



## INTERNAL AUDITING AROUND THE WORLD

*Profiles of Successful Smaller  
Internal Audit Functions at Leading  
International Companies*

VOLUME IV

**protiviti**<sup>®</sup>  
Independent Risk Consulting

## TABLE OF CONTENTS

Introduction .....	1
Airservices Australia .....	3
Alitalia .....	6
Antalis .....	9
Cadence Design Systems.....	12
Cirque du Soleil.....	15
Electronic Arts.....	18
Endurance Group.....	21
Harvard University.....	25
Henkel.....	29
McDermott.....	33
Océ.....	37
Olympic Delivery Authority .....	42
Ontario Teachers' Pension Plan .....	45
Peñoles.....	49
Reader's Digest .....	52
Reed Elsevier .....	56
Robeco .....	59
Sadia.....	63
Singapore Press Holdings .....	66
About Protiviti Inc.....	69
KnowledgeLeader <sup>SM</sup> provided by Protiviti.....	72
Protiviti's Governance Portal for Internal Audit .....	73
Protiviti Internal Audit Practice – Contact Information.....	74



## INTRODUCTION

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*“Without continual growth and progress, such words as improvement, achievement, and success have no meaning.”*

*– Benjamin Franklin*

The fourth volume of Protiviti’s *Internal Auditing Around the World* examines the challenges and successes of 19 top-performing internal audit teams, many operating with only a handful of full-time personnel – some staff members working on-site, others based in different business units and distant locations. The internal audit functions featured within represent organizations headquartered in Australia, Brazil, Canada, France, Germany, India, Italy, Mexico, the Netherlands, Singapore, the United Kingdom and the United States, as well as a diverse group of industries, which includes aviation, entertainment, financial services, food processing, mining, manufacturing, publishing and technology.

In-depth interviews with the internal audit leaders at these companies revealed that even the most streamlined teams are, by and large, finding success, although individual members might be required to take on more responsibility than they would in a larger department, and are expected to commit to ongoing education to enhance their knowledge and skill sets. Today’s internal audit functions are achieving their objectives and improving operations by being resourceful and flexible, engaging in ongoing and meaningful dialogue with management about internal audit activities and their alignment with company goals, stressing the importance of internal controls throughout the organization, and relying on technology to help manage routine auditing tasks and free up time for other key projects such as risk assessment.

One of the key takeaways from the internal audit functions profiled in this publication is that today’s internal auditors are actively striving to be highly visible to the entire operation. To achieve this, many auditors must travel to far-flung destinations to learn firsthand about their company’s activities and industry. They also must build strong relationships with personnel throughout the organization, and with external auditors and other outside resources.

And while regulatory compliance remains a top concern for many internal audit teams, it is not always taking center stage. Instead, auditors are being called on more often to act as business advisors and strategic consultants, helping their organizations to seize new opportunities in global markets, identify and manage risks, and promote best practices throughout the enterprise. The hard work and success of internal auditors through years of intense regulatory compliance pressure has raised management’s trust, respect and understanding of the internal audit function. As a result, executives, as well as the audit committee, are looking at how to better utilize the expertise of this valuable resource.

Through the process of creating four volumes of *Internal Auditing Around the World*, we have noticed another related trend: Because internal auditors are becoming so knowledgeable about their organization, many are transferring from the function after a certain amount of time to assume other influential roles in the enterprise – and are encouraged to do so by internal audit leadership. In short, their knowledge is vital and useful to the organization in ways that extend far beyond the performance of audits.

We are confident that this publication will be well received by CEOs, CFOs, boards of directors and IA professionals worldwide. As always, our goal is to provide information about best practices in the internal auditing profession, common challenges these teams face, and the creative solutions they develop and deliver. We continue to be impressed by the contributions that even the smallest internal audit functions are making within organizations of varying sizes.

Protiviti Inc.  
July 2008

## Acknowledgements

Protiviti would like to acknowledge The Institute of Internal Auditors (The IIA) for its continued outstanding leadership and its efforts to raise the profile of the internal auditing profession around the world. We wish to express our appreciation to the companies and their internal audit teams who participated in this project, openly discussed their challenges and successes, and shared their insights and best practices with us. We also would like to thank Nancy Hala for conducting the interviews and writing the informative profiles featured in this publication.



## AIRSERVICES AUSTRALIA

*Company Headquarters – Australia*

*Number of Countries Operates in – 1*

*Number of Employees – 3,000*

*Industry – Aviation*

*Annual Revenues – AUD\$716.6 Million (Total Revenues)*

*Annual IA Operating Costs/Budget – US\$1 Million- US\$5 Million*

*Number in IA Function – 14*

*Number of Years IA Function Has Been in Place – 3 Years in Current Form*

*IA Director/CAE Reports to – Chair of the Audit Committee and CEO*

Note: All of the above information is accurate as of June 30, 2007.

*“As an internal audit function, our role is fundamentally to provide independent advice to directors on the ability of the organization to meet its governance obligations.”*

*– Michelle Bennetts*

## AUDIT AND ASSURANCE AT AIRSERVICES AUSTRALIA

Airservices Australia has a fixed asset base of AUD\$493 million across 600 sites and approximately 3,000 employees, including 1,000 air traffic controllers working from two major centers in Melbourne and Brisbane and 26 towers at international and regional airports. Airservices also provides aviation rescue and firefighting services at 19 of the nation’s busiest airports.

As Airservices is government-owned, and provides critical safety services, it operates in an extremely complex regulatory environment. It must ensure compliance with Australian government laws, International Civil Aviation Organization regulations and Civil Aviation Safety Authority safety regulations, to name only a few.

Michelle Bennetts has been the general manager of audit and assurance at Airservices since April 2007. In her role, Bennetts is accountable for the audit function that provides independent advice to the board of directors related to Airservices’ compliance with external regulations and internal processes within this complex environment. Bennetts, who oversees an internal audit team of 13, also reports to the organization’s Board Audit Committee (BAC) chair and the CEO.

The internal audit function at Airservices changed dramatically three years ago, at a time when it had many disparate audit functions across the organization. One corporate area focused primarily on financial audits, while other areas in the business assessed compliance.

“This was not a value-adding approach,” Bennetts says. “Some consultants were brought in to conduct a comprehensive review of all the audit functions and, as a result, the functions were combined. We now have a professional audit function that oversees all audits across the organization, and these audits are conducted in accordance with The Institute of Internal Auditors’ standards.”

Bennetts joined Airservices in 2005 as a member of the newly revamped internal audit function. She then spent 12 months on secondment in the CEO’s office before rejoining the audit team in the role of general manager. Bennetts inherited a team she knew and liked. “My team has very diverse skill sets,” she says. “My job is to maintain that.”

Bennetts recruited two people in December 2007; also, she runs a secondment-style program to ensure there is a pipeline channeling talent and fresh ideas into her function at all times. “The most important skill I look for [in an auditor] is strong communication abilities,” Bennetts says. “From my point of view, while auditing skills are a must, it is also absolutely critical to be able to communicate effectively and develop relationships.”

## Audit and assurance group business plan

According to Bennetts, the primary role for the internal audit team is providing an independent and objective assurance and consulting service to the board – through the BAC, Board Safety and Environment Committee (BSEC), CEO and executive team. The specific deliverable for this mission includes Airservices' 2008-2009 audit plan, which must address key organizational and emerging risks. Deliverables include fostering working relationships with internal business units and external stakeholders, as well as meeting the financial budget for audit and assurance.

Bennetts says Airservices' audit and assurance business plan is segmented into three strategic challenges:

### **Strategic Challenge 1: Deliver excellent core performance**

- Build and implement a better practice audit framework
- Develop a culture of continuous improvement and performance
- Effectively manage recruitment and development of core talent
- Achieve a safe and healthy work environment

### **Strategic Challenge 2: Build a high-achieving organization**

- Implement an effective relationship management model
- Build a workplace environment characterized by openness, trust and challenge

### **Strategic Challenge 3: Deliver the future – Position for next-generation innovation**

- Maintain relevance to the changing nature of Airservices

“Our internal audit challenges are built around those of the organization; our goals must be aligned to ensure the internal audit function remains relevant and valuable,” says Bennetts. “The business plan and our audit plan are key documents for us. The business plan supports audit and assurance as a function, while our audit plan outlines our audit activity.”

She adds, “In order for us to remain a respected and valued audit function, we use a consultative approach. We continually encourage engagement throughout the business. My team targets audits at the right level in the organization, and that is essential to our success. We receive significant support from the business in that regard.

“We also ensure that audit recommendations are adequately addressing the issues raised, not just creating more work around the issues. We do not want to simply add work to the system. We are strongly aligned with The IIA, and we comply with the standards they put forth. We implement a quality assurance model to ensure that is the case.”

## Performance measures

The group business plan outlines specific key performance indicators (KPIs) for each challenge. These KPIs have actions associated with them that include accountabilities and due dates. “Audit functions are traditionally good at reviewing their progress against their audit plan. We do this, but we also review our progress against our business plan quarterly,” explains Bennetts.

Bennetts and her team also gather formal feedback on each audit regarding the manner in which they conducted themselves on the audit and the value they generated. “We have a client feedback form that I use after each audit, but I think informal, dialogue-driven feedback is equally important,” Bennetts says. “I meet with the BAC privately prior to the formal meeting so that I have the opportunity to speak with them and gather their informal feedback.”

The relationship between internal audit and the business units they serve, as well as with executive management, is open, communicative and collaborative. Bennetts says the audit and assurance team obtains the support it needs from Airservices' CEO. "Fortunately, we are appropriately positioned in the organization to receive the support we need to deliver value," she says.

## Corporate governance

Airservices is 100 percent owned by the government and, as such, must comply with many regulations, including any published in relation to corporate governance. Regarding the relevance of the Australian Securities Exchange (ASX) corporate governance requirements, Bennetts says, "The ASX requirements are not necessarily our 'bible,' because Airservices is regulated by other bodies, but we are clear about the requirements of ASX and are actively working to ensure our practices are closely aligned. We also align ourselves to guidance published by the Australian National Audit Office on this matter."

She continues, "As an internal audit function, our role is fundamentally to provide independent advice to directors on the ability of the organization to meet its governance obligations. We do this through ensuring we have a strategic, risk-based audit plan that is targeting the higher risk areas of the organization. Management and the board audit committee often seek our advice in relation to governance, whether at an organizational level, or perhaps more specific to a project or process."

## A changing function

The internal audit industry is continually transforming, and the audit and assurance function at Airservices intends to keep up with these changes, according to Bennetts, who says the number one challenge to her mission is staffing. "Attracting and retaining the right staff is critical," she says. "Without the right people with the right mix of skills, I cannot deliver a quality product. As a part of this, I believe it is essential to continually develop my staff."

Bennetts adds, "I come from a Big Four background, and I'm used to having knowledge at my fingertips wherever I turn. As an internal audit function, we need to be continually aware that as time passes and our knowledge of the business increases, our professional skills and technical knowledge can [decrease] if we are not always actively seeking out the latest, most cutting-edge thinking in the audit industry. To do this, we align ourselves, as a function, with the industry, by maintaining relevant memberships and qualifications and continually seeking opportunities to learn. The importance of this should not be underestimated."



*Company Headquarters – Italy*

*Number of Countries Operates in – 49*

*Number of Employees – 20,000*

*Industry – Aviation*

*Annual Revenues – €4.9 Billion (Total Operating Revenues)*

*Annual IA Operating Costs/Budget – US\$1 Million - US\$5 Million*

*Number in IA Function – 7*

*Number of Years IA Function Has Been in Place – 27*

*IA Director/CAE Reports to – CEO*

Note: All of the above information is accurate as of December 31, 2007.

*“First, we want to move to a risk-based audit approach, so that we will be aligned with international indications and best practices. Secondly, we want to improve the perception, inside the organization, of the internal consultant role of the internal audit department.”*

*– Antonio Perno*

## CONTINUED CHANGE ON THE HORIZON FOR THE INTERNAL AUDIT TEAM AT ALITALIA

Alitalia – Linee Aeree Italiane S.p.A. (Alitalia) is a private company; 49 percent of it is owned by the Italian Treasury Ministry. According to Alitalia’s 2006 financial statement, the company operates in civil aviation transportation, with 186 aircraft, 804 daily flights, 101 destinations, 49 countries and 24 million passengers every year.

Alitalia is managed directly by its CEO, who receives the managing mandate from the board of directors. Staff departments that report to the CEO include institutional relations, corporate finance, human resources, general counsel and group auditing. Lines of business at Alitalia are business strategy and marketing, sales, procurement, customer quality, cargo and operation – including ground operation, flight operation, and engineering and maintenance.

Antonio Perno has been the head of Alitalia’s internal audit department since October 2006, and directly reports to the group auditing director. He is responsible for audit plan definition and implementation. Perno has a superior degree in TLC Engineering (Company Management) from the University La Sapienza of Rome.

Prior to joining Alitalia, Perno worked for British American Tobacco Italia as senior internal auditor with direct responsibility for planning, managing and conducting internal audit projects. He also was involved in risk assessment process implementation and key control checklist methodology implementation. He joined Alitalia at the end of 2004, and was responsible for the company’s operational audit department.

Alitalia’s seven-person internal audit team is composed of three different departments: operational audit, financial audit and station audit. With regard to internal resources, each department has a responsible manager and a senior auditor who directly manage the execution of audit projects.

From an operative point of view, the use of information technology (IT) within the internal audit department is related to two different aspects. One is the way in which information is gathered and reported during audit activities and testing. “Our audit reports, supported by [the] ‘info path’ IT format, are written using a predefined standard form,” says Perno. “This standard form is an info path file, not a Word file. In this way, we can manage dynamic information that feeds automatically into a pre-implemented database. The difference between using an info path file and Word file is significant. We have succeeded in moving from the static information of a Word file into a subset of dynamic information that includes company process, audit observations, audit opinions, potential risks, and an action and remediation plan.”

The other aspect involves the test audit activities. “We use Excel and Access database tools, but moreover, to increase the range and type of our tests, we use ACL and Monarch tools. This allows us to manage and elaborate huge data files in different IT formats,” he says.

## Objectives and methodologies

The short-term goal for the internal audit department, according to Perno, is to implement the formalized and approved audit plan, which must be in compliance with the international standards of internal audit and follow Alitalia’s internal procedures and methodologies.

Perno also has two long-term strategic goals: “First, we want to move to a risk-based audit approach, so that we will be aligned with international indications and best practices,” he explains. “Secondly, we want to improve the perception, inside the organization, of the internal consultant role of the internal audit department. We want to support line managers by helping them achieve their business objectives and identify and manage related business risks. To achieve this, we must be perceived as a value-adding business partner and consultant.”

To increase efficiency and effectiveness in evaluating and managing risk across the organization, Perno has adopted an internal audit methodology that places business risk as the main driver of all audit activity. “In our methodology, when we are asked to begin an audit, we start by creating a structured and analytic process to identify and evaluate the business risks involved,” he says. “Our first step is to begin with the specific business objectives allocated in a process. Then, we apply the audit test to evaluate the related controls that are in place to mitigate all the business risks that are linked to those objectives. Finally, we assess the business risk in terms of covered risk and residual risk. Our audit report is articulated in sections to organize and formalize this different information.”

With regard to covered and residual risk, the implementation of the internal methodology is focused in the preliminary phase on the identification of the main potential risks directly managed by the process owner. Theoretically, potential risk is the sum of covered risk and residual risk. During the next step, the test phase, the auditor is asked to evaluate the internal controls put in place to mitigate the potential risks. By doing this, Perno and his team can measure the covered or controlled risk, and then calculate the residual risk.

Some of the key performance indicators (KPIs) Perno uses to measure the internal audit department’s performance include:

- Number of audits completed versus planned
- Number or percentage of recommendations implemented
- Number of new risks identified
- Cost savings/earnings generated
- Number of management requests for consultancy services

A structured evaluation process is used to measure the performance of each auditor, but not the overall performance of the internal audit department. Using this approach, an auditor is evaluated under three different dimensions: skills, personal value, and targets reached in each audit activity.

## Three-level sharing with management

One important internal procedure in the execution of an audit activity is establishing a formal relationship between auditors and business unit managers. Before beginning any audit project, the internal audit team sends a formal, standard e-mail to the business unit manager, or auditee, which outlines the scope of the audit and its objectives, as well as other information about the audit assignment, duration and team.

“We then have ‘three-level sharing’ to achieve a full understanding of the key issues highlighted during the audit,” says Perno. “The three levels refer to conditions, causes, and the impact/action plan proposed. In this way, the relationship between internal auditors and business unit managers is standardized and formally codified.”

At the end of the audit, after the CEO has approved the action plan, Perno sends an e-mail to all business unit managers who may be interested in the audit report findings. “Ongoing and consistent communication is very important for our long-term success as a team, and as a company,” says Perno.

### Corporate governance regulations

“I think that the way we approach the work we are asked to do, the methodology we use and the way we report the information is highly effective in helping leadership manage risk in general, and specifically, risks related to corporate governance,” Perno says. “Our action plans typically have a direct impact on the organization, process re-engineering and controls.”

Alitalia is not a Sarbanes-Oxley Act registrant. “On the contrary, we must [comply with] Legge sul risparmio 262/05, a specific Italian law that is very similar to Sarbanes-Oxley,” Perno says. “The internal audit department was not directly involved in this project, which started at the beginning of 2007 and is under the responsibility of the corporate finance department. However, in 2008, internal audit will be asked to perform financial audits to verify compliance to the 262/05 control model established.

“It is important to note that, starting in 2005, the role of internal audit changed drastically within Alitalia,” Perno says. “Much energy was spent to closely align internal auditors with business unit managers so that we could be positioned to help them effectively manage business risks. Moreover, a big emphasis was placed on modifying the perception of internal audit – moving the team from an inspective department to an internal consultancy department. Now, everyone understands the new role of the internal audit department.”

### More change ahead – the merging of two cultures

According to Perno, in the near future, he and his team will be asked to face the “delicate and terribly difficult process” of integration with new management, as Alitalia is in the process of being sold to a different property. “We must be ready to critically review our methodology with an open mind, and to seek continuous improvement,” he says.

“Merging our culture with the culture of a new organization will be critical. The role of internal audit in this process is extremely important.”

*Company Headquarters – France*

*Number of Countries Operates in – 44*

*Number of Employees – 7,900*

*Industry – Distribution*

*Annual Revenues – €2.3 Billion (Total Sales)*

*Annual IA Operating Costs/Budget – <US\$1 Million*

*Number in IA Function – 4*

*Number of Years IA Function Has Been in Place – 5*

*IA Director/CAE Reports to – CEO*

Note: All of the above information is accurate as of December 31, 2007.

*“My aim is to provide audit value. When we arrive in a country, the first thing we do is host a kick-off meeting in which we explain why we are there and what we are going to deliver. We identify weaknesses, provide risk management techniques and share best practices. We must be a value-added provider of services, because we are supporting the business, not policing it.”*

*– Alexandre Danjou*

## INTEGRATING AND IMPROVING THE AUDIT CULTURE AT ANTALIS

Antalis is a leading European distributor of communications support materials, serving more than 180,000 customers – from printers and resellers to large companies and communication agencies – through a worldwide network of more than 2,000 local sales representatives.

Antalis offers products and services in five main business areas:

- **Print:** coated, carbonless and creative papers and envelopes for printers, graphic artists, designers, publishers and communication agencies
- **Office:** paper and office consumables for resellers, businesses and public sector organizations
- **Visual Communication:** paper, board and plastics for quality signage systems
- **Packaging:** solutions for the conditioning and protection of industrial goods during transport and storage
- **Promotional Products:** promotional items and company gifts personalized upon request

Alexandre Danjou was appointed director of internal audit for Antalis in January 2007. After years as an external auditor for Big Four firms, he became the financial director at a radio company. In 2005, he joined Antalis as a senior internal auditor. Today, Danjou oversees a group of four auditors, who work with him at the company's headquarters in Paris. Danjou reports to the CEO of the group and works in close collaboration with the CFO.

Antalis is a highly decentralized worldwide organization, with one or more entities in each of the countries where the company conducts business; the number of companies that must be reviewed and audited is about 73. In terms of implementing internal control, Danjou and his small team must maintain a tight rein on fieldwork, risks and controls. In June 2007, Antalis acquired Map Merchant Group, making Antalis the number one group in paper distribution in Europe. Prior to that acquisition, the internal audit team could cover all operations in two years. However, because of the larger number of audit entities to be addressed, the team now relies on a cyclical auditing schedule, and it has become even more critical for Antalis to develop an internal audit culture focused on continual strengthening of internal controls.

