

# TD Bank Group

## Assigning a Human Face to Internal Audit Transformation

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*In a nutshell, our strategy is: Go Digital, Be Agile,  
Get Fresh Perspectives, and Live One TD.*

Headquartered in Toronto, TD Bank Group's more than 80,000 employees serve 25 million-plus customers worldwide. Those customers are primarily located in North America, as well as in Europe and the Asia-Pacific region. TD Bank Group operates several subsidiaries in three business lines:

1. Canadian Retail: TD Canada Trust, Business Banking, TD Auto Finance (Canada), TD Wealth (Canada), TD Direct Investing and TD Insurance
2. U.S. Retail: TD Bank, America's Most Convenient Bank, TD Auto Finance (U.S.), TD Wealth (U.S.) and TD's investment in TD Ameritrade
3. Wholesale Banking, including TD Securities



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Despite the variety of services delivered by those subsidiary companies, TD Bank Group strives to collaborate and serve customers in a unified manner across all of its businesses and units in accordance with “One TD,” an enterprisewide strategic priority. The three pillars of this approach include fostering strong partnerships across internal teams, seamlessly delivering the bank's entire offerings to customers and deepening customer relationships.

TD Bank Group companies promote their ability to maintain highly personal connections with customers and stakeholders in the digital age. TD Bank's “unexpectedly human” credentials (which it has trademarked) are evident in its branch offices' long hours, pet-friendly policies and abundant lollipops. Tellers also encourage

customers to keep the bank's pen after they've completed a transaction. So, it's no surprise that TD Bank Group recently put a human face on internal audit innovation. The strategic blueprint for internal audit transformation that resulted from this decision is comprehensive and instructive.

### **An Innovative Personality**

In April 2018, TD Bank Group's internal audit function, which has more than 400 full-time employees globally, named Vice President Michael Pagan as the global head of audit strategy and transformation. The U.S.-based Pagan reports to TD Bank Group's Global Chief Auditor Xihao Hu, who took on the role in early 2019, and Anita O'Dell, the chief auditor of the U.S. bank.

“The audit strategy position was created to ensure that we are properly focusing on the future. Our chief auditor at the time, Kelvin Tran, decided that we need somebody senior to focus on strategy full-time,” Pagan recalls.

Pagan's extensive auditing experience in the financial services industry and his nine years auditing various areas of TD Bank Group, including wholesale banking and U.S. retail banking, made him a befitting candidate, as did his personality. Pagan has a healthy appetite for innovation and creativity.

In this new role, Pagan worked to ensure the strategy was developed collaboratively. “We don't want strategy developed in an ivory tower,” Pagan notes. “It can be easy for theory and the practice to become disjointed, so I really need to work through my colleagues.”

### **Transformation Phase #1: Origination**

The first order of business involved articulating the function's approach to transformation and innovation. This was a broad mandate to further define the role and

determine success measures, and it actually began with a blank canvas, which was very exciting but also scary, according to Pagan.

A key part of filling in this blank canvas was extensive research; books, white papers and articles; conferences featuring leading futurists and technology thinkers; and the study of trends shaping the financial services industry. Audit and bank executives were approached to find out how they saw their work evolving. “There’s definitely a trend in the industry and within TD whereby more individual leaders are taking responsibility for innovation and transformation,” Pagan notes. “Whenever I saw an announcement concerning colleagues taking on a new role with ‘strategy,’ ‘innovation’ or ‘transformation’ in their title, I would immediately ping them, so we could start sharing ideas.”

The blank canvas evolved to multiple drafts of the strategy with input from the chief auditor. Those exchanges, along with discussions with other members of the internal audit senior management team and assistance from external consultants, were very helpful as the transformation strategy needed to align with (1) the company’s strategic objectives; (2) internal audit’s latest vision (“great people providing insights on key risks around the corner”) and (3) internal audit’s value proposition, which is “providing valued, independent, holistic and proactive assurance.”

After finalizing the strategy, communication was key. “A key objective was to have everyone from entry-level auditors to our chief auditor know what our strategy is and how it’s relevant to them. That’s crucial because our strategy is not implemented by me — it needs to be understood, bought in, and implemented by every single person in our function,” Pagan says.

