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Internal Auditing Around the World

Partnering Effectively Across the Organization

VOLUME IX

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Risk & Business Consulting.
Internal Audit.

Introduction

> "MY MODEL FOR BUSINESS IS THE BEATLES. THEY WERE FOUR GUYS WHO … BALANCED EACH OTHER, AND THE TOTAL WAS GREATER THAN THE SUM OF THE PARTS. THAT'S HOW I SEE BUSINESS: GREAT THINGS IN BUSINESS ARE NEVER DONE BY ONE PERSON. THEY'RE DONE BY A TEAM OF PEOPLE."[1]
>
> **STEVE JOBS**

A fundamental shift toward collaborative working is under way at many businesses around the globe. Organizations are eliminating barriers – culturally, operationally and technologically – that inhibit their ability to work productively, use resources effectively, seize new market opportunities and fuel innovation. Many organizations also want to lower their risk profile by fostering a collaborative culture where everyone in the organization understands risks and their role in helping the business to manage and mitigate them.

This trend toward greater collaboration extends to internal audit, traditionally an independent function. While still valued for objective reporting – and at times required to be deliberately detached from strategic decision-making – many internal audit teams now find they are expected to coordinate regularly with a wide range of groups in the organization, particularly amid today's increasingly rigorous regulatory environment and resulting compliance requirements.

While necessary, becoming more collaborative has not been an easy transition for many internal audit functions. This is not only because they aren't used to taking center stage, but also because others in the organization – from the board level down – must adapt to interacting with internal auditors more frequently, proactively and strategically. But as the profiles in Volume IX of Protiviti's *Internal Auditing Around the World* show, the benefits of enhanced collaboration for the business, as a whole, make working through the challenges worthwhile.

At Dassault Systèmes, for example, corporate audit director Etienne Grobon notes that collaboration brings auditors closer to the operation – and helps them to be viewed less as outsiders. He says "… a collaborative approach gives me visibility into key risks. Also, since people know me and we collaborate, they are more open. It creates trust."

"Speed" is another key benefit of enhanced collaboration, according to George Dooley, chief audit executive at Visa, Inc. He says his team could not support a fast-moving company like Visa effectively if they were a "strictly audit-the-books type of operation." And at General Mills, collaboration has helped the Global Internal Audit (GIA) team eliminate duplication of work. "As a team and a company, we are more targeted and efficient," says GIA Vice President Cathy Harris.

[1] *60 Minutes*, 2003: http://www.cbsnews.com/video/watch/?id=7383629n.

In previous volumes of *Internal Auditing Around the World*, we have explored how regulatory demands have made it necessary for the internal audit function to become more dynamic, proactive and risk-focused. The call for both greater collaboration, and an enterprisewide focus on risk, is accelerating internal audit's path to the "top table" in the organization, where it can be a true partner to management and the board. As C-level professionals and internal audit professionals read these profiles, we hope they, too, will be inspired to find ways to collaborate, and establish best practices that will allow internal audit teams to bring even more value to the business, while also maintaining their objectivity and independence.

Protiviti Inc.
June 2013

Acknowledgements

Protiviti wishes to extend a special thank you to the companies and interviewees for their enthusiastic participation in this year's volume about the value internal audit functions bring to collaborative efforts and partnerships of all kinds. We are fortunate to have as our partners, Nancy Hala and Jane Irene Kelly, who conducted the interviews and wrote the insightful profiles featured here. Likewise, we appreciate our partnership with the premier global internal audit leader: The Institute of Internal Auditors (IIA).

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Company Headquarters — Australia
Number of Countries Operates in — 25
Number of Employees —125,000
Industry — Resources: Mining, Metals, Oil and Gas
Annual Revenues — US$72.2 billion
Annual IA Operating Costs/Budget — › US$15 million
Number in IA Function — 58
Number of Years IA Function Has Been in Place — 30+
IA Director/CAE Reports to — Chief Financial Officer and Chair of Board Risk and Audit Committee

Note: All of the above information is accurate as of June 30, 2012.

> "BY REACHING OUT AND WORKING WITH OTHER BUSINESS FUNCTIONS, WE ADDED MORE AREAS TO OUR SCOPE AND EXPANDED OUR ASSURANCE ACTIVITY. THIS RAISES THE STATUS AND IMPACT OF INTERNAL AUDIT ACROSS THE ORGANIZATION."
>
> **STEFANO GIORGINI**

Combined Assurance and the "One Audit Model" at BHP Billiton

BHP Billiton is a leading global natural resources company producing major commodities such as aluminum, copper, coal, iron ore, manganese, nickel, silver and uranium. The company also has substantial interests in oil and gas. Publicly listed in Australia, the United Kingdom and the United States, BHP Billiton has more than 100 locations throughout the world and over 100,000 employees and contractors.

BHP Billiton consists of five major businesses, namely Aluminum Manganese and Nickel, Coal, Copper, Iron Ore and Petroleum and Potash, and 18 group functions – one of which is Group Risk Assessment & Assurance (GRA&A). The company also has a number of board subcommittees, such as the sustainability committee and the risk and audit committee.

Stefano Giorgini has been the head of GRA&A at BHP Billiton for the past nine years. He reports to the company's chief financial officer (CFO) and to the chair of the board of director's risk and audit committee.

GRA&A's scope covers three primary areas:

- **Risk management** – GRA&A does not own risks, but provides a common methodology and approach that is deployed across the company and used by businesses to assess and manage risk and improve controls. "In terms of the enterprise risk process, we own the methodology for the organization," says Giorgini. "We keep in touch with best practices and the ISO 31000 model, and consolidate and present the group risk profile to our stakeholders."
- **Internal audit** – Approximately 50 people comprise the internal audit function within GRA&A at BHP Billiton. It is a diverse, global team with regional hubs in Brisbane, Houston, Johannesburg,

Melbourne, Perth, Santiago, and Singapore. "We use a regional model combined with a common internal audit approach and methodology across the world," says Giorgini. "The spread of the internal audit function at BHP Billiton is broad – it covers traditional audit areas such as finance, information technology and supply, but also nontraditional areas such as asset integrity, health and safety, and sustainability."

- **Insurance** – The internal audit function also manages BHP Billiton's insurance activities via a self-insurance strategy. This combination integrates well with the risk and audit activities. GRA&A provides assurance that risks are identified, mitigated and managed, and delivers an opinion on the state of internal controls in the organization.

Internal audit objectives

Internal audit's charter is approved by BHP Billiton's risk and audit committee and the CFO, and is aligned with guidelines set forth by The Institute of Internal Auditors (IIA). The charter outlines the function's scope, mandate, independence and objectivity.

"Our core role is to support the business by providing assurance and the effectiveness of risk management, internal controls and governance," says Giorgini. "Our plan includes a three-year rolling outlook and is approved by the risk and audit committee."

Internal audit also has a three-year functional plan, which outlines how the team seeks to improve as a risk, audit and assurance function. Giorgini explains, "It is our goal to continuously improve and add more value; to strengthen the quality of our people and teams; and to improve certain business areas, such as data analytics, asset integrity and anti-corruption."

Combined assurance: the "One Audit Model"

Internal audit's cross-functional collaborative approach at BHP Billiton began about five years ago. The company was in the midst of documenting core procedures and conducting an internal review to examine roles in the corporate functions and how they should interact with the business units. Some of the key design parameters included simplifying processes and also ensuring that there was clear accountability between functional areas and no duplication. One result was a rationalization of audit and review processes and the realization that each function should no longer conduct its own assurance reviews. Combined assurance, also known as the "One Audit Model," was designed to help ensure that audit expertise at BHP Billiton is delivered through one channel.

"Combined assurance is a great mechanism and platform where internal audit and the chief audit executive can really engage with the business to strengthen and broaden our impact," Giorgini says. "By reaching out and working with other business functions, we added more areas to our scope and expanded our assurance activity. This raises the status and impact of internal audit across the organization."

The One Audit Model caught the attention of BHP Billiton's management. "We used to audit each business function and process multiple times across different businesses," Giorgini says. "Now, we approach the business once and audit all its core processes, conducting a complete 'health check.' The business is made aware one year in advance when we are coming and what we will be covering. It's like going to the doctor once instead of several times."

Early challenges

When Giorgini initially assumed his role, one of the early challenges he faced was a company beset with duplication of effort and too many audits. "People voiced their dissatisfaction," he says. "We found that other functional areas were conducting reviews and providing assurance, so we recognized immediately that we needed to engage with these other areas and leverage our combined work. Our goal was to eliminate duplicative efforts, and do our work in a much smarter way."

The first step was to understand roles and responsibilities. "We needed to clarify roles, remove duplication, and separate out accountabilities to reduce excess noise and simplify our impact on the business," Giorgini says.