Antalis has used Protiviti's Internal Audit Portal for the past three years to facilitate the audit process, monitor controls, and help the company focus on key risks and critical processes with a central repository for audit workpapers, issues, findings, reports and business risks. Danjou's team also uses tools from Protiviti's knowledge portal, KnowledgeLeader<sup>SM</sup>. According to Danjou, because of the company's broad audit scope, additional technology will be implemented in 2008 that will assist internal audit with following up on findings and making appropriate recommendations.

## A two-year commitment

To maintain his audit team, Danjou has asked for a two-year commitment from each auditor, after which time they are encouraged to move into executive leadership positions throughout the company. “We help place them in these positions,” Danjou says. “We provide performance appraisals for our auditors every year to make sure they stay on track with their career goals within Antalis. We work with human resources to accomplish this, training these individuals so that they are prepared to take on important roles within the company.”

Danjou spends much of his time recruiting qualified auditors to take the place of the ones who leave the team. With such a small internal audit staff, the absence of one auditor carries significant impact. “My department adds substantial value to the company,” he says. “For me, this means a lot of pressure to recruit top talent. On the other hand, it is good for my team’s position in the company, and also our image, if we can offer potential auditors excellent opportunities in career development.”

Danjou seeks out auditors with strong financial and external audit skills. “Because we work in a decentralized company, we have to challenge the management reports, probing to find out if items are over-valuated or under-valuated. We examine profit/loss and balance sheets to make sure that they are accurate and complete. In addition, we must be able to assess business process efficiency, so we are looking for auditors with a mixture of finance and process skills.”

## Risk mapping

In 2004, the internal audit team developed a risk map for Antalis that outlined a two- to three-year view of risks throughout the organization. With the risk map, Danjou was able to establish a detailed audit plan for that time frame. He says he is about to embark on a new risk map for the next two to three years, which will take into consideration the acquisition of the Map Merchant Group.

“With our small team, I have to prioritize our fieldwork and country visits,” Danjou says. “Not only do we make sure to visit each one of our locations on a cyclical basis, but we also keep in mind the economical and political situations of the regions. Some are not stable, and therefore require additional attention. It is our job to ensure that everything is secure, and that requires an intimate understanding of local laws, customs, markets and risks.”

To maintain this level of geographic coverage, the auditors travel more than 70 percent of the time – approximately three weeks in every month. Danjou submits activity reports to the audit committee twice per year, in July and February. “Some of our performance indicators are based on how long it takes to issue reports and how many issues we identify per process, per country and per rating – from A (a major issue) to C (a minor risk),” he explains.

“My aim is to provide audit value. When we arrive in a country, the first thing we do is host a kick-off meeting in which we explain why we are there and what we are going to deliver. We identify weaknesses, provide risk management techniques and share best practices. We must be a value-added provider of services, because we are supporting the business, not policing it.

“With this philosophy, the internal audit group is viewed in a positive way throughout Antalis,” Danjou says. “When we are visiting a country, we communicate with the business managers one month prior to our arrival, presenting our audit rationale, audit scope and introducing our team members. In this way, everybody knows what we will be focusing on and who we will be working with. It is all very transparent – no surprises.”

## Integrating a new group

The primary challenge now facing Danjou and his team is the integration of the Map Merchant Group. “We need to add them to our culture of processes, policies and controls. That will take up the majority of my attention in 2008,” he says.

Danjou also will continue to work with the CEO and audit committee on the effectiveness of internal controls within the company. “In terms of monitoring corporate governance, we work closely with our external auditors and the CEO to ensure that the appropriate controls are in place in the many diverse regions around the world where Antalis conducts business,” he says. “Our objective is always to [assure] our top management that we are providing high-quality audit results.”



# cadence™

*Company Headquarters – United States*

*Number of Countries Operates in – 18*

*Number of Employees – 5,300*

*Industry – Technology*

*Annual Revenues – US\$1.6 Billion (Total Revenues)*

*Annual IA Operating Costs/Budget – Prefer Not to Disclose*

*Number in IA Function – 7*

*Number of Years IA Function Has Been in Place – 3*

*IA Director/CAE Reports to – Audit Committee and Senior Vice President of Finance/Corporate Controller*

Note: All of the above information is accurate as of December 29, 2007.

*“One way that we add value for executive management is by lifting a large percentage of the burden of Sarbanes-Oxley from third-party providers and Cadence business process owners.”*

*– John Springer*

## BUILDING AN INTERNAL AUDIT FUNCTION AT CADENCE DESIGN SYSTEMS

Cadence Design Systems, Inc. is the world's leading electronic design automation (EDA) technologies and engineering services company. Headquartered in San Jose, California, Cadence provides customers software and hardware, methodologies, and services used in the design and verification of advanced semiconductors, printed circuit boards and systems employed in consumer electronics, networking and telecommunications equipment, and automotive and computer systems. Cadence's operating divisions are aligned by the different product lines as well as the regions the company serves: North America, Europe, the Middle East and Africa, Japan, Asia-Pacific and India.

John Springer has been the director of internal audit and compliance at Cadence for three years. Prior to joining Cadence, he spent nine years in public accounting at Arthur Andersen and KPMG. He is responsible for an internal audit staff of six, and oversees the group from Cadence's shared service center in Sandy, Utah. Springer reports to the audit committee and the senior vice president of finance/corporate controller.

Springer's team is Cadence's "first round of auditors." Not everyone on the team has been with Cadence for the three years that Springer has been director. "I'm the longest-serving member of the team," he says. "Prior to me, the internal audit function was outsourced to a third-party firm. Now, we use Protiviti to partner with us on a co-source basis."

The internal audit group was formed in response to the emergence of Sarbanes-Oxley regulations; it was internal audit's role to implement Sarbanes-Oxley compliance processes throughout the business. The group then worked to transform internal audit into a sustainable process in and of itself, driving down external audit fees and providing more risk management coverage in business areas that would not be in the Sarbanes-Oxley 404 scope – such as operational areas of risk, improvement and efficiency.

In terms of staffing, Springer has hired externally and internally, looking for the rare auditors who truly understand Cadence's complex business model and industry. Some of the most important skills Springer looks for in an auditor include software experience, analytical skills and communication strengths. Being multilingual is also a plus: more than 50 percent of Springer's team speaks two or more languages. One member who speaks Mandarin adds significant value to the audit business conducted in China, according to Springer.

## Developing the audit plan

Springer and his team design an annual audit plan that is approved by the audit committee. The plan is based on conversations with and feedback from executive management, mid-level managers and the audit committee. The audit plan provides coverage on both a geographical and a process level, spanning five major business processes:

- Customer and sales
- Internal human resources
- Corporate assets and information technology
- Management and treasury (including governance and budgetary issues)
- Vendors and procurement

In general, key areas under review include the general control environment, Sarbanes-Oxley and code of conduct awareness; financial processes; compliance; authority and delegation; policies and procedures; and segregation of duties.

“As a software company, processes around the quote-to-cash cycle and revenue recognition are hit very hard both by Sarbanes-Oxley and operational audits,” Springer says. “International locations have also been a key focus. Cadence has had significant growth in recent years in emerging markets such as India and China, so much effort has been expended to make sure that effective controls and risk management exist in those locations to address unique situations. For example, in China, some vendors will only accept payments in cash.”

Special or “hot” issues also are included. “We determine what is covered under Sarbanes-Oxley Section 404, and we try to venture out beyond what is not covered under this guideline,” says Springer.

## Cultural changes

While there has not been “pushback” at Cadence, there has been a cultural shift within the organization around accepting and understanding the presence of an internal audit function. “We had to sell the function by conducting internal marketing with business unit managers,” Springer explains. “We meet with the executive management team on a regular basis to discuss their concerns and any emerging issues. We also make sure to keep the management team apprised of our group’s technical skills, as well as the competencies and expertise of our co-sourcing partner. In short, we have tried to effectively market our services to executive management, and they have been very accepting. However, our role is still developing.”

Springer adds, “One way that we add value for executive management is by lifting a large percentage of the burden of Sarbanes-Oxley from third-party providers and Cadence business process owners.” According to Springer, historically, third-party providers worked with the process owners on a 60/40 percent basis. Today, the internal audit group handles 95 percent of Sarbanes-Oxley testing, while a third-party provider is responsible for the other five percent.

“We manage everything in the audit scope internally, taking the responsibility off the shoulders of the process owners who did not have the time or the expertise to manage those items themselves,” Springer says. “Now, the work is centralized with our team, and we can field questions about risks, controls, Sarbanes-Oxley compliance and work conducted with external auditors.”

In recent years, the audit committee has been highly interested and proactive about expanding the internal audit group, according to Springer, and has expressed a desire that the internal audit team be independent from any third-party providers.

“Our group will never be big enough to have all the skills in-house to cover the breadth of risks that we face,” Springer says. “However, the audit committee wants us to be as self-reliant as possible.”

### A single audit lens on a global company

One of the primary challenges facing Springer is making sure his team has the right development opportunities in place for current and future internal auditors. “So far, we have not had issues in terms of staffing,” he says. “We have enjoyed 100 percent retention, probably because we expose our auditors to so many different lines of business in multiple locations around the world. That is an attractive opportunity for our auditors, from a training and professional development standpoint.

“Looking forward, we want to make sure that opportunities exist for people. Since our function is fairly new, this is an issue we will explore for the next 12 to 18 months.”

The other challenge for Springer is meeting audit committee expectations by understanding the business – with its engineering and technical complexities – well enough to add real value. “Our goal is to continue to be viewed as a value-adding business partner for Cadence, not just a compliance function,” Springer says. “We want to help focus the business on improvement.”

Increasing the efficacy of the Sarbanes-Oxley processes also continues to be an important objective. “For 2008, we will be trying to enhance the Section 404 process to take maximum advantage of the new regulatory guidance from Audit Standard No. 5,” he says.

Springer acknowledges his audit team is small, which creates both disadvantages and advantages. “With a small group, it is difficult to maintain a complete skill set to address all of our company’s varied risks, but that is where we supplement with a co-sourced provider,” he says. “Having a small group means that generally, the same people are involved in nearly all of the audits, giving the audit team a single lens to the worldwide company. For example, since the same team is involved in audits in the United States, Ireland, China and Japan, it allows us to benchmark best practices from the various regions and share ideas with other locations where processes may not be developed or as mature.

“Although our group is physically located in three different locations across two continents, we have regular conference calls, and we try to get together as a group at least once per year,” says Springer. “We have really tried to foster a culture of knowledge sharing.”



*Company Headquarters – Canada*

*Number of Countries Operates in – 10 Concurrently*

*Number of Employees – 4,000*

*Industry – Entertainment*

*Annual Revenues – US\$620 Million (Gross Revenues)*

*Annual IA Operating Costs/Budget – Prefer Not to Disclose*

*Number in IA Function – 6*

*Number of Years IA Function Has Been in Place – 7*

*IA Director/CAE Reports to – President/CEO and Senior Vice President*

Note: All of the above information is accurate as of December 31, 2007.

*“We assist management by making them realize that controls are measures to help them reach their objectives, and that this benefits them, not us.”*

*– Louise Rémillard*

## EVALUATING, PROMOTING AND INFLUENCING CHANGE AT CIRQUE DU SOLEIL

Cirque du Soleil (French for “Circus of the Sun”) is an entertainment organization based in Montréal, Québec, Canada. Founded in 1984 by former street performer, Guy Laliberté, it has expanded rapidly over the past 20 years from one show with 73 employees to an organization with almost 4,000 employees representing more than 40 countries, and estimated annual revenue exceeding US\$620 million. Today, more than 1,000 artists perform in 15 different shows worldwide (three new productions will be added in 2008); approximately 80 million people worldwide have witnessed a Cirque du Soleil performance.

Louise Rémillard is Cirque’s senior director of internal audit and corporate security. Seven years ago, she began her tenure as the director of internal audit; the corporate security component was added one year ago. Her professional background spans 30 years of internal audit, including financial, forensic and operational auditing in a variety of industries, such as retail, railway and transportation, telecommunications, the public sector, and now, entertainment.

Cirque has international headquarters in Montréal and regional offices in Las Vegas, Amsterdam, Melbourne and Macau.

The internal audit team of six includes Rémillard, three senior auditors, one technician, and a member who provides administrative support. The team reports functionally to the president and CEO, and administratively to a senior vice president.

### Staffing an organic and diverse audit team

The expected typical tenure for auditors at Cirque is two years. With such a small team, it’s important for the auditors to be seasoned and knowledgeable, according to Rémillard. Most have more than 15 years of experience, and while they all have an accounting background, they also have diverse professional backgrounds to ensure complementary experiences and competencies on the team.

“Our auditors tend to stay with the internal audit team,” says Rémillard. “We typically perform non-repetitive audit work, with the exception of some standard audit programs that we use for touring operations. Our auditors need to be ‘people-oriented,’ with the ability to adjust to different cultural situations and working environments. We are very organic. We have more than 40 different nationalities in this company, which requires a great breadth of communication and negotiating skills.”

## Evaluate, promote and influence

The internal audit mandate is to evaluate, promote and influence internal controls in the organization, as well as efficiency and risk management. The objective for the organization was to implement an internal audit function recognized for its integrity and objectivity. “It was also specifically expected that internal audit be able to recognize and support good management behavior,” Rémillard says. “We assist management by making them realize that controls are measures to help them reach their objectives, and that this benefits them, not us. We use the internal control framework (COCO) published by the Canadian Institute of Chartered Accountants in the mid-1990s. I like it because it defines effectiveness very simply, can be used at all levels of the organization from strategic to operational, and is great for training. I created a one-page format based on this model and use it for reporting audit findings to top management.”

For example, the internal audit team defined two basic financial processes:

- **Changing the merchandising distributor.** “We were very hands-on in helping to define the inventory control mechanisms that needed to be in place to monitor these activities,” says Rémillard. “We were a great help to management by defining the controls with them, and documenting the processes and controls. They orchestrated training and implementation follow-ups.”
- **Payroll.** According to Rémillard, this is a very complex process in which the internal audit team was instrumental in defining performance indicators on the quality of payroll information. Five years later, the indicators are still in place, followed by top management, and critical for management of information quality.

“Newcomers do not have any idea the internal audit team accomplished this, but top management appreciated that we could get away from the often-heard excuse for not getting involved of wanting to protect independence and objectivity,” she says. “Sometimes, we are in a unique position to be able to help management in sensitive situations. I do not hesitate to jump in when I realize that probably nobody else could do it; however, I protect the function’s independence and objectivity by refusing to substitute myself for management.”

In another example, Rémillard decided to allow a sizeable portion of internal audit resources to work with management to influence the president on a core and strategic process that rendered the company more reactive than proactive. “It was a risk, but very high-quality controls allowed us to reduce that risk, and it worked. After seven years, the function is well implemented. Management calls me when they have a problem. This is the best performance indicator to measure internal audit effectiveness. It works because my work is factual, depersonalized and timely.”

To fulfill its mandate, the internal audit department is responsible for:

- Developing a strategy for auditing Cirque du Soleil’s operations, taking into account the organization’s strategic objectives and business risks
- Preparing an annual audit plan that supports the established audit strategy and meets the specific requirements of managers; management requests are given priority
- Implementing the audit plan using audit methods and procedures deemed to be appropriate
- Reporting audit findings to the managers concerned, and assisting them with developing action plans designed to benefit from observed improvement opportunities
- Following up on action plan implementation
- Serving as a change agent by sharing knowledge, particularly with respect to efficiency and risk management
- Playing an advisory role, particularly in regard to initiatives for developing and/or evaluating processes led by managers
- Reporting to the executive board on internal audit activities, at a frequency determined by the board

## Performance measurement

The internal audit team has high quality standards for audit strategy, execution and reporting. Rémillard speaks to management before the issuance of each audit report to determine if these people feel the report fairly represents the operations. If the answer is “no,” that gives her a chance to evaluate the reasons why they feel the report is not fair. “In 30 years [in the profession] this has happened twice,” she says. “I ask these people to put their comments in writing to ensure that everybody will see and understand their position. This usually puts an end to it, helping to maintain internal audit’s reputation by putting everything in the open.

“Since we never do the same audit twice the same way, the adherence to the methodology is key to ensuring the effectiveness and efficiency of our own operations,” she adds.

As a private company, Cirque has no audit committee, meaning the actions management has taken following the audit reports speak to the power of the findings – and the process itself. There is significant credibility attached to internal audit work conducted by Rémillard’s team, and it stems from the stringent quality standards they follow. Management often refers to Rémillard on strategic issues, including governance. “I am very proud that the organization determined that we are best-positioned to influence the corporation in this way,” she says.

While Cirque is not subject to Sarbanes-Oxley Act compliance, the internal audit team examines all Sarbanes-Oxley requirements and has adopted some related best practices. “We have modified our process flows so they are compliant, and we have used Sarbanes-Oxley to influence our risk matrix for evaluating controls over reliability of information,” Rémillard says. “We have shared that work with our external auditors so they can better leverage our work. We have also adopted some of the Sarbanes-Oxley terminology. I believe we are influenced by it in the right way, and in turn, we can influence our finance department in the same way.”

## Relationships with senior management

The management team welcomes internal audits, according to Rémillard. “A few weeks ago one executive was very happy with the fact that I wanted to meet him and his representatives to discuss the risks and evaluate the audit needs in his division,” she says. “He could not believe that, at last, we would go his way. The audit methodology is based on a mutual understanding of audit needs. During the audit process, we discuss audit objectives and timeline, as well as audit conclusions and observations. We also discuss potential solutions, and more often than not, recommendations are implemented before we issue the audit reports. The idea is to create validation with management from a bottom-up approach. There should not be any surprises when they get the report.”

## Challenges ahead

With the complexity and growth of Cirque du Soleil, Rémillard wants to maintain the same level of service in the coming years. She plans to use outsourcing for more financial audits. “In 2007, we started working on a strategy to more closely audit the reliability of management’s financial information. My objective for the next 24 months is to bring Cirque up to speed with Sarbanes-Oxley requirements in terms of documentation and the mindset of internal controls.

“On a more strategic point, I’m pleased with the reputation and position of internal audit and the role we are requested to play in the company,” Rémillard says. “My challenge is how do I influence and promote better understanding of the importance of efficient and effective controls? We will attempt to integrate this vision in the evolution of our governance processes.”



*Company Headquarters – United States*  
*Number of Countries Operates in – 45*  
*Number of Employees – 7,900*  
*Industry – Technology*  
*Annual Revenues – US\$3.1 Billion (Net Revenues)*  
*Annual IA Operating Costs/Budget – US\$1 Million-US\$5 Million*  
*Number in IA Function – 16*  
*Number of Years IA Function Has Been in Place – 5*  
*IA Director/CAE Reports to – CFO*

Note: All of the above information is accurate as of March 31, 2007.

*“Part of our mission is to support management and make sure that key strategic decisions are successful and properly supported.”*

*– Olivier Colcombet*

## ELECTRONIC ARTS: INNOVATIVE AUDIT FOR A CREATIVE WORLD

Electronic Arts (EA) is the world’s leading interactive entertainment software company. Founded in 1982, the company develops, publishes and distributes interactive software worldwide for video game systems, personal computers, cellular handsets and the Internet. In fiscal 2007, EA posted revenue of US\$3.09 billion and had 24 titles that sold more than one million copies.

The global audit team has offices in the company’s global headquarters in Redwood City, California, and in the regional headquarters in Geneva, Switzerland. Olivier Colcombet has been the vice president of global audit for more than two years. He oversees a team of 16 internal auditors, including three directors: one dedicated to global Sarbanes-Oxley project management; one based in the United States; and a third dedicated to special projects, such as program risk management and process improvement. The global audit function is beginning a program now to increase its use of technology beyond audit command language (ACL), and plans to add a number of information technology specialists to its team in the near future.

Auditors typically stay in the department for two to three years, according to Colcombet. “I am in favor of recruiting top talent to spend 18 to 24 months in audit,” he says. “After that, auditors should be considered a source of key talent for the rest of the business. If they want a career in audit, I don’t encourage them to leave, but I am always excited when talented auditors are recruited by other EA business leaders.” Colcombet has created a diverse talent pool in the global audit department, which includes proficiency in eight different languages – Chinese, English, French, German, Italian, Japanese, Korean and Thai.

When Colcombet joined EA, he did not receive a specific mandate for creating change or making innovative shifts in the audit approach, but he had plans of his own. “The most important initial change I made was in the reporting line,” he says. “Historically, only one person reported to the head of audit, business, and information technology. Now, every manager has a direct reporting line to the audit team and they can talk about goals and performance. This is critical to build talent. Bright, young people want to enhance their management experience, which is why, for most, the global audit function is a great stepping stone where they can leverage their knowledge and learn how to be even more valuable to the business.”

### Changing the audit mission

Colcombet added recruitment and training to the mission of the global audit team so it can continue to be a strong source of talent. “We want people to stay within the company, so we need to mature and nurture them for future growth,” he says. “The other aspect of change involves my strong belief

that, to perform effective assessments, the global audit team has to be connected to the business. I encourage my team to foster that relationship. I try to invite guest speakers each quarter from the business.

