THE FUTURE AUDITOR HAS ARRIVED

VOL. XVI Internal Auditing Around the World®

Internal Audit, Risk, Business & Technology Consulting

protiviti®

Face the Future with Confidence

Foreword

From Unprecedented Disruption, an Optimistic Vision for the Future

How do you transform the internal audit function to serve the ever-changing landscape? That was the core question we at Protiviti aspired to answer through our interviews with internal audit leaders for Volume XVI of our *Internal Auditing Around the World®* profile series. We sought insight into how high-performing and forward-thinking internal audit teams are innovating and transforming themselves into agile, multiskilled and technology-enabled organizations — "next-generation" functions.

When we chose that question in early 2020, we were thinking primarily about digital change in business. What we did not know then was that, within a matter of months, a force from the natural world — a new and deadly coronavirus, COVID-19 — would be the real change upending not only businesses but also entire economies, along with billions of people's lives.

BRIAN CHRISTENSEN

Protiviti Executive Vice President
Global Internal Audit

We conducted most interviews with chief audit executives (CAEs) during the last two weeks of March 2020, amid the growing wave of coronavirus lockdowns around the globe. Interestingly, we found that despite the unprecedented disruption and uncertainty, these leaders were calm, clear-minded and resolute. They embodied the spirit of braving extraordinary times with fortitude and confidence — no doubt because they had been working long before the pandemic to condition their teams to be more resilient when challenged by *any* major change.

We also discovered that the leaders of internal audit functions well advanced in their embrace of new technologies, tools and methodologies felt that their teams were on especially strong footing to weather the "new normal" — and whatever the *next* new normal would be after that. They had already disrupted themselves so they could better support the broader business in its efforts to transform digitally. While they may never have imagined disruption at the scale brought about by the coronavirus pandemic, these internal audit functions had adopted a mindset that we were already living in a time of rapid disruption with constant change as the status quo.

In Volume XV of this publication, which Protiviti published in July 2019, we noted that internal audit functions around the globe had arrived at a watershed moment. We asserted that they had a stark choice before them: to disrupt if they wanted to evolve into a next-generation internal audit function — or be disrupted. And even earlier, in a related publication released in 2018, we emphasized that "Internal auditors must adapt, evolve and transform before becoming irrelevant. They need to ready themselves for changes and new thinking — now."[1]

We see things somewhat differently now. While proactive and controlled disruption is always preferred, unexpected disruption can also yield positive outcomes. Experiencing both — disrupting and being disrupted — is what builds resiliency. That's why we anticipate that many of the internal audit functions firmly on the transformation path before the upheaval of the pandemic will be those well-positioned to thrive in the long term, and the most prepared to help business leadership navigate risk and identify new opportunities in a post-COVID-19 world.

The CAEs we interviewed for this publication all emphasized they have a long way to go before they will feel they are leading a true next-generation internal audit function. But we suggest that these leaders, and their teams, are well on their way to setting the standard for the next chapter of the profession. The future auditor has, in many ways, arrived.

On behalf of Protiviti, I want to express our gratitude to the CAEs and their colleagues who contributed to Volume XVI of *Internal Auditing Around the World®*, and who remained dedicated to this project during an extraordinary time of disruption and unease for their organizations and industries, and, of course, for their loved ones as well as themselves.

Brian Christensen
Executive Vice President – Global Internal Audit
Protiviti
September 2020

[1] *The Next Generation of Internal Auditing — Are You Ready? Catch the Innovation Wave*, Protiviti, 2018, available at: www.protiviti.com/US-en/insights/next-generation-internal-auditing.

Table of Contents

i Foreword

v Introduction

1 Campari Group

6 Lloyds Banking Group

11 Microsoft Corporation

16 Milaha

21 Olympus Corporation

26 Rabobank

31 Salesforce

36 SF Express

42 Starbucks Coffee Company

47 TopBuild Corp.

52 Zurich Insurance Company Ltd

58 About Protiviti

Introduction

John Dewey

Philosopher, Psychologist and Education Reformer

Arriving at one goal is the starting point of another.

The future auditor has arrived. It's a bold statement — and it's true.