The next step was to examine internal audit's skill set and refine its core audit activities. To support these activities, the team built:

- An effective methodology for assessing and reviewing processes
- A sustainable process for ensuring that management commits to actions, accountability and timelines
- A system that tracks issue resolution
- Processes around communication and the way reports are issued

"All of this is what a good internal audit function does," Giorgini says. "If you build it, they will come."

As an example, BHP Billiton has a functional team that conducts reviews over resource planning and optimization, which are, in essence, the key value drivers in the mining industry. It was difficult to get traction on reports it issued to management, so the team began collaborating with the internal audit function, incorporating resource reviews into audits. Technical engineers became guest auditors; internal audit's management access and tracking processes proved extremely useful in persuading management to accept and act upon findings.

"Now, when an audit finding is raised related to resource planning, there is real rigor to closing it," Giorgini explains. "Previously, these groups might have focused on their own independence, but over time, we have found that we can pull a number of functional areas into our work. They realize the benefit of being part of the internal audit approach. We never used a big stick to coerce others to work with us, but as our credibility grew across the organization, we began attracting more collaborators."

The benefits of combined assurance, recognized by management and the company's many business units, include:

- The ability to plan and coordinate the activities rather than having multiple teams simultaneously approach a business area
- A standardized method for assessing and rating a process against controls
- Robust action-tracking and closeout procedures

At a board committee level, the benefit to this approach is that a single management assurance function is delivering audit and assurance insights across a broad range of business, operational and technical processes.

Lessons learned

According to Giorgini, when internal audit first began coordinating widespread collaboration at BHP Billiton, there was some hesitancy on the part of the business functions. "Initially, they were attached to their own approach, so it took time to work out differences in style," he says.

Soon, however, everyone was learning valuable lessons. Even though the professionals in the other functions were not trained auditors, because they are subject-matter experts (SMEs), they brought the full depth of knowledge in their areas of expertise. “Each team began to recognize what the other could do for our shared stakeholders,” says Giorgini. “Today, we have guest auditor SMEs and combine their insights with our professional audit methodology.”

The internal audit team at BHP Billiton also developed training modules to help everyone – auditors and non-auditors – learn quickly. In addition to teaching audit skills, the training helps auditors acquire deeper knowledge of functional areas.

“The benefit to collaboration is that we get a cross-pollination of skills and insights. Through our quality assurance processes, we control our final output – the audit report – to make sure both consistency and objectivity are maintained,” says Giorgini.

In terms of communicating this new approach, once management at BHP Billiton approved the One Audit Model, it was shared throughout the organization. “It was important for us to engage with stakeholders and proactively communicate with them,” Giorgini says.

After each audit, surveys are issued to audit clients. “We ask questions related to our One Audit Model,” Giorgini says. “Every time we bring in a new functional or business area to our combined assurance approach, we keep track of it, including what we learned. We capture everything we can, examine the pros and cons, and codify our findings.”

Maintaining objectivity

In an environment of increased collaboration, objectivity is a critical element. Internal audit is part of management; it exists to help BHP Billiton identify risks and improve controls. However, Giorgini says independence can be pushed too far. “It can become almost as if you are sitting outside the company,” he says. “Independence and objectivity have not been a problem for us, but we have to keep an eye on things. For example, we do not use guest auditors from the same business we are auditing. Many of our guest auditors are from central group functions.”

Giorgini adds, “The benefit to collaboration is that we get a cross-pollination of skills and insights. Through our quality assurance processes, we control our final output – the audit report – to make sure both consistency and objectivity are maintained.”

Company Headquarters — Canada
Number of Countries Operates in — 20+
Number of Employees — 42,000
Industry — Financial Services
Annual Revenues — CAD$12.5 billion
Annual IA Operating Costs/Budget — › US$15 million
Number in IA Function — 170
Number of Years IA Function Has Been in Place — Unknown
IA Director/CAE Reports to — Chief Administrative Officer and General Counsel

Note: All of the above information is accurate as of October 31, 2012.

> "YOU CAN COLLABORATE WITH AND RELY ON OTHERS WITHOUT REDUCING OBJECTIVITY AND INDEPENDENCE OR SACRIFICING YOUR OWN COMFORT LEVEL. AN INTERNAL AUDIT DEPARTMENT SHOULD NEVER GIVE THOSE THINGS UP. IT ALL COMES DOWN TO HAVING CONFIDENCE IN YOUR PROCESS TO ARRIVE AT YOUR OWN INDEPENDENT OPINION."
>
> **ANIL MATHUR**

Creating a "Culture of Openness" at CIBC

The Canadian Imperial Bank of Commerce (CIBC) is a Canadian-based financial institution with headquarters in Toronto. Through its three main business units – Retail and Business Banking (which accounts for nearly 70 percent of its revenue), Wealth Management, and Wholesale Banking – CIBC provides a full suite of financial products and services to 11 million customers in Canada, the Caribbean, the United Kingdom, and the United States. About 42,000 employees work in the bank's 1,100 branches.

Anil Mathur is the senior vice president and chief auditor of CIBC. He joined the bank's internal audit function seven years ago, and has been chief auditor for five years. Mathur reports to the bank's chief administrative officer and general counsel.

CIBC's internal audit function has about 170 professionals – 145 work in Canada, 20 in the Caribbean and the remainder in the United States. The Caribbean business unit is a 90 percent-owned subsidiary; however, as its own legal entity, it has a chief auditor who reports to Mathur, as does the head of audit for the U.S. region. "Here in Canada, we have leaders in each audit practice, which reflect our three business units – Retail, Wealth Management and Wholesale," explains Mathur. "We also have auditors aligned with the bank's administrative functions, such as information technology. I have a total of six direct reports."

The internal audit function's objective is to evaluate risk throughout CIBC, according to Mathur. "We have full access to the bank's operations and records so that we can effectively help CIBC manage risk and strengthen controls," he says. "In addition to regularly scheduled audit work, we want to sharpen our focus on emerging risks that will become more relevant in the future. For example, last year we conducted a comprehensive audit of cybersecurity. As we get into mobile payments and social media, we must be mindful of new risks associated with those initiatives. These emerging risks may not have been critical in the past, but they have the potential for significant impact in the future."

Mathur adds, "If I had to distill our audit strategy in one sentence, I would say that we want to ensure we are focused on risks relevant to where CIBC is headed in light of the bank's strategic direction."

He adds, "When it comes right down to it, we have to have our own independent opinion as to how risk is managed. We assess risk throughout the organization, at both the macro and micro levels. We look at the big picture, identifying, for example, key risks within a line of business, such as Wealth Management. Yet we also examine risk at the audit entity level with our detailed risk-assessment process."

Collaboration across the enterprise

CIBC has a common risk framework, and Mathur's team uses a common risk language. The risk taxonomy is owned by CIBC's risk management function, which ultimately owns the enterprise risk process. Within the construct of that process, each business unit is required to self-assess its own risks and controls.

> Spreading risk and control knowledge comes from seeding internal auditors in key positions throughout the organization, as well as hiring internally.

A separate group called Control Division manages and oversees the business units' self-assessment process. Control Division coordinates and provides guidance on all controls testing, and manages a database where each business unit's risks and controls are housed. Business unit management teams are responsible for understanding and documenting the risks and controls in the database. Some business units have established separate functions for controls testing.

"This means there is overlap," Mathur says. "The quality assurance process that the business units use is similar to our testing. So, we approach working with management teams in the same way as our external auditors collaborate with us; we look at their process and assess the overall quality of their work. Ultimately, this allows us to scale down the scope of our own testing to avoid duplication."

Mathur continues, "For a bank as large as ours, it is important that we collaborate across the organization, particularly with other control functions, such as risk management and the compliance department."

Sharing risk knowledge

CIBC's robust governance process relies on sharing ideas and information. "We are all involved in ensuring we have strong governance overall," Mathur says.

To leverage the knowledge and information that exists across teams at CIBC, the bank has created a forum called the Governance and Control Committee (GCC), which facilitates discussion and knowledge-sharing on risk and control matters, including trends and thematic issues.

Spreading risk and control knowledge also comes from seeding internal auditors in key positions throughout the organization, as well as hiring internally. "Last year, more than 50 percent of staff who left internal audit took on other roles within the bank," Mathur says. "Additionally, almost 40 percent of internal audit new hires come from other parts of the organization. Typically, we hire individuals with strong business knowledge and prior risk and control exposure. There is no formal resource-sharing program in place, but there is a natural tendency to hire people from other control functions. We also have a guest auditor program."

Today, business unit management teams at CIBC self-identify about 45 percent of open deficiencies. "Management has demonstrated real self-awareness," Mathur says. "As this self-awareness grows, we are able to place more reliance on management's controls testing and self-assessment and have been able to reduce our own testing in some areas."

