allowed us to effectively bring together components of our enterprise structure, our policy expectations and our external authoritative sources, such as regulatory requirements.”

The GRC tool has had an immediate positive effect on audits, says Ryan. The centralized GRC tool allows for cross-functional use in risk and control assessments and transparency to functional teams regarding their responsibilities.

There are non-internal audit uses of the tool, as well. For example, the compliance team uses the tool to work with human resources to share information on employee training and onboarding.

“We coordinate with our learning and development team to track and manage associate training. We help with notification, track completions and escalate issues to management, all from within the GRC tool.”

## Globalization and Cybersecurity

The internal audit function’s use of technology runs parallel to the development of the company’s product offerings. As Epiq has expanded its software capabilities and services to address client globalization and cybersecurity, internal audit has had to expand its audit technology and methodologies to match audit capabilities with business strategy.

“Technology is expanding; data is moving around the world and continues to increase,” Ryan says. “As our company grows, internal audit needs to be able to adapt to these new markets, new requirements and new security challenges to support our operations around the world.”

Epiq’s audit, security and compliance team conducts site visits to its global offices annually. Keeping up with such an extensive enterprise is a challenge, but Ryan supplements the audit team’s work with independently collected and shared observations and insights from Epiq’s compliance and security teams.

This collaborative interconnected approach helps stretch internal audit’s reach. But it also increases the importance of maintaining independence so that as internal audit relies more on data collected by the first and second lines of defense, it can be sure the processes, systems and controls in place to collect that data are sound and reliable.

## Auditing at the Speed of Change

The internal audit department is relying increasingly on analytics and rolling, iterative review processes, as opposed to the more traditional and time-intensive hierarchical approach to audits and project management.

One of the positive effects of a methodology focused on timely and iterative feedback has been an acceleration of the audit feedback and reporting cycle, enabling Ryan and her team to get information back to the auditee in a shorter time frame. The company therefore benefits from the process improvement in a more immediate fashion rather than waiting for observations to filter their way through an elaborate hierarchy.

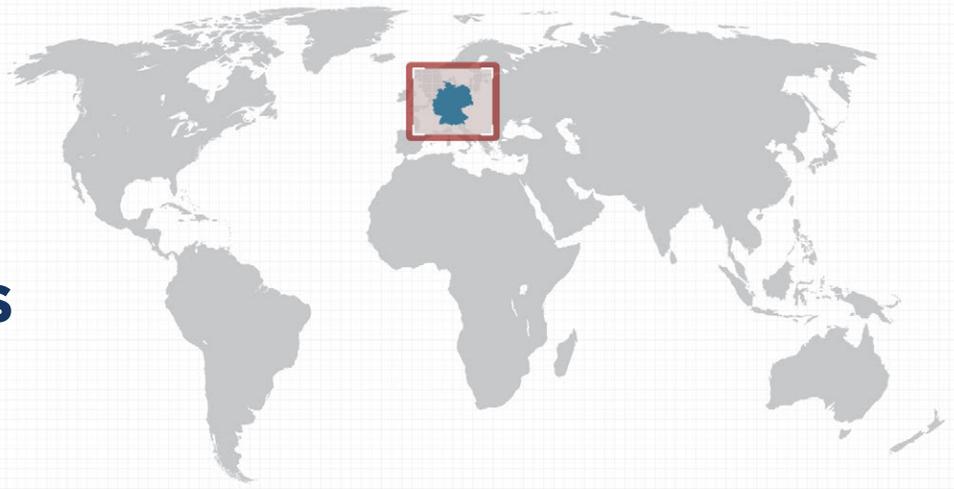
## The Need for a Broad Perspective

Given the increasing need for collaboration in the face of increasing controls and requirements for enhanced governance, Ryan believes interpersonal skills are foundational to the success of the internal audit professional today.

“Change management skills help internal auditors to excel and move up to the next level in their organizations,” she says. “Technical knowledge and skill sets alone won’t do that. An individual really needs to have the right mentality, the ability to see across the organization, identify emerging trends, and be able to help the business understand risk and strategy to facilitate decision-making and forward progress.”

The next generation of audit leaders needs to help the organization manage change and have a collaborative mindset, according to Ryan. She says interpersonal skills have been key to enabling her aggressive change goals at Epiq.

“My intent has always been to structure internal audit as a resource and partner in the business rather than a ‘policing’ organization,” says Ryan. “Even when we’re providing an audit report of findings, we’re doing it in a way that’s helping the business grow, become more efficient and meet a need. We’ve continued to build relationships and credibility, and as that grows, the organization is also continuing to see the opportunities to leverage our risk knowledge and broader perspective.”



Company Headquarters — Germany  
Number of Employees in Company — 222,305  
Industry — Healthcare  
Annual Revenues — €27.6 billion (as of Dec. 31, 2015)  
Number in IA Function — 38  
Number of Years IA Function Has Been in Place — N/A  
IA Director/CAE Reports to — Chief Financial Officer

“I need to be an innovator so that people say, ‘Internal audit? Yes, that’s the place you need to be. That’s where you want to work.’”

**Sabine Scholz, Senior Vice President, Internal Audit**

## Internal Audit Proactively Builds “IT Know-How” to Keep Pace With Technological Change in Fresenius SE’s Business Units

The Fresenius Group is a diversified healthcare group based in Bad Homburg, Germany, that offers high-quality products and services for dialysis, hospitals and outpatient treatment. Its roots extend back to The Hirsch Pharmacy, founded in nearby Frankfurt in 1462. The Fresenius family took over that business in the 19th century, and by 1912, proprietor and pharmacist Dr. Eduard Fresenius had established the pharmaceutical company Dr. E. Fresenius, which manufactured products such as injection solutions.

Over the past century, the company has grown into a global operation with four independently operated business segments:

- Fresenius Medical Care, listed on the Frankfurt and New York Stock Exchanges, is the world’s largest provider of products and services for treating people with chronic kidney failure; the company has a separate internal audit function.
- Fresenius Helios is Germany’s largest hospital operator.
- Fresenius Kabi supplies essential drugs, clinical nutrition products, medical devices and services to help critically and chronically ill patients.
- Fresenius Vamed plans, develops and manages healthcare facilities.

Sabine Scholz is senior vice president, internal audit, for Fresenius SE. She says the diversity of the company – “several different business models and risk profiles” – requires that she staff her function with people who have diverse backgrounds and skill sets.

She explains, “For Helios, for example, I need auditors who are knowledgeable about operating hospitals in Germany and can speak German. For Kabi or Vamed, I need people who are experienced in hospital management and construction, and are familiar with the typical risks of a sales and production business in a healthcare environment. The ability to speak Spanish, French, Russian, or Mandarin is also required, as are English language skills.” Scholz says she brings subject-matter experts into the function, as needed, to ensure certain skill sets are covered.

Scholz joined Fresenius SE in 2013 as a director of internal audit; she was elevated to her current role in 2015. Scholz reports directly to the group’s chief financial officer and oversees a team of internal auditors who are all based in Bad Homburg.

“That reflects where Fresenius SE is coming from as a company,” she says. “We were founded in Germany and have very strong roots here. We are keeping our traditional values, while doing business all over the world. We have a decentralized organization with several regional hubs worldwide.”

## Assessing the Impact of Change

In early 2016, the internal audit team at Fresenius SE was engaged in a quality assessment that a global professional services firm was conducting. This type of assessment takes place about every five years, according to Scholz. But she says the current assessment is especially important for confirming that recent changes the internal audit function made to help increase efficiency conform with The Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

“During the time I have been in charge of this department, we have made many changes designed to help us deliver more concise reports to our stakeholders,” Scholz explains. “We implemented a new software tool for our audit workflow and documentation process, for example. In parallel, we have also evaluated the entire audit life cycle, including the audit universe and risk assessment, as well as all of our audit processes, the scope of our reporting, and the underlying audit technology and data analytics we are using on-site.”

Scholz says to keep pace with Fresenius SE’s dynamic technology and business development, and to increase internal audit’s efficiency, her team is always thinking about embracing new tools and technologies – if costs and headcount justify such investments. “We also need to ensure that our people are trained in the specialized skills to use those resources effectively,” she says.

Scholz says the internal audit department closely and continuously examines how emerging technologies such as big data, social media and cloud computing – and related risks like data privacy and information security – are having an impact on Fresenius SE and its diverse business segments. Scholz says the function may need to adjust its structure over time to ensure that it can dedicate the resources necessary to address the new technology-related challenges the business may be facing.

## Strategic Deployment of “Focus Teams”

The complexity of Fresenius SE’s operations has already prompted Scholz to create “focus teams” that help the company’s business units tackle key risks and apply audit programs in specific areas. “The beauty of our organization is that we have auditors providing services to all our business segments, so we have a broad view of what’s happening across the organization,” she says. “However, we also have to be sure we have enough knowledge about developments specific to those individual segments.”

The use of focus teams has helped internal audit better understand how technology is changing the way Helios, Kabi and Vamed operate, according to Scholz. She notes this strategy also revealed a need to enhance technology within the internal audit function.

To address this need, Scholz recently set up a training program to help all internal auditors at Fresenius SE understand new developments around technology in the business and to learn more about IT, in general. It started with a pilot involving one business segment and the related focus team, and will be rolled out to others, according to Scholz.

“This two- to three-year training program is changing the skill set of my auditors,” she says. “This will move some careers within internal audit by making some auditors specialists instead of generalists.”

To help grow IT auditing knowledge and technology skills in-house, Scholz says she is currently working to establish an exchange program for internal auditors and business-line professionals, especially from other second line of defense departments such as information security and compliance. “In the long term, this approach will contribute to other functions within Fresenius Group, and will be more cost-effective than trying to bring in IT auditors who are very specialized and focused and have limited business insights,” she says.

## Emphasis on Innovation and Collaboration

In the future, Scholz says she looks forward to having her team work more with data analytics as more tools become available to help them “go deeper” with data and apply predictive analytics. She adds that the increasing use of data analytics throughout Fresenius SE beyond the internal audit department is also likely to have an impact on the function. “I think that internal audit will be challenged by other departments and stakeholders that also have access to real-time data insights,” she explains.

Scholz says effective collaboration with the business will help internal audit to continually refine its audit plan and change course, as needed, according to new data insights. “We will need to coordinate with other departments that are doing analytics, and make sure our audit plan benefits from the data being generated by those departments,” she says.

While greater use of data analytics can help internal audit at Fresenius SE better identify risks in the dynamic business environments of the company’s business segments, Scholz says she is convinced that the function’s collaboration with second-line-of-defense departments like information security and compliance is invaluable for staying on top of risks such as cybercrime.

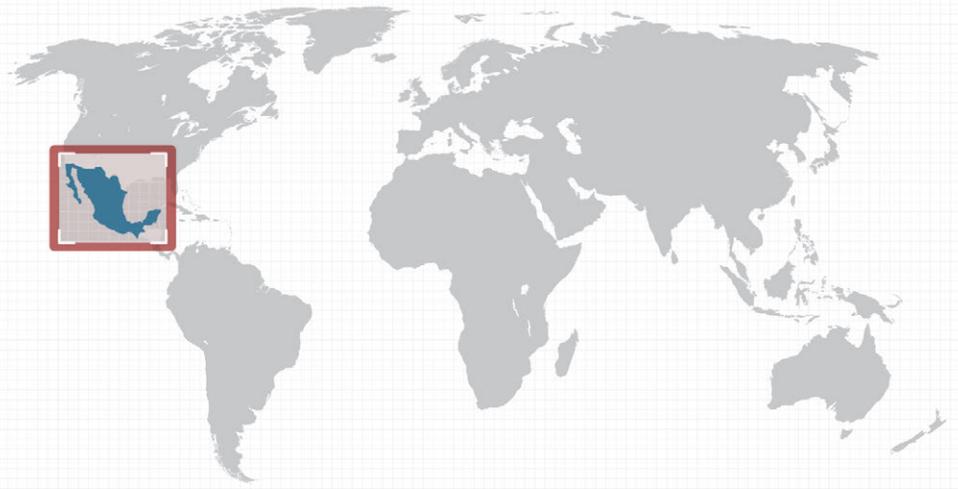
According to Scholz, the results of the risk assessment planning process at Fresenius SE help her stay apprised of emerging technology risks – as does her participation in a recurring general meeting where top executives talk about strategies and trends. “I have the opportunity to listen to them and decide how the internal audit department should respond,” she explains. “It is really worthwhile and valuable to hear what issues and risks are top of mind for the executives.”

With so many dynamic and new developments triggered by the business – and by the internal audit function itself – Scholz says she recently realized that she needs to re-evaluate how often she communicates with her team.

“We try to get together every two weeks, and I thought that was a pretty good practice,” she says. “However, young professionals on my team who are used to communicating with services like WhatsApp and Twitter seem to have quite a different understanding about what it means to share information fast.”

Scholz says that the adoption of more technology tools and processes will not only allow her to share information more quickly with her internal auditors, but also help her to recruit and retain top talent for the function.

“Use of leading-edge technology helps attract younger professionals to our team,” says Scholz. “I can’t wait for the business to make these changes. I need to be an innovator so that people say, ‘Internal audit? Yes, that’s the place you need to be. That’s where you want to work.’”



Company Headquarters — Mexico  
Number of Employees in Company — 1,239  
Industry — Financial Services  
Annual Revenues — US\$376 million (as of Dec. 31, 2015)  
Number in IA Function — 17  
Number of Years IA Function Has Been in Place — 25  
IA Director/CAE Reports to — Audit Committee

“New technology can be used in the audit function to carry out planning, risk assessment, testing and analysis of complete process data, resulting in a greater scope of review, in less time and with better quality.”

**Socorro P. Gonzalez Zaragoza, Director of Internal Audit**

## Partners in Change: Grupo Financiero Multiva Takes Measured Approach to Align Technology With Internal Audit Methodologies

From its inception in 1980, through its acquisition by Grupo Empresarial Ángeles in 2006, Grupo Financiero Multiva has always been 100 percent Mexican-owned. The financial group’s business services include banking, insurance and brokerage. It operates on a philosophy of service, prudence, innovation, responsiveness and technology.

Socorro P. Gonzalez Zaragoza is director of internal audit, heading a corporate audit department that reports to the audit committee. She joined Grupo Financiero Multiva in 1990 and has been in internal audit since 1996, serving in various roles with increasing responsibility. Today, she oversees a team of 16 auditors with diverse experience and professional training in specialty areas such as banking, financial markets and insurance. The internal audit function is divided into key focus areas, including information technology, anti-money laundering, risk management, branch operations and compliance.

### Tech Effect: Higher-Quality Audits in Less Time

Technology – from the digitization of transactions, through remote deposit capture and mobile payments, to electronic payment networks and virtual branch technology – is fundamentally changing the financial services industry from the outside in. On the inside, Gonzalez says her team is using

technology to automate many traditional internal audit and compliance processes, which helps the audit function to serve as strategic advisers to the board.

One of the most significant applications of technology in internal audit has been the use of TeamMate audit management software to help evaluate and prioritize risks, allowing the internal audit function to perform more efficiently. TeamMate is complemented by Audit Command Language (ACL) software, which facilitates the testing and analysis of large volumes of data.