The future auditor is a vision, inspired partly by the definition of internal auditing from The Institute of Internal Auditors (The IIA): "an independent, objective assurance and consulting activity designed to add value and improve an organization's operations."[1]

When Protiviti first articulated this vision in 2014, we explained that the future auditor, once personified, would be recognized as a "positive change agent" in the organization.[2] We also asserted that chief audit executives (CAEs) who embraced this vision would be "better positioned to demonstrate to executive management and the board the value contributed by internal audit through their comprehensive risk focus and forward-looking, change-oriented and highly adaptive behavior."[3]

[1] Definition of Internal Auditing, The IIA: https://na.theiia.org/standards-guidance/mandatory-guidance/Pages/Definition-of-Internal-Auditing.aspx.

[2] "The Future Auditor: The Chief Audit Executive's Endgame," *The Bulletin*, Vol. 5, Issue 6, Protiviti, 2014: www.protiviti.com/US-en/insights/future-auditor.

[3] Ibid.

Six years later, we see that many internal audit leaders around the globe have answered that call to action — and are committed to bringing forth a next-generation internal audit function. They, and their teams, have disrupted their function's status quo by thinking differently about how internal audit performs its work and delivers results that do, in fact, add value to the business.

These future-focused organizations are seizing — as well as creating — opportunities to use technology, including emerging tools like robotic process automation (RPA) and artificial intelligence, not only to increase their overall efficiency and productivity, but also to innovate. And, as they transform their processes and practices, they are often inspiring the business to do the same.

Proof that the future auditor has arrived, in both thought and action, in many internal audit functions can be found within the profiles presented in this publication — Protiviti's 16th edition of *Internal Auditing Around the World®*. Here are just three examples that stand as evidence:

- Italian beverage company Campari Group, which has been operating for more than 160 years, has an internal audit function that is now a Center of Excellence for managing data for the company. The internal audit team — which has 20% of its auditors dedicated to analytics work — earned this status in only a few years' time. They are also now learning about process mining.
- At Tokyo-based Olympus Corporation, which manufactures medical devices and more, internal audit is well into its highly ambitious, five-year transformation plan. Change includes embracing agile thinking, shifting to a centralized model, moving to risk-based auditing and stimulating new technology adoption across the function's five global regions.
- And at TopBuild, a leading installer and distributor of insulation and building material products for the U.S. construction industry, internal audit is using analytics to bolster fraud investigations and related recovery activities. The team's digital forensics work is helping to not only uncover incidents of fraud faster, but also create a culture of deterrence.

The internal audit organizations we showcase in our latest edition of *Internal Auditing Around the World®* are at various stages of transformation, and their focus on how and where to drive change in the function is shaped, at least in part, by the needs and goals of the business at large. But one thing all these organizations have in common is a CAE who is committed to driving change, and who also understands that every destination reached along the change journey is not an end point. Instead, each accomplishment marks the starting point for something new.

This perspective is well-founded, as even the vision for the future auditor keeps evolving. Since 2014, Protiviti has assessed, refined and expanded the vision several times so that it remains relevant to the profession as business and technology —and the world — continue to change. In our most recent assessment of the future auditor vision, developed during the COVID-19 pandemic, we noted that:

> Transforming the function is a work in progress, with much work to be done. There is no one-size-fits-all approach … But the future is no longer a hypothetical. It is here now and … looking incredibly bright as CAEs blaze the trail along the cutting edge. A bold commitment to elevate the internal audit function's value proposition, embrace change and improve continuously is the hallmark of these innovative trailblazers. We can all learn from their successes.[4]

[4] "Going Digital: The Future Auditor in Action," *The Bulletin*, Vol. 7, Issue 6, Protiviti, 2020: www.protiviti.com/US-en/insights/newsletter-bulletin-v7i6-digital-future-auditor.

Time will tell, but we expect that the internal audit functions already on the transformation path before the pandemic were those best positioned to help their organizations navigate this unprecedented time of disruption. The COVID-19 crisis has made clear that organizations that are digital leaders are far more resilient and agile than their counterparts lacking digital maturity.

We look forward to learning from the successes of the future auditors who have already arrived, in both mindset and spirit. These leaders are positive change agents and problem-solvers who aren't likely to be left behind because they are constantly rethinking how their functions plan, execute and deliver results to increase the value contributed to the companies they serve.[5] No doubt, we will use their experiences to inform a new future auditor vision for the post-COVID-19 era.