The end result is greater efficiency and the ability for the internal audit function to focus on strategic or emerging risk areas, such as cybersecurity. "We can look at risk more thematically," Mathur says. "For example, we might discover through separate audits that we have issues with access to systems across the bank. We can pinpoint those types of trends and thematic risks, and that results in management taking more strategic, and therefore more effective, remediation measures."

Independence in the midst of collaboration

As a financial institution, CIBC is heavily regulated, and regulators are looking for nothing less than complete objectivity from the internal audit function. "When you rely on other groups, and collaborate, you still have to form your own opinion," Mathur says. "If we are truly comfortable with the quality of another group's analysis, we can reduce the amount of our own testing – and if we are not satisfied with the quality of another group's work, we will not reduce testing. In other words, you can collaborate with and rely on others without reducing objectivity and independence or sacrificing your own comfort level. An internal audit department should never give those things up. It all comes down to having confidence in your process to arrive at your own independent opinion."

Mathur says one thing the internal audit team is especially mindful of is the differing points of view on risk from other groups in the organization. "For instance, if you are working with a compliance team, its viewpoint on risk will be through the lens of compliance and regulations," he explains. "If you are working with a group focused on financial statements and Sarbanes-Oxley, its point of view will be influenced by numbers. An internal audit function must look at risk comprehensively. Therefore, it is important to recognize that as you collaborate, it does not mean everyone lands on the same assessment. Perspectives are unique and different, and as an internal audit department, you have to take in all that input to make sure you have not missed anything, but still reach your own conclusions."

Creating a culture of openness

According to Mathur, there are three benefits to this collaborative approach. The first is the ability to achieve a more rigorous risk assessment. "Although as a function we hire many smart people with much experience, having insight from other control groups into the riskiness of a process or business is helpful," he says. "If nothing else, it is a good sounding board and leads to more focused audit work."

The second benefit is that the approach allows Mathur and his team to focus on bigger, potentially more significant emerging risks. "When standard controls are in place and working effectively, it allows us to widen our scope and look at broader risks," he says.

Finally, Mathur says that as everyone gets better at assessing risk and controls, CIBC lowers its overall risk profile. "By encouraging the organization to think about risk and controls as part of its daily business, we have lowered our risk profile. We have created a culture of openness."

He adds, "You have to establish a culture where people feel comfortable putting issues on the table and saying, 'Yes, we have a problem here.' Contrasted with the old days when people would hide and wait for audit to find them, our culture today of self-assessment and people thinking proactively about risk as a natural course of business is much healthier."

Company Headquarters — France
Number of Countries Operates in — 140+
Number of Employees — 10,122
Industry —Computer Software
Annual Revenues — › €2 billion
Annual IA Operating Costs/Budget — US$1 million – US$5 million
Number in IA Function — 5
Number of Years IA Function Has Been in Place — 10
IA Director/CAE Reports to — Senior Executive Vice President and Chief Financial Officer

Note: All of the above information is accurate as of 2012.

> "SOMETIMES, CHANGING ROLES AND RESPONSIBILITIES CREATES ISSUES AND A BLURRING OF THE LINES. YOU HAVE TO BE WILLING TO RELEASE SOME OF THE POWER. TO BE A GOOD RISK PARTNER, YOU HAVE TO BE ABLE TO LET GO."
>
> **ETIENNE GROBON**

Collaboration, Sharing, Compromise and Trust at Dassault Systèmes

Dassault Systèmes, *the 3DEXPERIENCE Company*, serves its customers by delivering virtual universes that help them imagine sustainable innovations. Its 3D design software, 3D digital mock-up, and product life cycle management (PLM) solutions facilitate product design, production and support. Dassault Systèmes serves more than 150,000 customers – companies of all sizes, in industries around the world.

A French company, Dassault Systèmes was founded in the early 1980s and established its U.S. presence in 1992. The company's headquarters are in Vélizy, near Paris, with regional centers, or campuses, in Boston and Tokyo. The 3DS Vélizy campus is a collaborative platform connecting more than 10,000 employees worldwide.

The internal audit function at Dassault Systèmes was formed in 2003, primarily for work related to Sarbanes-Oxley (SOX), which it focused on until 2009. In November 2010, Etienne Grobon joined the company as corporate audit director. His tenure coincided with a significant evolution for the company's internal audit function: The function was beginning to be less strongly identified with internal controls and SOX and more focused on becoming a trusted business partner – not only for finance teams, but for other operations within the company as well.

"Even though we are no longer listed in the United States, we are still performing work related to internal controls," Grobon says. "But we also attend to other important areas, such as software distribution and delivery, the sales organization and human resources management."

A small team with global reach

Grobon oversees a group of four auditors at the company's headquarters. This relatively small team is strengthened and supported by a collaborative approach with other business functions throughout Dassault Systèmes. "For example, we rely on compliance officers within the finance function who deal with internal controls," Grobon says. "Those officers collaborate with the company's ethics compliance officer, who is in charge of ethics, fraud and compliance with local laws and regulations."

Grobon adds, "Since we are a centralized organization – with a headquarters office close to Paris, a campus outside of Boston, and another regional platform in Tokyo – we are able to cover many things from our three locations, including finance, information technology (IT) infrastructure, sales order processing, meetings and more. While our audit team may be small, we can accomplish what we need to accomplish."

> There is not a single person or department responsible for risk management at Dassault Systèmes – it is a shared exercise.

For the short term, the internal audit team's objectives include expanding its collaboration with the IT function. In the longer term, internal audit will work to align Dassault Systèmes' insurance program to its risk profile and extend the internal control framework to nonfinancial reporting areas, according to Grobon.

Risk management: a shared exercise

There is not a single person or department responsible for risk management at Dassault Systèmes – it is a shared exercise. The internal audit function performs some of the risk management duties for the organization, such as reviewing risk with the executive committee members and collaborating with the legal team on the production of the annual report risk factors. But Grobon and his team also work closely with the company's ethics and compliance risk groups. "We use input from legal, ethics and compliance because we are in charge of insurance and must assess the adequacy of the insurance programs in relation to the risks the company faces," Grobon explains.

Grobon points to the collaboration between internal audit and finance, related to internal controls. "A group controller function was recently created to increase ownership and collaboration on internal controls," he says. "One of my auditors, who recently transferred out of the department, reports to the group controller and will be responsible for coordinating internal controls activities. The fact that this person was an auditor makes our collaboration easier."

Taking collaboration even further, Grobon is a member of the ethics committee; conducts regular meetings with the legal team, the compliance group and human resources; and holds monthly meetings with the ethics and compliance officer, the safety and security director, and the anti-piracy group, which focuses on protecting the company's intellectual property.

"The purpose of all these meetings and interaction is to share information so that as an organization we can decide what to do next, and each group in the company can be aware of what the other is doing," Grobon says.

When Grobon is notified of issues such as fraud, or presented with questions about operations, he has the flexibility to delegate the issue or question to the team best suited to address it. "Because each of these groups is small, they rely on each other," he says. "We leverage other teams and avoid adding headcount so we can remain lean and efficient. It is an effective approach for sharing knowledge and resources."

Learning the art of letting go

In 2010, change began taking shape at Dassault Systèmes. "Before 2010, there was a tendency for each compliance group to work on its own," Grobon says. "The change of focus from SOX-related work to becoming more of a strategic business partner spurred collaboration and a willingness to work together, reducing the independent approach. In theory, independence is a key element for internal audit. However, if you want to collaborate with other functions, you must be willing to compromise on independence for the benefit of the whole organization. Independence should not be just about reporting or avoiding involvement in operations – it is more of a mindset, and a moral obligation. If you maintain this mindset, collaboration is not a drawback."

Today, employees throughout internal audit and other compliance functions at Dassault Systèmes are "happy to collaborate," according to Grobon. "Maybe they were surprised at first, because we had less collaboration before," he says. "But it is widely seen now as an improvement to share information and address issues as an integrated group rather than on one's own."

One difficulty with a collaborative approach, however, is that it sometimes creates uncertainty around who is in charge. "For example, internal controls historically have been the focus of internal audit," Grobon says. "Now, this responsibility resides in operations. Sometimes, changing roles and responsibilities creates issues and a blurring of the lines. You have to be willing to release some of the power. To be a good risk partner, you have to be able to let go."

The internal audit function at Dassault Systèmes plans to increase and enhance overall collaboration in the future, according to Grobon. "Historically, insurance was handled by legal," he says. "We wanted to make sure that insurance developed a risk focus, which is why internal audit is now overseeing it. While we are aligning insurance with the risk profile of the company, the legal function still has a big part to play since that team has a relationship with the organization's insurance broker. As a result, legal and internal audit will work together. This is new – last year it was not part of internal audit's scope."