“With risk evaluation,” Gonzalez explains, “internal audit can assign resources to the departments that have the greatest risk exposure.”

To carry out the department’s function in more agile and efficient ways, Gonzalez says she expects her internal auditors to stay current, not only in knowledge of processes and operational controls, but also in new or updated technologies, such as applications and databases, which can affect those processes and controls.

“New technology can be used in the audit function to carry out planning, risk assessment, testing and analysis of complete process data, resulting in a greater scope of review, in less time and with better quality,” she says.

## Making Tools Work for the Organization

Gonzalez says that technology and methodologies must be aligned for the organization to get the most from automated tools. The internal audit team has worked with IT to ensure that the TeamMate software is aligned with audit methodologies to effectively analyze large volumes of data across the organization and identify security breaches and fraud.

“Our audit administration tool had to be calibrated with planning, risk assessment and review procedures to generate points of improvement, action plans, follow-up recommendations, and reports to the audit committee and upper management,” says Gonzalez.

As the department responsible for evaluating technology implementation and business process risk throughout the organization, the internal audit department has to ensure that recommended controls and procedures are being implemented. In general, new technology projects at Grupo Financiero Multiva must pass muster at several stages – from scoping and evaluation to functional testing, alignment and implementation. Internal auditors are invited to participate as risk advisers in the projects. This expanded strategic responsibility requires internal auditors to be trained in technical matters so that they can effectively evaluate technology risks and ensure that data is being entered properly and in a timely manner.

Gonzalez says that training on new technologies is especially important in overcoming the natural resistance of some people toward changing established routines.

## Avoiding Change for Change’s Sake

The internal audit function at Grupo Financiero Multiva works hard to ensure that technology serves the organization – and not the other way around. Gonzalez says her team must rise to the challenge of constant evolution in parallel with advances in technology, including ensuring that new technology is a good “fit.”

Gonzalez says it is this “fit” that will determine whether a technology will actually streamline information flows, accelerate audit reviews and improve communication between auditors and auditees. A bad alignment can result in implementation failure, she says, as users develop manual workarounds or revert to old processes to bridge performance gaps.

“There’s no point in automating just to automate,” she says. “If a new technology will not improve functionality, or if resources are not available to take advantage of technological developments, sometimes older systems can be modified to meet the desired objective.” She adds, “We have to take the objectives of the business into account.”

Gonzalez emphasizes, however, that there is a big difference between alignment and intransigence. Automation and technology are essential, she says, to the evolution of the internal audit function from compliance checker to value-adding strategic adviser. In addition to the tools being a good fit, auditors need to expand their technical knowledge to meet the technical skills requirements of a changing profession.

## Partners in Change

Technology is fundamentally changing the ways customers interact with their banks.<sup>1</sup> Gonzalez says the technology trends that have had the greatest impact on Grupo Financiero Multiva over the past few years are mobile applications that provide customers quick and secure access to services without the need to visit bank branches, electronic payment networks, and the migration to virtual technology as a platform.

Internally, Gonzalez's team uses collaborative technology, such as TeamMate audit management software, to streamline data collection and provide auditees with greater transparency into the internal audit process.

High-impact future technology trends, according to Gonzalez, may include biometric authentication; "bring your own device" (BYOD) enablement, allowing employees to access work-related information on personal smartphones and tablets; and dynamic business models for continuous operation of the organization in the face of any changes in managerial or technological environments.

Gonzalez notes, "When an initiative arises to evaluate a technological trend, internal audit participates to help identify possible risks related to technology, security or execution." Internal auditors review proposed control structures and test assumptions to verify that recommended solutions will mitigate anticipated risks. Gonzalez's team also advises on systemic risks, such as cybersecurity practices.

## Changing Requirements for New Hires

Gonzalez says that all of this emphasis on technology has logically led to an increased emphasis on having a professional internal team certified in technological matters applying international best practices, especially in information security.

Gonzalez notes her auditors need to understand how technology supports business processes and any risks associated with those technologies. It is also important for them to understand the controls that exist within the applications and the need to specialize in how any associated risks can be mitigated.

Internal audit includes, as part of its work plan, complete reviews of the security of information assets (such as data, networks, devices and applications) through the use of specialized cybersecurity tools. The company also has mechanisms designed to protect information and personnel trained to carry out technology and information security audits.

All of the above has resulted, Gonzalez says, in an increased demand for a new generation of auditors, who are not only tech-savvy, but digitally native, having never known a time when the internet and mobile technology didn't exist.

"Younger generations were born immersed in a technological world that allows them to adapt to any trend that presents itself," she explains. "With good professional preparation from experienced auditors, we can help them become the next generation of technically literate leaders we need in internal audit."

---

<sup>1</sup> *Bricks and Clicks – Consumer Preferences on Retail Banking and Payments*, Protiviti, 2015: [www.protiviti.com/en-US/Documents/Resource-Guides/2015-Consumer-Banking-Online-Payments-Survey-Protiviti.pdf](http://www.protiviti.com/en-US/Documents/Resource-Guides/2015-Consumer-Banking-Online-Payments-Survey-Protiviti.pdf).



Horizon Blue Cross Blue Shield of New Jersey

Company Headquarters — United States

Number of Employees in Company — Approximately 5,000

Industry — Healthcare Insurance

Annual Revenues — US\$11.5 billion (as of Dec. 31, 2015)

Number in IA Function — 50

Number of Years IA Function Has Been in Place — 20+

IA Director/CAE Reports to — Audit and Finance Committee (administratively to the CFO)

“Finding people who have the skill sets needed for technology auditing today is like finding the pot of gold at the end of the rainbow. There is a very competitive market for people who have technology skills and auditing skills.”

**Kathy Swain, Vice President, Internal Audit**

## Improving Organizational Health: Internal Audit at Horizon Blue Cross Blue Shield of New Jersey

Horizon Blue Cross Blue Shield of New Jersey (BCBSNJ) provides healthcare coverage in the Garden State and closely collaborates with hospitals and physicians to improve quality, enhance the patient experience and lower the total cost of care by helping customers to improve their health profile. Horizon BCBSNJ has revenues of more than US\$11 billion and nearly 50 percent of the health plan market share in New Jersey.

This emphasis on health and collaboration was top of mind for Kathy Swain when she began her role as the vice president of internal audit at Horizon BCBSNJ in January 2016. Prior to that, she spent eight years as the senior vice president of internal audit at Allstate Insurance, working at the company's headquarters in Illinois. In her current role, she oversees a team of 50 in the internal audit department, which, in addition to internal auditors, also includes a team that validates Horizon BCBSNJ's performance against customer performance guarantees and Blue Cross Blue Shield Association expectations.

Swain is in the process of interviewing Horizon BCBSNJ stakeholders and using their input to develop a long-term vision for the internal audit team. Until she can integrate stakeholder expectations, she says that in the short term her focus is to help Horizon BCBSNJ accomplish its objectives and stay healthy by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes across the organization.

“My goal is to establish a process for continuously improving on several fronts,” she says. “Those include our internal audit processes, our relationships with our stakeholders and our talent development efforts for the organization – all while consistently and independently assessing risks to the achievement of business objectives, and delivering a thorough and high-quality audit plan.”

Horizon BCBSNJ, like any healthcare insurance provider, is subject to significant regulation at both the federal and state level. As a result, the business is “hardcoded” with a compliance orientation, according to Swain. “This is a great foundation for a strong system of internal control,” she says.

While Horizon BCBSNJ has developed a stronger second-line-of-defense to oversee compliance efforts over the past few years, internal audit has evolved to play a broader, third-line-of-defense role versus the more operational compliance role it traditionally assumed. Swain says this expanded role for internal audit will be embedded across the organization.

## Promoting Business Wellness

Swain believes that, first and foremost, the purpose of any internal audit function is to provide value by effectively executing its charter and professional accountabilities, and focusing audit work on the key risks to achieving the business objectives.

“I believe that, in partnership with the organization’s risk management function, the internal audit role serves as a ‘diagnostician.’ We help the business get and stay healthy,” she says. “Organizational development research shows that long-term organizational health is a clear competitive advantage. As auditors, our independence, breadth of perspective and access uniquely position us to monitor and communicate organizational health. However, to play this role, we must first be recognized as credible, relevant business people.”

Since Swain has only been at Horizon BCBSNJ for a few months, she has not yet had the opportunity to shape the enterprisewide perception of internal audit’s role – but she says she is making strides. “As the company continues to evolve and adapt to the changing healthcare market and environment, the audit and finance committee and senior management have been vocal and visible in acknowledging the importance of a robust governance and risk management process,” she explains.

## The Evolving Role of Technology in Risk Management

One key risk for most businesses in today’s world is technology. But according to Swain, technology can also strengthen risk management activities and processes. Adoption of new technologies typically results in changes to a business’s risk profile, while at the same time auditors use technology to stay on top of these new risks.

Swain says that cybersecurity threats have shown that a new, layered set of controls is required and traditional technology controls are no longer sufficient to protect the company. “This changes the audit plan,” she explains. “More audit work is required to validate controls around these risks. The internal audit department can be involved in an advisory capacity to help the business prioritize efforts to reduce risk or to appropriately design controls sufficient to mitigate the risk of cybersecurity.”

While technology is having an impact on business risks, it’s also offering functional opportunities. “Advances in technology and mobility have created a huge amount of data that is available and easily accessible,” Swain says. “Businesses are using this information to help make myriad decisions, from targeting marketing spend to calculating pricing to improving forecasting. These decisions are being made at a level of specificity never available before. Assessing data integrity and understanding how that data is being used requires a whole new advanced set of internal audit tools and skills – statistical, technological and analytical.”

Improving the use of audit management technology as well as data analytics in audit work is important, but Swain says she has found it difficult to implement such processes due to data and process complexity. “Implementation has been experimental,” she says. “Trial and error. Audit workflow and data analytics technologies hold a lot of promise, but so far the departments I’ve been a part of have not seen the full return on investment expected. The implementation of these software packages takes about a year and requires ongoing maintenance.”

Swain points to three key ways that technology has been a boon for most internal audit teams, generally:

- **Definition and measurement of progress** – Tools like Microsoft Excel and PowerPoint make it possible to collect and synthesize data in ways that used to be impossible.
- **Mobility** – Mobility tools allow auditors to be untethered from paper. They can work from any place and at any time.
- **Audit trail maintenance** – Auditors use technology to link together information, attach documentation, and connect the dots, in general. All of this simplifies and streamlines the process.

Yet not all outcomes of a technologically advanced environment are positive, according to Swain – there are drawbacks. “Everything is reduced to a sound bite,” she says. “There’s so much information, you can drown in it. And while mobility has freed us from our reliance on paper, now people are overly tethered to their mobility devices.”

“I am convinced now, having done it for a while and for different companies, that the best internal auditors are those professionals who really understand the business. They understand how the company generates revenues and how transactions make their way through the organization, as well as how those things impact financials and contribute to the success of the business.”

She says many internal auditors also have become accustomed to the immediacy that technology delivers, and are starting to lose patience with traditional processes – and that can lead to problems.

“Internal audit is a process of gathering and analyzing information and documenting your rationale for the judgments made,” she explains. “When you want to get to a solution too easily or quickly, you start making judgments with incomplete information. It’s a luxury that technology has afforded us, but it comes with a price. Access to information at the end of our fingertips can make us intellectually and procedurally lazy.”

## Roles, Responsibilities and Skill Sets

“Internal audit has always targeted areas of organizational vulnerability,” Swain says. “Technology has not fundamentally changed our role, but it’s made it more complex, which makes it more interesting. Finding people who have the skill sets needed for technology auditing today is like finding the pot of gold at the end of the rainbow. There is a very competitive market for people who have technology skills and auditing skills. I’ve found it easier to recruit technologists and teach them to be auditors.”

The skills Swain looks for span many areas: business leadership, technology, communication, diagnostics and creativity. “I am convinced now, having done it for a while and for different companies, that the best internal auditors are those professionals who really understand the business,” she says. “They understand how the company generates revenues and how transactions make their way through the organization, as well as how those things impact financials and contribute to the success of the business.”

Swain says it is also essential for today's internal auditors to be flexible. "Internal auditors who come out of a compliance organization often expect to see everything in black and white. The world does not work that way," she says. "A system of internal controls is a giant, complex organism with many moving parts. You cannot always approach it with a viewpoint of black or white, pass or fail."

"Technology advances have made our corporate boundaries more porous ... It is internal audit's job to understand all the different ways that technology exposes the organization to risk."

### The Need to Audit Differently

Swain expects technology to continue reshaping the internal audit profession – and in even more dramatic fashion, as time goes on. "Technology is going to completely change the way we audit," she says. "As more businesses are built entirely on technology, internal audit will need to follow suit."

She cites the washing machine as an example of how technology has changed the world we live in. "It used to be a mechanical device," she says. "Now, it's a technical device. It's programmable – you can turn it on and off from your smartphone! As the world becomes more digital, as information becomes more dispersed, internal audit will need to audit differently."

Swain continues, "Auditors have to stay ahead of the wave. We know there are people who exploit control weaknesses, and because most weaknesses will likely surround new technologies, that's what those folks target. The best way to plan for technology-associated risks is to think about control structures in an integrated way."

"Technology advances have made our corporate boundaries more porous," Swain says. "Companies offer access to anyone who clicks on their website or Facebook page. It is internal audit's job to understand all the different ways that technology exposes the organization to risk."



Company Headquarters — Canada

Number of Employees in Company — 7,800+

Industry — Government/Retail

Annual Revenues — US\$4.3 billion (as of March 31, 2016)

Number in IA Function — 26

Number of Years IA Function Has Been in Place — 30+

IA Director/CAE Reports to — Functionally to the Chair of the Audit Committee (administratively to the CFO)

“While internal audit is often viewed as the third line of defense, if we want to be seen as a trusted adviser and help the organization adapt to emerging technologies, we need to be in a first-line business partner role.”

**Beili Wong, Chief Audit Executive and Executive Director**

## Internal Audit at LCBO Positioned as a First-Line Business Partner

The Liquor Control Board of Ontario (LCBO), a provincial government enterprise based in Toronto, Ontario, Canada, is one of the world’s largest buyers and retailers of beverage alcohol. In fiscal 2015-2016, the LCBO reported sales of more than CA\$5.57 billion. For that period, the provincial agency transferred its 22nd consecutive record dividend of about CA\$1.9 billion (not including taxes) to the Ontario government. This revenue helps pay for healthcare, education, infrastructure and other government services in the province of Ontario.

The LCBO, founded in 1927, offers nearly 24,000 products through its more than 650 retail stores, catalogs, special order services and 210 agency stores. The latter outlets are private stores, usually located in smaller and rural communities in Ontario, which are licensed by the LCBO to sell beverage alcohol. In 2016, the LCBO will launch an e-commerce website, giving residents of the province the option to order beverage alcohol online for home delivery or for pickup at a local LCBO store.

More than 7,800 people are employed by the LCBO. The provincial agency’s internal audit services department, which includes 25 staff, is led by chief audit executive and executive director Beili Wong. The function is divided into two groups: one is focused on the LCBO’s retail operations and

warehouses while the other group is responsible for audits of the agency's corporate operations. Most auditors are based in the LCBO's Toronto headquarters; other staff are stationed across the province in cities such as Ottawa, London and Niagara Falls.