Protiviti
September 2020

Acknowledgements

We sincerely thank the companies and internal audit leaders who generously shared their insights, achievements and goals with us for Volume XVI of *Internal Auditing Around the World®*. Protiviti also acknowledges The IIA for its ongoing commitment to advancing the internal audit profession. We greatly value our longtime partnership with The IIA. And we appreciate the organization's continued interest in this annual publication, which celebrates the contributions of internal audit teams supporting diverse businesses around the globe.

[5] Ibid.

Campari Group

Serving Up a Potent Mix of Data Analytics and Process Mining

Antonio Zucchetti

Senior Director, Internal Audit

The combination of data analytics, process mining and standard auditing practices that we use in internal audit is very powerful. It's quite normal for us to be ahead of the business in making analyses. And often, we are able to identify something they can't.

Campari Group began in 1860 — the year Italian drink maker, Gaspare Campari, invented the bright red, bittersweet aperitif in Milan. A few years later, Gaspare opened the Camparino bar in Milan's city center, next to the famous Duomo. Camparino soon became a center of artistic and cultural life in Milan and, 160 years later, is still serving customers — and pouring lots of Campari.

Gaspare's successor and son, Davide, launched an extensive marketing campaign in the late 1880s that was the catalyst for the Campari brand's initial wave of global growth. By 1904, Campari had opened its first factory in Sesto San Giovanni, where the company is headquartered today. In the 1920s, Campari heavily targeted the French market with lavish ads, sponsored cocktail contests and subsidized drinks books[1] so that "by the end of the decade Paris was awash in Campari cocktails."[2] And, in 1932, Campari introduced what is considered the world's first pre-mixed drink: Campari Soda, a single-serve aperitif.

Campari's distribution power had extended to more than 80 countries by the 1960s, and over the next few decades, the Campari brand itself continued to earn prestige, becoming synonymous with a first-class lifestyle.[3] When merger and acquisition activity in the beverage industry accelerated in the 1990s, Campari seized the opportunity to become a multinational business and build an expansive portfolio of premium and super premium brands.

Since 1995, Campari Group has acquired 29 brands valued at more than €3.1 billion. Its current portfolio of more than 50 brands includes well-known sips such as Aperol, Cinzano, Grand Marnier, SKYY vodka and Wild Turkey whiskey. Campari Group, whose parent company is Davide Campari-Milano S.p.A., employs 4,000 people and maintains distribution and manufacturing capabilities in 20 markets worldwide. Its products are sold in more than 190 markets around the globe.

> *Their ability to identify and address both "small and big risks in order to speed up business" means the internal audit function at Campari Group is viewed as much more than a "tick-the-box compliance operation."*

Shortening the Distance Between Thought and Action

One of Campari Group's acquisitions in 1995 brought Antonio Zucchetti, an experienced controller, into the company. He worked in the finance department for nearly a decade before becoming Campari Group's senior director of internal audit, reporting to the chairman of the board of directors. Zucchetti leads a lean and geographically distributed internal audit team. Seven auditors work with him at the company's main office in Milan. Two other auditors are based in Kingston, Jamaica, and one team member is stationed in New York City. The team is also diverse, with auditors representing five nationalities and speaking 12 languages collectively.

Campari Group's appetite for acquisitions, and the need to closely follow the operations of newly acquired companies, has helped the

[1] "How the Negroni Conquered America," by David Wondrich, The Daily Beast, June 10, 2019: www.thedailybeast.com/the-history-of-how-the-negroni-conquered-america.

[2] Ibid.

[3] Campari: The History: www.campari.com/inside-campari/the-history.

internal audit team become skilled in another way: They are adept at detecting a wide range of risks. Their ability to identify and address both "small and big risks in order to speed up business" means the internal audit function at Campari Group is viewed as much more than a "tick-the-box compliance operation," according to Zucchetti.

"We are seen as having very strong capabilities that help the business create more value," Zucchetti explains. "We are flexible and adaptive — and agile in our work. We can analyze different organizational processes, try to reduce risk exposure, and help to maximize the effectiveness of those processes. And when questions or risks arise, we can act like the fire brigade — a special force that can be deployed to different geographies. When we arrive, we make our diagnosis, and then release our findings and recommendations so the business can fix issues quickly."