The benefits of a collaborative approach

Grobon says collaboration greatly improves the way internal audit works at Dassault Systèmes. It brings auditors closer to the operation – and gives Grobon and his team a better view of the organization, as opposed to being outsiders. "I try to be a better partner and more aware of what's going on," he says. "A collaborative approach gives me visibility into key risks. Also, since people know me and we collaborate, they are more open. It creates trust."

The internal audit function has to rely on people to implement its recommendations. "There are two ways to do that," Grobon says. "There is the hard way, trying to force them to do it, or the better way, using a basis of trust and a collaborative approach and convincing them that the recommendation is good for them. One drawback, from a purist's standpoint, is that you do lose a bit of independence and objectivity. While this is true, the overall benefit to the organization is much greater."

GENERAL MILLS

Company Headquarters — United States
Number of Countries Operates in — ›100
Number of Employees — ›39,000
Industry — Consumer Foods
Annual Revenues — US$16.7 billion
Annual IA Operating Costs/Budget — Prefer not to disclose
Number in IA Function — 20
Number of Years IA Function Has Been in Place — 40+
IA Director/CAE Reports to — Audit Committee Chair and administratively to Chief Financial Officer

Note: All of the above information is accurate as of May 27, 2012.

"WE CAN WORK TOGETHER MORE EFFICIENTLY TO MEET OUR SHARED GOAL OF ACHIEVING THE RIGHT LEVEL OF RISK AND CONTROL COVERAGE – AND WE CAN DO IT WITHOUT DUPLICATING OUR EFFORTS BECAUSE WE COMMUNICATE DELIBERATELY AND CONSISTENTLY ACROSS FUNCTIONS."

CATHY HARRIS

Global Cross Governance Council at General Mills Facilitates Collaboration and Supports a Shared Mission

General Mills' products have been household names for decades, beginning with Gold Medal flour in 1880, and continuing with other iconic brands such as Pillsbury, Green Giant and Betty Crocker. One of the world's largest food companies, General Mills sells its products in more than 100 countries on six continents. In 2012, the Minneapolis, Minn.-based company reported net sales of US$16.7 billion among its three core business segments: U.S. Retail, International, and Bakeries & Foodservice.

Cathy Harris has been vice president of Global Internal Audit (GIA) at General Mills for just over one year, although she has worked for the company for the past 19 years. Her colleague Brandon McKay has been with the company for 10 years, and a manager of GIA for the past two. Both Harris and McKay transferred to GIA from the finance function.

Harris oversees 20 employees sourced both internally, from the company's finance rotational program, as well as externally, as experienced hires. Harris, who reports to the audit committee chair and administratively to the chief financial officer, has three managers reporting to her, including McKay. "We are a well-integrated team," she says. "The audit staff is given the opportunity to participate in a variety of operational, information technology (IT) and compliance audits."

For the company's size, a staff of 20 auditors seems small; however, since many of GIA's activities are international, Harris and her team co-source with local and regional auditors around the world.

GIA's primary purpose is to provide assurance to senior management and the board of directors that the company's internal control over financial reporting, IT and business operations are operating efficiently and effectively. "We also strive to add value through selective risk advisory projects, typically focused on emerging operational or strategic risks," Harris says. "The majority of our work is assurance-based, but perhaps two or three of our projects per year are advisory."

Three guiding principles and strategies

When Harris joined GIA last year, she worked with the audit managers to develop longer-term principles and strategies for the team. "The three guiding principles of our plan are to support General Mills' long-term priorities; address an environment of accelerating change; and build a world-class audit function," she says.

> To further strengthen assurance relationships and maintain consistent communication, Harris and McKay represent GIA on the Global Cross Governance Council at General Mills. "As General Mills began to grow globally, our peers in the company responsible for managing various risks were highly motivated to work together," says McKay.

To achieve these principles, GIA embarked on the following strategies:

- Develop a world-class risk assessment capability, including both a systematic approach to identify and assess risk, as well as a continuous component of risk awareness
- Optimize efficiency by using technology and continuous process improvements
- Leverage key internal assurance relationships

Leveraging assurance relationships

An example of the third strategy is the collaborative relationship that GIA has with General Mills' director of internal controls, who reports to the corporate controller and assumes a coordinating role for the company's enterprise risk management (ERM) steering committee. Harris is a member of that steering committee, which provides assurance that risks are effectively managed. "We participate in an advisory and assurance capacity," Harris says.

Harris continues: "Last year we initiated a three-year project to review the mitigating activities against key enterprise risks, to make sure those activities or controls were operating as expected. We also leverage ERM materials and analysis in our risk assessment process. This helps us identify audit advisory projects related to key risks. We then close the loop by sharing relevant learning with the other committee members."

Global Cross Governance Council

To further strengthen assurance relationships and maintain consistent communication, Harris and McKay represent GIA on the Global Cross Governance Council at General Mills. "As General Mills began to grow globally, our peers in the company responsible for managing various risks were highly motivated to work together," McKay says. "They recognized that they could not be everywhere at all times."

The council, which has been meeting for four years, is now driven and facilitated primarily by GIA. Its mission is to coordinate and align internal governance and compliance functions; promote collaboration through the effective sharing of knowledge and data; and increase efficiency through the integration of common processes. Aligned with that mission, the council's core objectives are to:

- Optimize cost-effective, integrated assurance
- Minimize review fatigue
- Identify emerging risks

The council consists of key assurance partners from GIA, human resources, global security, health and safety, internal controls, IT security, corporate communications, ethics and compliance, legal, and more. "The council represents a broad range of individuals from different functions throughout the company who all touch risks and controls in some way," McKay says. "We meet quarterly to discuss emerging risks and hot topics, and identify opportunities for teams to work together more effectively. We discuss the GIA risk assessment to gain alignment on the most critical or visible risks to the company."

While the council members do not share resources or transfer employees among functions, the group does coordinate visits and collaborate where possible. "We also rely on each other's work when we can, to avoid duplicative efforts," he says.

GIA is able to maintain independence in this environment of collaboration and alignment because everyone has specific areas of risk responsibility. "Our primary area of responsibility is financial, operational and information systems audit work," says Harris. "We share information, but we do maintain our independence given our responsibilities to audit many of the functions represented by the members."

Benefits of collaboration

According to Harris and McKay, engaging in this level of frequent, codified collaboration and relationship-building benefits GIA, and General Mills as a whole, in three important ways:

- **Increasing GIA's scope of understanding.** "Since we are a small audit shop in a global organization, and cannot be everywhere at all times, the practice of meeting quarterly with the Global Cross Governance Council is a significant benefit to everyone," says Harris. "It helps us understand where the emerging risks reside throughout the company. It shows us where to focus our audit resources. It helps us add value through strong and transparent relationships."
- **Improving coverage.** "We can work together more efficiently to meet our shared goal of achieving the right level of risk and control coverage – and we can do it without duplicating our efforts because we communicate deliberately and consistently across functions," says Harris.
- **Facilitating efficiency.** "Our business partners appreciate the collaboration because they are not getting hit with multiple requests for the same information," says Harris. "As a team and a company, we are more targeted and efficient."

During each quarterly meeting of the Global Cross Governance Council, the group reaffirms its mission and objectives. McKay points out that this is an important component to sustaining collaboration. "You have to make sure that everyone is getting value from the interaction, to encourage participation," he says. "Articulating the mission and objectives each time we meet underscores that value."

Company Headquarters — The Netherlands
Number of Countries Operates in — 4
Number of Employees — 25,000
Industry —Telecommunications
Annual Revenues — €12.7 billion
Annual IA Operating Costs/Budget — Prefer not to disclose
Number in IA Function — 20
Number of Years IA Function Has Been in Place — Dozens
IA Director/CAE Reports to — Chief Executive Officer
Note: All of the above information is accurate as of December 31, 2012.

> "AN AUDITOR HAS TO MAKE A DIFFERENCE BY NOT ONLY REPORTING ON STATUS, BUT ALSO PURSUING CHANGE TO 'MAKE THINGS BETTER' WHEN NECESSARY. ALTHOUGH INTERNAL AND EXTERNAL AUDITORS HAVE MUCH IN COMMON AND SHOULD SPEAK WITH ONE AUDIT VOICE, ACTUALLY AND ACTIVELY PURSUING IMPROVEMENT IS WHAT DISTINGUISHES INTERNAL AUDITORS."
>
> **PIET VROLIJK**

KPN Audit: Making a Difference Through "Collaboration in Full, Consensus in Moderation"

KPN, known more formally as Royal KPN N.V., is a leading supplier of telecommunications and information and communications technology (ICT) services in the Netherlands. It provides its customers total solutions for fixed and mobile telephony, Internet and television. KPN's business customers range from multinational firms to small-to-midsize enterprises to home-based businesses. The company's broad range of ICT products and services includes workstation management, data centers, consulting and cloud services.