Wong reports functionally to the audit committee of the board of directors and administratively to the agency's senior vice president of finance and administration, chief financial officer. She outlines the internal audit function's core mission as follows: "The vision is that we make a difference within the LCBO as a modern, professional and independent internal audit function. We are a trusted adviser that provides objective assurance and advisory services that add value and support the organization."

### More Than Just the Third Line of Defense

Wong joined the LCBO in 2009 after serving as director of internal audit for a Canadian retail icon, the Hudson's Bay Company, for four years. In the seven years since, Wong and her team at the LCBO have been "working hard to move beyond compliance activities to provide value-added audit services to management and the board." She says that this concerted effort has helped internal audit make significant progress toward its goal of being viewed as a trusted adviser to the business.

"In many ways, I believe we have already arrived," says Wong. "I think if you asked LCBO's board members and senior leadership if they view us as a trusted and valued partner, you would receive a positive answer."

Internal audit supports the LCBO in meeting its corporate social responsibility mandate, which includes four pillars: responsible retailing and moderate consumption; product quality and safety; environmental sustainability; and community involvement and fundraising. These pillars are designed to help the LCBO "produce an overall positive impact on society." It's an objective that is also outlined in the agency's mission statement: "We make a difference in Ontario, by being a best-in-class, socially responsible, customer-focused and profitable retailer of beverage alcohol."

"Corporate responsibility is extremely important to the LCBO and a leading source of staff pride," says Wong. "The product we sell – beverage alcohol – is a substance that most people enjoy in moderation and is associated with life's small and large celebrations, but it's also one that can cause harm to individuals, families and society at large if abused. So, it's an inherent risk we must manage."

She adds, "By selling beverage alcohol responsibly and efficiently, the LCBO also has the power to do good. The annual dividend the agency transfers to the government is used to help the province of Ontario in many ways – such as building hospitals and infrastructure. LCBO staff and customers also raise some \$10 million annually for a wide range of causes within the province, many of which are related to LCBO's corporate social responsibility mandate."

"I think if you asked LCBO's board members and senior leadership if they view us as a trusted and valued partner, you would receive a positive answer."

In addition to helping the LCBO manage risk related to its core business, the internal audit team works closely with management to assess potential risks introduced by new technology initiatives, such as e-commerce. Wong says that during such projects "internal audit is right there alongside management throughout the design and implementation processes, serving as an adviser, especially from a risk, control and governance perspective."

She emphasizes that because businesses are so dependent on technology for everyday operations, and technology can create many new risks, it is imperative for internal audit to be on the front lines as new tools, solutions and business models are considered, evaluated and adopted. “While internal audit is often viewed as the third line of defense, if we want to be seen as a trusted adviser and help the organization adapt to emerging technologies, we need to be in a first-line business partner role,” she explains.

Wong, who is the inaugural chair of the board of governors for the Toronto chapter of The Institute of Internal Auditors (The IIA), adds, “I am a true supporter of The IIA, but I don’t quite agree with its statement about internal audit being the third line of defense. We are about more than just defense. We should also be a proactive partner at the first line. That is how I view my position.”

## Ongoing Focus on Information Security

The nature of the LCBO’s business – retail commerce – means that information security has been a top concern for the agency long before it decided to enter into e-commerce. The LCBO is constantly considering how it can protect the data in its possession.

The LCBO’s audit committee asks that internal audit provide regular updates on the organization’s information security and other IT risks. “The audit committee has been very proactive about understanding and staying on top of these potential risks,” Wong says. “In fact, about two years ago, they invited an IT expert to join the board of directors and become a member of the audit committee. I think this showed tremendous foresight.”

The LCBO recently underwent an information security audit, which resulted in a number of recommendations for improving processes and controls. Wong and the company’s chief information officer review the status of those recommendations and discuss other IT risks in monthly one-on-one meetings. And at least every six months, internal audit updates the audit committee on the progress made toward implementing these and other audit recommendations, says Wong.

## A Vital Skill Set of the Future: Data Analysis

Not long before Wong was hired to lead the internal audit function at the LCBO, the department implemented an audit management software tool that the team now uses extensively for managing audit procedures and digitizing their work.

“This tool gives us discipline,” says Wong. “It also helps us to ensure consistent deployment of our audit methodology and provides strong quality control for the audit work we do.”

The internal audit team also uses data analytics extensively, according to Wong. “We are very data rich. We have full access to all point-of-sale transactions and inventory data,” she says. “We can collate data to identify trends and exceptions. We also perform continuous monitoring to look for exceptions.” As an example, she says auditors examine abnormal sales transactions, such as voids, returns and exchanges, and the SKU numbers associated with those transactions to identify potential control issues or fraud.

While the internal auditors at the LCBO rely largely on the specialists within internal audit to extract insights from data, Wong says that in the future she will expect every auditor she hires to bring these skill sets into the function.

“I think the ability to analyze vast amounts of data is definitely an important quality I will be looking for when I recruit in the future. In today’s world, when you become an auditor you need to have an integrated skill set. Accounting, operations, IT and data analytics – these components are all part of the package,” she explains.

## A Launching Pad to the Business

Wong doesn't look only for technical skills when she recruits, however. She also considers the person's potential long-term career path within the LCBO. "I don't just think about internal audit services," says Wong. "Some of the people I hire will become career auditors, but others will eventually move into different departments within the LCBO – and then, maybe back into our department again. So, I am looking for people who are likely to succeed in the business itself."

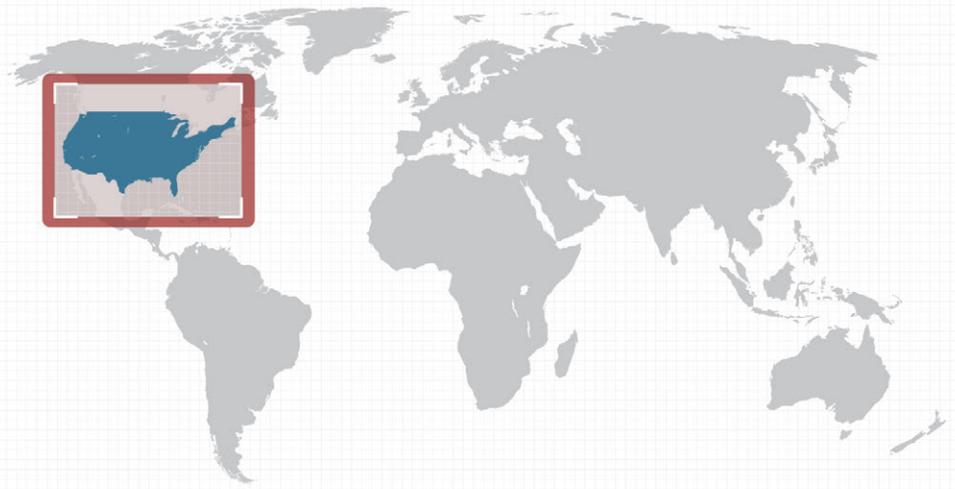
"To achieve the status of a trusted adviser for the first line of the business, business unit leaders need to see internal audit as a knowledgeable and helpful partner."

As for the skill sets future leaders of the function will need to succeed, Wong says she believes the ability to work well with a wide range of people across the organization will be as important as technical skills and knowledge of technology. This ties back to her view that internal audit should be more than the third line of defense.

"To achieve the status of a trusted adviser for the first line of the business, business unit leaders need to see internal audit as a knowledgeable and helpful partner," she says.

Wong adds that all leaders in the business should be capable of such collaboration. "It doesn't matter if you're the chief audit executive, or the head of finance, or the senior vice president for logistics or retail operations," she says. "Everyone needs to be able to work together effectively to achieve the ultimate common goal: the success of the organization."

Reflecting on her long career track of leadership in internal audit, Wong, who emigrated to Canada from China, says, "I hope that my experience as an immigrant will inspire other immigrants and minorities to achieve similar success – and much more – in the corporate world of their adopted country. Internal audit can serve as an outstanding career launching pad into other disciplines in the business. Internal audit's unique position in the organization can help to raise your visibility as a professional and to build valuable working relationships outside of the function."



Company Headquarters — United States

Number of Employees in Company — Nearly 10,000

Industry — Vacation Ownership

Annual Revenues — US\$1.8 billion (as of Jan. 1, 2016)

Number in IA Function — 9.5 FTEs

Number of Years IA Function Has Been in Place — 4.5

IA Director/CAE Reports to — Audit Committee of the Board of Directors

“The NIST framework-mapping exercise is actually quite comprehensive. Our role is to help make sure it gets done, while also asking challenging questions and making some objective observations throughout the process.”

**Julie Cochrane Meyer, Senior Vice President and Chief Audit Executive**

## Internal Audit Monitors the Technology Horizon at Marriott Vacations Worldwide Corporation

Marriott Vacations Worldwide Corporation, a leading global pure-play vacation ownership company with more than 60 resorts, offers a diverse portfolio of products, programs and management expertise. The company’s brands include Marriott Vacation Club, The Ritz-Carlton Destination Club and Grand Residences by Marriott. Formerly a division of Marriott International, with which it maintains a long-term relationship, Marriott Vacations Worldwide became a separate public company in 2011 through a spin-off.

At the time of the spin-off, senior vice president and chief audit executive Julie Cochrane Meyer was tasked with creating the company’s internal audit department. “Our audit function’s journey during the past several years has been unique,” Meyer says. “We had a relatively short period to get a number of processes up and running while our company was separating from Marriott International.”

Meyer is the former vice president of finance and accounting for Marriott International. She says her knowledge of Marriott Vacations Worldwide’s executives – a team she worked closely with in her previous role – was helpful as she built the internal audit function from scratch. “I saw how the management team addressed challenges and made decisions,” she explains. “That influences how my team communicates and works with the management team.”

The internal audit function at Marriott Vacations Worldwide features a diverse collection of skills, including several types of IT expertise. Internal audit is also able to perform more consultative work related to cybersecurity assessments and the company's breach response program, for example.

"Our audit committee wants to talk about cybersecurity breaches that are reported in the news, and learn more about the types of cybersecurity risks we're facing," Meyer says. She adds that she works closely with the company's chief information officer (CIO) and chief financial officer (CFO) to make sure the audit committee is "kept up to speed on these topics while providing them with comfort that we're managing cybersecurity risk."

Meyer is well-versed in audit committee concerns because she reports to that group on a functional basis; administratively, she reports to the CFO. According to Meyer, the internal audit function is well-equipped to provide assurance to address the audit committee's cybersecurity concerns because its 9.5 full-time equivalents (five full-time associates and 4.5 auditors through a co-sourcing relationship with Protiviti) possess a variety of auditing, accounting and IT expertise, including IT auditing, IT security and data privacy skills.

"I think it is extremely helpful to bring together different technical expertise in the internal audit function," Meyer says. "You get a variety of views and ways to think about risks and other business challenges. I also think that general business acumen is crucial. As an internal auditor, you need a balanced view of what would be an ideal solution from a risk or controls perspective with what is realistic from a business perspective."

She continues, "The one thing that I did not understand about internal audit until I worked in internal audit was that on any given day, we can be faced with absolutely any type of issue. So, being adaptable is probably highest on the list of skills that I look for."

## Types of IT Audits

As cybersecurity risks have grown at all organizations, including Marriott Vacations Worldwide, the company's internal audit function has adapted its audit plan to include more IT-related audits. Meyer's function selects specific IT audits based on the company-wide risk assessment it conducts each year and a separate risk assessment related solely to IT risks.

This company-wide risk assessment covers about 20 different categories of risks. These categories are selected after considering the risk factors identified in the company's annual report, which includes its financial statements. "That way, we can make sure we're aligned with the executive team's view of our top risks," Meyer says. "We then create a ranking of risks based on the management team's input. Ultimately, we create a risk map that my function uses to identify which areas are auditable and that management uses in its risk management programs."

The risk categories include two sets of IT risks, says Meyer. "About three years ago, we decided that if we wanted to leverage our risk assessment to identify which IT audits to include in our annual auditing plan, we needed to dig deeper into the IT risk areas," she explains. "So, we created a one-page infographic that depicts our company's IT risk environment. We also met with our CIO's direct reports to get more information on about eight different categories of IT risks." The internal audit team and their IT colleagues then ranked those IT risk categories.

As a result of risk assessments, internal audit includes IT audits in its annual audit plan. For example, one IT audit focused on network security. After becoming a public company, Marriott Vacations Worldwide remained on Marriott International's IT network through a transition agreement. After the agreement concluded, the company moved to its own, newly created network. "As soon as our new network was established," Meyer says, "I had my IT audit team audit the configuration to look for potential weaknesses."

Another IT audit focused on data security related to the company's use of Software-as-a-Service (SaaS) technology. "Like most companies these days, we use many SaaS solutions," says Meyer. "We conducted an audit where we looked at the configurations that are used over the internet to transfer data back and forth between our company and the third parties that provide software services to us."

A separate IT audit addressed mobile technology use throughout the company. This audit, which Meyer says was aided by mobile technology auditing experts from Protiviti, focused on security. Specifically, the assessment looked at how data on the devices, and the devices themselves, are kept secure.

## Facilitation Through Consultation

Another positive outcome of internal audit's mobile audit, Meyer points out, was that it "facilitated a discussion throughout the management team of how we want our overall mobile program to operate."

This type of facilitation is a primary objective of the more consultative work that the internal audit function delivers. "That's our business-facing consultative area that helps facilitate improvements in control and audit readiness," Meyer explains. "It is separate from the assurance arm of our function."

For example, internal audit associates offer privacy and data security guidance to their colleagues when the company enters into a relationship with a new technology vendor. Members of the internal audit team participate on a project team charged with refreshing the company's breach response program, a key component of organizational cybersecurity. "There is a lot of data privacy expertise within the team," Meyer says.

Internal audit has also assisted Marriott Vacations Worldwide's information security group with its mapping of the company's cybersecurity program to the National Institute of Standards and Technology (NIST) Cybersecurity Framework.

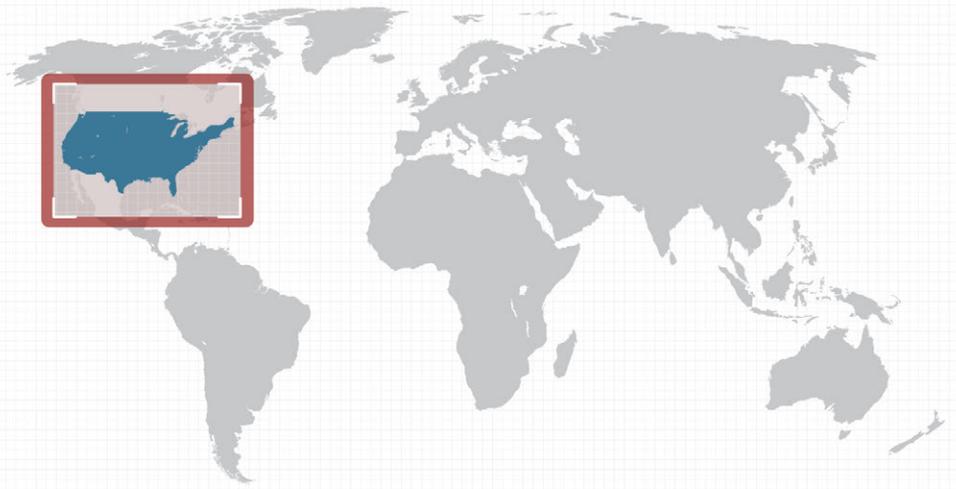
"The NIST framework-mapping exercise is actually quite comprehensive," Meyer says. "Our role is to help make sure it gets done, while also asking challenging questions and making some objective observations throughout the process. This self-assessment is new, and we want to make sure risks are thoroughly considered and addressed."