The entire leadership team and the audit committee supported the final strategy

document. “In a nutshell,” Pagan emphasizes, “our strategy is: Go Digital, Be Agile, Get Fresh Perspectives, and Live One TD.”



*One TD brings a strategic and customer focus, holistic perspective, and three lines of defense coordination without compromising independence.*

The Live One TD component of the strategy reflects the audit function’s commitment to, and alignment with, TD’s corporate strategy. The pillars of internal audit’s transformation strategy are:

- **Go Digital:** This pillar calls for internal audit to embrace advanced technology and data analytics — to weave digital and advanced technology skills into the DNA of all auditors — not just specialists.
- **Be Agile:** This means modifying “capital-A-agile” methodologies so that the function can operate with a flexible, nimble approach while providing independent assurance.
- **Get Fresh Perspectives:** This strategic pillar centers on the function’s talent management and benchmarking activities. Fresh perspectives relate to diversity in every sense of the word — to gender, race and ethnicity, as well as diversity of thought, background, experience, education and skills, with a goal to make the group better suited to solve new and unique challenges.
- **Live One TD:** One TD brings a strategic and customer focus, holistic perspective, and three lines of defense coordination without compromising independence.

## Transformation Phase #2: Communication

The next phase of this transformation strategy work remains ongoing, and the communication never ends.

This phase began in earnest with a two-day conference attended by the entire global division. “During the conference, I introduced the strategy after a little dramatic buildup,” Pagan recalls. The event featured numerous workshops devoted to each pillar of the strategy, as well as guest speakers from the business, including the company’s head of innovation and several technology experts.

The entire event really launched the communication of the strategy. “The excitement generated during events like that subsides because you don’t get to present in front of the entire function every month. So, we’re working on other ways to sustain the momentum,” Pagan says.



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In addition to small group discussion sessions with audit teams and distributing newsletters containing updates on transformation progress to his auditing colleagues, an innovation rotation program was created through which auditors joined Pagan to work full-time on innovation and transformation for three-month stints. Pagan gains new perspectives from different groups within internal audit, and they return to their teams with a better understanding of the transformation — and more excitement.

## Transformation Phase #3: Execution

Once TD Bank Group’s internal audit transformation strategy was finalized, auditors across all levels of the division volunteered to take ownership of and drive activities within each of the pillars. Pagan clarifies that this governance structure is separate from the formal organizational structure and helps to foster innovation within business-as-usual activities while sharing responsibilities across teams.

The assistance of TD Bank Group’s central project management function was utilized to formally monitor those initiatives — a move that demonstrated the unified approach espoused by the company’s One TD priority and helped add more structure and accountability to projects.

One initiative within the Go Digital pillar consists of an objective that 50% of audits conducted in the current fiscal year will use some form of data analytics. A related Go Digital objective involves training internal auditors to use a data analytics tool from Alteryx. While the tool is intuitive, a function-wide rollout and accompanying training effort might be inefficient. Instead, champions were selected within each audit team who would be best suited to learn the tool quickly based on their experience with similar tools and advanced analytics, as well as their managers’ recommendations. “We developed a more targeted training approach to get them comfortable using this tool,” Pagan explains. “The training is not just about how you use the tool and the data it produces, but also about how you select the best opportunities to apply the tool. We then expect the champions will pass on their knowledge to the rest of their respective teams.”

Plans for modified agile auditing pilots and enhancements of the internal audit function's talent management strategy and processes are now being finalized. The talent enhancements will be based on a function-wide skills assessment that will be compared to a model of what skills the function will need five and 10 years from now. Recruiting and training approaches will then be reviewed to determine the best approach for moving forward.

"We've traditionally hired from large auditing firms and from other banks," Pagan explains. "Our interns and entry-level auditors tend to be accounting majors. We expect that our quest for fresh perspectives may significantly alter that approach. We may look at engineering majors and increase hiring from a broader array of technology companies. We're also going to re-examine our labor model. We are asking

ourselves if we need to continue to hire full-time specialists. Or, is there a more fluid model where we work with outside partners who can help us address new skills needs much faster as the business changes?"

Pagan concludes by emphasizing that internal audit transformation is a work in progress, and there is a lot more work to be done, but the future looks incredibly bright. "The division is excited, and I am excited," he adds, "by all the things we have to figure out and build for the future."



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