In 2012, KPN generated approximately €12.7 billion in revenues. While the bulk of its revenues are derived from operations in the Netherlands, KPN has positioned itself as a strong challenger to established players in the Belgian and German mobile markets, and now derives about a third of its revenues from those markets. KPN's 25,000 full-time employees serve 41 million customers in its three primary markets in Europe. Additionally, the company has a wholesale subsidiary in Burlington, Mass., called iBasis, which is a global leader in Voice over Internet Protocol (VoIP) services.

Like other telecom businesses operating in Europe, KPN has recently faced a challenging business environment. In a message to KPN shareholders issued in February 2013 along with the company's 2012 financial results, chief executive officer (CEO) Eelco Blok said that "adverse macro-economic conditions continued to weigh on consumer confidence and on the investment plans of our business customers" and noted that competition had intensified in KPN's mobile markets.[1] But sustained

[1] "Annual Results 2012," KPN media release, February 2013: http://www.kpn.com/corporate/aboutkpn/Press/pressrel/Annual-Results-2012.htm.

pressures in key markets are not the only factor having an impact on KPN's profitability: The company also has been making significant, strategic investments for the mid- to long-term benefit of the company. Of particular note, it paid €1.35 billion at a government spectrum auction in late 2012 to acquire 15 blocks of spectrum so it could have first-mover advantage with offering 4G mobile services in the Netherlands this year, and secure its existing 2G and 3G capabilities for the coming 17 years.[2]

Audit of strategic, operational and financial risks contributed to auction success

KPN Audit, a team of 20 internal auditors led by chief auditor Piet Vrolijk, is helping KPN make informed business decisions that will allow it to seize opportunities for the mid- to long-term benefit of the company, such as becoming a provider of 4G services. In his role as chief auditor, Vrolijk is positioned hierarchically under KPN's CEO, and reports to the company's executive board and audit committee. KPN Audit provides assurance to both the executive board and audit committee regarding the company's control status and processes.

At KPN, the executive board is responsible for setting and attaining the company's strategic goals, and also owns risk management. "Our annual audit plan addresses some of those key risks by providing assurance on the controls in place designed to mitigate these risks," explains Vrolijk. For example, KPN Audit's efforts are aimed at assessing key performance indicators (KPIs) and making sure they are reliably measured. "We did several KPI assessments last year, and intend to conduct more in 2013," he says.

KPN Audit is focused on assessing the company's strategic, operational and financial risks. For instance, in 2012, as part of KPN's preparations to participate in the government spectrum auction, the audit team conducted a strategic audit to assess the valuation models used for pricing the spectrum blocks, the bid strategy, and the process and auction procedures in place. The preparation and the assurance provided by KPN Audit were of particular importance to KPN being able to bid with agility in the recent spectrum auction, says Vrolijk.

"Without sufficient and proper spectrum, KPN would not be able to provide mobile services to its customers in 2G, 3G or 4G," he explains. "The 2012 auction was designed to auction available spectrum until 2030. Therefore, KPN obtaining the right spectrum was critical to its strategic goal of maintaining a minimum long-term total mobile Netherlands market share of [more than] 40 percent."

Applying consensus "salt" in moderation

Vrolijk believes that making a difference is vital for any internal audit department. "Providing assurance is simply not good enough," he says. "An auditor has to make a difference by not only reporting on status, but also pursuing change to 'make things better' when necessary. Although internal and external auditors have much in common and should speak with one audit voice, actually and actively pursuing improvement is what distinguishes internal auditors. That is why internal and external auditors should both be objective, but an internal auditor never independent."

Vrolijk makes the point that KPN Audit's internal auditors are "not truly independent" because "they are employees of KPN and thus obliged to act in the interest of KPN." He says, "The company's color is green, and so, my heart is tinted green. I need to make this company better – that is what they pay me for." To achieve their objective of making a difference, Vrolijk says KPN Audit focuses strongly on their output: "our reports, key messages and storyline, findings and recommendations, and the consecutive action plan we persistently follow through on until noted issues have been resolved."

Making a difference at KPN also requires the internal audit team to collaborate and cooperate with other groups. Vrolijk says both collaboration and cooperation are "informal, organic and firmly

[2] "KPN Pays €1.35 billion for Dutch Spectrum," by Matt Steinglass, *The Financial Times*, December 14, 2012: http://www.ft.com/intl/cms/s/0/75db3768-462b-11e2-ae8d-00144feabdc0.html.

entrenched" at KPN. "I have been here since 2008 and this is how we've always worked," he says. "But collaboration is, in our case, driven by the desire for consensus. It is inherent to Dutch culture, generally. We Dutchies thrive by consensus. We even have a word for it: *polderen*."

Vrolijk is quick to add that "over-collaboration" – the desire to take the next step only after consensus has been reached in the business – can create challenges. "Too much talk leads to indecisiveness, and too little to demotivation and non-acceptance," he explains. "Collaboration is good, and necessary to getting things done, but it's often confused with consensus. And consensus is like salt: one needs the right amount – not too much, not too little – depending on the situation. Company culture determines the right amount of salt to a large extent."

> Collaboration does not extend to the audit process, however, Vrolijk says: "Our team collaborates with others by sharing information, discussing priorities and providing assistance when needed, but I draw the line at pure old-fashioned auditing. As an auditor, I need to be able to take full responsibility for my team, its work, and our adherence to professional standards."

Holding too many meetings and trying too hard to always reach consensus can lead to "paralysis," Vrolijk says: "I think collaboration in full and consensus in moderation is a better approach, but also a challenge for our company. I know my view is not so typically Dutch. My meeting-moderation strategy is still in its infancy and sometimes hard to sustain, but the storyline is clear and I intend to spread the word whenever I can."

Drawing the line at the audit process

KPN Audit collaborates regularly with the company's security department, which conducts internal and external fraud investigations and addresses potential integrity issues. When those investigations require specific financial or IT expertise – for example, in the area of data mining – KPN's internal auditors will either assist with or take charge of the investigation. Additionally, KPN Audit collaborates with the corporate compliance and risk management team, which is responsible for maintaining KPN's formalized control framework. "We work together with corporate compliance and risk management on policy design and maintenance, and to assess emerging issues and follow up, debate efforts and results, and also, have some fun," says Vrolijk.

KPN's control framework, documented with a self-developed tool, is comprised of three main objectives: ensuring reliability of financial reporting; ensuring compliance, especially in the Netherlands, where telecom companies are heavily regulated; and ensuring that IT security and business continuity status are both up to standards. In the latter area, Vrolijk says KPN Audit works very closely with the company's chief information security officer and her team.

Collaboration does not extend to the audit process, however, Vrolijk says: "Our team collaborates with others by sharing information, discussing priorities and providing assistance when needed, but I draw the line at pure old-fashioned auditing. As an auditor, I need to be able to take full responsibility for my team, its work, and our adherence to professional standards." He adds that collaboration also has been delivering mixed results in terms of joint staff team audits: "I have been experimenting with this approach, but have not been thrilled by the results — although sometimes amazed by the debate. So, I have decided to avoid these joint endeavors when possible."

Healthy churn – but new talent difficult to find

KPN's internal audit department experiences what Vrolijk calls "a healthy yearly churn" of about 25 percent of its personnel. Finding replacements for those internal auditors isn't easy, however. "In practice, we strive to interest colleagues from within the company to join the department, but hardly ever find people with the right background, skills and interest," says Vrolijk.

KPN Audit often looks to leading accounting and consulting firms to find candidates. "This can be tough, too," he says. "Auditors who come from these firms may have either reached their career ceiling or lack motivation. They also may view the internal audit function in an organization like ours as an in-between step in their career, and a step up to a finance job in our firm. Neither type of candidate is good enough. I require quality auditors – eager, honest and professional."

Vrolijk says he also struggles to find "real IT experts" for KPN's internal audit team – but when he does, he's willing to train them. "It's paramount that the company provides its customers with safe communication services. We are directing a lot of attention toward watching that aspect of our business," he says. "I currently have four 'real' IT experts on my team, and two of them don't even have a background in audit. But that's all the better. I need experts who can perform hardcore IT audit work; in my experience, it's easier to teach an IT expert how to audit than to teach an auditor how to be an IT expert."