> *Zucchetti summarizes in one word the response internal audit has received from the business for their data analytics work: "Wow."*

Zucchetti says he has frequent opportunities to discuss his team's accomplishments and challenges with top management in person and get their direct feedback. "Of course, because it is Campari's business, we have three bars located by our office," he says. "So, it is very easy for us all to meet up for coffee, chitchat and give business updates. The CEO or CFO will ask me, 'Where did you go last week?' and I will tell them where I was — Canada, China, Argentina — and I explain what we were doing there."

He continues, "For my job, these regular interactions with our leadership have incredible value because I can get quick answers as well as green lights to take action when needed. It helps to make the distance between thought and action very short."

Shortening the distance between thought and action has also led to Zucchetti getting approval for investments and initiatives designed to help his internal audit organization evolve into a next-generation function. Ramping up with data analytics, in particular, has been a focus since 2012 — and has led to impressive results. "In just a few years' time, internal audit has become a Center of Excellence (COE) for managing data at Campari Group," says Zucchetti. "We can download and extract data from everywhere we need to in the organization to do fact-based analysis, make a hypothesis and interpolate data."

Every auditor on Zucchetti's team works with data analytics to some degree, but two auditors are now fully dedicated to this type of work. "That means 20% of our team is analytics-focused," Zucchetti notes.

"Interviewing" the Data in Systems Before Going Out Into the Field

Zucchetti summarizes in one word the response internal audit has received from the business for their data analytics work: "Wow." He says the team has become so skilled at extracting, reading and reporting on data that they can "reach every single corner of the P&L and balance sheet, and transform our findings based on 100% of the samples." That detailed work has also reduced the need for internal auditors to travel, which helps

Campari Group reduce its carbon footprint and drive sustainability.

The internal auditors work collaboratively in what Zucchetti calls a "newsroom style" to identify the right approach for a specific audit. And now, because of their extensive use of data analytics, they are often able to go into the field with the final audit report almost fully populated. "That's because we have 'interviewed' the data in our systems first," Zucchetti explains. "Interviews with people are valuable of course because they allow you to make a human connection. But data does not necessarily come from the mouth — it does, however, come from the systems."

Two years ago, the internal audit team started to learn process mining, which is the analysis of business processes based on event logs. For that work, they use a solution from German software company, Celonis. "The combination of data analytics, process mining and standard auditing practices that we use in internal audit is very powerful," says Zucchetti. "It's quite normal for us to be ahead of the business in making analyses. And often, we are able to identify something they can't."

> *And now, because of their extensive use of data analytics, they are often able to go into the field with the final audit report almost fully populated.*

He offers this example of how the team's data skills have helped expand the function's visibility into the business: "Campari Group recently moved from using an on-premises data center to a cloud-based solution and added dozens and dozens of digital applications on top of that. So, now, not only can we read data on the general enterprise resource planning (ERP) system as we did before, but we can also go through different instances, platforms and solutions to download and combine data, and create the right connection between ERP and different platforms. That gives a full view of the ERP process."

Looking ahead, Zucchetti aims to have his team working with predictive analytics, like the business does for tasks such as anticipating consumer demand. "I want us to be able to evaluate, in advance, some behavior, attitude or activity and then act on that insight in a preventive way," says Zucchetti. "To get there, we are now preparing historical data, which, along with internal and external sources of data, are essential for creating predictive analytics models."

Changing the Language of Internal Audit for a Data-Savvy Audience

As Zucchetti's team works to evolve into a next-generation function, Campari Group itself is pursuing an array of digital transformation initiatives. This includes deploying robotic process automation (RPA), and using machine learning and artificial intelligence in various areas of the business, such as finance. "This presents a new challenge for us as auditors," says Zucchetti. "We cannot interview a robot, so we need to understand which kinds of instructions went into the robot to guide its behavior."

Another emerging challenge for internal audit, according to Zucchetti, is to make reporting "more sexy." He says that challenge isn't just for his team at Campari Group — but for the internal audit profession. Zucchetti explains why: "As functions like finance transform themselves with technology, like RPA, they also change the talent in the function. That means we aren't dealing with the canonical clerk or the chief accountant of the past. Instead, we

have in front of us a data scientist or a data architect. So, we have to adapt the language of internal audit, and create a different way to show our findings — such as using more storytelling and more visuals, like graphs."