## Keeping an Eye on Technology Changes

Internal audit's consulting and facilitating contributions have helped earn the function trust throughout the business. "While we necessarily do some policing as part of our role, I certainly hope we're seen more as a business partner," Meyer says. "And I think the fact that we're often auditing or consulting on a process that is either under development or brand-new shows that our business partners trust us. We are often participating, reviewing or consulting on a new program before it has been in existence long enough to be subjected to assurance."

For example, internal auditors recently worked with an IT project team testing a new application at three of the company's resorts. "The application was still in its infancy," Meyer explains. "We worked with the project team to identify what improvements could be put in place before the application was rolled out on a wider basis."

Meyer regularly sits in on high-level IT governance meetings at Marriott Vacations Worldwide. "I keep an eye on our internal governance as it relates to technology – not just to the spending, but to the strategies that are being put in place," she says. "Even though we do a pretty deep dive into IT risks during our risk assessment each year, we try to keep abreast of IT changes on the horizon."



Company Headquarters — United States

Number of Employees in Company — 64,000

Industry — Healthcare

Annual Revenues — US\$10.3 billion (as of Dec. 31, 2015)

Number in IA Function — 40

Number of Years IA Function Has Been in Place — 42

IA Director/CAE Reports to — Chair of the Audit and Compliance Committee (functionally); Chief Administrative Officer (administratively)

“The audit committee and leadership invite us into the highest risks, which may require us bringing in subject-matter expertise from the outside. There’s a high level of trust and credibility, which allows us to deliver some very challenging messages.”

**Carrie Graunke, Internal Audit, Co-Vice Chair**

## Internal Audit at Mayo Clinic Embraces Automation, Analytics and SMEs to Stay Agile Amid “Epic” Data Convergence

Mayo Clinic is a nonprofit medical practice and medical research group based in Rochester, Minn. Best known for its three destination medical centers located in Minnesota, Florida and Arizona, Mayo also operates smaller outposts in its home state, as well as in Iowa and Wisconsin. The clinic lends its name to a global affiliate network of physicians and other providers under the umbrella of the Mayo Clinic Care Network.

A pioneer in integrated nonprofit medical group practice, Mayo Clinic’s facilities are global destinations for patients seeking complex and difficult procedures. A leader in healthcare practices, as well, the organization recently embarked on a transformative convergence of patient records and management systems on the Epic Software healthcare administration platform.

This massive undertaking occurs at a time when the healthcare industry is under increasing threat from cybercriminals, regulatory scrutiny is at an all-time high, accounting authorities are changing fundamental rules on revenue recognition and equipment leases, and internal audit departments are being asked to provide more assurance and more strategic advice faster and with greater flexibility than ever before.

Carrie Graunke is co-vice chair of internal audit for Mayo Clinic. She’s been with the organization for almost 14 years, joining the internal audit team as an auditor with a background in public accounting. She has worked in a variety of roles, including a stint in 2008 when she was pulled out of internal

audit temporarily to spearhead the formation of the company's Internal Control Evaluation (ICE) office, the group responsible for Mayo Clinic's voluntary alignment with the Sarbanes-Oxley Act.

The internal audit team consists of 40 employees – including internal audit, ICE and an investigation/legal team focused on forensic data analysis. In addition, internal audit regularly contracts, or co-sources, specialized tasks to third-party subject-matter experts (SMEs), who bring deep knowledge on an as-needed basis to help fill knowledge and skill gaps in a dynamic risk landscape.

## Partners in Progress

The mission of the internal audit department at Mayo Clinic is broad: To provide the best assurance and advisory services to Mayo Clinic, every day, through an objective and disciplined evaluation of financial and business risks. But the function's priorities, which are set semiannually and adjusted as warranted, really determine how the internal audit team's time and resources are allocated.

“For the Epic convergence project, we have a separate work stream for risk and control, to maintain clarity of audit roles, and we also consult with project managers from the earliest phases of the project, to ensure that they are making risk-educated decisions,” Graunke says.

The top internal audit priorities for 2016 are all collaborative in nature, and most involve technology:

**Integration/alignment** – According to Graunke, risk management is a relatively new function at Mayo Clinic. She says internal audit has made it a priority to work closely with other “risk stewards,” including compliance and enterprise risk management (ERM), to eliminate redundancies and ensure there are eyes on all relevant risks, and that risk data is being shared appropriately.

**Expanding skill set** – The changing risk landscape has expanded the universe of skills required for internal audit. Graunke says Mayo Clinic has recently hired internal audit professionals with backgrounds in investigations, forensic data analytics and asset theft prevention – skills that are becoming increasingly important in a cycle of increased cost-consciousness and regulatory scrutiny.

**Process improvement** – To ensure they are focused on the right risks, and auditing at the speed of risk, the internal audit department at Mayo Clinic collaborates with other risk stewards (both operational and in ERM) to share and leverage information – such as assessing predictive analytics processes on drug diversion from the pharmacy department – and to automate and accelerate data collection, sharing and reporting through collaborative governance, risk and compliance tools. It is this priority that drives the search for assurance methodologies that are more agile and integrated into the operational workflow.

**Data analytics** – As operational, governance and control data become more readily available, internal audit is working with risk colleagues and operational managers to identify bellwether data streams that can be monitored and analyzed for anomalies.

“Data analytics is an area of increasing focus for us,” Graunke says. “But we want to make sure we refine our processes, coordinating across risk functions to be efficient and effective when coordinating with operational leadership.”

**Risk management consulting** – Internal audit at the Mayo Clinic is seen as a strategic partner, and is included as a risk adviser in early planning stages of significant, strategic projects. Graunke says her team is currently spending about 40 percent of their time focused on the Epic data convergence project. They advise the implementation team on a broad range of financial, operational, technology, quality, patient safety and compliance risks, and help ensure that controls are designed into the system, and tested and validated as the system goes live.

## Fast and Flexible

As the risk spectrum expands, the list of top risks is also in flux. Graunke says the internal audit function at Mayo Clinic is expanding skill sets to cover the breadth of these risks. However, it is difficult, and often impractical, for one audit team to maintain SMEs in all risk areas – especially emerging risks.

More than assurance after the fact, Mayo Clinic's leadership wants forward-looking assurance that they are moving in the right direction, and that their operating plans are valid and executable. That sometimes means bringing in outside expertise, according to Graunke. This collaborative approach has allowed the internal audit team at Mayo Clinic to adapt quickly to emerging risks and provide the scalability it requires – on a limited budget.

“The audit committee and leadership invite us into the highest risks, which may require us bringing in subject-matter expertise from the outside,” she says. “There’s a high level of trust and credibility, which allows us to deliver some very challenging messages.”

One such challenge has been the need to educate managers on risks associated with third-party vendors, and what controls they should expect vendors to have to protect Mayo Clinic's data. Internal auditors have gone so far as to participate in calls with vendors to clarify the reasons for the requirements.

## Trust Is Not a Control

Collaboration requires trust and transparent dialogue. It is also important to maintain independence and objectivity. For example, while it's acceptable for internal audit to offer options and advice on risk management, any decisions – and the ownership of those decisions – must remain with the line managers.

“We need to always be that fresh set of eyes that challenges how things are done. But we can still help management identify creative ways to address gaps, versus just piling control on top of control,” says Graunke.

In times of transformative change, it is important for internal audit leaders to strike a balance between forward progress and strong fundamentals. Graunke adds: “When we are challenged, our team has the facts behind them to support the position, but we’re still open to the dialogue and understanding.”

## Full Speed Ahead

Healthcare is changing at an exponential rate. With a database of more than a million fully mapped human genomes, scientists say they expect to learn as much about the human body in the next year as they have in the past hundred. Most of that change is being driven by technology. And Mayo Clinic is in the vanguard of change.

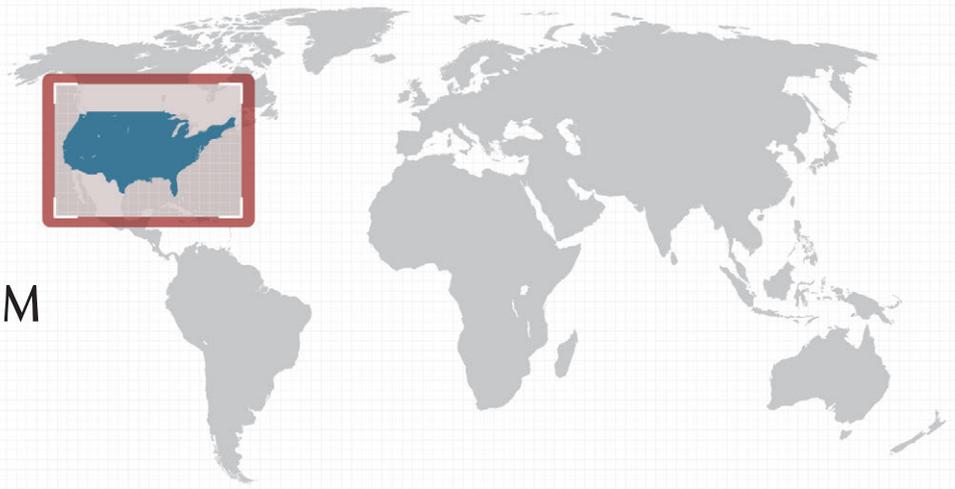
As technology evolves, the internal audit department at Mayo Clinic is working hard to stay ahead of the risk curve – training to expand internal technology and data analytics capabilities and supplementing with outside SMEs. And, in addition to the traditional role of providing assurance after the fact, they are adding value by helping the organization to anticipate and plan for risks during the early stages of project planning.

Specific contributions have included business plan reviews, reconciling desired changes against relevant control frameworks, and sitting at the table – in an advisory capacity – at several project design and implementation team meetings for the Epic project.

“Given our broad range of responsibilities, we have to be able to look over the hood and see what’s coming,” Graunke says. “Where we go from here depends on how the business can adapt. If the business can embrace continuous monitoring and predictive analytics, that changes how we audit.”

In other words, as the business changes, internal audit will adapt to meet the changing needs and risk priorities. For now, at least, the forward-looking risks on Graunke's horizon include cloud computing, cybersecurity and mobile devices.

“Those are all things we have in our audit plans,” Graunke says. “We need to partner with IT as they continue maturing their risk assessment capabilities. We need to learn from them as well because they’re closer to those changes, and internal audit might not have a full lens into it.”



# NORDSTROM

Company Headquarters — United States

Number of Employees in Company — 72,500

Industry — Retail

Annual Revenues — US\$14.1 billion (as of Jan. 31, 2015)

Number in IA Function — 35

Number of Years IA Function Has Been in Place — 20+

IA Director/CAE Reports to — CFO (administratively) and Audit Committee of the Board (functionally)

“We had to have a plan for managing the business of technology within the organization, and for redefining roles and responsibilities around technology and technology-enabled initiatives. If not handled properly, we knew it would become a problem – not an opportunity.”

**Dominique Vincenti, Vice President of Internal Audit and Financial Controls**

## At Nordstrom, Internal Audit Helps Business Leadership Take a Long-Term View of Technology as a Business Enabler

Nordstrom, Inc., headquartered in Seattle, Wash., is a leading fashion specialty retailer offering clothing, shoes and accessories for men, women and children. Founded as a shoe store in 1901 by gold prospector John W. Nordstrom and shoe repair shop owner Carl F. Wallin, the company has since evolved into a multibillion-dollar retail enterprise with more than 300 stores in North America.

Today, Nordstrom operates 121 full-line stores in the United States and Canada, as well as 197 Nordstrom Rack (discount fashion) locations, five Trunk Club “clubhouses” (a personalized styling service), two Jeffrey boutiques (luxury specialty stores) and one clearance store. Nordstrom also serves customers in 96 countries through Nordstrom.com. Its Nordstromrack.com site, which operates in partnership with the company’s private sale site, HauteLook, gives customers in Australia, Canada and the United States access to off-price fashion.

“Our online business and store operations have always been highly integrated,” says Dominique Vincenti, vice president of internal audit and financial controls for Nordstrom. “We try to meet the customer at every point in the customer life cycle. Depending on their needs and mood in the moment, there is a Nordstrom’s shopping experience that will fit them on their terms.”

## A Goal to Inspire a Culture of Excellence

Nordstrom's internal audit function is comprised of two core teams – one based in Seattle, and the other in Denver. The Denver team audits the business of Nordstrom FSB, a wholly owned subsidiary of Nordstrom and a federally chartered savings bank doing business as Nordstrom Bank. The bank offers mostly credit products, such as Nordstrom Signature VISA, Nordstrom retail credit and debit cards.

“There are 12 full-time equivalents (FTEs) on the Denver team,” explains Vincenti. “The vice president of internal audit for Nordstrom FSB reports on a solid line to the audit committee chair of the bank's board.”

In Seattle, the internal audit team for Nordstrom's retail operations is staffed by 23 FTEs. Vincenti, who joined the company in 2010, reports functionally to the audit committee of the board and administratively to the chief financial officer.

According to Vincenti, the internal audit team recently reset its five-year strategic goals and is on a mission to become “a trusted business partner solving problems to inspire a culture of excellence in governance, accountability and execution in support of delivering Nordstrom's world-class customer experience and top-tier shareholder value.”

This is a journey the internal audit function first embarked on when Vincenti joined Nordstrom. One way she expects the function will ultimately achieve its goal to be seen as a trusted business partner is by demonstrating that internal audit is there to support management taking more risks.

“Internal audit is not here to kill the joy and not help the business take risks. Very much to the contrary, in fact,” Vincenti says. “We are in a for-profit business, and to achieve top-tier shareholder value, you have to take risks. So, we definitely want to help management take risks and manage them well.”

## Overcoming a Traditional Mindset

One area where internal audit has been helping the business to take well-considered risks over the past several years is technology. “I know it is not very humble to say this, but I am very proud of my team for being very much ahead of the curve – and even sometimes ahead of management – on this front,” Vincenti says.

According to Vincenti, Nordstrom outlined a new strategic plan for the company in the summer of 2010. Management decided the organization would no longer view technology as a traditional support function, but as a business enabler that would fuel future growth for Nordstrom. “From that moment, internal audit became very strategic and diligent about helping management understand the implications of the new type of investments and initiatives that were launched, and of using cloud, mobile and other new technologies for business enablement,” says Vincenti.

While management was committed to its new view of technology, Vincenti says internal audit had a “hard time being heard” at first about the risks and realities of the business embracing technology in a wholly different way.