LEGG MASON
GLOBAL ASSET MANAGEMENT

Company Headquarters — United States
Number of Countries Operates in — 7
Number of Employees — 3,100
Industry — Financial Services
Annual Revenues — US$2.7 billion
Annual IA Operating Costs/Budget — Prefer not to disclose
Number in IA Function — 32
Number of Years IA Function Has Been in Place — >10
IA Director/CAE Reports to — Functional: Audit Committee of Board of Directors; Administrative: General Counsel

Note: All of the above information is accurate as of March 31, 2012.

"THE REAL CHALLENGE IS IN COLLABORATION ITSELF. IT TAKES HARD WORK, DEDICATION AND COMMITMENT TO MAINTAIN RELATIONSHIPS. ... GREAT SUPPORT [FROM SENIOR MANAGEMENT AND THE AUDIT COMMITTEE] ENABLES US TO FULFILL OUR MISSION AND ADHERE TO THE HIGHEST STANDARDS OF THE PROFESSION."

STEVE HOMZA

At Legg Mason, Focus on Transparency and Team Spirit Enhance Collaboration and Coordination Around Risk

Legg Mason, Inc. is one of the largest asset management firms in the world, with more than US$660 billion in assets under management.[1] The company can trace its roots back more than 100 years to a brokerage firm founded in Baltimore in 1899, which later became Legg & Company. In 1970, that firm merged with brokerage firm Mason & Company of Newport News, Va., and the newly formed Legg Mason consolidated its headquarters in Baltimore.

Today, Legg Mason is a public company (NYSE: LM) with about 3,000 employees serving individual and institutional investors on six continents. Legg Mason maintains a distinctive "multi-affiliate" business model, and through this diversified group of global asset management firms offers clients a broad range of equity, fixed-income, liquidity and alternatives investment solutions – from mutual funds to savings plans to variable annuities to separately managed accounts. Legg Mason affiliates enjoy "investment autonomy," meaning they have the freedom to apply their own unique investment philosophy and process and maintain their own investment culture.

Legg Mason's major corporate function of governance, which includes legal, compliance, risk management and internal audit, is based in the company's Baltimore office. Steve Homza is managing director of internal audit for the firm, and reports functionally to the audit committee of Legg Mason's board of directors and administratively to its general counsel. Homza and his colleagues,

[1] "Legg Mason Reports Assets Under Management for February 2013," Legg Mason, media release, March 12, 2013: http://www.leggmason.com/press/releases/03_12_2013.pdf.

Sathya Vardhana, managing director of financial and operational audit or “FinOps” audit, and Jennifer Steele, managing director and leader of information technology (IT) audit, have been with Legg Mason for nearly a decade. Homza manages an audit team of 32; Vardhana and Steele oversee teams of 22 and nine, respectively.

Ongoing objectives for the internal audit department itself, Homza says, include maintaining a “robust level of expertise” on its team of auditors, which it achieves through its talent development program and other training, and continually enhancing the function’s efficiency and effectiveness. For the latter objective, collaboration and coordination with other groups in the company ... are essential.

According to Homza, the mission of the internal audit function at Legg Mason is “to add value to our stakeholders – including the audit committee, shareholders, executive management and affiliate management – by promoting accountability, integrity and efficiency, and compliance with laws, regulations, internal policies and procedures, through independent assessments of the company’s financial, operational and technology controls.”

Guarding a culture of transparency

Homza says the primary objective of internal audit at Legg Mason is to help the firm maintain its culture of “No Chalk on Your Shoes,” which was the mantra of one of the company’s founders and former chairman and chief executive officer, Raymond “Chip” Mason. “‘No Chalk’ is the shorthand phrase we have used for many years as a metaphor for ethical behavior — like an athlete competing on a playing field, we want our people to stay well inside the boundary lines for ethical behavior so that they have ‘no chalk on their shoes,’” explains Homza.

Also integral to Legg Mason’s culture is transparency. Homza says, “There are paperweights around our office with shoes and sand encased in them. They are a reminder to stay well inside the boundary lines, and if you feel you are getting too close, or someone is asking you to get too close, you need to be open about that. We feel that we are a guardian of this culture.”

Ongoing objectives for the internal audit department itself, Homza says, include maintaining a “robust level of expertise” on its team of auditors, which it achieves through its talent development program and other training, and continually enhancing the function’s efficiency and effectiveness. For the latter objective, collaboration and coordination with other groups in the company, including legal, enterprise risk management (ERM), finance, global compliance and IT security, are essential, according to Homza. “We also need to ensure we are communicating effectively with our business partners throughout Legg Mason, especially at our affiliates, to make sure they are aware of who we are, what we do, and why,” he says. “We coordinate closely with other functions to develop a long-range plan so that everybody knows what’s coming and when.”

“Four key groups within Legg Mason – global compliance, legal, ERM and internal audit – are closely aligned in their work, and all report to the company’s general counsel,” explains Vardhana. “Our general counsel views eliminating redundancies and closing the gaps with respect to potential risk areas as part of his main mission. That’s one reason why internal audit and the other groups are so focused on achieving seamless coordination and communication with each other.”

A period of transformation for internal audit

Legg Mason's internal audit function has been through a great deal of change over the years – including significant expansion of the team from about five auditors to more than 30 staff members. This growth was prompted initially by the company's need to meet Sarbanes-Oxley (SOX) requirements, but was encouraged further at the request of Legg Mason's audit committee chairman, according to Homza. Another major driver for change in internal audit was the company's transition in 2005 from a broker-dealer and asset management firm to a pure-play asset manager, following its acquisitions of Citigroup Asset Management and fund of hedge funds company, Permal Group.

"These two acquisitions added substantial volume and complexity within the Legg Mason family," says Vardhana. "With these deals, the company's assets under management nearly doubled overnight. Therefore, the team's auditing policies, procedures and practices evolved accordingly. I would say this is also when internal audit and the compliance groups really began to collaborate and coordinate more closely and think even more proactively about risk."

> Homza says the expansion of the internal audit function and greater coordination among various committees have helped to create a more positive, inclusive environment in Legg Mason around awareness, management and ownership of risk – from the corporate office to affiliates to offices worldwide.

After the 2005 acquisitions, Legg Mason also formalized its ERM group – a team of 10 that is a separate group within the company's corporate governance structure. Vardhana says, "We see internal audit as an integral partner to ERM and the entire governance group in making sure all risks are covered at Legg Mason – investment, operational, and technology risks, including emerging issues such as cloud computing and mobile device security. We in internal audit are the principal testers of internal controls that help mitigate the risks, but in terms of addressing risk, we share that responsibility with our governance partners, and have established a seamless joint process with them."

The ERM team coordinates with the investment risk management groups at each of Legg Mason's affiliates. Working closely with those affiliates, as well as the ERM group, gives internal audit a more comprehensive view of risk, according to Vardhana.

Fostering better relationships through committees

Not long after establishing the ERM function, Legg Mason's board created a risk oversight committee in addition to its audit committee. Committees are, in fact, plentiful throughout Legg Mason and its affiliates, and serve as primary vehicles for sharing knowledge and resources, integrating common processes, and identifying and addressing risk. These committees include the Americas Risk Oversight Committee and International Risk Oversight Committee, which monitor risk at Legg Mason affiliates within the United States and internationally. Additionally, there is a "coordination committee" that includes representatives from internal audit, legal, finance, ERM, HR and IT, and is designed to enhance information-sharing about risk and prevent duplication of effort.

On the IT side, there is a mobile device security working group, as well as a social media committee – known as the "Web 2.0 committee" – of which Steele is a member. "Our IT audit team has a close working relationship with our IT department," she says. "We collaborate with them frequently throughout the year in addition to the regular risk assessment process. There is a group within the IT department at Legg Mason that is responsible for technology risk management, identification of risk, and management of internal controls, including SOX controls."

Steele's team also coordinates regularly with Legg Mason's legal department, which includes an intellectual property (IP) group in its organization. "The IP group protects the Legg Mason brand, and affiliate brands, by helping to monitor any misuse of those brand names on the Internet, including on social media sites," Steele explains.

Homza says the expansion of the internal audit function and greater coordination among various committees have helped to create a more positive, inclusive environment at Legg Mason around awareness, management and ownership of risk – from the corporate office to affiliates to offices worldwide. "Everyone is more attuned to governance and the need for good controls," he says. "Internal audit is not seen as 'big brother,' but as a team that identifies any cuts and bruises in the organization before they can become major injuries. We like to think of ourselves as 'Team D' – for defense."

While internal audit now collaborates regularly with other groups at Legg Mason, Homza says it does not compromise the function's independence. "The real challenge is in collaboration itself," he says. "It takes hard work, dedication and commitment to maintain relationships. But we have great support from the general counsel, our global head of compliance, and our chief risk officer. They regularly attend our meetings, and are very transparent and communicative. I think their active presence helps us to maintain a culture of team spirit, team building and effective communication. Finally, support and guidance from the audit committee enables us to fulfill our mission and adhere to the highest standards of the profession."