To tell stories in a compelling way to the business requires understanding the business. For that reason, Zucchetti says when he needs to hire, he looks for people from within Campari Group. He also likes to expose his team to new experiences that help them grow their business acumen.

"For our last team meeting, for example, we visited Amazon to see the warehouse where our packages are assembled and shipped," says Zucchetti. This exercise, he explains, was meant to show how an extremely complex business can still be very simple at its core. "You have thousands and thousands of SKUs, millions of customers, and various combinations of things in the packages, but customers are ordering things using a simple app that doesn't require any training," he says.

To tell stories in a compelling way to the business requires understanding the business. For that reason, Zucchetti says when he needs to hire, he looks for people from within Campari Group.

Of course, Zucchetti is always eager to share lessons learned with company leadership over coffee — as well as his latest plans and ideas for internal audit. "Campari is a fantastic place to work," says Zucchetti. "It's a place where dreams come true. Really, I mean this. If you have a project, and it's viable, there is no one who will say no. It is the perfect place to grow and develop yourself as a person, and as a manager. My team is very strong, committed and keen, as is everyone at Campari. I think those elements are why our company has been growing so fast."

Lloyds Banking Group

Taking the Reins on Change to Drive Focused Innovation

Paul Day

Chief Internal Auditor

I believe very strongly that innovation leads to relevance and impact. And there is evidence that internal audit functions that are innovative are also the internal audit functions that make an impact.

Lloyds Banking Group is committed to helping Britain prosper, delivering on this through its strategy to be the best bank for customers. This is more than aspirational because it's backed by 250 years of experience providing financial products and services to millions of households, businesses and communities in Britain. The Group's long history is embodied in its symbol — the black horse — which it inherited from the signage that goldsmiths, the forerunners of modern banks, used to attract customers in 17th-century England.

Lloyds Banking Group was established in 2009 when Lloyds TSB acquired HBOS, a banking and insurance company formed by the 2001 merger of the Bank of Scotland and Halifax plc. Today, the Group is the largest retail bank in the United Kingdom, serving a diverse customer base of 26 million, including in select markets outside of the United Kingdom. It's also the U.K.'s biggest mortgage lender, with a £290 billion portfolio, as well as the largest digital bank in the United Kingdom, with more than 16 million digital customers. The Group's other main business activities are commercial banking, general insurance, and life, pensions and investment provisions. Lloyds Banking Group's values are embedded across the organization and are key to how it does business — putting customers at the heart of every decision they make with a primary focus to help customers achieve their goals.

Lloyds Banking Group's portfolio of brands includes Lloyds Bank, which began in Birmingham, England, in 1765 as Taylors & Lloyds, founded by Sampson Lloyd II, John Taylor and their two sons. The Group's other subsidiaries include The Bank of Scotland, which was founded in 1695 and is Scotland's first and oldest bank; Scottish Widows, a life insurance and pensions company located in Edinburgh; and Black Horse Limited, which is the U.K. market leader for point-of-sale automotive finance.

"Investigating the Art of the Possible"

Chief Internal Auditor Paul Day joined the Group in June 2017 from a global consulting firm, where he was a partner in the financial services practice. Day reports directly to the Group's audit committee chair with a second line to the Group Chief Executive Officer. He oversees an internal audit team of 300, who are responsible for providing the Group and subsidiary boards with assurance over the management of risks across the Group's three divisions: retail banking, commercial banking, and insurance and wealth and all support functions. The internal audit leadership team includes three divisional audit directors and four risk-focused audit directors.

Since 2017, Day — with support from key team members like Newham — has been driving forward an array of change initiatives in internal audit.

One colleague Day collaborates closely with is Colin Newham, the Group Internal Audit Director for Audit Strategy, Risk and Support. Newham oversees several specialized teams, including the professional practices and quality assurance teams, which track how internal audit operates, and provide learning and development to support the function. An operations team provides support on property, people, finances and systems. "We also have an insights team, which specifically looks at how we can use information to provide the best insights to the Group's audit committee, executives and key stakeholders," says Newham.

Since 2017, Day — with support from key team members like Newham — has been driving forward an array of change initiatives in internal audit. These efforts are designed

not only to help the team become even more effective at providing risk-based assurance that helps the Group to remain secure and sustainable but also to create a leading internal audit function.