“My predecessor was overloaded with Sarbanes-Oxley [compliance]; this year, I’m increasing our investment in other areas. Sarbanes-Oxley project management objectives are part of my team, and we conduct key process reviews, but as much as possible, the work related to Sarbanes-Oxley is performed by external support in a co-source arrangement,” explains Colcombet. “In our second year, we dedicated 50 percent of our time to Sarbanes-Oxley. This year, those who have more than one year as a team member will spend less than 20 percent of their time on Sarbanes-Oxley, and some of our team members will have zero percent time dedicated to this area.”

The global audit team is engaged in approximately 25 audits this year, so it is essential for Colcombet to allocate staff to critical audits and key projects and initiatives. However, he says the number of people is not the most critical aspect; making top executives understand that Sarbanes-Oxley is not global audit’s core business is the most important thing. “Part of my job is to advertise the global audit function through internal marketing,” explains Colcombet. “We are now harvesting the fruits of that labor. People will come to me when they are launching a process-driven or business-driven project to get our opinions and insights.”

Under Colcombet’s guidance, the global audit team focuses on the key risks and control environment of the company. “Compliance is always part of our blood, but our objective is to conduct more geographic audits, as well as global risk assessments. Last year, we did the first global risk assessment for EA, and it was a significant source of information for our audit plan,” he says.

Finally, as part of his change initiative, Colcombet began conducting enterprise risk assessments on a quarterly basis last year, which helped to support and connect global audit to the business. Given the scope of the changes he is implementing, global audit is increasingly part of every critical project or program in the company. “One enterprise risk assessment can help ensure that strategic decisions will drive our success,” he says. “Part of our mission is to support management and make sure that key strategic decisions are successful and properly supported. Sharing best practices is another important aspect of our mission. When we visit a big country and something is properly set up, we go to a smaller country and share the information so they can leverage the lessons learned.”

## Global audit performance measurement

Global audit measures its performance based on many factors, such as:

- Number of audits conducted
- Hours dedicated to each audit
- Quality of the audits
- How the team drives improvement
- Number of locations where audits are performed

Colcombet tries to visit 15 countries per year for geographical audits. “I do believe that presence is one way to share best practices,” he says. “I have been a CFO for 10 years, and I know that when you have a sleeping project, and you know the auditors are coming in a few weeks, you move fast to try to achieve the project’s goals before they get there. It’s an incentive.”

Specific performance measurement includes a quarterly review; items are designated red, yellow or green, and each one calls for different follow-up procedures. A minimum six-month follow-up is designated to every audit, either by phone or physical visit.

Colcombet and the global audit team have invested considerable effort into moving from being known as the compliance force of the company toward creating collaborative partnerships with the business units. “That relationship means we are closer to the business and can support them on managing key risks,” he says. “It was an effort, but it is still a long journey. I now receive more e-mail than ever and more requests for special support and projects. Two years ago, we developed a transition plan and realigned our resources to our charter. As a result, we progressed in the value chain.”

### Full integration within the business

Colcombet’s real objective is to be fully integrated in the business, adding value by supporting EA’s strategic goals as a growing, global company. To do this, he says he is going to continue to recruit talented auditors who can learn fast and spread knowledge throughout the organization in short order. He wants them to spend at least two years with the audit team before they move into other business areas, bringing with them a clear understanding of EA’s risks, processes and controls.



## **ENDURANCE** *Complete Solutions*

*Company Headquarters – India*

*Number of Countries Operates in – 7*

*Number of Employees – 3,700+*

*Industry – Manufacturing*

*Annual Revenues – €370 Million (Total Sales)*

*Annual IA Operating Costs/Budget – <US\$1 Million*

*Number in IA Function – 4*

*Number of Years IA Function Has Been in Place – 2*

*IA Director/CAE Reports to – Managing Director*

Note: All of the above information is accurate as of March 31, 2007.

*“Our internal audit team wants to provide assurance to the company by putting processes in place for robust auditing and accounting, resulting in improved risk management and cost control.”*

*– Shripad S. Limaye*

## **A SMALL INTERNAL AUDIT TEAM WITH BIG PLANS FOR ENDURANCE GROUP**

Endurance Group was established in 1985 as Anurang Engineering Co. Pvt. Ltd. to manufacture aluminum die casting products at Aurangabad, Maharashtra (India). Today, the company is a global leader in casting, suspension, transmission and braking products, with annual sales of €300 million from domestic operations and approximately €140 million from overseas operations for the year 2006-2007. It has more than 3,700 employees working in 19 plants at six locations in India and approximately 625 employees in six overseas plants.

Endurance Group consists of two main business divisions – the die casting division and the proprietary component division. Under the die casting division, the main areas of operations are aluminum pressure die casting, painting and machining, which are supported by well-equipped tool room facilities. Under the proprietary component division, the main areas are suspension, transmission and brakes.

Shripad S. Limaye, a seven-year veteran in the internal audit industry, is the internal audit head at Endurance Group. Prior to Limaye joining the company, Endurance Group had an internal audit function with a more traditional focus. Currently, Limaye reports to the managing director, Anurang Jain, and is responsible for providing assurance to the management team. The internal audit department is small; Limaye oversees a group of three auditors, with some functionality outsourced to third-party providers, including Protiviti.

### **The challenges and benefits of a three-person audit team**

Endurance Group has grown exponentially in the last five years. Historically, the internal audit department was part of the finance function and audits were outsourced to small audit firms. “At that time, Endurance Group believed that the best strategy was to outsource the internal audit function to professional audit firms and have a smaller team in-house to coordinate the audits,” Limaye says. “We also accepted help from other support functions, such as finance and information technology [IT], in conducting the audits. Over a period of about two to three years, it became the company’s objective to strengthen the internal audit team with well-qualified and experienced audit professionals, and then follow a co-sourcing model for conducting internal audits. Our current team has expanded its skill sets by having worked extensively with the other professional firms during the course of our audits.”

According to Limaye, one challenge of managing a smaller internal audit team is that much time is spent in the coordination and follow-up of the audit recommendations, rather than actually conducting the reviews. “The focus is more concentrated on the review of the process rather than continuous audits through review of the transactions,” he says. “Similarly, follow-up and actual implementation of the audit recommendations would be faster with additional resources.”

Currently, the internal audit team develops an annual plan of the audits, which states that certain critical locations and their key processes are to be reviewed by outsourced audit firms. Similarly, certain special audits, such as auditing an enterprise resource planning (ERP) application or data security at research and development centers, and the audit of overseas entities, also are outsourced, as they require special skill sets. The internal audit team mainly coordinates with the external auditors, conducts reviews of transactions and reports, and undertakes certain special assignments based on the expectations of Endurance Group’s managing director. The internal audit team also takes part in vetting standard operating procedures and conducts training with regard to improvement of the internal control environment within the organization.

Limaye plans to “spread his wings geographically” in 2008 and 2009. “The audits at our various overseas locations are planned to be covered through outsourced agencies, along with the visits from the internal team,” he explains. “As of now, we do not plan to deploy dedicated audit resources at the overseas locations. However, individuals from the finance and manufacturing functions may be deployed at these locations to strengthen the internal controls. Similarly, the plan is to examine business transaction data and conduct certain needs-based reviews. The principle of the audits for these locations will be primarily to enhance controls and oversight with minimal increase in cost through innovative audit techniques, including self-assessments, data analytics and dashboard reporting.”

When hiring new auditors, apart from their educational background and experience, Limaye looks for analytical skills, integrity, understanding of the latest audit techniques, a curiosity to learn, communication skills and an understanding of risk matrices. As he tries to expand his team, Limaye says that finding and retaining qualified candidates are primary obstacles. “This becomes even more difficult given the economic environment in India, as well as the opportunities and options available to professionals in India today,” he says.

## Enterprise risk management

“Our objectives are aligned to the company’s objectives,” says Limaye. “Endurance Group plans to be the number one aluminum die casting company in the world by 2012. Our internal audit team wants to provide assurance to the company by putting processes in place for robust auditing and accounting, resulting in improved risk management and cost control.”

The internal audit team collaborated with an outside provider to conduct enterprise risk management (ERM) in 2007. “During our ERM process, critical risks were identified. We are now tracking those risks and have already developed time-bound action plans and assigned the responsibility for implementing the actions to a core team. We are reviewing the progress of the actions and reporting that progress to the risk management committee.”

Limaye is currently acting as the chief risk officer (CRO) of this committee. “Some critical risks we are examining include obstacles to acquiring and retaining talent, the inability to introduce innovative products, and the inability to control time and cost overruns in project implementation. Internal audit is taking effective steps to track these risks, as well as management’s responses in addressing these risks, on an ongoing basis.”

## Creating a risk-based audit plan

Limaye and his team prepare a risk-based audit plan each April, which is the beginning of the year in India. The basis of this plan is the assessment of root causes of control weaknesses and enterprise risks. The risk-based audit plan considers the following components:

- Financial exposures
- The period since the last audit
- Major observations of the last audit
- Input from management and internal audit

“We have developed a location/key process matrix for the various auditable processes,” Limaye says. “The necessary inputs as described above for different key processes and/or locations are entered in a spreadsheet. The necessary weighting is assigned to each factor, to achieve a numerical rating for each location and key process. The locations and processes are ranked in the order of the risk ratings. Then, the available internal audit resources – which can, in fact, be internal or external – are allocated for each location and key process for the year. The objective is to cover the entire audit universe, comprising all locations and key processes over a period of three years, and focusing special attention on the riskier processes.”

To measure performance, the team uses a balanced scorecard approach, giving particular attention to cost reduction, time-saving and value impact that the internal audit team helps generate. In addition to the risk-based audit plan, the team takes on special assignments from management; these involve a detailed review of a transaction to investigate irregularities and/or frauds. For example, as a proactive step, Endurance Group encouraged a review of physical and logical access controls at its research and development facilities, as well as a review of the control measures for the protection of the critical information assets.

## Internal auditors as process owners

“The relationship between the internal audit team and audit clients is collaborative in nature,” says Limaye. “They do not consider internal auditors as outsiders. We are partial process owners. We work with business unit managers and process owners to improve controls and procedures. We are not here to say who is responsible for errors or mistakes. We are here to help identify and implement solutions.”

Internal audit at Endurance Group primarily has two functions to perform: providing assurance on internal controls and delivering consulting in the area of business process improvement. As a part of the consulting role, the internal audit team develops a partnering relationship with the business process owners, helping to improve the internal control environment across the organization.

## Corporate governance

In India, Clause 49 of the listing agreement with the stock exchange is applicable to those companies that have public holdings and are listed on the exchange. As of now, Endurance Group is not a listed entity; however, considering its future plans, the company already has taken proactive measures to comply with some of the requirements of Clause 49, which broadly outlines these responsibilities:

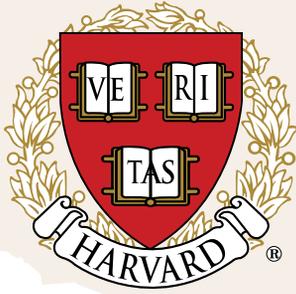
- Enhancing roles and responsibilities of directors
- Improving quality and quantity of disclosures
- Consolidating roles and responsibilities of the audit committee in all matters relating to internal controls and financial reporting
- Enhancing accountability of the CEO and CFO

Endurance Group has appointed an independent director on its board of directors to oversee risk management exercises, and a risk management framework has been established for tracking and monitoring actions.

### A vision for the future

Limaye's vision for the future of Endurance Group's internal audit department has many facets. He says he intends to take a more integrated approach to IT audits to strengthen the company's IT capabilities, and plans on adopting a risk-centric value proposition to help the organization become a "risk intelligent enterprise."

"We are committed to quality assurance and continuous process improvement," Limaye says. "I want to create innovative internal audit methodologies to enhance and strengthen control with minimal incremental cost. Overall, my goal is to raise the stature of the internal audit team in the eyes of the company."



*Company Headquarters – United States*

*Number of Countries Operates in – 30*

*Number of Employees – 13,000*

*Industry – Higher Education*

*Annual Revenues – US\$3.2 Billion (Operating Revenues)*

*Annual IA Operating Costs/Budget – US\$1 Million-US\$5 Million*

*Number in IA Function – 18*

*Number of Years IA Function Has Been in Place – 32*

*IA Director/CAE Reports to – Vice President of Finance and CFO*

Note: All of the above information is accurate as of June 30, 2007.

*“We certainly recognize our role as an independent assessment function; however, in addition to auditing, we consider ways to support management through training, consulting and risk management tools.”*

*– Deloris Pettis*

## SMART AUDITING AT HARVARD UNIVERSITY

Harvard University is the oldest institution of higher learning in the United States, and one of the most complex. In the 1630s, when Harvard was founded and enrolled its first students, it was a handful of people housed in a couple of buildings on the edge of a largely uncharted continent. As the University has grown over nearly four centuries, it has multiplied in every sense. Today, Harvard has tens of thousands of employees and students, programs in more than 100 countries, and annual budgets in the billions of dollars.

When Deloris Pettis became the director of Risk Management and Audit Services (RMAS) at Harvard University in 1998, the internal audit function was a small, noninfringing entity that concentrated primarily on financial audits selected by the audit director. Pettis knew that, just as Harvard was growing, the University’s need to assess its risk and audit its programs would have to grow as well. Pettis joined Harvard with the hope of demonstrating to management the value that a modern internal audit function could bring to the institution.

She was well suited to that task. Prior to joining Harvard, Pettis had 23 years of financial accounting, national and international audit experience. Her career began in public accounting, and included investigative reporting for the over-the-counter market, banking experience focused on regulatory reporting and corporate accounting, and time spent in the technology industry as a group audit manager responsible for North America, Latin America and the Caribbean. She is a Certified Public Accountant (CPA) and a Certified Internal Auditor® (CIA®).

After a successful decade at the helm of RMAS, Pettis recently took on an expanded role at Harvard as the Associate Vice President of Sponsored Programs Administration. Gail McDermott became RMAS director.

Just before she began taking on her new challenges, Pettis spoke about her work at Harvard, and particularly reflected about her work with RMAS.

### RMAS

Harvard is famously decentralized. A frequently heard phrase to describe the relative autonomy of each of Harvard’s academic units is borrowed from seafaring ships: “Every tub on its own bottom.” Since each of the University’s schools is similar to a business division within Harvard, each has its

own operating and business model; all support functions are replicated, such as human resources or executive administration. “That creates some challenges in terms of how we conduct audits, particularly if we need to report enterprisewide on an operation or activity,” explains Pettis.

Of the 28 professionals on the RMAS team, seven are focused on insurance, and the rest are dedicated to risk management, which includes financial, operational, information technology (IT) and construction audits, as well as some compliance activity. “I think of RMAS as a risk management organization rather than purely an internal audit team,” Pettis says. “We look at risk very broadly. We certainly recognize our role as an independent assessment function; however, in addition to auditing, we consider ways to support management through training, consulting and risk management tools. We have expanded our outreach efforts to the schools and departments to provide customized consultation, and to perform internal controls assessments using an operations self-assessment tool. We also spend time outside of our department on a variety of committees throughout the University. This type of participation has helped the office stay abreast of key University initiatives, and it lends our voice to issues of internal controls or new business processes when appropriate, and in a timely way.”

According to Pettis, this approach has been received as a value-add at Harvard and has positioned the department to be a resource not only for the audit committee and senior management, but also for department heads and administrators. The approach also has helped promote accountability.

The mission of RMAS is to assist the University’s management and governing board with the identification and assessment of risk and the ways in which risk can be mitigated, as well as supporting management to ensure risk management processes are integrated throughout the institution. “Our goal is to help create accountability and understanding about risk and support management in its development of action steps to address risk,” says Pettis.

The audit model RMAS uses is atypical within higher education, since it includes insurance. “Our insurance team manages our self-insurance program and is focused on ways to commercially transfer risk,” Pettis says. “The team also is required to constantly be aware of and identify opportunities to advance a coordinated safety initiative, which includes matters related to up-to-date evacuation routes and planning in our buildings, student safety programs, crisis management and business continuity planning.” The team also engages management in understanding risks related to housing and educating students, administration and conducting research; in this way, it helps create accountability.

RMAS works with all levels of management, faculty and staff to improve the control environment and identify and manage business risk. By partnering with management, faculty and staff, the team is better positioned to ensure efficiency and effectiveness of operations, safeguarding of assets, integrity of financial transactions, and compliance with policies, laws and regulations.

In her role as director of RMAS, Pettis reported directly to the vice president for finance and CFO, and indirectly to the Joint Committee on Inspection (the audit committee), and staffed the university risk management committee. She met with the Joint Committee on Inspection at least four times each year and provided an annual and semiannual report on the work RMAS performed, as well as a report and update on key financial, operational, compliance and reputational risks identified at the University. The Joint Committee on Inspection has been particularly supportive and receptive to the enhanced role of the department.

## Staffing the function

“Recruiting is an issue,” Pettis says. “Like the internal audit industry, in general, we are experiencing a high demand for auditors in higher education. We increased [RMAS] by 10 people last year – five in insurance and five in audit. It’s been a challenge just to source people because there is such demand in the industry.”

The skills Pettis seeks in auditors include strong communication and an ability to see the bigger picture and understand a complex environment. She also looks for auditors who are persistent, professional and display both good judgment and confidence.

“We underwent a quality assurance review in 2007 and received high marks,” she says. “We were pleased to know that, through [an] external assessment, we are meeting internal audit professional standards.”

## Strategic objectives

One of the primary objectives for Pettis and her team is ensuring at all times that the work they are doing is aligned with and supportive of the University’s goals, whether it’s developing land or protecting faculty and student safety. “We have to make sure that our skill sets are sourced adequately,” Pettis says. “We also plan to roll out a new automated workpaper application to continue maximizing our use of technology. We want to enhance our ability to track findings, flag outstanding issues, communicate to clients, and extract data to better analyze activities. Globalization and outreach are two of Harvard’s key initiatives, and by the end of the year, we intend to utilize our new application to help the department capture and assess information across the University better.”

She adds, “We are seeking new ways to reach out and help senior leadership create greater accountability and awareness of risk, through training, consulting and reporting.”

Audit performance is measured in terms of effectiveness, accuracy and timeliness of reports, as well as how many audit findings are resolved. Customer satisfaction surveys help to evaluate the impact of the work, and the number of requests RMAS receives enables Pettis to determine if her group is being sought out as advisors and partners.

## An evolving philosophy

The collaborative nature of auditing at Harvard is the result of a long evolution. When Pettis first joined the function a decade ago, the team, which consisted of six managers and an administrative assistant, focused only on financial audits. The shift in point of view has been significant.

“We have created transparency in the department,” Pettis says. “We took the mystery out of what we do and that has made a huge difference. You’re not going to make a difference without talking openly about what you do. Awareness and understanding are the touchstones of our success.

“I came at a time when research compliance issues were receiving a lot of attention in higher education and federal regulators had begun to communicate their expectations for robust research compliance programs at academic institutions,” Pettis explains. “The landscape was also changing for research faculty who could now find themselves legally accountable for misappropriation of federal funds. By using a variety of forums to communicate with faculty, administrators and school leadership, we began to share our interpretation of the exposures the University could face and how these exposures could affect the local departments.”

She continues, “As we shared these risks, we also shared ways to address them. We purposely moved away from findings issues and placing blame to findings issues and supporting management in identifying realistic opportunities to address them. Our emphasis was on changing the perspective the community typically has of an audit function to that of being viewed as a resource. Attention was paid particularly to material risks that, if action were taken, would have a meaningful impact for the University, as well as the department. We also focused on open communication and a philosophy of ‘no surprises’ with the auditee. We did not leave an audit until everyone agreed on what was found and how best to address it.”

By making sure all audit work is risk-based, RMAS has been able to demonstrate that it truly adds value and can help identify emerging issues and root causes of problems, as well as assist with managing the change that will ensue from audit recommendations.

“For example, governance is an area we take very seriously,” Pettis says. “We do not have to comply with Sarbanes-Oxley, but we fashion our governance strategies on that model. In our complex environment, it can be a challenge to get your arms around everything. If the tone at the top is being driven throughout the organization, you’ll know it. If it’s not, there will not be full integration in planning and priority setting, and you’ll have a broken process. We look at governance across the University.”

## Working smarter

One challenge for Pettis is keeping up with the pace of Harvard’s activities and growth. Over the next 10 to 15 years, the University plans to develop more than 300 acres of land, which will have significant impact on the work RMAS performs.

“My greater vision is to continue to avoid thinking of RMAS as an internal audit function, but rather as a risk management function,” says Pettis. “In meeting the challenges, we need to make sure that our auditors are really thinking about risk at all levels and how we can support the institution in understanding how to manage them.”