SONY

Company Headquarters — Japan
Number of Countries Operates in — More than 100
Number of Employees — 146,300
Industry — Electronics, Entertainment and Financial Services
Annual Revenues — ¥6.8 billion
Annual IA Operating Costs/Budget — Prefer not to disclose
Number in IA Function — More than 100
Number of Years IA Function Has Been in Place — 45
IA Director/CAE Reports to — General Counsel
Note: All of the above information is accurate as of March 31, 2013.

"YOU NEED TO HAVE VERY GOOD RELATIONSHIPS WITH MANAGEMENT TO EXPRESS OPINIONS FREELY AND MAKE CLEAR YOUR CONCERNS. THE STRENGTH OF INTERNAL AUDIT'S VOICE AND THE RICHNESS OF WHAT WE HAVE TO SAY ARE SO MUCH MORE EMPOWERED BY THAT ENGAGEMENT AND COLLABORATION."

ANDREW MCCOMBIE

Collaboration, Communication and Adaptability Drive Internal Audit Effectiveness and Efficiency at Sony Group

Sony Kabushiki Kaisha (Sony Corp.), parent company of the Sony Group, is a Japanese multinational conglomerate corporation that began in 1946 in the area of research and manufacture of telecommunications and measuring equipment. Founders Akio Morita and Masaru Ibuka derived Sony's name from "sonus," the Latin word for sound, and to express the idea of youth, the English term "sonny," or "little son." In the nearly seven decades since, Sony has grown to become one of the world's leading manufacturers of electronics for the consumer and professional markets. It employs more than 146,300 people around the globe and has over 1,300 subsidiaries. For the fiscal year ended March 31, 2013, the company reported sales and operating revenue of more than ¥6.8 billion.

Sony Group comprises three main businesses: electronics, entertainment and financial services. In electronics, Sony is engaged in the development, manufacture and sale of various kinds of electronic equipment for consumer, professional and industrial markets as well as game consoles and software such as the widely popular Sony PlayStation game console. Sony's primary manufacturing facilities are located in Asia, including Japan. Sony also utilizes third-party contract manufacturers. The company's products are marketed throughout the world by sales subsidiaries and unaffiliated distributors as well as direct sales via the Internet. Sony's entertainment assets include motion pictures, home entertainment and recorded music. In addition, Sony is engaged in various financial services businesses, including life and non-life insurance operations through its Japanese insurance subsidiaries and banking operations through a Japanese Internet-based banking subsidiary.

Andrew McCombie is the head of Global Internal Audit for Sony Group. Because Sony Group is a very large and dynamic organization, the number of personnel who come into contact with the internal audit function is wide and varied. "At times, especially when we're reviewing operational areas, our team is working across a broad range of subject areas and locations," McCombie explains. "We do track industry benchmarks to measure our overall aggregate size and capacity, and we keep in range of industry norms, and have a number of exceptional people across the teams."

Navigating a "changed landscape" for internal audit

McCombie says it has always been important for his team to maintain very close communication with those responsible for the management of business operations to ensure the internal audit function is aligned with management's strategic goals and objectives – and especially so at a time of ongoing economic uncertainty in markets worldwide. In addition, he adds that maintaining the same level of communication with Sony's executive management at this time is even more critical due to the "changed landscape" brought about by the heightened regulatory environment in recent years.

Sony Group, like many multinational firms, has created teams to address specific regulatory risks and requirements and help provide positive assurance that the company is meeting its regulatory obligations as part of the overall ERM framework. McCombie says, "This effectively supplements the internal audit function but also creates the added challenge of coordinating effectively with groups that are tasked to assure compliance with specific regulatory requirements. This coordination has become essential to ensure internal audit accurately evaluates the residual risk, avoids duplication of effort and ensures optimum use of resources. This, in turn, requires our teams to be fully collaborative, including providing management with positive assurance of compliance in certain key areas as well as insight into potential gaps."

McCombie says it has always been important for his team to maintain very close communication with those responsible for the management of business operations to ensure the internal audit function is aligned with management's strategic goals and objectives – and especially so at a time of ongoing economic uncertainty in markets worldwide.

McCombie says the company's significant change in audit report style – from providing negative assurance only, to at times providing both positive and negative assurance – has prompted internal audit to think even more critically about the purpose behind certain audits, and how to communicate issues effectively to management. It also has led the internal audit team to engage in more audits designed to highlight risks that span multiple areas and would benefit from being reported with full context. "We go into an area of the company, maybe a new area, and try to identify opportunities without getting too distracted by minor details," he explains. "Our focus is on governance from a holistic viewpoint. And we are mindful that regardless of the number of regulations, essentially there is only one internal control environment, and management requires a complete picture of that view to support their decision-making from the top down."

Business developments intensify focus of internal audit at Sony

Just like many global businesses, Sony has a growing number of third-party relationships resulting from the outsourcing of activities such as manufacturing, logistics and information technology. "This is another reason why our team has had to adapt our audit approach," says McCombie. "We need to ensure we can audit against a third-party contract to point out gaps to management, and then deliver an audit report that can act as a commercial document that will allow Sony management to negotiate with the third party to have any gaps remediated."

Because audits can involve many stakeholders both inside and outside of internal audit, McCombie says it is impressed upon his team to be mindful that an audit may have an effect on many aspects of Sony Group – including its people. "We share the view with our internal auditors that they are the ones who often will be providing more detailed and thought-provoking feedback on how someone is doing their job than even perhaps that person's own colleagues or direct reporting line," he says. "But it's always a challenge to make the right judgment call as to what style is required for a particular audit situation or auditee. Here again is where effective communication and collaboration, particularly with management, are so important: they are core to building strong relationships."

McCombie says that close collaboration with Sony management does not put internal audit's objectivity or independence at risk – in fact, it allows auditors to feel more confident about speaking their minds. "You need to have very good relationships with management to express opinions freely and make clear your concerns. The strength of internal audit's voice and the richness of what we have to say are so much more empowered by that engagement and collaboration," he explains.

A collaborative atmosphere can have an impact on retention of internal audit talent, too, says McCombie: "Interacting with and getting feedback directly from management is important for recognition. It's a big motivator. I'm a firm believer in the idea that 'motivated people communicate positively.' An audit team that is not well motivated will not communicate well. And if management doesn't understand what an audit is trying to achieve, then we end up with a very average audit."

Connecting across a global organization

By emphasizing communication and collaboration, Sony Group's internal auditors can help motivate positive change in the organization wherever it is needed, according to McCombie. "Internal audit is in a good position to connect different parts of the organization with detailed insight into a specific area of frontline execution, as we have the authority to move horizontally into different areas. In any global organization, the pressure of business may at times lead departments or internal policies to focus on their own objectives rather than connecting always to the organization's overall strategic goals. Internal audit can act as a positive counterbalance to this pressure."

He adds, "This can also be true of internal audit, as a department – leading, in effect, to the department being isolated, rather than independent. It is through strong communication, and collaboration with management and adaptability to changing priorities that we are able to better focus on matters of business relevance."

In McCombie's view, "the audit report is the beginning of a change process, not the end." He explains, "When communicating the audit result to management, it is important to share how the audit program was developed, why the work was conducted and is important, what techniques were used and so on, so that the auditor and auditee reach a point of shared understanding about the audit process itself. And as we get to know and understand each other's intentions better, we are able to focus on the real issues and, I hope, be perceived as adding value."

For every internal audit function to reach its full potential, McCombie says the "people aspect" of the auditing process must be kept in sight. "What internal audit brings to an organization is information," he says. "The quality of that information, and the manner of its communication, is most heavily influenced by the people serving within the internal audit function. In large, multinational organizations, information is often fragmented. When internal audit can go out into the organization, bring all that information together, and get to the stage where we are able to benchmark across different segments and regions, then I believe we can really create positive change for the business."

Company Headquarters — United States
Number of Countries Operates in — Network: > 200/Offices: > 30
Number of Employees — 8,500
Industry — Global Payments Technology
Annual Revenues — US$10.4 billion
Annual IA Operating Costs/Budget — US$6 million – US$10 million
Number in IA Function — 47
Number of Years IA Function Has Been in Place — 6 (since IPO)
IA Director/CAE Reports to — Functional: Audit and Risk Committee
Administrative: Chief Risk Officer

Note: All of the above information is accurate as of September 30, 2012.

"COLLABORATION IS NOW PART OF OUR GOAL-SETTING PROCESS AT VISA, AND IT'S INTEGRATED INTO EMPLOYEE PERFORMANCE PLANS. IT'S AS TOP OF MIND FOR US AS IT CAN BE."