“Technology was going to be a generator of new business capabilities that would serve our customers in new ways and generate revenue,” Vincenti explains. “But we had to help management see that it wasn't going to be a slam dunk. We had to have a plan for managing the business of technology within the organization, and for redefining roles and responsibilities around technology and technology-enabled initiatives. If not handled properly, we knew it would become a problem – not an opportunity.”

Vincenti says the general mindset in retail is a primary reason that technology management at Nordstrom initially had difficulty visualizing the potential risks of making technology a core business enabler. “In retail, your goals are very short term. You may have annual goals in mind, but really, you're more concerned about whether you'll make your revenues today,” she explains. “This is not a criticism. It's just a fact that this type of outlook is very much in the DNA of retail management.”

By maintaining a dialogue about risks, and working to identify “tangible examples” of challenges as they emerged at Nordstrom, Vincenti and her team eventually secured management’s attention. However, she admits that some risks had to evolve into full-blown reality before business leadership realized, “OK, we think internal audit talked to us about this before.”

For example, Vincenti says that when internal audit added IT infrastructure transformation as part of their annual risk assessment, the message from management was not to be concerned because the IT department had everything well under control. “However, it soon became obvious that the IT function needed to re-engineer itself fundamentally,” recalls Vincenti.

In fact, in 2015, Nordstrom launched an enterprise project designed to reshape the entire technology operating model in the company; the initiative is now being executed. Vincenti says internal audit was included as a voice in the task force for this massive project, and will also monitor execution of the new model – all at the request of the company’s chief information officer (CIO).

“I would definitely say our CIO is a champion for internal audit,” says Vincenti. “Our focus on technology has helped to make the CIO a very strong ally. I believe if I would ask him if he considers internal audit to be a trusted business partner, he would say yes.”

Vinenti has forged such a solid working relationship with the CIO that she has given him “veto power” in the hiring process for a new IT audit director. “I’m looking, essentially, for a CIO who can turn into an internal auditor – although I’m not sure if this person exists,” says Vincenti. “This person will need to work closely with our CIO. He or she will be objective and independent, yes, but also a business partner to the CIO. That means the IT audit director must be able to sit down with the CIO, engage in a conversation worthy of his time and interest, and offer valuable and objective governance, risk and control advice on all technology matters.”

## Building Up Business Intelligence

Vinenti says her internal audit team is “always challenging the status quo” in terms of how they use technology to conduct audits. “With technology at the heart of the business, we feel technology is also at the heart of what we do as internal auditors,” she says.

Through a series of annual programs and initiatives within internal audit, Vincenti and her team assess their current use of technology and look for ways to optimize existing resources or adopt new tools to increase efficiency. Through that effort, the internal audit function recently tested and piloted the use of tablet computers to determine how the mobile devices would enhance team productivity. “We saw significant time savings by being able to capture information right away when we audit, and then upload that information into our system immediately,” says Vincenti.

As part of the function’s five-year strategic plan, Vincenti says her team will be looking to harness the power of data science through a newly formed business intelligence (BI) unit. She is recruiting diverse talent to staff the growing unit, and is adamant that she wants these specialists to focus on what they do best. “I am not hiring internal auditors for BI, and I am not looking to turn data scientists into auditors,” she explains.

The BI unit serves two roles, according to Vincenti. One is more traditional: supporting internal audit and infusing the right amount of data science in support of specific audits. The second role is to help the internal audit team develop insights that they can share with management directly at the time of business decision-making.

“These insights will allow our team to become even better at what we’re already good at – risks and controls,” Vincenti says. “They will also help us to underscore the direct value that the function is providing to Nordstrom in many other ways.”

Company Headquarters — Japan

Number of Employees in Company — 1,622

Industry — Manufacturing

Annual Revenues — US\$444 million (as of September 30, 2015)

Number in IA Function — 1

Number of Years IA Function Has Been in Place — 15+

IA Director/CAE Reports to — President

“I would say that the use of data analytics is a strong force in my audit technique. Not only does it help me detect fraud and other risks and control issues – and provide clear evidence of those problems – it also helps me to learn and better understand what is happening in the business.”

**Mari Yonezawa, Chief Audit Executive**

## Data Analysis Tools Provide Internal Audit Insight on Potential Risks in Obara Group’s Global Network

Obara Group Inc. consists of two technical groups: one specializes in manufacturing resistance welding equipment and systems for the automotive industry and the other produces flat-surface polishing equipment for electronic and precision industries, such as silicon wafer manufacturing. Obara Group is based in Kanagawa, Japan, a prefecture just south of Tokyo.

The company began in 1958 as Obara Metalworks Co. Ltd., a manufacturer of electrodes for resistance welding. That business eventually expanded into a global network of companies operating as Obara Corporation, listed on the Tokyo Stock Exchange. In 2011, the organization became a pure holding company and changed its name to Obara Group.

Today, Obara Group has 28 subsidiaries and branches located in 17 countries around the world and employs more than 1,600 people. While Obara Group is a global and complex organization, its internal audit department currently employs just one full-time staff member: Mari Yonezawa, the chief audit executive (CAE). She reports directly to the company’s president, Yasushi Obara.

Yonezawa joined the department in 2007 to help Obara Corporation prepare to meet J-SOX compliance requirements.<sup>1</sup> Not long after she started working at the company, the CAE at the time – Yonezawa’s manager and the only other full-time employee in the function – was transferred to China to head Obara China’s quality control department.

Yonezawa has been a team of one in the function ever since, and she says she doesn’t mind the arrangement. “There are advantages to working solo,” she says. “I have time to think and to study data.”

Yonezawa rarely conducts audits alone, however. Depending on the type and scope of the auditing engagement, she will invite a “companion auditor” from within Obara Group – such as a corporate auditor or an accounting manager – to lend “a second pair of eyes” to the process. Yonezawa says she fully briefs the companion auditor prior to the audit by sharing her data analysis and other information she has prepared.

## Employing Practical Technology Tools to Increase Efficiency

Obara Group is “a very traditional Japanese company,” according to Yonezawa, and until recently its internal audit processes were still “very paper-based.” When Yonezawa assumed leadership of the internal audit function, and was tasked with auditing all 28 subsidiaries and branches of Obara Group, she took immediate steps to start shifting the function away from more traditional and cumbersome processes and to begin embracing more technology tools.

Yonezawa implemented Computer-Assisted Auditing Techniques (CAATs) soon after becoming CAE. She later introduced Audit Command Language (ACL) software for data analysis into the internal audit function. Two of the many “considerable benefits” Yonezawa says she has realized from using data analytics are shorter audits due to better up-front preparation, and the ability to show auditees the facts clearly. “The figures tell everything,” she says.

“I would say that the use of data analytics is a strong force in my audit technique,” she adds. “Not only does it help me detect fraud and other risks and control issues – and provide clear evidence of those problems – it also helps me to learn and better understand what is happening in the business. For example, I can see what steps sales teams are taking in their activities.”

Yonezawa has taken the initiative to develop her data analysis skills by participating in training opportunities outside of Obara Group. She says she also gains valuable insights and tips from her peers in the industry who are using the same technology. However, it is her observation that many businesses in Japan have been slow to embrace data analytics tools.

“I would like to see more companies in Japan use data analytics – not just for internal audit, but generally, in their business,” she says. “Many large companies in Japan are still focused on traditional auditing approaches. They want to see documents and binders.”

## Making a Plan to Overcome Communication Challenges

While Yonezawa says that being the only full-time employee in Obara Group’s internal audit function is “working well” for now, she will consider expanding the internal audit organization in the future if there is a need to do so. When she does recruit more talent into the function, Yonezawa says she will be looking for internal auditors who have solid data analytics, language and communication skills.

---

<sup>1</sup> For more on the J-SOX legislation, see “Frequently Asked Questions About J-SOX,” *J-SOX Insights*, Protiviti, 2006: [www.protiviti.com/en-US/Documents/Regulatory-Reports/J-SOX/PRO\\_J-SOX\\_Insights.pdf](http://www.protiviti.com/en-US/Documents/Regulatory-Reports/J-SOX/PRO_J-SOX_Insights.pdf).

“Communication skills are really most important,” she says. “Internal auditors are not always welcome in the business because of the nature of what they do. If auditors have strong communication skills, they can build good relationships, and audits will go more smoothly.”

She adds, “I think this is why women make good auditors. We tend to be effective communicators.”

There is one significant communication challenge that Yonezawa says she needs additional help to overcome, however: the language barrier she faces when auditing in non-English-speaking countries, such as China and Korea. “I cannot speak Chinese or Korean,” she says. “So, if I perform an internal audit in those countries, I always need a translator or a software translation tool. Translations take time and undermine efficiency.”

Yonezawa is working on a plan to address this hurdle. She explains, “At the moment, some of the subsidiaries in China and Korea have their own internal auditors. They are my first interface when I audit these companies; they help me to communicate with department people. So, I would like to collaborate more with these teams. More than that, over time I would like to strengthen ties with all internal audit functions in Obara Group.”

### Underscoring the “Audit Opportunity”

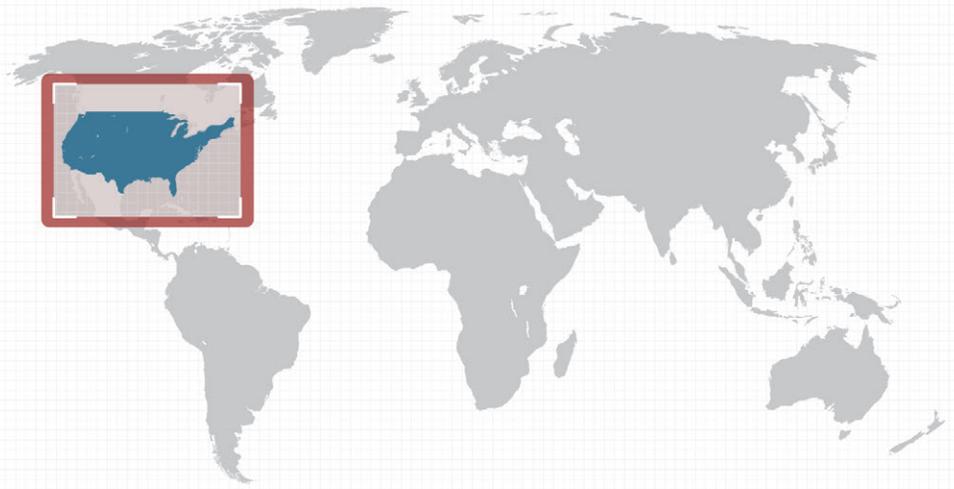
Since taking charge of Obara Group’s internal audit department, Yonezawa has made many changes, including the adoption of new technology, to make the function nimbler and more effective. But she is also focused on changing perceptions about internal audit that some people in the broader organization may hold – namely, that the function serves as a “policeman.”

Yonezawa says she promotes internal audit’s role and value as a partner to the business by positioning every audit as an opportunity for improvement. “When I send out an audit notice, I always tell the management of the company that I am going to audit, ‘Please utilize this audit opportunity. Please involve your people from the beginning,’” she explains. “I tell them that they can utilize my audit to help their staff review their jobs and to learn the business again.”

Before Yonezawa conducts audits, she says she will often ask the president of the company to be audited what topics to explore in depth during the audit. “If I can perform an audit that helps to provide the information management seeks, it is more likely that the business will be receptive to the audit recommendations,” she says. “Internal audit is not here to find fault, but to help the business to improve – to find a better way.”



**PUGET  
SOUND  
ENERGY**



Company Headquarters — United States

Number of Employees in Company — 2,700

Industry — Energy

Annual Revenues — US\$3.2 billion (as of Dec. 31, 2015)

Number in IA Function — 11 FTEs, plus strategic co-sourced partners

Number of Years IA Function Has Been in Place — 25+

IA Director/CAE Reports to — Audit Committee and CEO

“It’s better for internal audit to be engaged in conversations about key risks and controls throughout a technology project rather than coming in at the end and saying, ‘You should have done these 10 things differently.’”

**Alpa Parikh, Chief Audit Executive**

## Re-Energized Internal Audit Team at Puget Sound Energy Takes Proactive Approach to Monitoring Technology Risks

For more than a century, Puget Sound Energy (PSE) has supplied energy to the Puget Sound region of the U.S. state of Washington. The private investor-owned utility provides electricity and natural gas to about 1.9 million customers in 10 Washington counties, including King County, where the state’s most populous city, Seattle, is located. PSE, with an annual turnover of more than US\$3 billion, is one of the leading utility owners of wind power in the United States, and promotes the development of other renewable resources such as solar power.

Alpa Parikh is PSE’s chief audit executive; she reports directly to the audit committee chairman and on a dotted-line basis to the chief executive officer (CEO). Parikh was hired by PSE in 2013 after serving as director of internal control services at Univar, the second largest chemical distribution company in the United States, with an annual turnover of about \$10 billion. Prior to that, she was a senior manager at Protiviti, and was hired in 2003 as one of the first full-time employees in the Dallas, Texas, office of the newly founded global consulting firm. During her tenure at Protiviti – and before that, at CIGNA Healthcare – Parikh built a career base of knowledge in highly regulated markets.

When Parikh joined PSE, she had both a challenge and an opportunity to revitalize the company's internal audit function. "Being able to rebuild and develop my team is what excited me about the job initially," she says. "We had lost most of the internal audit department, and I inherited only two people."

She continues, "The audit committee challenged us to hire and build out a best-in-class internal audit department that was recognized and supported by the business. This included developing relationships with key stakeholders, including the audit committee. So I came in and said, 'We need to do strategic audits and make sure we are relevant. More than that, we need to make sure we are adding value.'"

## A New Team – and a Strategic Hiring Approach

Three years later, Parikh says her department is fully staffed. "I have a manager of internal audit who is responsible for executing the internal audit plan that is approved by the audit committee," she says. "He manages his own budget and staff, and has about five senior auditors reporting to him."

The internal audit function also now has an audit coordinator who is responsible for helping the department to improve its communication with stakeholders. "Internal audit can be really good at executing audits, but what's more important is how the function is reporting to its primary audience – the audit committee, the board and the senior leadership. How relevant are you to them?" says Parikh. "That's why I wanted to make sure we had an audit coordinator in charge of consolidating the reporting that goes out of internal audit and helping us demonstrate our value to the company."

Parikh emphasizes that she wants to be smart about how she grows the internal audit function at PSE even further over time. Every six months, Parikh and her team conduct a SWOT (strengths, weaknesses, opportunities and threats) analysis to identify skills gaps in the department. "The next person we hire fills a weakness we identify as a team," she explains.

Parikh also looks to outside experts to provide specialized expertise for certain audits. "Some of the risks our company faces, like those related to cybersecurity and business continuity, are changing rapidly. I don't think it's possible for a department like ours to build those skills in-house and keep them as current as they need to be. That's why we have co-sourcing arrangements with strategic partners, so we have access to subject-matter expertise when needed," she explains.

## Early Engagement in System Implementations

Parikh's reliance on external experts to deliver specialized knowledge, particularly in the area of technology, does not mean her core team is not helping PSE to manage IT risks. In fact, she says it is increasingly unavoidable for internal auditors in any organization not to focus on IT issues.