According to Pettis, being a member of a small audit team forces a person to think of ways to work smarter. “That’s how governance made a real difference, by encouraging people to think about making an impact at a global, University-wide level rather than departmentally.”



Henkel

*A Brand Like a Friend*

*Company Headquarters – Germany*

*Number of Countries Operates in – 125+*

*Number of Employees – 52,303*

*Industry – Consumer Products and Retail*

*Annual Revenues – €13.1 Billion (Total Sales/Gross Revenues)*

*Annual IA Operating Costs/Budget – US\$6 Million-US\$10 Million*

*Number in IA Function – 26*

*Number of Years IA Function Has Been in Place – 50+*

*IA Director/CAE Reports to – CCO*

Note: All of the above information is accurate as of December 31, 2007.

*“We assess the effectiveness and efficiency of operations and processes in general so that we can advise and support Henkel’s management and associates on continuously improving the organization.”*

*– Frank Tenbrock*

## MAKING HENKEL SAFER, BETTER AND MORE EFFICIENT

For more than 130 years, Henkel KGaA has been a leader of brands and technologies that make people’s lives easier, better and more beautiful. Henkel operates in three business areas – home care, personal care, and adhesives technologies – and ranks among the Fortune Global 500 companies. In fiscal 2007, Henkel generated sales of €13,074 billion. The company’s employees work in more than 125 countries worldwide.

Frank Tenbrock has been Henkel’s regional corporate internal auditor for North America since late 2006, and his responsibilities include all audit-related activities in the North American region, which generates €2.7 billion in sales annually.

### The unique structure of the corporate internal audit team

The internal audit department is globally steered from the company’s headquarters in Düsseldorf, Germany. Henkel introduced its unique structure with regional corporate internal auditors to ensure appropriate coverage in selected regions and countries – North America, Asia-Pacific, Latin America and Russia. In this structure, the regional corporate internal auditor is in charge of all audit-related issues in the region. In North America, Tenbrock coordinates audits with local management on-site and also with headquarters. “In the region, we are closer to the business and people, which gives us a better understanding of the local business environment and allows us to establish a valuable network with management in the region,” he says.

All four regional corporate internal auditors directly report to the head of internal audit in Germany, who in turn reports to the chief compliance officer of Henkel. “We introduced this regional internal auditor function five years ago when the new head of internal audit came on board,” Tenbrock says. “In a multinational company, like Henkel, it is difficult to steer internal audit 100 percent globally and centrally. Our experience in the last five years shows us that it is valuable to have someone on-site in each of our regions, coordinating audits and supporting as well as advising local management.”

The internal audit department is highly international, with 26 auditors from seven different countries. The 26 members of the department are grouped into four audit teams in Düsseldorf who act as a pool

of auditors on hand to visit each site and participate, as needed, in audits in the regions. Those four groups are:

- Marketing, Sales, and Purchasing
- Finance and Accounting
- Information Technology (IT) and Human Resources
- Supply Chain, Operations and SHE (Safety, Health and Environment)

Each of these audit groups has an audit group leader. “This is a very efficient structure,” Tenbrock says. “Regional auditors work closely with the audit group leaders of each of the four groups.”

## The 2-2-2 concept

The audit teams are a mix of experienced business professionals with diverse backgrounds, and university graduates who are considered “high-prospectives” and typically stay in the audit group for three to four years, while the experienced auditors stay five to six years. Internal candidates also are hired, and serve in a job rotation function for approximately two years. In the past five years, 31 high-prospectives were hired and, after their audit engagement, 30 young auditors moved into other challenging positions within the Henkel organization.

“In terms of skills, we look for auditors who not only have a basic knowledge of accounting, controls and IT matters, but also the ability and eagerness to learn new processes and systems,” Tenbrock explains. “Our auditors have a high level of curiosity, enjoy working toward solutions, and are adept at influencing others. Also, importantly, audit is not a one-person show; each auditor has to enjoy working in collaborative projects with other auditors and auditees. We place significant value on the ability to network and participate as a member of a team, interacting with people at different management levels in different countries and cultures. Audits are always staffed by combining experienced auditors with juniors.”

According to Tenbrock, the audit group encourages auditors to pursue certifications, such as Certified Internal Auditor® (CIA®), Certified Information Systems Auditor (CISA), or Certified Public Accountant (CPA); currently, 75 percent of the staff is certified.

“The backbone for every good auditor is a mixture of strong analytical and communication skills,” says Tenbrock. “A good auditor comes to the point quickly. The executive summaries, which are distributed to the corporate management board, must contain the significant audit findings in less than one page.”

While it is a challenge to find qualified high-prospectives, once they are hired, Henkel invests in them. “The key of good auditing is having good auditors,” Tenbrock says. “Therefore, together with HR and the young auditor, we use a competency model to develop individual training plans according to our auditors’ needs.” The overall strategy centers on the 2-2-2 concept.

2-2-2 or “Triple Two” is a requirement for becoming a top manager at Henkel. It means the auditor has worked in two different countries, two business units, and two functions within the organization. Since the company is represented in so many different countries, there is a significant opportunity for people to work in a wide range of locations and functions. According to Tenbrock, internationality is a philosophy written in bold letters at Henkel. The 2-2-2 concept helps create top managers who are open-minded and understand the big picture, and the ways in which processes and systems across the organization work.

While the primary strategic objective for Henkel is to make people’s lives easier, better and more beautiful, the objective for the internal audit group is to make the company safer, better and more efficient. “We want to be seen as independent and objective partners,” says Tenbrock. “We evaluate business processes with respect to security and internal controls, [and] compliance with corporate standards, policies and laws, but also in terms of economic efficiency and best practices.”

Two complementary audit approaches are in place at Henkel. “First, we can’t forget we are auditors,” Tenbrock says. “We need to make sure that Henkel’s policies and corporate standards are adopted on a global basis across all business units. On the other hand, we assess the effectiveness and efficiency of operations and processes in general so that we can advise and support Henkel’s management and associates on continuously improving the organization. For this consulting approach, we take our experience gained while conducting other audits and transfer that knowledge from one business to another around the world.”

## Taking a proactive approach

Every month, the audit group sends out Corporate Audit Alert Letters that contain repetitive or important audit findings. This information is shared with more than 200 top managers worldwide, helping to communicate and explain local repetitive findings. Company names or names of people involved are not disclosed in these Alert Letters. “We want the recipients to focus solely on the content itself,” says Tenbrock. The Alert Letters outline the repetitive findings and ask top management to check their organizations to see if they can locate the same or similar issue.

“Our overall goal is to take local findings and turn them into corporatewide solutions,” Tenbrock says. “Alert Letters also contain recommendations for actions that make it easier for local management to deal with the issue. We get tremendously positive feedback from the various companies with regard to these Alert Letters. This is a proactive approach and delivers great value to the entire company.”

Another example of a proactive approach is the president and management training that the corporate audit department conducts two to four times each year. “Whenever Henkel assigns a president, general manager or CFO, we invite them to a training session on specific topics to prepare them even better for their assignments,” Tenbrock says. “For example, we have held training sessions on compliance with corporate standards and on repetitive audit findings. It is great to have people who are from different regions, at the same professional level, sitting down at the table to share their experiences. Especially for people who are new in the organization, it provides a priceless advantage for easily building a network within Henkel.”

## Audit planning process

The team’s annual planning model takes into consideration a number of different factors:

- Audit history – results of former audits
- Audit cycles – auditing in a six-year cycle in each location
- Request of business management – from regions and headquarters
- Random generation – a random generator picks 10 percent of the audit locations
- Business updates – reports issued to the executive management board and to which internal audit has access (e.g., external auditor management letters)
- Information exchange with network contacts

These factors are combined and the four audit group leaders, along with the regional auditors, develop a suggested global annual plan for Henkel in the fourth quarter of each year. This is sent to the head of internal audit, who then obtains final approval from the management board and audit committee.

“For the individual audit assignments, we combine resources from the four different audit groups, since we want more than one competency on each audit to strengthen our findings and recommendations. Within Henkel, the internal audit department is seen as a talent pool for high-prospective managers who are trained for future challenging tasks within the organization,” says Tenbrock. “The

advantage of this approach is that staff coming from internal audit has a distinguished knowledge and understanding of the business in Henkel's different divisions and countries. We want to provide them with as broad a base of experience as possible, which will be of great value for future tasks of our auditors."

## Measuring performance with quality cycles

A quality cycle is used for audit reports. When teams are on-site for each audit, a lector is assigned who does not actively participate in the particular audit, but provides an objective viewpoint. After the lector has reviewed the report, it goes to the audit group leader and head of internal audit, who both evaluate the draft version. "When we leave the site of the audit, the audit report is completed and results and actions are discussed and mutually agreed upon with local management. By finishing the report on-site and discussing it locally, we establish management support before we leave," says Tenbrock.

In 2003, it took the audit team 20 days after the final discussion to distribute the final version of the report. In 2007, it took one day. "This is best-in-class compared to 700 other European companies," says Tenbrock.

Results are very positive: In 2007, 83 percent of the worldwide action items were actively reported back by the auditees as executed before their due dates. "Each action item defined during an audit is assigned to a single responsible person, with a due date," Tenbrock says. "A database illustrates all actions on a global basis, and each item is rated, from one to five, [with] five being the highest priority, so management can focus on critical audit activities."

## Developing a common culture

One of the biggest challenges facing the organization is integrating acquisitions. "We are striving to develop a common culture, with shared values and standards," Tenbrock says.

Continuous change is another challenge that looms, according to Tenbrock. "For me, that is what makes the job so fascinating. Controls are never static; they are only good for a certain period of time. That means that the internal audit group must also adapt itself. We must be dynamic and never stop recruiting talented individuals and increasing our impact on the organization."



*Company Headquarters – United States*  
*Number of Countries Operates in – 23*  
*Number of Employees – 28,400*  
*Industry – Energy*  
*Annual Revenues – US\$5.6 Billion (Net Sales)*  
*Annual IA Operating Costs/Budget – US\$1 Million-US\$5 Million*  
*Number in IA Function – 13*  
*Number of Years IA Function Has Been in Place – Approx. 5 years*  
*IA Director/CAE Reports to – Audit Committee of the Board of Directors, and CFO*

Note: All of the above information is accurate as of December 31, 2007.

*“We’ve integrated our audits over the past couple of years ... we test certain important IT controls along with manual controls in our audits of specific processes in our larger locations.”*

*– Gary Brauchle*

## GREAT BUSINESS GROWTH AND A MORE FOCUSED IA TEAM AT MCDERMOTT

In 2003, McDermott International, Inc. – an engineering and construction company specializing in global energy infrastructure – had a market cap of less than US\$500 million. By 2007, it had taken a dramatic climb to around \$12 billion. “Clearly, we have grown tremendously,” says Gary Brauchle, Director of Internal Audit (IA) for McDermott from March 2005 through November 2007 (Brauchle is currently Director of Operational Accounting in the company’s largest subsidiary, J. Ray McDermott). “I built and managed the IA department during the huge cultural changes, profitability increases and overall growth the company has experienced in the past few years.”

Prior to becoming the IA director in March 2005, Brauchle was senior manager and department head in the organization’s IA function. His background includes technical accounting, external auditing and internal auditing.

With more than 20,000 employees, McDermott operates in 23 countries and is composed of three distinct business units. J. Ray McDermott, the company’s offshore oil and gas construction segment, operates in Asia-Pacific, the Caspian Sea, India, Mexico, the Middle East and the United States. It provides front-end design and detailed engineering, fabrication and installation of offshore drilling and production facilities, as well as installation of marine pipelines and sub-sea production systems.

BWX Technologies is McDermott’s government operations segment, supplying nuclear components and providing services to the U.S. government. These services include uranium processing, environmental site restoration services, and management and operating services for government-owned facilities, primarily within the nuclear weapons complex of the U.S. Department of Energy.

Babcock & Wilcox, the company’s power generation systems segment, operates in Canada, China, Denmark, Indonesia, Scotland and the United States. It is a leading supplier of fossil-fired steam generating systems, replacement commercial nuclear steam generators, environmental equipment and components, and related services to customers around the world. This business segment designs, engineers, manufactures and services large utility and industrial power generation systems, including boilers used to manufacture steam in electric power plants, pulp and papermaking, chemical and process applications and other industrial uses.

All of McDermott’s operating divisions are largely decentralized, and locations are geographically diverse. In 2007, BWX Technologies and Babcock & Wilcox were combined under common management.

“What makes us a unique organization is that we serve different sectors of the energy industry, including oil and gas, nuclear, and coal customers,” says Brauchle.

Including Brauchle, McDermott’s IA team consists of 13<sup>1</sup> audit professionals working in Houston or the Middle East. Brauchle has four managers, two supervisors and senior, intermediate and staff auditors. “We use a pooling method,” he explains. “One manager oversees the Middle East team while the others coordinate and oversee the balance of the team located in Houston.” The staff pool concept works well for a smaller IA function like McDermott’s, according to Brauchle, as it gives auditors the opportunity to work on different projects for various managers, thereby increasing their business knowledge and exposure to the company.

Brauchle reports functionally to the audit committee of the board of directors and administratively to McDermott’s chief financial officer (CFO). “Although we have many titles in our department, we operate in a fluid, collaborative, nonhierarchical manner, using a team-oriented ‘whatever it takes to get the job done’ approach.”

### Staffing and technology advancements

In the time since Brauchle assumed directorship of McDermott’s IA department, he says the team has “come a long way” with its staffing strategies and technology implementation. “When I accepted this role, we only had a handful of auditors because the company had been outsourcing the audit function,” he explains. “We established all of the structure necessary for an in-house IA function, including people, process and technology.”

Brauchle says the IA team uses electronic workpapers for documentation and retention of all of its audit work, as well as for recording, monitoring and reporting audit issues. It also uses this application for resource allocation and scheduling; and for data analysis, advanced functions of Excel and ACL.

With the exception of the IA team’s two recent college graduates, Brauchle says he has focused his IA recruiting efforts on experienced and credentialed professionals from industry or public accounting backgrounds. “I believe that while we may pay a bit of a premium for the experience and credentials, we’ll quickly recover that in reduced initial training and managerial supervision, and increased on-the-job knowledge and ability,” he says. “However, our recent college graduates have been a great addition for us. They are developing nicely and are actively progressing toward certifications. Statistically speaking, 86 percent of our department has at least one certification – with many having multiple certifications or advanced degrees – and the team averages eight years of audit experience, including two years with the company.”

In terms of retention, Brauchle says McDermott’s IA team uses many initiatives, including:

- Paying for professional continuing education
- Financially supporting the pursuit of certain designated credentials, which includes – upon completion of certifications related to IA – making employees eligible for a “spot bonus” or a salary adjustment
- Endorsing and facilitating intra-company transfers of internal auditors who experience life changes requiring less travel or whose general career interests change

“I believe IA at McDermott can be a great grooming place for future business unit supervisors and managers,” Brauchle says. “Once an IA employee has been with the department for about two years – long enough to learn about the business, develop relationships and contribute positively – I’m glad to facilitate a transfer that is good for the employee, the company and the development of both.”

While it is always difficult to lose great auditors, Brauchle says he would prefer to see these professionals stay somewhere within the organization because, in the end, the company and control environment can benefit from their IA background. According to Brauchle, the diversity of work

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<sup>1</sup>In 2007, Brauchle was looking to fill three open positions on McDermott’s IA team to build it to an “ideal” size of 16, with 10 members in Houston and six in the Middle East.

McDermott's auditors are exposed to is critical to their development and the value they bring to the organization. He says auditors have the opportunity to work on audits of different business functions and across business units; in addition, they learn different strengths by working with various IA managers at the company.

Finally, Brauchle says he looks for auditors who have outstanding written and verbal communication skills, are reasonable, and will consider different points of view. He also seeks auditors with a desire to conduct internal auditing in a positive, relationship-building manner. "Of course, flexibility, motivation, and a 'get it done' attitude are also important, as is a solid educational and professional background," he says.

## Short- and long-term goals

Brauchle says McDermott's short-term strategic goal is to create a risk-based audit plan that the business can help shape, and then design and execute quality audits that properly address those risks. The long-term strategic goals include not losing sight of compliance and financial audit responsibilities while:

- Focusing more on operational audits and recommendations
- Partnering with the business to perform more consulting assignments
- Providing enhanced support to McDermott's business development and acquisition efforts through pre- and post-acquisition due diligence and capital allocation look-back analyses

To achieve these goals with a small audit team, it is important to nurture auditors who understand both audit and the business. Reaching these objectives also requires a risk assessment process that combines quantitative and qualitative input about McDermott's risk profile. Qualitative risk rankings are used to numerically score business processes in locations, in combination with an extensive round of management interviews from different departments and locations. The process ensures the IA team takes a fresh look at McDermott at least annually. It also updates the risk assessment to reflect changes in McDermott's business, systems and people.

"We've integrated our audits over the past couple of years whenever possible," Brauchle says. "We test certain important IT controls along with manual controls in our audits of specific processes in our larger locations. Additionally, when appropriate, we introduce a guest auditor and subject-matter expert to our IA teams to address technical audits and risks, such as international tax. Finally, in at least several audits a year, we commingle members of our Houston and Dubai teams, and this serves as a way to develop our people by exposing them to diverse cultures. It also helps us enhance auditing consistency across the company."

## Performance measurement

At McDermott, team and individual performance are measured against goals set for the IA function, according to Brauchle. Additionally, a set of performance metrics is used to measure performance against cost budget, evaluate IA qualifications and experience, assess audit cycle time, measure response time from the auditee, and evaluate the percentage of the audit plan completed each year. Brauchle also monitors and evaluates the comments the audit team receives from the auditee prior to issuance of the report. These comments typically focus on the factual content of the audit report and the level of acceptance of recommendations.

"Informally, when our auditees respond back with factual content corrections, I look at that, because we want to make sure our auditors get the whole story so that we provide reasonable and quality recommendations," Brauchle says. "I am intent on keeping the finger on the pulse of the interactions between auditors and auditees. We foster strong relationships between auditors and the business. We [have] to stay in front of them and make sure they know what our fiduciary responsibilities are to the

CFO and audit committee, but I also want them to know we are reasonable people who will listen to them and work with them. We value their input.

“We recently early-adopted The Institute of Internal Auditors’ requirement for an external quality assessment of the IA function, and our external validation team acknowledged our department ‘generally conforms’ with the Standards for the Professional Practice of Internal Auditing,” Brauchle says. “For the audit committee and the CFO, this was a clear indication of IA’s performance. From an introspective point of view, this exercise was beneficial for me and my staff because it reminded us of the basics. Our external reviewers also gave us some improvement ideas that we are in the final stages of implementing.”

Finally, McDermott’s audit committee and executive management receive and review IA performance metrics, and evaluate Brauchle annually against goals that focus on audit planning and quality, technology and personnel development. The audit committee and executive management also monitor the types of issues raised in audits.

When Brauchle first became director of the IA team at McDermott, he says the function was responsible for both Sarbanes-Oxley compliance and internal auditing. Brauchle suggested splitting those roles, although from time to time the IA team may perform limited control testing in support of the Sarbanes-Oxley Section 404 compliance process.

Brauchle makes the following prediction about the challenges McDermott, and its IA team, likely will face in the near future: “There will be more and more changes in the compliance and corporate governance arenas. We also anticipate additional growth in our company, both domestically and internationally. All of this change will require a sharpened focus on process and operational auditing, so we’ll have to recruit, develop and retain auditors who can go anywhere, audit anything, build relationships in different cultures and provide value to McDermott through compliance, internal controls and an even more efficient approach to business.”



*Company Headquarters – The Netherlands*  
*Number of Countries Operates in – 80*  
*Number of Employees – 24,164*  
*Industry – Manufacturing*  
*Annual Revenues – €3.1 Billion (Total Revenues)*  
*Annual IA Operating Costs/Budget – US\$1 Million-US\$5 Million*  
*Number in IA Function – 10*  
*Number of Years IA Function Has Been in Place – 27*  
*IA Director/CAE Reports to – CFO*

Note: All of the above information is accurate as of November 30, 2007.

*“We choose themes for auditing processes within the sales companies and supply centers. These thematic audits enable us to compare companies with their compliance to internal guidelines and procedures.”*

*– Rob H. van Nie*

## FOR THE OCÉ AUDIT TEAM, SMALL IS BEAUTIFUL

Océ is a global leader in digital document management and delivery technology providing its customers software solutions, digital printers, copiers, plotters and scanners. Océ’s strategic business units align with the company’s product lines: Commercial Printing, Corporate Printing, Business Services, and Wide Format Printing. Each business unit has a functional relationship with research and development (R&D), supply centers, and sales and service companies.

Océ’s R&D centers are responsible for product research and development, including the development of production structures and systems. The company’s main R&D centers are in the Netherlands, Germany and Canada, with some smaller locations in France and Belgium.