GEORGE DOOLEY

Focus on Collaboration at Visa Inc. Helps Internal Audit Team Stay on the Front Lines of Assessing Risk

Visa Inc. is a global retail payments technology company that enables consumers, businesses, financial institutions and governments to use electronic payments instead of cash and checks. Along with the processing services it provides to its financial institution clients, Visa® offers a diverse range of branded payment options, such as debit cards, and owns and manages the Visa brand, which is accepted at tens of millions of merchants and 1.9 million ATMs in more than 200 countries and territories worldwide.[1]

Visa's retail electronic payments network, the world's largest, supported US$6.4 trillion in transactions made with Visa-branded payment and cash disbursement offerings over the four quarters ended December 31, 2012.[2] After nearly 50 years in business, Visa became a public company in 2008, and its initial public offering stands as the largest in U.S. history.[3] The company reported FY 2012 operating revenue of more than US$10 billion.[4] Based in Foster City, Calif., Visa employs about 8,500 people worldwide.

One of the company's recent additions to its personnel is chief audit executive, George Dooley, who joined Visa in August 2012. Dooley came from Gap, Inc., where he was chief financial officer for the

[1] "Visa Inc. at a Glance," Visa.com: http://corporate.visa.com/_media/visa-fact-sheet.pdf. As reported by financial institution clients and therefore may be subject to change. Includes ATMs located in the Visa Europe geographies.

[2] Based on payments volume, total volume and total number of transactions for the calendar year 2011. See Visa Inc. 2012 Annual Report (*Annual Report*) on p. 18, available at http://www.investor.visa.com.

[3] "Facebook Prices Third-Largest IPO Ever, Valued At $104 Billion," by Tomio Geron, *Forbes*, May 17, 2012: http://www.forbes.com/sites/tomiogeron/2012/05/17/facebook-prices-ipo-at-38-per-share/.

[4] For the fiscal year ended September 30, 2012. See Visa's Annual Report on p. 39: http://investor.visa.com/phoenix.zhtml?c=215693&p=proxy.

clothing retailer's global supply chain, and served as Gap's vice president and chief internal auditor prior to that. At Visa, Dooley reports directly to the audit and risk committee of the company's board of directors. He reports administratively to Visa's chief risk officer (CRO), as do several other groups within the organization, including compliance, enterprise risk and business process engineering.

"I think having the internal audit group reporting to the CRO is a great move by Visa because it allows me to partner very closely with my colleagues in compliance and enterprise risk," he says. "However, my sense is that there was very strong collaboration already happening between the internal audit function and the compliance team, enterprise risk group and IT team even before I joined the company."

To ensure the internal audit team communicates effectively about IT risks to the organization, Dooley says the team has been working with outside resources and IT leadership to develop the framework on "how to discuss IT issues in a business context, without acronyms that make people's eyes glaze over."

The internal audit function at Visa is comprised of 47 auditors. All but nine of the internal auditors work at the company's Foster City headquarters. The rest of the team is based in Singapore and is responsible for leading country audits, with support provided by the U.S. auditors as appropriate. The internal audit function at Visa also maintains a co-sourced relationship with a third party that provides "statutory and special skill sets" to the team when needed, according to Dooley.

A heavy focus on IT risk

During his career, Dooley has also held IT leadership positions, and his experience in technology is proving valuable in his role at Visa. "Visa is largely a technology company, and converting the world to electronic payment methods is a primary corporate strategy," says Dooley. "I appreciate how important it is for IT to be aligned with other core components of the organization. This is particularly true for Visa, because technology is foundational to the whole business model."

Assisting management in assessing and managing IT risks is among the internal audit function's primary objectives, according to Dooley. "Our scope includes all factions of risk: financial, operational and IT, and our audit plans are developed and executed accordingly. We also have a strong forensics team here at Visa. Because technology is core to our business model, we have developed a strong partnership with leadership and the board in identifying and managing IT risks. Our Audit Department resources are heavily invested in IT, and we have a number of different subject-matter experts who specialize in different areas of IT. We're also focused on helping to ensure our audit and risk committee is aligned with leadership on where Visa stands in terms of its IT security maturity model. We work closely with senior management and IT leadership on that assessment and communication framework."

As Visa grows its business internationally and capitalizes on emerging technologies to create new offerings – including mobile payments and services like the new V.me by Visa digital wallet service – Dooley says he expects the internal audit function to remain on the front lines in helping the organization to identify and manage IT-related risks. To ensure the internal audit team communicates effectively about IT risks to the organization, Dooley says the team has been working with outside resources and IT leadership to develop the framework on "how to discuss IT issues in a business context, without acronyms that make people's eyes glaze over." He adds, "We've made some great strides in developing our messaging and expect that the framework will strengthen the alignment and road map to achieving our strategic objectives."

Collaboration "top of mind" at Visa

At Visa, the internal audit function conducts an annual risk assessment of its risk universe. Meanwhile, enterprise risk assessments are conducted monthly and reviewed with the board quarterly. "There are many risk assessments that go on within the organization," Dooley says. "There actually has been a process to inventory Visa's risk assessment processes to see if we can streamline and leverage them better."

Dooley says one benefit of enhanced collaboration that he is seeing within the organization is speed. "Visa is a big, fast-moving company with a lot of moving parts. ... When everyone can stay focused, and get all the input necessary as we're going down the path, we can save ourselves time to market, and that's really critical for an innovative company like Visa."

He adds that one of his self-assigned challenges in his new role at Visa is to better integrate the internal audit planning and enterprise risk processes – and notes that collaboration between the two groups is important to achieving that goal. "We recently invited the head of the enterprise risk team to our audit universe identification meeting," says Dooley. "We spent a full day comparing our risk universe to that team's strategic and operational risks to see how we can better integrate them. The output included the draft of a new unified audit universe that will now go through the validation process."

This type of proactive collaboration is occurring on a much broader scale throughout Visa as well, according to Dooley. The company recently rolled out core value sets to the whole organization, and collaboration is one of six key components. "Collaboration is now part of our goal-setting process at Visa, and it's integrated into employee performance plans," he explains. "It's as top of mind for us as it can be."

Dooley says one benefit of enhanced collaboration that he is seeing within the organization is speed. "Visa is a big, fast-moving company with a lot of moving parts. We never want to get too far down the road with an initiative and then need to retrace our steps. When everyone can stay focused, and get all the input necessary as we're going down the path, we can save ourselves time to market, and that's really critical for an innovative company like Visa."

Another valuable benefit of collaboration, according to Dooley, is that it encourages diversity of input. "The more thought we have around the table, the more we're empowered to anticipate the bumps in the road," he says. "I think it makes for a more robust process for getting emerging business models to market in a stronger way than if we were just trying to iterate in the marketplace and risk missteps."

Staying involved – but independent

Dooley notes that internal audit "walks a fine line in terms of advisory and audit" at Visa because the team is so focused on collaboration, and its senior members, including Dooley, take an active role on several governance committees. "We are not voting members, as that could risk our independence component," he says. "But we are there to give advice and counsel, and lend expertise where possible in terms of controls and the bigger risk picture. So, we're at the table with management as they go through their risk management processes. We find that our being there from the start helps quite a bit."

The individual participation of internal audit team members on the governance committees is tracked and monitored closely by the department. “Even when we’re working in an advisory capacity, we have to be very careful about who is a part of an advisory team, and who will conduct an audit later on,” Dooley says. “We make it very clear here at Visa that our group is independent.”

But even if the internal audit team at Visa wanted to become a “strictly audit-the-books type of operation,” this model wouldn’t work in the fast-paced environment of both Visa and its industry, says Dooley: “I really don’t think our department would be successful. We need to be part of the change that’s taking place, and lend our expertise to help Visa accomplish its goals within a sound global environment that’s centered foundationally in control.”

Dooley says he considers “collaboration” to be a longer word for “trust” – and is proud of the credibility the internal audit function at Visa has built up over time, and which he inherited. “Visa is a company where the internal audit department is very clearly viewed as a partner to the leadership and the board,” he says. “We dig in our heels, we have a voice, and we are credible. I’ll quote some of the feedback we’ve received: ‘Firm but fair.’ I think I might put that on my business card.”

About Protiviti

Protiviti (**www.protiviti.com**) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit. Through our network of more than 70 offices in over 20 countries, we have served more than 35 percent of FORTUNE 1000® and FORTUNE Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

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Among the services we provide are:

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

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

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KnowledgeLeader® is a subscription-based website that provides information, tools, templates and resources to help internal auditors, risk managers and compliance professionals save time, stay up-to-date and manage business risk more effectively. The content is focused on business risk, technology risk and internal audit. The tools and resources available on KnowledgeLeader include:

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