"Historically, internal audit functions have not put a lot of emphasis on IT," she says. "I think this has to change, especially because the future of business is going to be driven by system implementations."

Parikh notes that many organizations are working to simplify and consolidate their IT systems, including enterprise resource planning systems. "Companies are realizing it doesn't make sense to have a lot of technology that doesn't talk to each other," she says. "What does make sense is having more integration of the technology you use."

According to Parikh, internal audit functions should be engaged early in the process when the business decides to pursue a system implementation; this is the approach PSE now takes with its IT and other system implementation projects.

"It's better for internal audit to be engaged in conversations about key risks and controls throughout a technology project rather than coming in at the end and saying, 'You should have done these 10 things differently,'" explains Parikh. "If we can change some manual controls into automated work or reduce the number of reconciliations or the amount of customized reporting, then in the end we can reduce the company's compliance costs, while at the same time optimizing the control environment."

## Ensuring Alignment of Cybersecurity Strategies

As is the case for any utility company or other infrastructure provider today, cybersecurity is a top-most concern for PSE. However, just talking about the issue, even at the board level, is not enough to help the organization stay on top of cyber risks because a data breach or cyberattack is “not a matter of if, but when,” says Parikh.

To assess exactly what PSE is doing to strengthen its IT security, and ensure key functions at PSE are aligned in their efforts, Parikh reached out to the company’s CEO, chief information security officer (CISO), director of enterprise risk and compliance, chief information officer (CIO), external auditors, and various subject-matter experts for their input. This resulted in strategic partnerships regarding incident response advisory services. Parikh has also been involved in presenting at cybersecurity education sessions to the PSE board.

“Our CISO explained to the board how the first line of defense<sup>1</sup> is mitigating the risks that they see, and then our director of enterprise risk and compliance discussed how the second line of defense is keeping track of emerging risks,” says Parikh. “Lastly, I came in to explain what internal audit is doing as the third line of defense.”

To help the company’s officers understand what best practices PSE should have in place to be prepared for a cybersecurity incident, Parikh asked a third-party resource to coordinate a special educational exercise: a software-based game that allows participants to play on one of two sides – the “hactivist” or nation-state (attacker) or the company (defender).

“We went through this exercise with our officers, the communications team, and the CIO and rest of the IT team,” says Parikh. “Everyone came out of the experience saying, ‘Wow. We didn’t realize that we needed to do these things in order to avoid these other things.’ It helped make everything more real.”

And as PSE’s growing IT security function continues to evolve and mature its program, Parikh says internal audit will be there to validate those efforts.

## Driving the Ethics Strategy at PSE

In addition to overseeing internal audit and all Sarbanes-Oxley compliance efforts for PSE, Parikh leads the company’s ethics function. She says that while many internal audit functions say they have an ethics role in their organization, “all they are really doing is carrying out investigations coming through an alert line.” At PSE, Parikh is taking a different approach.

“My team has proven over the last few years that we can drive the ethics strategy and function for the company,” she says. “We are not only managing the anonymous hotline for customers and employees, but also managing all of the processes around the investigations.”

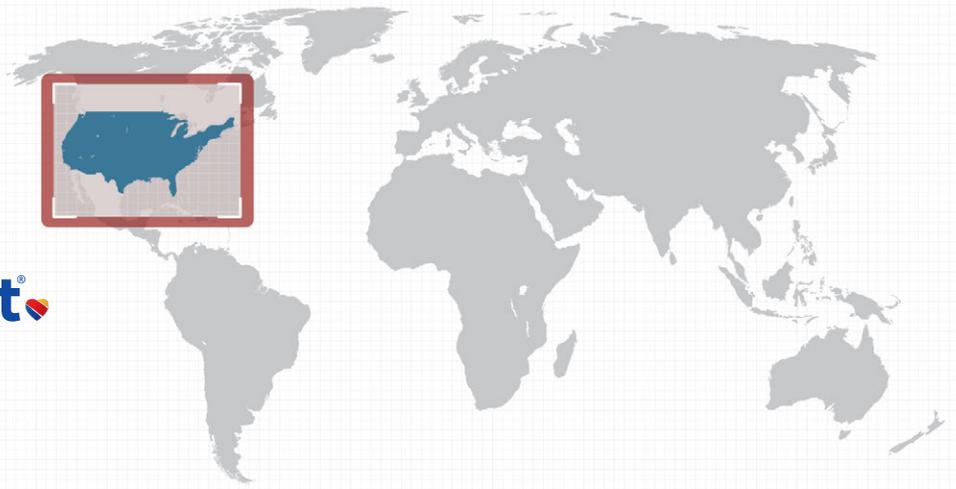
To ensure no ethics incidents or allegations are overlooked, Parikh says the ethics function does not rely solely on the hotline. She explains, “We reach out to IT security, corporate security, human resources and legal every quarter to get their input on any other ethics investigations that came up through their departments. I consolidate and report on those findings to the audit committee chairman and the board on a quarterly basis.”

She adds, “We take ethics very seriously at PSE. I think we have a really good handle company-wide on what types of allegations are occurring and whether employees feel comfortable about raising issues.”

As Parikh continues to improve the internal audit function at PSE and strengthen its relationship with the business, she says she will keep emphasizing to her team the importance of simply “showing up.”

“When I joined the company, even our external auditors had very limited reliance on the work we performed,” recalls Parikh. “By showing up and making sure we are doing work that is relevant and of a high quality, in just a few years we have been able to drive customer focus and earn trust.”

<sup>1</sup> For more on the “Three Lines of Defense” model, see The IIA’s 2013 position paper, *The Three Lines of Defense in Effective Risk Management and Control*, available at <https://na.theiia.org/standards-guidance/Pages/Standards-and-Guidance-IPPF.aspx>.



**Southwest**<sup>®</sup>

Company Headquarters — United States

Number of Employees in Company — 49,583 FTEs

Industry — Airline

Annual Revenues — US\$19.8 billion (as of Dec. 31, 2015)

Number in IA Function — 30

Number of Years IA Function Has Been in Place — Near inception of Southwest

IA Director/CAE Reports to — Chairman of the Board, President and Chief Executive Officer

“By educating our team about what it takes to run Southwest Airlines on a daily basis, they develop an appreciation for the challenges management faces. This helps them to build relationships and mutual respect with the business.”

**Katherine Findlay, Vice President of Internal Audit**

## Internal Audit at Southwest Airlines Creates Task Force Dedicated to Helping the Business Successfully Execute New IT Initiatives

Southwest Airlines Co., based in Dallas, Texas, is a major U.S. airline and the world’s largest low-cost carrier. The airline was founded in 1967 as Air Southwest Co. by attorney Herb Kelleher and his client, Texas businessman Rollin King; they famously sketched their concept for the airline’s original Houston-Dallas-San Antonio “triangle” service route on a cocktail napkin.<sup>1</sup>

After enduring three years of legal challenges brought by other carriers operating in the state, the airline – renamed Southwest Airlines – finally took flight in June 1971 with three Boeing 737 aircraft serving the aforementioned Texas cities. Now in its 46th year, Southwest serves 86 destinations in the United States, as well as 11 international destinations, including Aruba and Costa Rica. As of December 31, 2015, Southwest had a fleet of over 700 Boeing 737 aircraft and operated more than 3,900 departures daily.

---

<sup>1</sup> “About” page, Southwest.com: [www.blogsouthwest.com/about/](http://www.blogsouthwest.com/about/).

While Southwest's emphasis on customer service is one reason for the airline's success and longevity, the company unabashedly puts its employees first – ranking them in importance above customers and shareholders, in that order.<sup>2</sup> The airline's vice president of internal audit, Katherine Findlay, says Southwest's commitment to treating employees well is one reason people tend to stay with the company for the long term. She is a testament to that: Findlay has been with the airline for 23 years.

She began her career at Southwest in internal audit and then moved into the business for about 15 years before transitioning back to the function in 2010 as managing director. In her current role, Findlay leads a team of 30 internal auditors, and reports directly to the audit committee and administratively to Southwest's president and chief executive officer.

## Learning What It Takes to Get Off the Ground

Findlay says her department, like the company, is very focused on customer service. “You could say our tagline is, ‘Verifying Compliance and Partnering for Improvement,’” she explains. “We want to be seen as a trusted adviser to the business. We have put a lot of time and focus into building relationships across the organization. So, when things arise outside of our audit plan that we develop through our risk assessment process, we make ourselves available to help our business leaders meet their objectives and look into other areas that may provide value.”

Findlay says she believes that the airline's internal audit function has done “a good job historically of providing value to the business.” She adds, “I really can't think of a time when we were looked at as being ‘the police.’”

One strategy Findlay employs to help her team build relationships and add value is making sure they understand how the business works.

“We have our people spend a day with another business unit just to learn what they do,” she says. “We want them to go out to the airport and work with those employees on-site to understand how we pull off our operation day in and day out. By educating our team about what it takes to run Southwest Airlines on a daily basis, they develop an appreciation for the challenges management faces. This helps them to build relationships and mutual respect with the business.”

## Establishing a Dedicated Task Force

In keeping with its reputation as an upstart in the airline industry, Southwest has been quick to embrace new business models and technology over the years. As an example, it was the first to offer ticketless service, starting in 1994. Two years later, it became the first carrier to launch a website. And the company has long used social media to interact with customers and build affinity for its brand; today, it even operates a social business department designed to be the “hub” of the company.<sup>3</sup>

“As Southwest adopts new technology, our function has to adapt,” Findlay says. However, she notes that sometimes her team has had to move faster than expected to meet change effectively. She cites management's decision to allow customers to check in for flights using mobile devices as an example of when internal audit had to pivot on short notice to understand the change and give assurance on the changing control environment in support of the business change.

“This type of change helps to advance the service that Southwest provides to our customers,” says Findlay. “Of course, we also need to make sure that security is considered and controls are in place. So, we sometimes find that we have to dedicate people to things that we didn't anticipate – changes that have happened so quickly that they weren't part of our original audit plan.”

---

<sup>2</sup> “Southwest Airlines ‘Gets It’ With Our Culture,” Southwest Airlines blog, March 2011: [www.blogsouthwest.com/southwest-airlines-%E2%80%9Cgets-it%E2%80%9D-our-culture/](http://www.blogsouthwest.com/southwest-airlines-%E2%80%9Cgets-it%E2%80%9D-our-culture/).

<sup>3</sup> “How Southwest Airlines Turned Social Media into Social Business,” Digiday, December 2015: <http://digiday.com/brands/southwest-airlines-turned-social-media-social-business/>.

Because Southwest has so many strategic business initiatives underway that involve technology, Findlay recently decided to create a special task force within the internal audit function to help support the company in those efforts. “We have limited resources and can’t be everywhere,” Findlay says. “We need to make sure we are dedicating the right resources to the right thing at the right time. That’s the challenge today, given the volume of change happening in the company related to technology.”

According to Findlay, this dedicated unit will be looking at whether the business “is ready to accept new technology and the change it will bring,” including to existing processes and people’s jobs. “This will be their core job,” she says. “We may even need to add resources to this team periodically, depending on the phase of a particular technology project.”

Like many businesses today, Southwest has been updating or replacing its legacy IT systems so it can reduce costs and operate more efficiently. And according to Findlay, internal audit is being brought in on the ground floor of these initiatives.

“Our team is making sure that change management processes are being followed, and the defined governance process is operating as designed,” she says. “We are helping the business to think about internal controls before a new IT system becomes a material system to the company.”

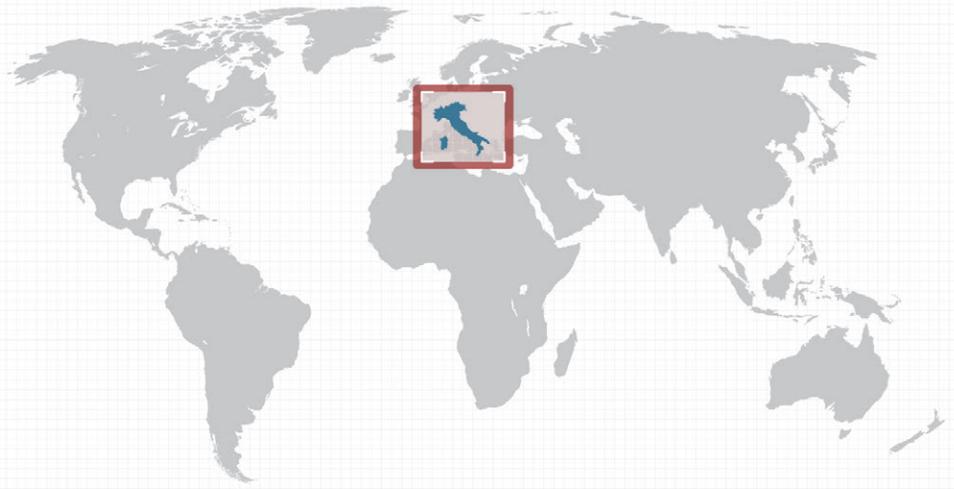
### Placing a Premium on Technology Skills

At Southwest, constant change – and projects that involve emerging technology – are now “business as usual” for the airline, according to Findlay. This fact has caused her to expand the requirements she applies when hiring staff for her internal audit team. “Everybody coming into my group now needs to have some base-level IT general controls knowledge and understanding,” she explains.

“In this environment, with so much technological change happening in the business, internal audit needs to continually assess the changing risk landscape. I was thinking about the amount of change we are experiencing, and it hit me that we need people in the function who are used to looking at the types of IT projects the company is pursuing,” says Findlay. “It is also to our benefit to have the same people looking at the same types of projects, so that there isn’t a constant ramping up of skill sets.”

While Findlay values IT knowledge and skills, she says she still looks first for internal auditors who are likely to fit well into the people-first culture of Southwest. She says, “They need technical skills, but also soft skills. They also need to be naturally curious and have the ability to form relationships with our customers. That combination is hard to find, but I do think the talent is out there.”

Findlay says she also seeks to recruit internal auditors who are fast learners: “The pace of change at Southwest is only going to get faster, I think, and I need people who will be able to keep up.”



Company Headquarters — Italy  
Number of Employees in Company — 65,867  
Industry — Telecommunications  
Annual Revenues — US\$21.4 billion (as of Dec. 31, 2015)  
Number in IA Function — About 80  
Number of Years IA Function Has Been in Place — 20+  
IA Director/CAE Reports to — Board of Directors

“For the technical audit, in particular, the possibility of doing continuous auditing and using data analytics is intriguing. In internal audit, we need to be more active in understanding the changes in emerging technology and how we can audit them or leverage the technology.”

**Silvia Ponzoni, Chief Audit Executive**

## Telecom Italia Group (TIM) Looks to Internal Audit for Solid Technology Insights in an Increasingly Fluid Industry

The Telecom Italia Group is a leading information and communications technology (ICT) company and Italy’s digital partner. Abroad, its strength is in Brazil, where TIM Brasil is a major player on the market.

TIM is Telecom Italia Group’s only trading name for fixed and mobile telecommunications services, internet, digital content, cloud services, digital platforms and solutions. It offers everyone – consumers, enterprises and institutions – simple and safe tools for the new digital life.