The supply centers produce and assemble machines and software, and deliver to sales companies and customers. The main supply centers are in the Netherlands, Germany and Canada, with others located in the Czech Republic and Romania. Océ outsources some production to Singapore; many parts of the machines are made by local suppliers.

The sales and service companies are located in approximately 35 countries, with 45 percent of total revenues coming from European countries, 45 percent from North America, and 10 percent from the rest of the world – mainly the Far East and Australia. For sales to countries where Océ has no proprietary sales organization, direct export is in place from the supply centers in the Netherlands and Germany.

Rob H. van Nie has been the vice president of the internal audit department for Océ since January 2004. He oversees an internal audit department of 10, with locations in Venlo, the Netherlands, and Trumbull, Connecticut. His background is primarily in organizational and information technology (IT) auditing. “With that as a starting point, I work as an ambassador for a holistic approach with business managers, controllers and boards. The internal audit function is not only related to financial reporting, but supports the business and organization development as well,” he says.

According to van Nie, the main role of auditors is to provide assurance on business controls and information, but not without a clear understanding of business processes and the economic purposes for which they are designed. “Based on this assurance role, the auditor can give recommendations to improve organizational structures and controls, but the auditor is not a consultant who designs procedures and controls,” says van Nie.

“The professional background of auditors is important to designing and implementing business controls and information systems, but that has mostly to do with a call for the professional skills of auditors and not for an audit role. For example, in many cases the internal auditor is asked to help support projects for system development. In my vision, the auditor should focus primarily on assessing the results and products of the development project and not act as a consultant in developing controls.

“There is a high risk of conflict of interest when the internal auditor fulfills both roles. Explaining this concept to boards of directors and project teams is a great challenge for internal auditors, and it is the first step toward establishing operational auditing within the growth to maturity of the internal audit function.”

## The audit charter

Océ operates in dynamic markets and economic conditions around the world. Of particular importance to Océ’s leadership team is the development and sustainability of the company’s international markets, clients and product portfolio, and the financial structure of the company, related to required commercial and financial performance levels.

Océ has a complex organizational and financial structure and is registered on the NYSE in Amsterdam. Together with various international developments in the legal and regulatory environment of control and financial procedures and reports, more influence of regulators and external stakeholders on Océ’s corporate governance leads to rapidly increasing requirements for assurance of compliance with laws and with external and internal regulations.

The compliance with laws and regulations includes the areas of adequacy and efficiency of internal control structures and the adequacy and effectiveness of measures, procedures and reports. The regulatory environment at Océ is complex because of its international dimension; it has a major influence on the internal control structure.

In response to this complex confluence of factors, Océ established an internal audit department to provide assurance and trust related to managing operational and reporting risks within the company to the executive and supervisory boards. Océ defines internal auditing in this way:

*Internal auditing is an impartial and independent, objective assurance function, part of the internal control system of Océ and based on sound review and appraisal of management information, formal financial and non-financial reports, design, implementation and application of internal controls.*

Based on this definition, the responsibility of the Océ internal audit department is outlined as follows:

*The Océ internal audit department reviews and appraises the reliability and effectiveness of the management control systems including the operating of the control procedures and measurements, and including the financial and non-financial reports about it within Océ.*

As a result of the audits, reported with opinions and evaluations, the internal audit department provides advice on improvement of controls and reports, especially on the ways in which management of all levels can demonstrate their business units are under control.

The overall purpose of the internal audit group is to provide assurance and trust for the supervisory and executive boards, and for senior management, by providing information and opinions on:

- The reliability of (financial and nonfinancial) information processing and reporting
- Compliance with internal control and reporting guidelines
- The effectiveness of internal controls
- Safeguarding of assets and company data
- Observing and reporting regarding company and business risks

## IT-supported audit methods and techniques

The audit group uses standard Microsoft Office tools such as Word, Excel and Access. An internal database has been established for identifying audit findings and recommendations, and monitoring follow-up. A companywide spreadsheet is used to support the risk analysis for the audit planning.

For accessing data from administration and accounting files, including files of the IT departments with data about incidents and failures and, in some cases, authorizations, integrated IT systems are used and downloaded into spreadsheets. For the SAP area, the audit group uses a standard tool called CSI Authorization Auditor.

## Staffing strategies and skills

“We try to hire people from outside, those qualified as auditors or who have a controlling background,” says van Nie. “New staff is preferred to have at least a few years’ experience in external auditing. During their four- to five-year tenure with the internal audit group, we offer them a post-graduate education in auditing or controlling.

“We propose our auditors will make their next career step within Océ,” says van Nie. “Most of our staff will join a controlling function or [will assume a] technical or project management capacity within the IT area. We support and manage their next step.

“During their time with our team, auditors have excellent opportunities to further develop their technical professional skills and to develop communication and ‘people’ skills,” he adds. “We are looking for real team players. Those who approach a project with a collaborative spirit, not only with customers, but also with colleagues.”

## Thematic audits and risk profiles

The internal audit department implemented best audit and control practices based upon the approaches of Arens & Loebbecke, Anthony & Dearden, Weber and others. For each best-practice theme, such as leasing, inventory management and purchase and procurement, the internal audit team develops an audit approach and plan, and communicates this plan with the executive board and related internal customers.

“We choose themes for auditing processes within the sales companies and supply centers,” says van Nie. “These thematic audits enable us to compare companies with their compliance to internal guidelines and procedures.”

He continues, “Each year we have a system that assesses risks of all types within each company in Océ. Starting in the headquarters at the group level, we identify high-level financial risks, then drive down to each business line, identifying financial and process risks. Then, we develop a risk assessment and risk profile for each business unit, process, line, balance sheet and P&L.”

A risk profile includes a wide range of information, such as financial data – in terms of revenues and costs – human resources, staffing, changes in control, and how the risk relates to the type of machines, products or services Océ delivers. The risk profile also outlines the business, legal and tax requirements of different local countries. Using a calculation model, the risks are ranked from one to five. This is the basis for the annual audit planning.

All auditors have open and frequent contact with top executive management, with van Nie facilitating the execution of the work and collaborating with the boards and committees. “Our relationship with all management levels is very open, and roles are clear,” he says. “The role of our team is commonly accepted and respected.”

## Government's impact on changing roles

The evolution of the internal audit department, from financial- to risk-based operational auditing, started four years ago. The development of corporate governance during that time was part of the process of change within the team. "Looking at the change in commercial companies over the last seven years, I recognized the impact that the Dutch government and the European Union of the previous 15 years has had on overall change," says van Nie.

"I think that, in many cases, the governments functioned as an example for the commercial world," he adds. "As more and more auditors, controllers and consultants moved from governmental practice to commercial companies and universities, the models they practiced during their previous professional environment were embedded in the commercial businesses."

## The mission for the coming year

### Small is beautiful

"Auditing is not Océ's core business," says van Nie. "Each business unit or department in the company has to prove its efficiency and the effectiveness of controls. Even with our small team, we provide enough audit resources to serve the primary business units, sales companies and supply centers at Océ once per year, and midsized entities once every two or three years. We serve 16 primary entities annually, and 25 every two to three years.

"Finding good people is difficult. To be in the position to offer them a career, they must understand that joining the internal audit department means they stay for four or five years, and then move out in the organization. This is not a formal requirement, but we expect people will take on internal roles after they leave our department. My last IT auditor became the corporate security information officer, and a former audit manager now is the CFO of a midsized sales company. Our team is a breeding place for high-level management within Océ."

### Developing a sustainable role for internal auditing within corporate governance

The internal audit department at Océ recognizes that corporate governance is a hot topic, and auditors have taken part in many discussions about governance and the role internal audit should take.

"As auditors, we want to give assurance to the board and to executive management regarding the status of the control and governance framework at Océ," says van Nie. "I think that creating and maintaining a sustainable governance role for internal audit is often forgotten or simply not clearly defined, because so many other people are working on corporate governance and they make it their own domain and forget to cooperate with others.

"The audit committee needs to define the roles," he says. "I suggested to our audit committee that any report or discussion regarding corporate governance should be shared with the internal audit department, and the audit committee has agreed."

### Cooperating with external auditors

The internal audit team is entering into discussions within Océ about the level of cooperation with external auditors. Since costs related to external audit are on the rise, there are more requests from the board to contain those costs and make the collaboration between internal and external audit more efficient. The future challenge for van Nie is that, due to situations in which the external auditors use a more legally driven audit approach, the internal auditor's role becomes even more important. His team has a proactive approach to plan and perform audit fieldwork on high-risk areas to prepare a solid basis for the work of the external auditor, to increase effectiveness and contain costs.

## Near future

“My mission for the coming year is to focus our audit more on business decision-making, as this is the basis for lasting improvement,” says van Nie. “At the moment, the internal audit team is not working enough on decision-making processes within Océ. We spend much of our time on the internal control systems and financial reporting, but I believe that we can add significant value on many issues, such as mergers and acquisitions and strategic planning.

“A second pillar to increase added value are our audits from a holistic point of view, such as auditing the effectiveness of IT governance within Océ, or auditing major organization and system development. In the coming year, we will more frequently engage the audit committee to make sure we are involved in the right meetings and participating on the right committees. Although we do currently have high levels of involvement, there is always room for improvement.”



**Company Headquarters** – United Kingdom

**Number of Countries Operates in** – 1

**Number of Employees** – 150

**Industry** – Government

**Annual Revenues** – Not Applicable (Creating the Infrastructure for the London Olympics)

**Annual IA Operating Costs/Budget** – US\$1 Million - US\$5 Million

**Number in IA Function** – 3

**Number of Years IA Function Has Been in Place** – 1.5

**IA Director/CAE Reports to** – CEO and Chairman of the Audit Committee

Note: All of the above information is accurate as of March 31, 2007.

*“Our findings are well communicated to give the business units the information they need to help establish controls within their areas.”*

*– David Law*

## OLYMPIC DELIVERY AUTHORITY: AUDITING VENUES AND INFRASTRUCTURE FOR THE 2012 GAMES

The Olympic Delivery Authority (ODA) was established in 2006, and works closely with the London Organising Committee for the Olympic Games (LOCOG) to deliver the venues and infrastructure for the London 2012 Olympic and Paralympic Games (the Games). The ODA was established, in part, after examining previous models for delivering the Games and determining that a single body should be charged with this work to ensure clear lines of accountability.

The ODA works with a broad range of stakeholders, such as local communities and authorities, the Urban Development Corporation for the Thames Gateway, and bodies delivering wider projects important to the Games, such as Transport for London. David Law, who was previously director of group risk and group audit at Lloyds TSB, was named head of risk and audit for the ODA in August 2006.

Essentially a project management organization, the ODA comprises several key operating divisions, including construction, property, transportation, communication, legal, design and regeneration, infrastructure and utilities. Overall, the ODA is tasked with delivering the venues and infrastructure for the Games, as well as the cultural legacy that will be left in the United Kingdom long after the Closing Ceremony.

The in-house internal audit (IA) function of the ODA consists of three professionals. IA services are provided through a co-sourcing arrangement that was established in June 2007. As a result of this arrangement, specific skill sets are aligned with IA projects; up to 10 individuals may be working on these projects at any given time. Team skills include expertise in construction, design, procurement, engineering and sustainability. “Our team is fluid,” Law says. “Our core team comprises professionals with a wide range of experience, including engineers and property specialists. The nature of our work is project-focused, so we align the skills of individual auditors with specific audits.” Some of the key areas the IA function is auditing include the governance of the ODA, management of the procurement of contracts, health and safety, sustainability, and traditional financial audits.

## Leveraging lessons learned

Because the ODA audit function is new and evolving, it has not yet engrained its methodologies into the fabric of the function. “This team was formed purely to manage this enormous U.K. project – to deliver the 2012 Olympic Games and oversee a tight timetable,” explains Law. “The ODA has objectives surrounding cost, quality and time, and time is not flexible. To help the business achieve its deadlines, we need to understand the business priorities and develop a partnership approach, while at the same time retain our independence.” According to Law, the internal auditors are encouraged to identify ways to help the overall IA team achieve its objectives more effectively and efficiently, and share experience and knowledge so that similar audit projects, and the ODA, as a whole, can benefit from lessons learned.

Consistent communication is critical: When the IA team commences an audit, terms of reference and key challenges are identified jointly with the business units. “Our findings are well communicated to give the business units the information they need to help establish controls within their areas,” Law says. Published reports go to the directors of the audited area, but other directors are copied as well, as they may view the findings as interesting or pertinent to their group. Also, reports are shared with the ODA’s executive committee. Law reports to the chief executive officer of the ODA, David Higgins, and the chairman of the audit committee, with whom he meets on a monthly basis.

## The ‘2, 4, 1’ approach

The ODA has a rather short-term existence – a lifespan of just seven years. When London won the Olympic bid in 2005, the ODA adopted a “2, 4, 1” approach: two years to design, four years to construct, and one year to test. As of spring 2008, the ODA was approaching its “big build” phase, when major construction of venues was set to begin. “Typically, it can take 10 weeks to see an audit assignment through completion,” says Law. “That is too long for us. We need to produce reports and convey lessons learned quickly. Our goal is to be integral to the success of the ODA. Our approach has three simple elements: assess, improve and monitor.” The IA team uses audit questionnaires to determine customer satisfaction and measure performance. As part of a wider governance approach, Law also monitors how his IA team compares to other audit teams in the public sector.

“This is my first time as an internal audit director in the public sector,” Law says. “I see no difference. Working in the private sector, you can argue that you have management pressure to achieve profit targets. The ODA is deadline driven. At the ODA, it is fair to say that the management team is equally as committed as private sector companies. We have a common goal of delivering the project and a genuine teamwide approach to making sure that we meet the deadlines. The ODA is working on building and delivering the Olympic Park. We are as close as possible to being a private company in the public sector, and therefore our approach to risk management is more commercialized than it may be in other public organizations.”

## Building relationships

As director of group risk and group audit at Lloyds TSB, Law identified the lack of synergies in risk management throughout the organization. In a *Performer Profile* interview conducted in 2002, Law likened this situation to towels on a washing line: “We had the credit risk towel, the market risk towel and the operational risk towel. On a calm day, these towels would dangle there and not clearly link with each other; therefore, no real synergies between various risk units were identified or exploited. Should difficulties be encountered or specific business issues require to be addressed, then those things would create a slight breeze and the towels might tangle and link together for a time and work effectively but, when the breeze died down, the towels would disentangle and revert to working independently.” Risk management effectiveness is optimized when areas work together; this philosophy is equally applicable to the challenges faced in the London 2012 project.

Today, Law says one of the challenges still facing most IA teams is the lack of board-level communication skills, and adds that IA should engender cross-functional communication and help people realize the importance of managing risk. “Audit is not to be dreaded,” he says. “Any business, no matter how well managed, can always be improved; a fresh pair of eyes can help. If you can position IA findings in a positive and constructive way, you can achieve management buy-in and respect.

“Relationships are extremely important to any IA function,” he says. “I always try to work closely with management to make their job easier. It does take time to build rapport. The ODA management was only formed last year; people are getting comfortable working with each other. It is up to our IA team to make it clear to management that we do know what we are doing, and we are not raising spurious issues. I try to meet regularly and individually with each of the executive directors and take them through audits and findings relating to both their own area and their peers. An IA team always has a unique point of view on the business because it is engaged in every area and can help transfer knowledge.”

Since the ODA audit plan is risk-based, Law attends the ODA risk committee meetings to ensure he understands the issues management is concerned about, and can oversee how effectively risk is managed in different directorates.

### Challenges leading up to 2012

From now until 2012, it is vital for Law and his team to promote a common approach to risk management throughout the organization and make certain it is robust. “By encouraging open discussion on risk, you can promote understanding and help facilitate a solution,” says Law. “Developing a consistent approach to risk management and embedding that into the organization would normally take upwards of two years. Cultural change of this scale takes time, but our timeline is such that we have to compress that by half.”



## TEACHERS' PENSION PLAN

*Company Headquarters – Canada*

*Number of Countries Operates in – 1*

*Number of Employees – 700+*

*Industry – Financial Services*

*Annual Revenues – CAD\$4.7 Billion (Investment Income)*

*Annual IA Operating Costs/Budget – <US\$1 Million*

*Number in IA Function – 4*

*Number of Years IA Function Has Been in Place – 15*

*IA Director/CAE Reports to – Audit Committee and CEO*

Note: All of the above information is accurate as of December 31, 2007.

*“We must keep up with changes to continue to deliver a meaningful evaluation of risk management and control processes.”*

*– Peter Maber*

## INVESTING IN CHANGE: AUDIT SERVICES AT THE ONTARIO TEACHERS’ PENSION PLAN

While a pension plan for teachers has existed in Ontario, Canada, since 1917, it was not until 1990 that the Ontario Teachers’ Pension Plan (Teachers’) was created as an independent corporation to invest assets and administer the pensions of 271,000 active and retired teachers in Ontario. The initial assets of the corporation were nonmarketable government debentures (a long-term debt instrument used by governments and large companies to obtain funds). As the member contributions exceeded pensions at the time, additional funds were available for investment opportunities. With CAD\$108.5 billion in net assets at December 31, 2007, Teachers’ is the largest single-profession pension plan in Canada.

Until 1997, internal audit (IA) activity at Teachers’ focused on the payment of pensions and supporting processes. Given the significant growth in both the size and diversity of its investments, the mandate of the pension plan’s IA function changed in 1997 to focus more on the investment side of the business.

Peter Maher, who has been the vice president of audit services for Teachers’ since 1997, has an extensive background in financial services and experience in risk management assessment. “Teachers’ is seen in the marketplace as a leading-edge organization in both investment strategy as well as risk management,” he says.

Teachers’ employs more than 700 people and operates from a single location in Toronto, Ontario. Recently, office locations have been opened in London and New York, although these are primarily to facilitate meetings with existing partners and support potential opportunities.

Teachers’ has two operating divisions: Member Services and Investments. Member Services takes care of the 271,000 active and retired teachers, including receiving and maintaining salary and service data and information spanning multiyear teaching careers, as well as paying pensions, typically for almost 30 years. Major business initiatives include increased automation of processes, of which one is the ability of members to access their data and receive information about services available through a secure website.

The Investments division invests the assets of the pension plan and seeks to provide a high level of return to support the payment of pension benefits. A good portion of these assets are managed internally by a 200-member professional investment staff. Asset categories include public equities, fixed-income, real estate, private equity, infrastructure, commodities and hedge funds.

## A small IA team

The audit services team consists of four professionals, including Maher. “Given our relatively small size, we do not do any consulting assignments,” he says. “However, we are a reference point in many instances regarding adequacy of controls or processes as they are built or changed. It is important that while we are part of the management team in the broadest sense, we do not partner with management. We prefer to position ourselves as working with management in support of common goals; however, we want to remain as independent as possible, so that the audit committee and the board continue to look to us for independent and objective advice and information.”

For the past 10 years, the audit services team has focused on refining its audit approach and philosophy by using its limited resources creatively. “Smaller audit shops have to come up with innovative ways of assessing and auditing risks,” Maher says. “We have to look at risks differently to determine where the hotspots are in the organization – where the risk is really going to hurt.

“We have enough people for the mandate given to us by the audit committee. If they asked for more detailed testing, I would say we need more people. We have taken a process-oriented and risk-based approach. We examine processes, not each detailed transaction, to make sure we achieve a comprehensive and effective viewpoint of the business and use our audit resources as strategically as possible,” explains Maher.

## Key audit skills

For a small IA team, key skills play critical roles. Maher looks for auditors who possess thorough knowledge of audit techniques, internal control evaluation and process testing. Auditors must have exposure to the financial services industry and, in particular, to investment management. The softer skills he seeks include well-developed planning and organizing capabilities, strong analytical and problem-solving abilities, and excellent communication skills, both written and verbal.

Currently, all three audit staff members are pursuing their Chartered Financial Analyst (CFA) designations – a professional milestone that now will be an expectation upon joining the department. Teachers’ provides internal training sessions related to the CFA program. “Professional development is an important activity to not only polish existing skills, but also to stay up-to-date on changes in the internal audit profession,” Maher says. “We regularly attend seminars and conferences sponsored by The Institute of Internal Auditors [IIA] and the Association of Public Pension Fund Auditors.”

To attract high-quality individuals, Maher has developed a strategy that targets chartered accountants from the Big Four accounting firms with direct experience in the investment industry. “These would likely be newly appointed managers at a Big Four firm who would see the opportunity to gain tremendous exposure and insight into a recognized leading investment organization,” he says. “This is a key step in their career path, and in all likelihood our auditors will spend two to three years with audit services before moving on – hopefully, within the organization.”

## Audit focus

Maher and his team spend approximately 80 percent of their time on the investment side of the business, given the inherent risks in those types of processes. “Our risk-based audit approach includes a full consideration of the results of an annual enterprise risk management assessment, as well as the internal control evaluation and testing within the financial statement certification process,” he says.

Audit services reports functionally to the audit committee and administratively to the chief executive officer (CEO). Maher is a member of the executive management committee, which not only raises the team’s visibility within the organization, but also helps the auditors keep up with major changes and key activities. The audit services team also is represented on most major project and steering committees.

The approach of the audit services team is to gain an understanding of the business, its related risks, and the ways in which those risks are managed. Audit work involves reviewing each business area's methods of risk management and supporting processes. The ever-present challenge is to grow the knowledge and understanding of the audit services team. "Our longer-term goal is to continue to develop our credibility with the business as professionals who can readily understand the world of member services and investments," says Maher.

Maher and his team use a risk-based approach to identify areas to target. They outline a complete list of auditable activities within Teachers' and then evaluate each one with a simple yet consistent approach. The main factors driving the risk assessment are:

- Size or volume of transactions
- Complexity of business or product
- Major changes – recent or upcoming
- General state of processes and procedures, including documentation and communication

"We also look to our prior work in the areas to finalize the selection of areas to be audited. The annual audit plan is approved by the audit committee," says Maher.

Additionally, the team organizes its work along three levels: audits, business control reviews and status reviews. "Audits are traditional, although we do limit the amount of testing, as the thrust of our work is oriented toward process evaluation," Maher says. "Business control reviews evaluate the business and its risk management strategies without formal testing of transactions. Status reviews will address a specific topic of interest and could be as short as a 30-minute discussion or a number of days of in-depth review."

According to Maher, notwithstanding the size of an audit function, it is important to meet accepted work standards. As members of The IIA, the audit services team conducts external quality assurance reviews in accordance with The IIA's *International Standards for the Professional Practice of Internal Auditing*. The form the team uses is a self-assessment with an independent validation. "It is a very useful exercise, as there can be a tendency to become too informal in a smaller department," Maher says. "Completing the review and advising the audit committee reminds the committee of the professionalism of our department."

## Strong governance

One of audit services' stated objectives is to evaluate and improve the governance process. The internal auditors have been the primary staff support group for the audit committee, conducting a biannual review of their terms of reference and an annual review of their work to ensure they have met their responsibilities. Additionally, audit services evaluates the performance of the external auditors on behalf of the audit committee through a survey of senior management, and conducts follow-up on all audit recommendations, internal and external, reporting the status to the audit committee.

"As vice president of audit services, I sit in on all board meetings of the board of directors, as well as committees of the board," Maher says. "As a result, we have been asked to do a number of reviews on behalf of the board, such as whistle-blowing hotline arrangements of major companies [and] review of personal trading guidelines of other investment organizations."

While Teachers' is not subject to the Sarbanes-Oxley Act or its Canadian counterpart (National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings*), the audit committee decided a year ago that an internal controls review would be a good business practice. This initiative is led by the chief financial officer, with audit services sitting on the steering committee to evaluate the progress. The control review work has been valuable in evaluating internal controls throughout the business.

“Teachers’ has been a strong proponent of good corporate governance for many years, and consequently, I believe the governance regime here has been top rate for some time,” says Maher. “The evolution of the external environment has certainly aided in pushing issues forward internally.”

## Challenges and opportunities

Both the member services and investment aspects of the business are becoming more complex. “We must keep up with changes to continue to deliver a meaningful evaluation of risk management and control processes,” says Maher. “In addition, information technology [IT] auditing is a current and future challenge. While we have done some limited work in the past, we do not have IT auditors on staff and do not intend to in the future. This is not our core expertise, and so we have decided to ‘rent’ the expertise to do the necessary work. External suppliers have been engaged to conduct the work on our behalf, under our direction. We also maintain a close relationship with our external auditors and freely exchange information.”

Maher also plans to keep tabs on the job market to ensure the IA team can attract high-performing people at the right point in their careers, and thereby continue to contribute to Teachers’ in a meaningful way.

According to Maher, a key challenge for smaller audit shops is to understand their role, as well as the expectations of stakeholders, including the CEO, board, audit committee and senior executive management. “We have worked hard over the years to create an internal audit function that is well respected within the company,” says Maher. “We focus on the business, the risks and how they are managed. We demonstrate in our questions, our interaction with auditees, and our recommendations that we do understand the business and how the risks are managed. I always say if the recommendation does not make sense to the auditee, then we have not done our job properly.

“We know that many people do not have a well-informed understanding of the work internal auditors perform,” Maher says. “The world of investments is dynamic and complex. It is very important to consistently communicate the what, why and how of our work at every possible opportunity.”



**PEÑOLES**

*Company Headquarters – Mexico*

*Number of Countries Operates in – 1*

*Number of Employees – 7,060*

*Industry – Metal Mining*

*Annual Revenues – US\$4.4 Million (Net Sales)*

*Annual IA Operating Costs/Budget – US\$1 Million-US\$5 Million*

*Number in IA Function – 21*

*Number of Years IA Function Has Been in Place – 3*

*IA Director/CAE Reports to – Audit Committee, President and CEO*

Note: All of the above information is accurate as of December 31, 2007.

*“We have a multidisciplinary staff that includes accountants, industrial engineers, actuaries, system engineers, mining engineers and business specialists who provide support to our different divisions.”*

*– Rodolfo Gomez*

## MOVING FORWARD TO BUILD A WORLD-CLASS INTERNAL AUDIT TEAM AT PEÑOLES

Founded in 1887, Industrias Peñoles, S.A. de C.V. (Peñoles) is a mining group with integrated operations in smelting and refining nonferrous metals, and producing chemicals. Peñoles is the world’s top producer of refined silver, metallic bismuth and sodium sulfate, and among the leading Latin American producers of refined gold, lead and zinc.

Almost three-quarters of the company’s sales are to foreign clients, with approximately 80 percent of its sales to the United States and the remainder in Europe, Japan and South America. The company is organized along five operating divisions: Exploration; Engineering and Construction; Mining and Chemicals; Metals; and Infrastructure; with four administrative divisions: finance, planning and information technology (IT); law; human resources; and internal audit (IA).

Rodolfo Gomez has been the vice president of IA since 2005. In addition to audit, his professional background includes finance. After serving for four years as comptroller of a hotel chain, Gomez moved to Peñoles; he has been with the company for 16 years, and spent the first 14 as comptroller assistant vice president.

The IA team at Peñoles consists of 21 professionals, with five managers who report directly to Gomez. The team is responsible for IA, tax audit, internal control, information security and IT audit, and policies and procedures. “We have a multidisciplinary staff that includes accountants, industrial engineers, actuaries, system engineers, mining engineers and business specialists who provide support to our different divisions,” says Gomez, who reports directly to the audit committee and the president and chief executive officer of Peñoles.

### Tools and technology

Gomez and the internal auditors at Peñoles firmly believe in the use of technological tools to improve their work and reduce manual effort. To capitalize and enhance value for the organization, the IA function developed a software system that leverages computer-assisted audit techniques called SPA (“track audit system,” by its Spanish initials).

“We are now developing test scripts to prove transactional standard processes across the organization, such as procure-to-pay, order to cash, payroll processing and expenses,” Gomez says. “SPA enables us

to detect suspicious transactions in a timely fashion. We are continuously searching for new opportunities to create and automate tests to integrate with SPA. I believe that in one year we will have covered the full universe of auditable transactions in this innovative system.”

## IA mission and vision

In addition to the IA team’s multidisciplinary integration, Gomez and his colleagues seek out audit professionals with communication, leadership and IT skills, operational knowledge and, above all, the desire to be outstanding.

“Our vision is to become an IA department that is perceived as a partner with regard to operational support, rather than a compliance police force,” Gomez says. “We have struggled against the traditional view of internal auditing. But I think, more and more, this traditional viewpoint has been changing, and our vision is being incorporated into the company.”

To help improve the company’s perception of the IA staff, one of Gomez’s short-term objectives is that all of his auditors reach the level of Certified Internal Auditor® (CIA®) by The Institute of Internal Auditors (The IIA). He believes that this goal will be fulfilled over the next 12 to 18 months.

According to Gomez, the Peñoles IA team follows a four-step, risk-based methodology to conduct its audit work. The first step consists of identifying the most risky processes across the company’s business units. Then, by using surveys and interviews with management, combined with knowledge gleaned from past experiences of previous audits, the auditors identify key risks in business units and related processes. The third step is to evaluate the risks identified and sort them according to the processes identified from the previous step. Finally, the team plans its audits, based on its resource capacity, and presents the audit plan for approval to the audit committee.

To measure performance, each time an audit is completed, the IA team applies a satisfaction survey to the audited personnel. In addition to general remarks about the audit, this survey evaluates the following criteria:

- **Project**
  - Timeliness of report completion
  - Objectives accomplished
  - Proposals generated based on best practices
  - Value added
  - Risk-oriented audit
- **Communication**
  - Key objectives communicated at the onset of the project
  - Ongoing updates during the project
- **Final report**
  - Sustained and documented conclusions
  - Feasible alternatives
  - Clarity
  - Timely delivery
- **Personnel**
  - Knowledgeable and competent in reviewed areas
  - Respectful and professional

The survey results are managed by a person independent from the audit, who reports to Gomez for evaluation. “Last year, we had an evaluation of the efficacy of the IA department itself, performed by an external party,” Gomez says. “My plan is to do this kind of assessment every three years to identify and complete new opportunities for improvement.”

## Governance and compliance

While Peñoles is not compelled to comply with Sarbanes-Oxley guidelines, since 2005 the company has been involved in an initiative called the Internal Control Framework. This initiative involves identifying and documenting primary risks and controls throughout Peñoles, based on the COSO framework. It uses the eight key macro processes of the company, including:

- Purchase-to-pay for goods, services and metals
- Treasury
- Order to cash
- Estimate mineral reserves
- Fixed assets
- Financial information

“We believe that this effort will aid us in future compliance with the Mexican regulation equivalent to Sarbanes-Oxley, called Market Securities Law,” says Gomez.

“After the global corporate scandals took place over the past few years, and new regulations emerged, the visibility and impact of the IA profession has been escalated in certain business aspects. Considering that stakeholders require more and more transparency, IA functions have now acquired superior positions in many organizations and have taken on mandates to be independent from senior management,” Gomez says. “Our IA team has evolved to take on a risk-based orientation and focus. We have acquired more accountability in areas that traditionally we would not have even reviewed. Now, we have to really ‘get the wave’ and leverage the advantages of this situation.”

## Building a world-class team

According to Gomez, the IA profession is facing an increase in both the range and scope of its responsibilities. “We must be ready for this challenge,” he says. “We have to study more regulations, know our organization better to provide sustainable recommendations, achieve the certification of internal auditors, continue developing technological skills, and construct solid foundations for the IA personnel in terms of financial and operational skills.” Gomez says he intends to focus on areas that historically have not been viewed as part of the IA arena, such as environmental and safety processes.

Under his leadership, Gomez predicts the internal auditors at Peñoles will “serve as a personnel seed for many areas in the organization and move forward to build a world-class IA department.”



*Company Headquarters – United States*  
*Number of Countries Operates in – 70+*  
*Number of Employees – 4,300*  
*Industry – Media*  
*Annual Revenues – US\$2.7 Billion (Sales)*  
*Annual IA Operating Costs/Budget – US\$1 Million-US\$5 Million*  
*Number in IA Function – 8*  
*Number of Years IA Function Has Been in Place – 25*  
*IA Director/CAE Reports to – Audit Committee and CFO*

Note: All of the above information is accurate as of June 30, 2007.

*“Management wants us to be engaged in the highest risk areas, provide assurance that all existing controls are functioning, and provide counsel and consulting as the business continues to evolve.”*

*– Susan Rudolph*

## READER'S DIGEST: AUDITING THE MOST POPULAR MAGAZINE IN THE WORLD

*Reader's Digest* is the most widely sold magazine in the world. With an estimated global readership of nearly 80 million, the publication appears in 50 editions and 21 languages throughout more than 70 countries.

As a company, The Reader's Digest Association, Inc. (RDA) reaches millions of consumers through more than 40 other specialty magazines, including *Every Day with Rachael Ray*, *Taste of Home*, *The Family Handyman*, *Our Canada* and *Weekly Reader*. It also publishes a diverse line of books, including the Select Editions series, children's titles, and offerings in the areas of cooking, do-it-yourself, health and gardening. In the fiscal year ended June 30, 2007, RDA sold more than 68 million books, music products and video products worldwide.

RDA markets its products to its global customer base through a wide range of channels, including direct mail, display marketing, direct response television, catalogs, schools, retail and the Internet. It works with a number of partners, licensees, alliances and vendors located around the world.

Susan Rudolph, Vice President Internal Audit (IA) for RDA since October 2004, oversees an IA function of eight, which includes herself, an administrative assistant, and six professional auditors with varying titles and responsibilities, and co-sources to supplement headcount requirements. Rudolph reports functionally to the board of director's audit committee chairman and administratively to the CFO.

### Improving and expanding

Recently, the company embraced a series of goals from RDA's new CEO that focus on growth engines and value creation, cost savings and culture change. Within that context, Rudolph has outlined four distinct areas for IA function improvement and expansion as part of her balanced scorecard approach to auditing:

- **Audit services** – In this area, the IA team continues to develop, refine and execute its audit plan, conduct effective risk assessments, choose the right projects, and improve control and governance strategies.
- **Governance** – This involves working with the audit committee and executive management and aligning with their objectives, as well as pursuing opportunities to improve risk management and monitoring throughout the organization.

- **Quality and cost** – In this area, the IA team focuses on metrics surrounding audit customer satisfaction, the quality of audits and cost containment strategies. It includes supporting the company’s efforts to identify and implement standardization and associated cost savings.
- **Employee satisfaction** – Regarding employees, the IA team establishes objectives involving training and career development in the organization. Rudolph also is responsible for the Finance Leadership Program, designed to bring high-potential college graduates to RDA for long-term career development.

RDA – formerly a public entity – went private in March 2007. Therefore, according to Rudolph, one of IA’s short-term objectives is assisting the new board of directors and management team by helping them ascertain that effective internal controls are in place within the organization. Additionally, RDA has added two new businesses to its corporate structure, which include *Weekly Reader* and Time Life products, and IA is helping the company integrate those businesses as seamlessly as possible, ensuring conformance to internal control standards.

In the longer term, spanning three to five years, Rudolph says she wants to adopt specific approaches to use IA tools more effectively, support the organization through continuous controls monitoring, and take a fresh look at Sarbanes-Oxley-related methodologies.

To measure the progress and performance of the IA team, at the beginning of every year, each auditor establishes goals related to the following areas:

- The ways in which the auditors are helping to achieve the overall audit plan in support of the company’s articulated objectives
- Methods auditors are pursuing to support their training and career development objectives
- Certifications auditors are working toward
- Business areas with which auditors are developing expertise and forging working relationships – for example, the information technology (IT) audit manager’s working relationship with the company’s chief information officer (CIO)

“We measure audit project completion by dates. Reports should be issued two weeks from a closing conference,” Rudolph says. “We also measure hours and dollars of each project. Finally, we issue a customer satisfaction survey at the end of each audit; on a scale of one to four, our goal is to achieve an overall rating of 3.85.”

## Developing audit talent

Titles and compensation are based on auditors’ experience, and Rudolph promotes auditors as they develop. “We have hired auditors directly out of school, as well as auditors with many years of experience,” she says. “Additionally, I try to pull people from within the organization and teach them how to audit, to gain as much RDA-specific business knowledge and experience as possible. In the same vein, we use a guest auditor program to leverage our vast human resource expertise around the world.”

Rudolph has attempted to build a true cross section of resources within her IA function – financial, operational and technical auditors, as well as professionals with Certified Internal Auditor® (CIA®), Certified Information Systems Auditor (CISA), and Certified Public Accountant (CPA) certifications. “I look for a mix of people who bring extensive IA and business experience to the table,” she says. “We’ve also been effective at bringing people from inside the organization who are familiar with and understand the complexities of a direct marketing business.”

Moving auditors into the business after their IA tenure is complete is also one of Rudolph’s strategies. “We move our auditors into the business to seed internal controls skills into the organization,” she says. “Several members of the audit team who were here when I arrived are now in other finance roles in the organization. This current IA team has been together for about two to three

years. We have recently moved two more members into key finance roles, and are initiating a dialogue with HR to bring in new people from the outside to maintain IA as a breeding ground for talent in the organization.”

Rudolph also looks for strong verbal and written communicators, and professionals who are effective facilitators and problem-solvers. “We need people who can look at problems and identify solutions. We face a wide range of issues in many different regions of the world – in areas as varied as Mexico, Russia, Germany, Canada and Brazil – and so we have to draw from a large and diverse set of skills and tools to make each audit project successful.”

## Working with management

Over the past three years, the IA team has fostered a collaborative relationship with RDA’s management team. “The example I use involves our CIO,” she says. “Three years ago, the CIO indicated he was disinclined toward the value of the IT audit role. Finding the right person for that role, someone he would respect and want to work with, was essential. We found the right IT auditor who now meets with the CIO more often than I do because they have such a good working relationship.”

Internationally, when the IA team travels to other countries they become ambassadors of the organization, meeting and working with senior management teams around the world. Locally, Rudolph has tried to make sure the auditors network as much as possible with their peers.

“We’ve been successful at establishing our reputation with the management team,” she says. “Management wants us to be engaged in the highest risk areas, provide assurance that all existing controls are functioning, and provide counsel and consulting as the business continues to evolve. We’ve built a good foundation and are reaping its rewards now.”

## Maintaining corporate governance

Rudolph groups several initiatives under the heading “corporate governance,” including the roles of the board and audit committee, Sarbanes-Oxley work, ethics, and risk management and monitoring. “When RDA went private in March 2007, there was a perception that our governance structure would change to something less stringent, as we no longer have stock on the public market, do not have a broad population of shareholders, and our ownership is concentrated,” she says. “However, the organization made a conscious decision to continue to operate in a public company environment. We have a strong governance structure and we don’t want to see that erode.”

With the evolution of RDA’s board of directors and management team, IA is taking more of a leadership role in the organization. “We want to maintain a strong governance structure and strengthen enterprisewide risk management and monitoring, but also ensure that the direction is as approachable as possible,” Rudolph says.

## Facing the challenges ahead

Sarbanes-Oxley will continue to be a challenge for Rudolph, who views it as her responsibility to make sure the company realizes the ongoing importance of compliance. “IA still has some degree of oversight for Sarbanes-Oxley compliance,” she says. “We dedicated 90 percent of our audit program to Sarbanes-Oxley three years ago. We have brought our audit program back into balance, providing Sarbanes-Oxley oversight, operational, financial and IT audits, as well as some consulting services. In 2007, we focused only 20 percent of our efforts in this area, ensuring that management took ownership of internal controls. The challenge as a private company is making sure everyone understands that these internal controls and governance structures are balanced and maintained. Our senior executives, as well as the board of directors, support this approach.”

Resources, in the form of both headcount and dollars, will continue to be a challenge. “One year ago, we had 11 positions. Now we have eight,” Rudolph says. “As we place auditors in other positions, we might operate with vacancies. This is common in the IA profession – most IA teams are not fully staffed – but I’m excited about the opportunity to bring new people and perspectives into the group.”

As the company continues to grow globally, Rudolph predicts it will become increasingly expensive to send auditors around the world to conduct audits. She says being able to send the right auditors to the right locations at optimal moments to best address critical business risks for RDA will be the IA team’s greatest challenge.

“We will not go back to doing cyclical audits. RDA is focusing on new and expanding geographical regions, such as China and Turkey,” Rudolph says. “I think that the balancing act of being in the right place at the right time is not only IA’s biggest challenge, it’s our most important opportunity.”

The logo for Reed Elsevier, featuring a stylized orange 'R' followed by the company name 'Reed Elsevier' in a dark grey sans-serif font.

*Company Headquarters – United Kingdom*

*Number of Countries Operates in – 38*

*Number of Employees – 31,600*

*Industry – Media*

*Annual Revenues – GBP£4.6 Billion (Revenues from Continuing Operations)*

*Annual IA Operating Costs/Budget – US\$6 Million-US\$10 Million*

*Number in IA Function – 23*

*Number of Years IA Function Has Been in Place – >10*

*IA Director/CAE Reports to – Audit Committee Chair and CFO*

Note: All of the above information is accurate as of December 31, 2007.

*“From a practical standpoint, we want to be seen as a business partner. One key driver for this is making sure we have the right people in place who can deliver on this objective.”*

*– Arnout van der Veer*

## MAKING A POSITIVE IMPACT AT REED ELSEVIER

Reed Elsevier is a leading global publisher of information and solutions for professional users in three core markets – science and medical, legal, and business. The company reported 2006 revenues of just over €5 billion. It has more than 200 locations worldwide, but its principal activities are in North America and Europe.