### Moving to a Strategic Business Partner Role

In the summer of 2015, Vivendi, a French media company, bought a controlling interest in Telecom Italia Group from Telefonica, the Spanish telecommunications company; it has subsequently increased that stake to 24.9 percent, the threshold in Italy to launch the purchase of a company. The new ownership group brought in a new chief executive. The transformation of internal audit began even earlier. A new board of directors, named in May 2014, conducted a thorough appraisal of internal audit and began the process of recruiting a new chief audit executive (CAE) to evolve internal audit from its traditional role, almost separate from the rest of the company, to more of a strategic business partner to the company.

To spearhead that change, Silvia Ponzoni was hired as CAE in September 2015. In addition to her internal audit experience, Ponzoni has served in operational roles, which gives her valuable perspective as she helps the function with its evolution to strategic partner.

“In the previous environment, internal audit was very closed off. We’d now like to share our audit plan to determine if we can avoid duplication with the second level of the control function,” Ponzoni explains.

She continues, “We try to participate more in company projects. We remain independent, but with a clear mandate to give our insight into how to improve the internal control environment in each specific project. My team has a lot of knowledge, and we could enhance consulting.”

## Adding an “Internal Third Level of Control”

Ponzoni heads an internal audit department with approximately 60 employees in Italy and 22 in Brazil.

The function’s audit process consists of four main pillars:

1. Enterprise audits of commercial and support processes
2. Financial audits
3. Forensic audit and whistleblowing channel
4. Technical audits, focused on assessments of network and IT processes and platforms; ICT services; cybersecurity; and supply chain processes, including procurement and investment in technology and the core business of communications

According to Ponzoni, Telecom Italia Group relied heavily in the past on financial audits provided by the external audit company. She says the new management team and the board of directors felt the company needed an internal third level of control on the key financial aspects of the organization. Therefore, one of Ponzoni’s first objectives upon joining the company was to establish internal financial audits.

“This was not driven by a particular financial issue,” she says. “It was a way of expanding the mission of internal audit, and for the function to be more in alignment with common practice in the profession.”

## Consolidating on One Platform

The board of directors, to which Ponzoni reports, wanted a clearer overview of the internal control system. Financial audits were the first step in that direction. Ponzoni says the internal audit function is also working with the controller’s office and the risk management team to design an audit management system using software to manage the process.

Ponzoni has worked with such a program before, but it will be the first time the internal audit department at Telecom Italia Group has had one software program to manage the entire audit process. Ponzoni says her team currently manages different aspects of the process through Microsoft Office Suite or other external vertical systems (i.e., an action plan monitoring tool).

The new audit management system (AMS) at Telecom Italia Group will automate everything from the selection of risks and risk assessment to the management of those risks through an interface with the enterprise risk management (ERM) department. The AMS will contain the audit plan and the audit execution, including the storage of work papers, the assessment of controls, the action plan and project management – all the processes of a classic internal audit department.

Ponzoni says, “With one platform for the entire process, we can share information more easily with ERM and compliance. The system also makes it easier to conclude the audit and write the formal report in a structured and efficient way.”

## Leveraging Technology and Data Analytics

Beyond audit-specific technology, Ponzoni says she’s planning, medium term, for ways to leverage continuous auditing and data analytics in order to better align internal audit capabilities with the real-time risks of running a telecommunications network.

“For the technical audit, in particular, the possibility of doing continuous auditing and using data analytics is intriguing,” she says. “In internal audit, we need to be more active in understanding the changes in emerging technology and how we can audit them or leverage the technology.”

“With one platform for the entire process, we can share information more easily with ERM and compliance. The system also makes it easier to conclude the audit and write the formal report in a structured and efficient way.”

Ponzoni has also identified a need for her team to audit products and technical services that are, in many cases, externalized and outsourced. This governance of third-party providers is critical, she says, to ensure that contracted services are delivered to contractual quality levels and technical requirements by qualified personnel.

Telecom Italia Group will likely need to engage additional support to help the internal audit function accomplish its short- and long-term goals. In 2016, Ponzoni says she plans to start co-sourcing financial audits, a practice that has already proven to be beneficial in technology audits. “We don’t co-source (in financial audit) at the moment, but will start to do so in 2016,” she says. “This practice has been applied successfully in the technical area for 10 years to perform internal security assessments.”

## Monitoring Emerging Tech Trends

Looking ahead, Ponzoni says she sees three trends that will impact the telecommunications industry, the company, and the internal audit function in the near future:

- The emerging Internet of Things and the massive amount of confidential data it generates, which will create new opportunities for hackers and new risks that will need to be monitored and mitigated.
- Cloud computing solutions that consolidate critical infrastructure and intellectual property in the hands of third parties, creating a need for effective third-party risk management.
- Big data mining for behavioral insights, which increases the potential for privacy violations – a risk that will need to be monitored for both reputational and regulatory compliance purposes.

The trends Ponzoni describes affect most modern businesses in some way. As a telecommunications company, however, the opportunities and risks for Telecom Italia Group are magnified both in number and in scope.

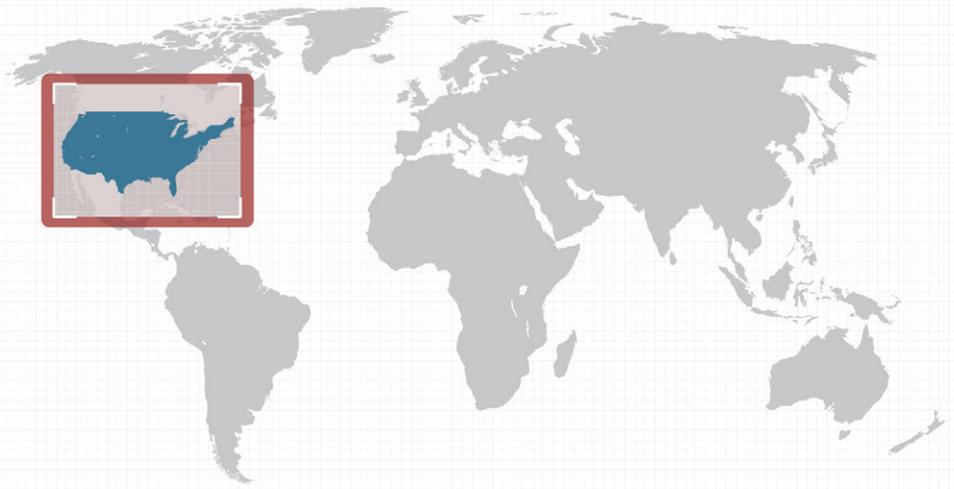
The telecommunications industry has already been radically transformed by increasing smartphone penetration and the diffusion of mobile internet service. The race is on for communications companies like Telecom Italia Group to build, borrow or acquire the bandwidth required to serve this rapidly expanding need. And as that infrastructure is established, it's going to need to be protected, Ponzoni notes.

“The new fiber-optic infrastructure, which is capable of delivering fast and ultrafast broadband services to the customers’ premises, is the next generation of fixed-access networking. It requires street-level intelligent networks and increased security,” she says.

To provide that assurance, Ponzoni says her department will be spending a lot of time and effort evaluating tools and technologies designed to electronically monitor those networks, conducting penetration testing, and working with the operations and risk management teams to ensure that there are effective controls in place and that the three lines of defense are strong and effective.

Ponzoni and her team have been working with their operational and risk management colleagues to identify strategic uses for the massive quantities of data available over their vast network of traditional, cloud and mobile infrastructure. From an internal audit perspective, she says she will measure success by the internal audit function’s ability to effectively aggregate, mine and refine all that data into actionable assurance.

“The use of big data is very important,” Ponzoni says. “Because we will have access to huge amounts of information, we need to be able to give that data structure and meaning. Data mining and analytics mean being able to do something that can interpret all these numbers and data that are out there, and transform it to alerts or red flags.”



**UNIVERSAL  
AMERICAN**

A Healthy Collaboration®

Company Headquarters — United States

Number of Employees in Company — 970

Industry — Healthcare

Annual Revenues — US\$1.5 billion (as of Dec. 31, 2015)

Number in IA Function — 11

Number of Years IA Function Has Been in Place — 16

IA Director/CAE Reports to — Executive Vice President and Legal Counsel

“While completing our scheduled audit plan is always a focus for us, equally important is being a strategic partner to the business and responding, quickly and effectively, to emerging issues and challenges.”

**Anne Mercer, Chief Audit Executive**

## A Healthy Collaboration: Universal American and Its Internal Audit Function

Universal American (UA) calls its way of interacting with patients and doctors “A Healthy Collaboration.” More than just a tagline, this is UA’s brand promise, its north star, and it centers around the goal of working with patients, primary care physicians and healthcare institutions to reduce healthcare costs and improve the well-being of all stakeholders.

UA is a publicly traded healthcare organization that employs about 1,000 people and reports revenues of more than US\$1.5 billion annually. The company’s focus includes providing Medicare Advantage products and a Medicaid Health Plan, and operating Accountable Care Organizations. UA focuses primarily in southwest Texas and the northeastern United States.

The internal audit team at UA consists of 11 full-time staff, augmented by a co-source relationship with Protiviti that includes five full-time equivalents. Anne Mercer, chief audit executive at UA, reports directly to the audit committee chair and administratively to the general counsel. Within the internal audit function, audit vice presidents and assistant vice presidents report to Mercer.

Like UA’s brand promise of forging a healthy collaboration with patients, doctors and institutions, the internal audit team’s primary mission is to collaborate with the business.

“I’ve been here for more than 10 years, and we have been collaborators since the first day I joined the organization,” says Mercer. “We make sure that if there are new risks encroaching on UA, we are proactively identifying and openly discussing them. We are at the table with executive leadership. Our goal is to be as nimble and flexible as possible to be able to respond to the shifting risk landscape.” She adds, “While completing our scheduled audit plan is always a focus for us, equally important is being a strategic partner to the business and responding, quickly and effectively, to emerging issues and challenges.”

When Mercer came on board, Protiviti had already been engaged as a co-sourced partner to help with Sarbanes-Oxley Act (SOX) compliance. Mercer expanded their role to include the internal audit function. “When I first hit the ground here, we were going through some major projects,” she recalls. “Right away, we brought expertise to the table to help us identify and mitigate risks and add value as much as possible.”

She continues, “Of course there were some people at the company at that time who wanted us looking mainly at UA’s financial health and not the total risk picture. But within three years, even those individuals had been swayed. That’s how clearly we have been able to demonstrate the value we are adding.”

## Delivering Value With a Broad View of the Organization

Internal audit functions add value to their organizations in different ways. Some, like UA, take full advantage of their audit teams. They capitalize on the depth and breadth of their audit and risk management point of view and draw auditors in across the board, from major initiatives to everyday collaboration with business process owners.

“On the other hand, some organizations have internal audit because they have to,” Mercer points out. “Unlike ours, some do not understand internal audit as a profession – instead they see it as a rotational function. They do not really grasp what internal audit is all about, that the best internal audit functions are comprised of skilled, multitalented people with a broad view of the organization.”

One of the many ways that Mercer’s team is able to deliver value to UA is by helping them manage risks associated with data. “UA is in the business of overseeing, analyzing and managing a significant amount of data,” she says. “Privacy is a major issue in our industry. Internal audit is extremely proactive about UA’s approach to data management and privacy.”

To offer one example of this, Mercer describes how potential third parties are vetted before UA enters into an outsourcing relationship with them. “We engage in a detailed pre-delegation review,” she says. “We go beyond just a basic evaluation of the organization. We examine their facilities, their training processes and their codes of conduct. We also do a thorough deep dive into the ways that they protect data.” In addition to the pre-delegation review, Mercer and her team conduct annual reviews to determine if the third party has changed data centers or if any other factors or circumstances have emerged that would impact the third party’s viability as a secure outsource partner for UA.

## Staying Plugged Into Technology Trends

UA leverages technology in many different ways. One that stands out for Mercer is her team’s use of the Protiviti Governance Portal.

When Mercer began her tenure at UA, the internal audit team was using the portal for work related to SOX but little else. In the past decade, the team’s use of this resource beyond SOX work has increased significantly.

“The Governance Portal plays a key role in our ability to be effective, proactive and collaborative,” she says. “All of our work papers are electronic, and we can conduct follow-ups and monitor remediation efficiently. We use the portal to track policies and procedures, share materials with our external auditors, and connect with state auditors. It’s an easy way for them to access data. It also facilitates working remotely.”

For Mercer, the benefits of technology for internal audit tend to center around flexibility and strength. “Technology enables the entire organization to work remotely, not just internal audit,” she says. “And that’s so important. It helps us retain the right people, the most talented people, regardless of where they live.”

She also cites her team’s use of the Courion Identity Access Management Tool, a vendor application, which maps all points of access, both physical and digital, across the organization as a valuable asset for the internal audit function. “This tool helps us make sure there are no toxic combinations, such as individuals who have the ability to enroll insureds and also process medical claims,” Mercer says. “It allows us to ensure employees and contractors have proper access and oversight.”

During the process of the annual risk assessment, Mercer and her team review new technologies, systems and conversions. Mercer sits on the compliance committee and, from that vantage point, receives and evaluates all the reports. “We look at everything, from cybersecurity risks to risks related to virtual private network and phone access,” she says. “We use those platforms to look broadly at the organization while focusing on our key concerns, which are protected health information (PHI), and data at rest and in transit.”

The internal audit team also conducts an annual cybersecurity review that includes Health Insurance Portability and Accountability Act (HIPAA) compliance related to data privacy. “This review, which we conduct at a high level, helps us see where we are and whether we are on track to meet our deadlines,” Mercer says. “Since federal and state regulatory bodies are becoming acutely aware of privacy security, we are also conducting a gap assessment for the state of New York, which is one of the key regions we serve.”

## Increasing Awareness and Collaboration

The overarching benefit of technology, Mercer says, is that it strengthens collaboration, not just within the internal audit team, or the external audit groups, but also throughout the organization. “We started rolling out information, giving stakeholders access to flowcharts and risk matrices, and sharing meaningful information,” Mercer says. “When we did this, we realized that our walk-throughs and updates were more effective. People were informed. Across the board, they increasingly became owners of their processes.”

She adds, “We also provided the training everyone needed to take full advantage of the information we were sharing, and that enabled them to examine and understand process flows and controls. Over time, they were able to have a positive impact on the company’s internal control structure. We even held webinars for mock audits to increase awareness and collaboration.”