As a provider of information-driven services and solutions, Reed Elsevier is an indispensable partner to its customers. Each year, the company’s three operating divisions produce more than 15,000 different magazines, books, CD-ROMs, and Internet-based data and information services.

Arnout van der Veer has been director of corporate audit services for Reed Elsevier since January 2001. Previously, he was a partner with KPMG in Amsterdam and New York, during which time he spent two years on secondment with Dutch airline KLM as an internal audit director.

There are 23 people in the Reed Elsevier internal audit department. “We have a relatively small team for a large company with a complex business point of view,” van der Veer says. “We are publishing more online each year, and we operate hundreds of different business models, pricing structures and support systems on a global basis. Yet, I believe our team is about the right size.” All 23 auditors report to van der Veer, who has a dual reporting line to both the audit committee chair and CFO.

### Diverse business backgrounds on the internal audit team

A key component to the internal audit team’s staffing strategy is diversity. “We mostly hire people with business, finance, technology, security and project management backgrounds. We are not focused on compliance, so the variety of our qualifications aligns with our business-oriented audit function,” van der Veer says.

“In our role for the company, we assess specific business risks, so we need individuals who have been in the business themselves if we are going to be able to provide assurance to management on its approach to risk. Our people understand the many complex aspects of an online business. Our team’s limited audit background does not constrain us at all. If certain circumstances call for more audit expertise, we do have three auditors on our team who can respond.”

The skills van der Veer seeks out in his team members include strong communication and presentation abilities, and an overall sense of professionalism and purpose. “To have impact on management requires an ability to influence people,” he says. “I train my people on those skills regularly.”

Typically, team members work in the internal audit department for two to three years and then transfer to business operations, according to van der Veer. “We are developing a strong and sought-after pool of talent for Reed Elsevier,” he says.

## A proactive business partner

The internal audit team has two primary roles: The first is ensuring a consistent and effective approach to global risk management, and the second is executing an audit or assurance plan. The two roles are intrinsically related; overall, the team must provide assurance to the board of directors that from a risk and control point of view, the company is well-managed. Since Reed Elsevier is listed in three countries – the Netherlands, the United Kingdom and the United States – it has to comply with reporting regulations in those regions. In the United States, Reed Elsevier is a Sarbanes-Oxley registrant; therefore, a strong internal control framework must be in place for the organization to remain compliant.

“From a practical standpoint, we want to be seen as a business partner,” says van der Veer. “One key driver for this is making sure we have the right people in place who can deliver on this objective. Secondly, we must be flexible with our rules of engagement with the business, tailoring our approach to meet their needs. Internal audit at Reed Elsevier has traditionally been more involved in *reacting* to newly acquired companies and integration plans once they have already been established. Now we are more proactive – preemptively assessing targets on their risk profiles from a broad business risk perspective. This helps management to be better prepared as they negotiate a deal and develop the integration plan. Our proactive involvement adds value.”

The company is currently undergoing a significant transformation as it consolidates its information technology infrastructure. This transformation has brought about a continuous challenge for the internal audit team to stay in alignment with Reed Elsevier’s strategic direction. The team must be flexible and nimble enough to change as the organization itself evolves.

## Making a positive impact through open collaboration

A typical audit at Reed Elsevier begins with identifying the business areas to be engaged based on the risk profile of a business, which includes emerging initiatives, past experiences and financial trends. Specific business risks are defined by management as part of the strategy process. Internal audit discusses this risk profile with key management, including the approach to mitigating control strategies. Risk and control best practices are applied based on the company’s research. This can lead to a business unit changing its risk profile. A proposal for audit engagement is then presented to management, and the priorities are jointly set.

Once management reviews and approves the plan, the team executes audit engagements. “You won’t find us in compliance areas,” says van der Veer. “Our team is much more focused on engaging the engines of our businesses, such as the editorial production departments, marketing teams and technology groups, [and] major investment programs.”

To ensure the internal audit group is addressing all high-risk areas throughout the company, audit performance is measured through customer satisfaction surveys and by gauging the productivity of each audit, not in terms of hours, but in effectiveness and impact on the business. “Measuring impact is complicated,” says van der Veer. “I don’t measure in terms of dollars; I measure the impact on the company’s performance and progress. The success rate varies; recently, we have seen our team’s impact and effectiveness increasing significantly through improved approaches to managing risks.”

A comprehensive quality review is planned for 2008, following a first external assessment in 2004. “The review will provide a benchmark evaluation against best practices for similar audit teams,” explains van der Veer. “It will entail a review of the auditors’ workpapers [in order] to stay abreast of the audit approach, staff levels and qualifications, and client feedback. We hope to achieve a best-in-class rating similar to [what we earned] in 2004.”

A final metric the team uses is the number of people who transfer out to the businesses each year. “The business units throughout Reed Elsevier like our people and, consequently, place them in high-profile jobs. This is further evidence that our work is valued by the company,” says van der Veer.

The relationship between Reed Elsevier’s internal audit department and business units is collaborative yet independent. “The business appreciates this relationship because we provide an independent, proactive, objective view of the company’s various processes, systems and operations. Of course, there have been a few instances where we have [had] to be tough and critical, but 95 percent of the time, our work is about positive collaboration with the goal of getting things done and making important improvements for the benefit of all,” he says.

## The role of corporate governance

Corporate governance has helped increase management’s awareness of risks and control. Eight years ago, when “Internal Control: Guidance for Directors on the Combined Code” (Turnbull Report) emerged in the United Kingdom, it generally expanded stakeholder attention with regard to governance. According to van der Veer, this was a positive event.

“The impact that corporate governance regulations, such as Turnbull and Sarbanes-Oxley, has had on internal audit has been significant,” he says. “Most importantly, it has changed management’s appreciation for what we do. When I joined Reed Elsevier, the commitment and appreciation to internal audit was sound, but it has only increased over the years with the changing governance environment.”

He adds, “In the past, I believe that internal audit was seen as something you have to do, but that is, perhaps, not critically important. Now, it is seen as something absolutely integral to the success of the company. This also helps as we recruit people into our team and discuss career progression opportunities with them, because as the internal audit team gains credibility and visibility, our team members recognize that their professional opportunities expand.”

## Keeping up with change

The key challenge for van der Veer and his team is to keep up with the many changes that continue reshaping the company. “People expect me to take responsibility for total assurance instead of just risk and control management,” he says. “This means that I need to understand all the changes in the company and help management with the complex challenges that arise from those changes. To be able to do this, I need a group of people with outstanding qualities. This makes recruiting and retention a challenge in and of itself. However, right now, I am lucky that I’m in a position where I work with a great group of qualified people. We are well-positioned to meet our objectives. Being on top of everything is my biggest challenge right now.”

# ROBECO

*Company Headquarters – The Netherlands*

*Number of Countries Operates in – 9*

*Number of Employees – 1,800*

*Industry – Financial Services*

*Annual Revenues – €1.4 Billion (Total Revenues)*

*Annual IA Operating Costs/Budget – US\$1 Million-US\$5 Million*

*Number in IA Function – 19*

*Number of Years IA Function Has Been in Place – 20*

*IA Director/CAE Reports to – Audit Committee Chair and CEO*

Note: All of the above information is accurate as of December 31, 2007.

*“I want to provide assurance for the management board that processes are operating the way they should. All of our audit clients, process owners, and the board of directors need to be aware of what is going on in the company so they can react proactively.”*

*– John Bendermacher*

## DEVELOPING A COMPREHENSIVE AUDIT APPROACH AT ROBECO

Robeco is a leading asset manager, specializing in mutual funds and creating investment solutions for private and professional investors. Headquartered centrally in Rotterdam, the Netherlands, Robeco has approximately 1,800 employees, with roughly 1,300 based in Holland. All corporate departments and the management board also are located in Holland. Policy-making takes place in Rotterdam.

In Holland, the main business units are Robeco Asset Management, Robeco Alternative Investments, Robeco Direct Banking, and the Financial Services Center. In the United States, the company has Robeco Investment Management in New York and Harbor Capital Advisors in Chicago. In Europe, it has banking and asset management activities in Paris, and a number of sales offices in Madrid, Zurich, Frankfurt and London. Outside Europe, Robeco has operations in Mumbai (India), Bahrain and Japan.

John Bendermacher, director of internal audit with Robeco for three years, has been in the internal audit industry since 1988. As director, he oversees a team of 19: one director, one substitute director, an assistant, and senior and junior auditors in the Netherlands, Paris, New York and Chicago. As the chief audit executive, Bendermacher reports to the CEO of Robeco Group and to the chairman of the audit committee (which is part of a supervisory committee in a two-tier governance structure).

For his team, Bendermacher looks for auditors who are strong communicators and team players with knowledge and understanding of the organization. He says auditors also should be analytical and highly trained, with certifications such as Certified Public Accountant (CPA) and Certified Internal Auditor® (CIA®), and experience in the financial industry and internal auditing.

“I want to provide assurance for the management board that processes are operating the way they should,” he says. “All of our audit clients, process owners, and the board of directors need to be aware of what is going on in the company so they can react proactively. The role of the internal audit team should switch from assurance and auditing to consulting and helping these groups, so they fully understand what is going on in the company. Internal audit should not simply be a machine that conducts audits and writes reports.”

Bendermacher’s goal is for auditors to work on the team for three to five years, after which they rotate to other functions in Robeco. Since Bendermacher joined the company three years ago, only two auditors so far have moved to other roles in the organization: one to a compliance function in the United States and the other to an operational risk management position in Rotterdam. “When I started here, we had only two auditors in Rotterdam and one in [the] United States. The fact that we now have 19 auditors is an indication of our rapid growth,” says Bendermacher.

## Providing assurance by building an internal audit team

According to Bendermacher, the primary goal of Robeco's internal audit team is providing assurance to the managing board that risks are understood, and controls are in place and operating effectively. "We also want to add value to the organization by ensuring that the risk management structure and control environment are functioning effectively," he says. "That is our definition of internal audit and it aligns with the definition used by The Institute of Internal Auditors [IIA]."

Prior to Bendermacher joining Robeco, the organization had a very small internal audit team that focused primarily on compliance and reported to the risk management department, not the CEO. However, Bendermacher employs a more best-practice-oriented, IIA-approved approach to the company's internal audit activities.

"The Dutch regulator on equity trading has motivated all asset managers and broker dealers to adopt more structured processes, and more internal controls and compliance, so the natural thing for our company to do was align our work with the regulators," Bendermacher says. "So Robeco developed a budget for internal audit and changed reporting lines to the CEO and audit committee, and also put together a budget for operational risk management and compliance. The entire framework for the company was redefined."

He adds, "I did the same thing at NIBC (a leading merchant bank) for six years. I started without anyone and built a department of 12 people over three years. I was convinced I could do it here at Robeco, so I copied the approach I used at NIBC – which was highly successful – and implemented the same audit processes, communication of reports and follow-up monitoring."

## Measures of improvement

Bendermacher does not make audit recommendations; instead, he outlines "measures of improvement" that contain action items, deadlines and owners. "In my experience, when people receive recommendations, they think of them as something they *could*, not *should*, do. Often, when you monitor the implementation of recommendations, you will find that no one is implementing them."

Measures of improvement have a strong advantage over recommendations because they force the internal audit team to negotiate action items and develop language around the improvements that is forthright and concise. It is made clear who is responsible for what and that there will be follow-up activities in three months' time. "If, after three months, the improvements are not in place, they are given the color red and sent to the management board. [The board] will speak directly to the individuals involved and ask for reasons for their failure to implement," explains Bendermacher. "Accountability is very clear. However, if they cannot implement the improvement for a good reason, that is taken into consideration."

To further gauge improvement, Robeco's internal audit team conducts a "SWOT" analysis, which focuses on Strengths, Weaknesses, Opportunities and Threats:

"The SWOT analysis that the internal audit team and I developed is the 'naked truth' for our team," says Bendermacher. "We use the opportunities and attack the weaknesses, and that helps define methodologies for self-improvement. The idea is to look in the mirror and do a SWOT analysis, which is really a list of actions to take. We do this once per year for ourselves; we formulate this in the same shape as we formulate the measures of improvement with our clients."

## Robeco's Management Control Framework

In Holland, a regulation on "organization and control" was issued for the Dutch Central Bank that outlined a number of standards that all banks in the country should meet. This is the only official regulation currently in place in Holland for the evaluation of management control.

At Robeco, the management board asked internal audit to provide information on controls based on this regulation. However, after taking the U.S. business units into consideration, the team determined that the Dutch standard was not the best fit for all of Robeco.

“We needed a better standard for entity-level and management controls,” Bendermacher says. “We used the COSO framework, and added Sarbanes-Oxley and Basel II controls, as well as corporate governance compliance policies, business continuity planning and corporate security. From all this came the Robeco Management Control Framework that we use to assess the management controls of all entities in Robeco.”

Robeco’s internally developed Management Control Framework gives the company’s board a uniform way of looking at risks and controls across the organization, while also allowing for a tailored and flexible approach to the internal control environment.

To measure progress, the internal audit team conducts self-reviews and peer reviews, and submits client satisfaction surveys, some with verbal follow-up. “Indirectly, we participate in Global Audit Information Network (GAIN) benchmarking and IIA quality reviews,” says Bendermacher. Additionally, the internal audit team participates in Rabobank audit group quality reviews. Robeco is an independent subsidiary of Rabobank. Within the Rabobank Group, Robeco is the core competence center for asset management.

Robeco’s leadership receives the total scores of internal audit’s client satisfaction surveys, quarterly reports on progress and major findings. Leadership also evaluates the internal audit team based on feedback from regulators. “Of course, we have close contact with the management board. We meet with them regarding quarterly reports, and we follow up on findings. I have a weekly meeting with the CEO, a monthly meeting with the CFO, and quarterly meetings with business unit managers,” says Bendermacher.

## Quality reviews

In 2005 and 2006, Robeco upgraded and updated its process documentation, which led to a significant quality review where all process-related documentation was reviewed and signed off on by the quality review team. “The quality review team still performs annual updates and looks at items that were not reviewed in the first year,” Bendermacher says.

The internal audit team participates in audits of SAS 70 and operational audits on operational controls. SAS 70 is the Statement on Auditing Standard number 70 that was developed and is maintained by the American Institute of Certified Public Accountants (AICPA). Specifically, SAS 70 is a “Report on the Processing of Transactions by Service Organizations,” which defines the professional standards used by auditors to assess the internal controls of an organization and issue an audit report.

Currently, the team is working on developing an integrated control framework to increase the efficiency of monitoring and help internal audit issue financial statements. With regard to Sarbanes-Oxley, Bendermacher and his function are involved with the testing of operational effectiveness. “Last year, [which was] our first year working on this, we spent approximately 45 percent of our total hours on Sarbanes-Oxley testing,” he says. “This year, we spent about 15 percent to 40 percent of our time.”

## Challenges to come

In the coming year, Bendermacher faces the challenge of finding and retaining talented auditors for Robeco. “We plan to start recruiting younger professionals and paying for part of their education,” he says. “Competition in Holland is intense. Business knowledge is very important, so people with experience are worth a great deal.”

Another challenge is the outsourcing of business activities, according to Bendermacher. Robeco is looking to outsource part of its information technology system management and already has outsourced aspects of its transaction data processing.

“We are responsible for auditing whenever something is outsourced,” he says. “Outsourcing is a dilemma for the internal audit industry. How can I audit things the company is not doing, and how can I rely on outside audit processes if I cannot control them? Yet, I am responsible. This is a challenge not just for our internal audit team, but for others, as well.”



*Company Headquarters – Brazil*

*Number of Countries Operates in – 9*

*Number of Employees – 45,381*

*Industry – Consumer Products and Retail*

*Annual Revenues – R\$8.6 Billion (Net Operating Revenues)*

*Annual IA Operating Costs/Budget – <US\$1 Million*

*Number in IA Function – 11*

*Number of Years IA Function Has Been in Place – 30*

*IA Director/CAE Reports to – Audit Committee and Administrative Council*

Note: All of the above information is accurate as of December 31, 2007.

*“There are some important challenges to come in the next few years, such as implementing self-assessments, automating audit projects and monitoring action plans. However, the primary challenge will be to keep the audit team aligned with the market’s best practices.”*

*– Roberto Ciardella*

## SADIA: DEVELOPING AND MAINTAINING A HEALTHY INTERNAL AUDIT FUNCTION

Sadia S.A. is one of the world’s leading producers of chilled and frozen foods. Established in Brazil in 1944, the company is a leader in all market segments in which it operates, and is Brazil’s main exporter of meat-based products. In Portuguese, Sadia means “healthy,” and the brand has been voted as the most important and valuable among all Brazil’s food brands.

Sadia has 12 industrial plants in Brazil that produce more than 1.3 million tons of protein-based products, as well as pasta, margarines and desserts. The company has more than 70,000 direct points of sale in Brazil and approximately 200 foreign clients around the world. It currently exports to more than 65 different markets, primarily in Europe, the Middle East, Russia, Japan, Southeastern Asia and the Americas. Sadia has 14 distribution centers in Brazil and also runs commercial offices in Argentina, Chile, China, England, Italy, Japan, the United Arab Emirates and Uruguay.

Roberto Ciardella is the internal audit manager at Sadia. He began his internal audit career in 1991 with Arthur Andersen. In Brazil, he worked for Deloitte from 2001 until August 2007. He started his career with Sadia in September 2007 as an internal audit manager.

The internal audit function consists of 11 professionals – one manager and 10 staff – and is divided into competencies. Auditors are dedicated to reviewing business processes, conducting productive routine audits, auditing Sadia’s subsidiaries, and providing Sarbanes-Oxley project support.

“We have professionals dedicated to ‘Call Integrity,’ which is a toll-free number for Sadia’s employees to use to report facts to internal audit anonymously. We also have experts focused on employee behavior, ethical code analysis, conflicts and fraud, and irregularities analysis,” explains Ciardella. “We also have a group dedicated to all technical audit aspects, security information and the business continuity plan. These auditors are responsible for evaluating all technologies applied to the internal audit department, such as audit automation, action plan follow-up, data analysis and extraction, and loss quantification.”

According to the best corporate governance practices, Sadia’s internal audit department is overseen by the audit committee and the administrative council. The audit committee is composed of three members of the administrative council; all are independent and have significant business and market experience. The audit committee is led by a financial expert with expertise in administration and auditing.

Sadia’s internal audit team currently is adopting high-performing technology for its audits. Auditors use ACL to extract and analyze data, an AIS module from the ERP R/3 SAP to analyze transactions,

as well as Virsa Calibrator to analyze possible risks or conflicts of transactions within the same user profile of the ERP R/3 SAP. The team also uses Microsoft Office and a web portal to register audit jobs and automate action-plan monitoring.

## Audit skills, objectives and approaches

Ciardella says the primary skill he looks for in internal audit professionals is business knowledge and an understanding of business risks. “Auditors are trained to understand and analyze business processes and to identify, together with process managers, the inherited process risks,” he says. “This helps auditors target best control practices to mitigate risks to an acceptable level.”

According to Ciardella, the most significant challenge facing the internal audit team is how to introduce the concept of risk management throughout Sadia and also provide an adequate environment for fostering a strong internal control infrastructure.

Ciardella says the longer-term objective is to introduce self-assessment at Sadia, which will help managers evaluate risks to which they are exposed, and then report those results to the centralized internal audit department. Then, IA will analyze the results and the levels of exposure, and perform strategic audits in response to those risks.

As part of its approach, Ciardella says the internal audit team follows five phases in each audit project:

1. Understand the business, its objectives and strategies
2. Identify risks inherent in the business, and evaluate and measure the risks’ business impacts
3. Gather information about processes and related internal controls, and compare them with best practices and perform adherence and substantive tests
4. Propose improvements to business processes and, with help from the management team, propose action plans to implement those improvements
5. Monitor risks and the implementation of improvements, and perform consistent and sustainable improvement to the business processes

To measure progress and performance, the internal audit team uses several indicators, such as the number of recommendations in the annual audit plan that are implemented, along with the number of issues that are uncovered related to code of conduct breaches, fraud and irregularities, as well as the overall time frame of audit report delivery. However, the main performance indicator is the savings that stem from internal audit projects; this includes direct cost reduction, recovery of improper payments, revenue optimization, and recovery and optimization of assets.

“One of Sadia’s main objectives is to have quality and transparency in its financial reports,” Ciardella explains. “We need to meet regulators’ requirements and adopt best corporate governance practices. Internal audit is crucial in achieving those objectives. We identify and help implement these practices. We participate in audit committee meetings, help with documentation preparation and the formalization of decisions, report on internal audit findings, and make sure all employees and their activities are accountable in the risk management process.”

## Internal audit as a business partner

“We are a business partner for Sadia,” Ciardella says. “We contribute to the improvement of business processes and ensure that procedures and controls are in place and effective.” As it is an independent and credible function at Sadia, management uses the internal audit team as a reference point for evaluating proposed changes and emerging issues, and identifying and analyzing business risks.

Over the coming year, with the help of internal audit, Sadia will be implementing risk management processes, adopting tools and technologies that create more efficiencies for management, and developing key risk indicators for business risk.

## Keeping the audit team aligned with best practices

The internal audit function at Sadia initially was involved with Sarbanes-Oxley implementation, drawing on the team's experience and knowledge to address important compliance-related actions. "The main objective is to use Sarbanes-Oxley to spread the concepts of risk management and corporate governance among the company's executives, helping Sadia expand internal controls beyond Section 404," Ciardella says.

Now that the Sarbanes-Oxley project is consolidated at Sadia, Ciardella says the main objectives of the company's internal audit team will be revising the compliance process and proposing improvements, and acting as the leader for independent business process reviews.

"There are some important challenges to come in the next few years, such as implementing self-assessments, automating audit projects and monitoring action plans," Ciardella says. "However, the primary challenge will be to keep the audit team aligned with the market's best practices. Performing projects restricted to Sadia's environment, combined with a general lack of experience in other industries, can create a truncated sight of risk management."

He adds, "Business dynamics today oblige auditors to acquire new competencies all the time. So, participating in seminars, exchanging experience with other companies, conducting case analyses, and performing projects together with specialized consultants are all mandatory to our internal audit function. We want to continue to acquire knowledge, experience and the right competencies to meet Sadia's needs."



## Singapore Press Holdings

*Company Headquarters – Singapore*

*Number of Countries Operates in – 14*

*Number of Employees – 3,814*

*Industry – Media*

*Annual Revenues – SGD\$1.2 Billion (Operating Revenues)*

*Annual IA Operating Costs/Budget – <US\$1 Million*

*Number in IA Function – 8*

*Number of Years IA Function Has Been in Place – 20+*

*IA Director/CAE Reports to – Chair of the Audit Committee and CEO*

Note: All of the above information is accurate as of August 31, 2007.

*“In relation to the scale of the group’s operations and staff strength, the audit team may seem small. However, we are able to achieve efficiencies through the use of computer-assisted audit tools.”*

*– Quek Khin Geok*

## DELIVERING HIGH-QUALITY AUDIT SERVICES FOR SINGAPORE PRESS HOLDINGS

Singapore Press Holdings Ltd. (SPH) is the leading media group in Singapore, offering high-quality news and “infotainment” across multiple delivery platforms to a growing regional and international audience. SPH publishes 14 newspapers in four languages and produces more than 100 periodicals. Every day, 2.9 million people read one of SPH’s publications, while every month, online editions of its primary newspapers attract 110 million page views and 7 million unique visitors.

The organization’s success is built on the long history of its two flagship newspapers – *The Straits Times*, an English-language daily, and *Lianhe Zaobao*, a Chinese-language daily. The other two dailies, *Berita Harian* and *Tamil Murasu*, each remain the staple for the Malay-speaking and Tamil-speaking communities, respectively. These four major newspapers, together with *The New Paper*, an afternoon tabloid, and *The Business Times*, the leading financial daily in Singapore, also provide online news to SPH’s Internet portal, AsiaOne.

SPH’s online and new media initiatives include:

- ZapCode, a mobile advertising and information service
- ST701, which offers a comprehensive online platform for recruitment and job search, cars, properties and shopping
- STOMP (Straits Times Online Mobile Print), a portal that connects, engages and interacts with readers on the Web and via mobile phone messaging
- omy (www.omy.sg), a bilingual news and interactive portal

SPH also operates two popular radio channels, Radio 91.3 FM in English and Radio 100.3 FM in Mandarin, under an 80 percent-owned joint venture company, SPH UnionWorks, with NTUC Media. SPH has a 20 percent stake in MediaCorp TV Holdings Pte Ltd., which operates free-to-air channels 5, 8, U and TV Mobile, and a 40 percent stake in MediaCorp Press Pte Ltd., which publishes the free newspaper, *Today*.

In addition, SPH has ventured into outdoor advertising through its wholly owned subsidiary, SPH MediaBoxOffice Pte Ltd., which is Singapore’s largest outdoor motion display advertising network media company. It also has a 35 percent stake in TOM Outdoor Media Group, a leading outdoor advertising company in China.

Quek Khin Geok is the vice president of the internal audit function for SPH. She holds a bachelor’s degree in accountancy from the University of Singapore, and has spent more than 17 years in internal audit. During her career, Quek also has been involved with external audit, credit marketing and operations, and retail banking.

A Certified Fraud Examiner (CFE), Quek is a member of the Institute of Internal Auditors (IIA) and a fellow of three professional bodies: The Institute of Certified Public Accountants of Singapore, CPA Australia, and Association of Chartered Certified Accountants (ACCA). At SPH, Quek oversees an internal audit staff of seven, and reports functionally to the chair of the audit committee and administratively to the CEO.

“Our objectives are to deliver high-quality audit services through maximum use of technology, and achieve efficiency through effective use of data analytics. To accomplish this, we make use of computerized tools to query and analyze data,” explains Quek. “Our transactions are voluminous. We need confidence in audit findings without having to take hundreds of samples. As the group’s operations are highly computerized, we are able to achieve efficient audit coverage of key risk areas through extensive reliance on audit software.”

### Maintaining effective staffing strategies

Quek is relatively new to SPH, having joined three years ago; currently, she oversees a full complement of auditors. “In relation to the scale of the group’s operations and staff strength, the audit team may seem small,” she says. “However, we are able to achieve efficiencies through the use of computer-assisted audit tools. Because the company’s operations, processes and internal controls are mature and homogeneous, on the whole, the risk profile of the key operational areas is relatively low.”

She adds, “Our audit process is well established, effective controls are in place, and we are managing risk well. Every year, we conduct risk assessments and identify areas of concern in the selection of projects for our annual audit plan. Based on the frequency of audits of higher risk areas, our resources are adequate for the present.”

The auditors on Quek’s team are able to use data analysis tools and operate within a highly computerized environment; they have, among them, backgrounds in information system-related and financial and operational audits.

### Providing independent, objective assurance

The internal audit team uses a rigorous risk assessment methodology to formulate its annual audit plan. “We evaluate the organization through a series of in-depth meetings and consultations with line management, in particular where high risks reside,” Quek explains. “We perform a risk ranking on an annual basis. The risk assessment and risk ranking are the foundations on which the audit plan is built.”

The risk ranking methodology at SPH is sophisticated and takes into account many factors, including, but not limited to, size of revenues, number of employees and the standard of internal controls. “This risk ranking helps increase the level of internal audit’s effectiveness,” says Quek.

As the audit universe grows and new operations are explored and added, Quek uses another methodology to supplement the audit risk model. This involves listing all the new companies and their level of activity, and developing a risk ranking for them. “Because I attend some senior management meetings, I have access to information which is helpful in arriving at the risk ranking of the new businesses. In our annual audit plan, our target is to cover a mix of the established processes and the new businesses. Areas of the audit universe that are not included in the annual audit plan are highlighted to senior management and the audit committee, together with reasons for their exclusion.”

### Conducting performance evaluations

An evaluation is conducted at the completion of each audit. The supervisor, together with the project leader, assesses whether audit objectives are met. Evaluations also include a customer survey to determine levels of customer satisfaction, and gather customer views on how audits can be improved.

“Sometimes audit customers may not understand the objectives of the audit, and the survey may reflect that lack of understanding, so if we realize something requires clarification, we try to explain it to them,” says Quek.

At the end of every financial year, the internal audit team at SPH reviews the extent to which the audit plan is met, and compiles a “top ten” list of findings and issues. “The quality of the findings will be an indication to management and the audit committee of how much value we are adding,” says Quek. “We also compile statistics on internal audit resources, actual time taken for assignments versus budget, and downtime. The company measures us by the extent to which we meet the audit plan, and by the quality, timeliness and accuracy of our reports.”

### Forging collaborative relationships

The internal audit function is well established at SPH, having been in place for more than 20 years. As a result, line management today has a solid understanding of internal audit objectives. Quek attends strategic operations meetings to interact with senior line management to gain insight into operations and performance.

SPH also has a strong corporate governance framework through which the internal audit team assists the audit committee in the discharge of its corporate governance responsibilities. “We do this in part through a review of the organization’s control culture, review of risks, processes and controls, reviewing compliance efforts and making recommendations for effective and efficient use of resources,” Quek says. “Apart from reviews of key risk areas identified by us, we also perform reviews on any areas of concern that management might have.”

Additionally, Quek is the receiving officer for submissions made under the company’s employee conduct and business ethics policy. This policy is communicated to new employees of SPH and is available on the organization’s intranet.

“My main challenge is maintaining a strong risk identification and planning process,” Quek says. “As the audit universe expands, we have to make sure that we provide SPH with adequate coverage by using resources in the most efficient way. This is a constant challenge for us.”

## ABOUT PROTIVITI INC.

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Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a global consulting and internal audit firm composed of experts specializing in risk and advisory services. We help our clients solve problems in finance, operations, technology, litigation and GRC. Protiviti's highly trained, results-oriented professionals serve clients in the Americas, Asia-Pacific, Europe and the Middle East and provide a unique perspective on a wide range of critical business issues.

Protiviti is proud to be a Principal Partner of The IIA. More than 1,000 Protiviti professionals are active members of The IIA, and these members are involved with local, national and international leadership to provide thought leadership, speakers, best practices, training and other resources that develop and promote the internal audit profession.



Protiviti has more than 60 locations worldwide and is a wholly owned subsidiary of Robert Half International (NYSE symbol: RHI). Founded in 1948, Robert Half International is a member of the S&P 500 index.

### Internal Audit Solutions

Protiviti works with 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's services also include providing clients with highly specialized resources such as IT Security, Business Continuity and Fraud Detection, among many others, and assisting with internal audits in multiple countries.

One of Protiviti's key features is that we are not an audit/accounting firm; thus, there is never an independence issue in the work we do for our clients. Protiviti is able to use all of our consultants to work on internal audit projects – this allows us at any time to bring in our best experts in various functional and process areas.

In addition, Protiviti can conduct an independent review of a company's internal audit function – such a review is called for every five years under standards from The Institute of Internal Auditors.

Among the services Protiviti's internal audit practice provides are:

- Audit committee advisory
- Co-sourcing and specialized resource enhancement
- Full outsourcing
- Internal audit technology and tool implementation
- Internal audit quality assessments and readiness reviews
- Internal audit transformation
- Information technology audit services
- Start-up and development advice

For more information about Protiviti's internal audit solutions, please contact:

Robert B. Hirth Jr.  
Executive Vice President – Global Internal Audit  
Protiviti Inc.  
+1.415.402.3621 (direct)  
[robert.hirth@protiviti.com](mailto:robert.hirth@protiviti.com)

## Risk Solutions

Protiviti's Risk Solutions help clients by providing the necessary business process, technology and technical skills to address financial and operational risk management; technology risk management and effectiveness; governance and compliance; and litigation, investigations, turnaround and restructuring. Our Risk Solutions include:

### **Business Operations Improvement**

Our Business Operations Improvement Solution focuses on managing the project, supply, operational and reputation risks that can negatively impact your business operations. This effort can result in increased revenue, reduced costs and/or enhanced asset values. Our services in this Solution include Supply Chain Optimization, Loss Prevention, Revenue Risk Management, Policy & Strategy Communications, Capital Project & Construction Management and Global Sourcing.

### **CIO Solutions**

Our CIO Solutions work with CIOs in reducing IT cost overruns and meeting project deadlines while improving processes, communication, decision-making and service levels. We help you enhance your IT performance by improving the alignment and measurement of IT investments with business priorities. CIO Solutions includes services for IT Security & Privacy Management, Business Continuity Management, IT Process Improvement and IT Organization Effectiveness.

### **Enterprise Application Solutions**

Our Enterprise Application Solutions assist you in selecting and implementing software, assessing the performance of existing applications and managing their application control environment. In addition to partnering and working with other leading technology vendors, including Oracle® and SAP®, we have a suite of market-leading proprietary technologies such as the Internal Audit Portal and the Governance Portal. Services for this Solution include Software Selection, Utilization of Assessment Tools, Application Controls Effectiveness, and GRC Software Implementation for SAP.

### **Enterprise Information Management**

Our Enterprise Information Management Solution supports you by ensuring that management has the right information for making decisions on a timely basis. This is achieved through assessing and improving the entire information lifecycle, including information strategy, management and reporting. Common projects include Business Intelligence, Data Mining & Analytics, and Content, Records & Data Management.

### **Finance Transformation**

Our Finance Transformation Solution supports CFOs and their financial processes in nonroutine situations (e.g., financial restatements, regulatory matters), enhances financial process and reporting effectiveness, and develops ongoing capabilities to provide relevant information to support business decisions. Typical engagements include Financial Remediation & Reporting Compliance, Finance Process Optimization & Integration, and Enterprise Performance Management.

### **Financial Risk Strategy & Management**

Our Financial Risk Strategy & Management Solution assesses and measures risks inherent in the capital markets, such as credit and market risks, and enhances CROs' and CFOs' abilities to manage and monitor these risks effectively. Engagements include implementation of Capital Allocation Methodologies, Asset-Liability Management Reviews, Credit Review Services, Lender Due Diligence, Market & Commodity Risk Management, and Model Validation & Design.

### **Governance, Risk & Compliance**

Our Governance, Risk & Compliance Solution assists organizations in responding to government mandates, shareholder demands and the changing operating environment in a cost-effective and

sustainable manner that reduces risk while enhancing efficiencies. Typical engagements include GRC Organization Design and Implementation, Financial and Operational Controls Improvement, Public Company Readiness, Enterprise and Compliance Risk Assessments, Risk Management and Compliance Process Design & Implementation, Sarbanes-Oxley & Financial Reporting Controls Compliance, and Anti-Money Laundering Reviews.

### **Litigation, Restructuring & Investigative Services**

Our Litigation, Restructuring & Investigative Services help companies address events such as litigation, mergers & acquisitions, bankruptcy and investigation of financial irregularities. Our team of professionals includes former federal investigators, computer forensic experts and Certified Fraud Examiners who help clients understand the root cause of each unique situation and manage it quickly and effectively to limit exposure. Services for this Solution include Litigation Consulting, Discovery Risk Management, Computer Forensics, e-Discovery, Financial Investigations, Fraud Risk Management, Corporate Restructuring & Recovery, M&A Due Diligence and Integration.

For more information about Protiviti's risk solutions, please contact:

James Pajakowski  
Executive Vice President – Global Risk and Advisory Services  
Protiviti Inc.  
+1.312.476.6378 (direct)  
james.pajakowski@protiviti.com

### **Relevant Publications from Protiviti**

Other publications of interest include:

- *Guide to Internal Audit: Frequently Asked Questions About the NYSE Requirements and Developing an Effective Internal Audit Function*
- *2007 U.S. Risk Barometer: Survey of C-Level Executives with the Nation's Largest Companies*
- *2008 Internal Audit Capabilities and Needs Survey*
- *Guide to the Sarbanes-Oxley Act: Internal Control Reporting Requirements*
- *Internal Auditing Around the World, Volumes I, II and III*
- *Moving Internal Audit Back into Balance: A Post-Sarbanes-Oxley Survey*
- *High Value Audits: An Update on Information Technology Auditing*
- *Top Priorities for Internal Audit in a Changing Environment*
- *Partnering with the Rest of the Board*
- *Guide to Enterprise Risk Management: Frequently Asked Questions*
- *Enterprise Risk Management in Practice: Profiles of Companies Building Effective ERM Programs*

In addition, Protiviti publishes *The Bulletin*, a periodic newsletter covering key corporate governance and risk management topics of interest to internal auditors, board members and C-level executives.

To request a complimentary copy of any of our publications, please visit [www.protiviti.com](http://www.protiviti.com) or call 1.888.556.7420.

# KnowledgeLeader<sup>SM</sup> provided by protiviti®

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KnowledgeLeader<sup>SM</sup> 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, and is updated weekly.

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 400 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 200 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:

- Business Continuity Management
- Control Self-Assessment
- Corporate Governance
- COSO
- Credit and Operational Risk
- Enterprise Risk Management
- Fraud and Ethics
- Internal Audit
- Sarbanes-Oxley Act
- Security Risk
- Technology Risk

KnowledgeLeader 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.

With a KnowledgeLeader membership, subscribers have access to AuditNet Premium (Paid) Content; discounted certification exam preparation material from ExamMatrix; discounted MicroMash CPE Courses to maintain your professional certification requirements; audit, accounting and technology standards and organizations; certification and training organizations and information; brief review of applicable laws and regulations; and best business links.

To learn more about KnowledgeLeader, sign up for a complimentary 30-day trial by visiting our website at [www.knowledgeleader.com](http://www.knowledgeleader.com). Protiviti clients and alumni, and members of The IIA, ISACA, the AICPA 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> (KL+). KL+ provides all of the benefits of KnowledgeLeader, plus full access to Protiviti's suite of online courses.

## PROTIVITI'S GOVERNANCE PORTAL FOR INTERNAL AUDIT

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Protiviti's Internal Audit Portal is a web-based audit management system designed to improve the efficiency and effectiveness of your audit department. The Internal Audit Portal is an electronic workpaper package that facilitates the audit process from risk assessment through issue tracking. Our advanced reporting engine will provide transparency, real-time status updates and a streamlined audit reporting experience.

Our clients are able to configure the solution to fit their approach and methodology, positioning both small and large internal audit functions to meet their objectives. When combined with our professionals and content, Protiviti will help you create a personalized response to your audit tool needs.

The Internal Audit Portal is an integrated module within the Protiviti Governance Portal that can be used independently or in conjunction with other modules to create a true Governance, Risk and Compliance (GRC) platform. This enterprise solution allows you to leverage frameworks and build a common language and repository that brings internal audit information into a GRC context. Additional modules of the Governance Portal include:

- **Controls Management** – A framework that supports control documentation (e.g., Sarbanes-Oxley), evaluation, documentation and testing.
- **Risk Management** – A framework for assessing inherent, tolerable, and residual risk across defined enterprise categories.
- **Assessment Management** – An integrated survey engine that supports a sustainable self-assessment process across multiple GRC programs and modules of the Governance Portal.
- **Incident Management** – A system that captures actual, near-miss and potential events that can result in operational and financial losses.

For additional information, please contact:

Scott Gracyalny  
Managing Director – Risk Technology Solutions  
Protiviti Inc.  
+1.312.476.6381 (direct)  
scott.gracyalny@protiviti.com

## PROTIVITI INTERNAL AUDIT PRACTICE – CONTACT INFORMATION

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Robert B. Hirth Jr.  
Executive Vice President – Global Internal Audit  
+1.415.402.3621  
robert.hirth@protiviti.com

**AUSTRALIA**  
Garran Duncan  
+61.3.9948.1205  
garran.duncan@protiviti.com.au

**BRAZIL**  
Waldemir Bulla  
+55.11.5503.2020  
waldemir.bulla@protiviti.com.br

**CANADA**  
Carmen Rossiter  
+1.647.288.4917  
carmen.rossiter@protiviti.com

**CHINA**  
Philip Yau  
+86.755.2598.2086, ext. 888  
philip.yau@protiviti.com

**FRANCE**  
Francis Miard  
+33.1.42.96.22.77  
f.miard@protiviti.fr

**GERMANY**  
Michael Klinger  
+49.69.963.768.155  
michael.klinger@protiviti.de

**INDIA**  
Adithya Bhat  
+91.22.6626.3310  
adithya.bhat@protiviti.co.in

**ITALY**  
Giacomo Galli  
+39.02.6550.6303  
giacomo.galli@protiviti.it

**JAPAN**  
Yasumi Taniguchi  
+81.3.5219.6600  
yasumi.taniguchi@protiviti.jp

**MEXICO**  
Roberto Abad  
+52.55.5342.9100  
roberto.abad@protiviti.com.mx

**THE NETHERLANDS**  
Carl Messemaeckers van de Graaff  
+31.20.346.04.00  
carl.messemaeckers@protiviti.nl

**SINGAPORE**  
Philip Moulton  
+65.6220.6066  
philip.moulton@protiviti.com

**SOUTH KOREA**  
Bong Hwan Yoo  
+82.2.3483.8240  
bong.hwan.yoo@protiviti.co.kr

**UNITED KINGDOM**  
Dene Burke  
+44.20.7389.0426  
dene.burke@protiviti.co.uk

**UNITED STATES**  
Robert B. Hirth Jr.  
+1.415.402.3621  
robert.hirth@protiviti.com

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### UNITED STATES

Alexandria	Kansas City	Salt Lake City
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