## Recruiting Dynamic Auditors for an Evolving Organization

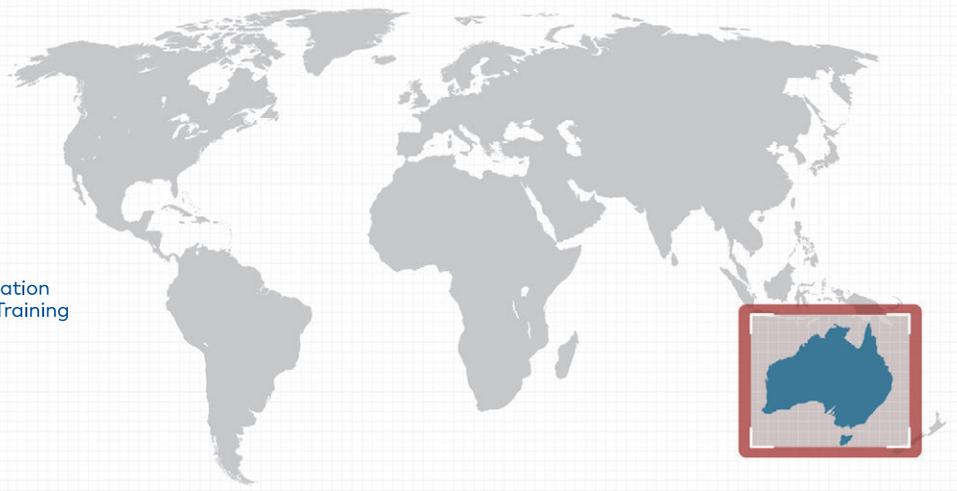
If there’s one thing that UAs focus on collaboration underscores, it’s that all processes, systems and technologies exist to support the people involved. Without a skilled and talented workforce, new tools and technologies will have little impact on organizational success.

For Mercer, auditor skill sets are always top of mind. “Traditional skill sets are still highly valuable to us,” she says. “For example, auditors need solid communication skills to forge strong partnerships with business process owners. My audit team is small, so I prefer to focus on the core, traditional skills when recruiting talent. While all of our auditors have a good understanding of technology, we rely on our co-source partners to provide in-depth technology skills.”

“When I hire, I look for people who are well-versed in a variety of areas, with broad backgrounds and exposure to many different kinds of audit shops,” she says. “UA is an ever-changing, very dynamic organization, and our auditors need to be dynamic, too, in order to mirror the growth and collaborative spirit of the business.”



Education  
and Training



Company Headquarters — Australia

Number of Employees in Company — 58,681.4 FTEs (including teachers in more than 1,500 government schools across Victoria)

Industry — Government Department

Annual Revenues — US\$8.4 billion (as of June 30, 2015)

Number in IA Function — 19

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

IA Director/CAE Reports to — Deputy Secretary, People & Executive Services Group, and the Secretary

“I think there is a role for internal audit in ensuring that processes are in place and that we are making evidence-based decisions for whether to continue funding a particular program.”

**Melissa Dwyer, Chief Audit Executive**

## Victorian Department of Education and Training Doubles Down on Data to Foster Climate of Accountability and Confidence

The Victorian Department of Education and Training (DET) oversees education policy and is responsible for the operations of more than 1,500 public schools in southeastern Australia. With a total payroll – including school staff – of almost 80,000, the DET is the largest employer in Victoria, Australia’s most densely populated state.

As chief audit executive (CAE), Melissa Dwyer oversees internal audits within the DET’s administrative operations, as well as internal and external audits of individual schools. She also formed, and was appointed acting executive director of, the newly created Integrity and Assurance Division for the DET. The division is responsible for advising senior department officials on the DET’s sweeping effort to increase accountability within the organization and establish a culture of integrity.<sup>1</sup>

Technology has played a significant role in that effort, allowing Dwyer’s staff to build on each other’s efforts, automating basic tasks to increase audit’s breadth and strategic capabilities.

<sup>1</sup> For more about fraud and corruption risks, see *Taking the Best Route to Managing Fraud and Corruption Risks*, 2016, Protiviti: [www.protiviti.com/fraudsurvey](http://www.protiviti.com/fraudsurvey).

## A Strategic Imperative

A chartered accountant with experience in public practice, Dwyer joined the DET three years ago from a similar role at the Catholic Education Commission of Victoria. She arrived at the DET with a mandate to help a new administrative team establish a new “tone at the top,” and collaborate on a spectrum of strategic challenges, ranging from technology upgrades to basic governance, risk management and controls.

One of Dwyer’s first actions as CAE was to develop a value proposition.

“I spoke with CAEs from other (government) departments to identify ways internal audit could add value to the organization,” she says.

An assessment by The Institute of Internal Auditors, conducted shortly after her arrival, concluded that the DET internal audit function was significantly underresourced for the size of its portfolio and had serious capability gaps that would need addressing if the function was to fulfill its value proposition.

In order to address some of the capability gaps, Dwyer moved from a service model where expertise would be sought on a per-audit basis from an approved panel of external service providers to a co-sourced arrangement with one dedicated external provider. This enabled the departmental function to leverage the external provider’s training and development programs, as well as to facilitate knowledge transfer by the use of co-sourced teams, relying on the co-sourced service provider to fill specialist capability gaps in the short term.

Following an internal capability assessment, recruitment to internal audit was strongly focused on performance audit, IT audit and data analytics skill sets. In a fortuitous turn of events, two high-profile integrity investigations conducted into the department’s historical activities provided the “burning platform” to push for greater audit resourcing and the creation of a new Integrity and Assurance Division, which Dwyer was charged with establishing.

While internal audit had always been responsible for the conduct of fraud investigations, resourcing grew from one junior-level staff member overseen by an internal audit manager to a dedicated team of five full-time investigators and data analysts. Overall, the new division was augmented by 17.

Audit automation technology has helped streamline processes. “The challenge now is figuring out how to get the most from our [still] limited resources,” Dwyer says.

## Automating Processes to Focus on Performance

With so much to accomplish and pressure to perform, Dwyer has been automating internal audit processes, wherever possible, to increase accountability and accelerate workflows.

One of the first priorities was consolidating all audit recommendations, from both internal audit and the Victoria auditor-general’s office, into a centralized audit management tool. This allows stakeholders throughout the organization to access and update the status of pending audit recommendations in real time.

Dwyer says moving to the tool has helped put a framework around executive efforts to address outstanding items. It is also helping internal audit’s concerted effort to work with management to tackle a long backlog of recommendations arising from recent government audits.

The internal audit division served in an advisory role on the design and implementation of “Speak Up,” the DET’s new automated whistleblower hotline. Launched in 2015, the service has created an avenue for employees to report issues without fear of reprisal. Incident reports are processed by an outside provider to preserve anonymity, then logged and tracked to resolution through an automated workflow.

“It’s revolutionary for DET to track complaints from inception to resolution” says Dwyer.

## Next Stop: Continuous Auditing and Data Analytics

“If we are going to focus more on performance issues, we need to get more of what we were previously doing with compliance audits covered by continuous data analytics,” Dwyer says.

One area where this is already happening is in the finance division, where contracts and purchases, for example, are being automatically cross-referenced against other databases – such as company payroll – as a control against corruption and insider fraud.

Prior to the implementation of continuous monitoring technology, it was hard for the finance division to do more than record the transactions. Dwyer strongly advocated for this change as part of an overall strengthening of the department’s second line of defense.

In a performance-based audit culture, Dwyer says internal audit could add value to the DET by using data analytics to advise on strategic challenges, such as resource-allocation decisions. “I think there is a role for internal audit in ensuring that processes are in place and that we are making evidence-based decisions for whether to continue funding a particular program.”

Another area might be in project management, where internal audit could advise on the development of a governance framework to address execution risk, particularly on technology projects, which have proven to be challenging for the DET in the past, she explains.

Cybersecurity is also a concern, Dwyer says, although external threats have been secondary to internal challenges in recent years.

## Alignment Assignment

While the transition from compliance “policeman” to trusted adviser can take internal audit departments many years to achieve, at the DET that evolution is happening quickly. The organizational imperative for a stronger internal audit function has been helpful, especially for getting additional resources. It also helped that most of the team is new to the organization, and therefore not vested in prior practices.

Both of these advantages made it easier for Dwyer to align internal audit resources with organizational priorities. She has restructured her team to allocate specific resources to performance audit and IT, while maintaining a dedicated team devoted – for now – to the core function of compliance audit.

“If we are going to focus more on performance issues, we need to get more of what we were previously doing with compliance audits covered by continuous data analytics.”

The biggest challenges, Dwyer says, have come from outside her division, as operational divisions, unaccustomed to follow-up on internal audit recommendations, have had to adapt to the new organizational standard. But internal audit has changed, as well, working with operational divisions to align audits to management’s key risks and by replacing audit recommendations with co-developed agreed-upon management actions in response to audit-identified issues. “We had to align ourselves more closely with the strategy of the department,” she says.

## Architect, but Not Engineer

Dwyer recognizes the unique opportunity she has had at the DET. The transformational changes the organization has achieved in a relatively short time frame would not have been possible without a strong organizational mandate.

Having been presented with the opportunity, however, she is optimistic that a fundamental cultural change is underway. As both CAE and one of the chief architects of the cultural changes now in motion at the DET, Dwyer says she walks a fine line. On the one hand, she must fulfill the expectations of stakeholders looking to her as an agent of ethical transformation. On the other, she must present those changes as options and rely on others to develop and implement them in order to preserve the independence and objectivity of the internal audit function.

“We’ve spent a great deal of time training managers and employees on what it means to work with integrity. We’re making inroads, and I think that people would call us if they wanted to check that they had done something right and be more proactive about it, instead of waiting to see how things turn out after the fact.”

It’s a tricky balance, but it’s a leadership skill Dwyer says will become more important within the profession as internal auditors evolve to become the trusted advisers so many seek to be. “There’s always that tension between being independent and able to provide assurance to the audit committee, but also being a resource people call if they have a problem or think something needs to be looked at.”

Technology – especially continuous monitoring and automated reporting tools – has enabled that change at DET. Ultimately, however, it is people who have to change, according to Dwyer.

“We’ve spent a great deal of time training managers and employees on what it means to work with integrity,” Dwyer says. “We’re making inroads, and I think that people would call us if they wanted to check that they had done something right and be more proactive about it, instead of waiting to see how things turn out after the fact.”

## 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.



Ranked 57 on the 2016 *Fortune* 100 Best Companies to Work For® list, 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.

### Internal Audit and Financial Advisory

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, we 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 IIA.

Among the services we provide are:

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

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

Brian Christensen  
Executive Vice President – Global Internal Audit  
+1.602.273.8020  
[brian.christensen@protiviti.com](mailto:brian.christensen@protiviti.com)

## 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.

# Protiviti Internal Audit and Financial Advisory Practice – Contact Information

Brian Christensen  
Executive Vice President – Global Internal Audit  
+1.602.273.8020  
[brian.christensen@protiviti.com](mailto:brian.christensen@protiviti.com)

## AUSTRALIA

Mark Harrison  
+61.2.6113.3900  
[mark.harrison@protiviti.com.au](mailto:mark.harrison@protiviti.com.au)

## BELGIUM

Jaap Gerkes  
+31.6.1131.0156  
[jaap.gerkes@protiviti.nl](mailto:jaap.gerkes@protiviti.nl)

## BRAZIL

Raul Silva  
+55.11.2198.4200  
[raul.silva@protiviti.com.br](mailto:raul.silva@protiviti.com.br)

## CANADA

Ram Balakrishnan  
+1.647.288.8525  
[ram.balakrishnan@protiviti.com](mailto:ram.balakrishnan@protiviti.com)

## CHINA (HONG KONG AND MAINLAND CHINA)

Albert Lee  
+852.2238.0499  
[albert.lee@protiviti.com](mailto:albert.lee@protiviti.com)

## FRANCE

Bernard Drui  
+33.1.42.96.22.77  
[b.drui@protiviti.fr](mailto:b.drui@protiviti.fr)

## GERMANY

Michael Klinger  
+49.69.963.768.155  
[michael.klinger@protiviti.de](mailto:michael.klinger@protiviti.de)

## INDIA

Sanjeev Agarwal  
+91.99.0332.4304  
[sanjeev.agarwal@protiviti.com.in](mailto:sanjeev.agarwal@protiviti.com.in)

## ITALY

Alberto Carnevale  
+39.02.6550.6301  
[alberto.carnevale@protiviti.it](mailto:alberto.carnevale@protiviti.it)

## JAPAN

Yasumi Taniguchi  
+81.3.5219.6600  
[yasumi.taniguchi@protiviti.jp](mailto:yasumi.taniguchi@protiviti.jp)

## MEXICO

Roberto Abad  
+52.55.5342.9100  
[roberto.abad@protiviti.com.mx](mailto:roberto.abad@protiviti.com.mx)

## MIDDLE EAST

Manoj Kabra  
+965.2295.7700  
[manoj.kabra@protiviti.com.kw](mailto:manoj.kabra@protiviti.com.kw)

## THE NETHERLANDS

Jaap Gerkes  
+31.6.1131.0156  
[jaap.gerkes@protiviti.nl](mailto:jaap.gerkes@protiviti.nl)

## SINGAPORE

Sidney Lim  
+65.6220.6066  
[sidney.lim@protiviti.com](mailto:sidney.lim@protiviti.com)

## SOUTH AFRICA

Peter Goss  
+27.11.231.0600  
[peterg@sng.za.com](mailto:peterg@sng.za.com)

## UNITED KINGDOM

Lindsay Dart  
+44.207.389.0448  
[lindsay.dart@protiviti.co.uk](mailto:lindsay.dart@protiviti.co.uk)

## UNITED STATES

Brian Christensen  
+1.602.273.8020  
[brian.christensen@protiviti.com](mailto:brian.christensen@protiviti.com)

## THE AMERICAS

### UNITED STATES

|                 |              |                  |
|-----------------|--------------|------------------|
| Alexandria      | Kansas City  | Salt Lake City   |
| Atlanta         | Los Angeles  | San Francisco    |
| Baltimore       | Milwaukee    | San Jose         |
| Boston          | Minneapolis  | Seattle          |
| Charlotte       | New York     | Stamford         |
| Chicago         | Orlando      | St. Louis        |
| Cincinnati      | Philadelphia | Tampa            |
| Cleveland       | Phoenix      | Washington, D.C. |
| Dallas          | Pittsburgh   | Winchester       |
| Denver          | Portland     | Woodbridge       |
| Fort Lauderdale | Richmond     |                  |
| Houston         | Sacramento   |                  |

### ARGENTINA\*

Buenos Aires

### CHILE\*

Santiago

### BRAZIL\*

Rio de Janeiro  
São Paulo

### MEXICO\*

Mexico City

### PERU\*

Lima

### VENEZUELA\*

Caracas

### CANADA

Kitchener-Waterloo  
Toronto

## ASIA-PACIFIC

### AUSTRALIA

Brisbane  
Canberra  
Melbourne  
Sydney

### INDIA\*

Bangalore  
Hyderabad  
Kolkata  
Mumbai  
New Delhi

### CHINA

Beijing  
Hong Kong  
Shanghai  
Shenzhen

### JAPAN

Osaka  
Tokyo

### SINGAPORE

Singapore

\*Protiviti Member Firm



## EUROPE/MIDDLE EAST/AFRICA

### FRANCE

Paris

### THE NETHERLANDS

Amsterdam

### GERMANY

Frankfurt  
Munich

### UNITED KINGDOM

London

### ITALY

Milan  
Rome  
Turin

### BAHRAIN\*

Manama

### QATAR\*

Doha

### KUWAIT\*

Kuwait City

### SAUDI ARABIA\*

Riyadh

### OMAN\*

Muscat

### UNITED ARAB EMIRATES\*

Abu Dhabi  
Dubai

### SOUTH AFRICA\*

Johannesburg