"That's our vision — to be a leading internal audit function," says Day. "I believe very strongly that innovation leads to relevance and impact. And there is evidence that internal audit functions that are innovative are also the internal audit functions that make an impact."

Day uses what he calls a "4Ps framework" — People, Process, Position and Performance — to help articulate the vision for and purpose of the internal audit function. Under each "P" are three strategic priorities. One of the priorities under "Process," for example, is to "revolutionize stakeholder reporting." Day expands on that goal: "That means we are delivering high-value and insightful reporting to internal and external stakeholders and collaborating to bring wider insight."

Another priority under "Process," Day says, is for internal audit to make innovation "part of our DNA." He explains, "That means rethinking how we work, investigating the art of the possible, having the confidence to try, fail and learn, and to view change as a comfortable norm."

Centralizing Innovation Efforts in "The Hub"

When it comes to innovation in the internal audit function, look no further than "The Hub" — another specialized team that reports to Newham. "We created The Hub, which is really a change hub, in early 2018," Day explains. "It's a centralized capacity in internal audit for driving strategic initiatives. We're committed to putting 5% of our headcount into The Hub — or about 15 people — to focus full time on our priority change initiatives."

The talent makeup of The Hub varies based on the skills and knowledge that specific change initiatives require. "We rotate people into The Hub based on several things, including the opportunity to provide professional development, and we also found it helps colleagues bring their 'hidden' skills to the fore," says Day. "The main goal of our resourcing strategy, though, is to ensure that we have the right people focusing on the right initiatives at the right time."

Auditors are often handpicked for The Hub because of their expertise, but many also volunteer to help support projects that interest them, according to Newham. He says The Hub colleagues represent all locations and teams over time and are advanced in their use of agile collaboration tools such as JIRA.

Day uses what he calls a "4Ps framework" — People, Process, Position and Performance — to help articulate the vision for and purpose of the internal audit function.

The core purpose of establishing The Hub, says Day, is to have a dedicated team moving priority change initiatives forward, instead of allowing those initiatives to be "independently run, 'off-the-side-of-the-desk' projects that lack synergy and are seen as extra work." The latter scenario is what Day encountered when he first joined the Group. "We felt we needed an air traffic controller to manage the risk from the lack of coordination and to prevent initiatives from colliding," he says. "That probably tells you everything you need to know about how many change initiatives we had."

One of The Hub's first priorities was to coordinate those efforts and help build up data analytics proficiency in the internal audit function. "I always saw data analytics as a key enabler of innovation, and one of The Hub's initial priorities was to coordinate the delivery of a function-wide analytics upskilling program. Three years ago, we were nowhere with analytics," says Day. "In 2019, about three-quarters of our audits used data analytics — and over half of them used complex analytics."

He adds, "We are in a market-leading position now. Our data analytics team even received a 2018 Audit & Risk Award from the Chartered Institute of Internal Auditors for 'Best Use of Technology.' And we are well-recognized by the Group's senior leadership for building a leading data analytics capability, as we have readily shared our innovative tools and techniques with the business."

> *Day says collaboration across the function has already been improving steadily — as has auditor engagement and morale.*

Embracing Experimentation — and Learning to Fail Fast

The Hub focuses its work along "signature themes." In 2019, the five themes were audit management tools, learning and career academy, business risk intelligence, agile auditing, and influencing culture. The 2020 priorities for The Hub are similar, says Day. For example, the team is tasked with helping the internal audit function to further its agile auditing practices, which it has made significant progress on since the beginning of 2019, with help from The Hub.

Also, The Hub is building on the 2019 progress made in developing and launching development academies for all new joiners and for audit engagement leads by supporting the creation of a new leadership and mindset academy that is designed for all senior leaders in the function. The pilot program took place in February, with another installment of the academy planned for later in 2020. "It's the first time we've rolled out an academy specifically for our Heads of Audit," says Day. "It's a three-day, instructor-led, on-site event that's very focused on soft skills and is intended to help us embed a collaborative culture mindset in internal audit."

Day says collaboration across the function has already been improving steadily — as has auditor engagement and morale. He attributes these positive trends, in part, to the focus driven by The Hub. But Day and Newham both see other factors as having an impact on "creating a spirit of innovation" in internal audit. First, Lloyds Banking Group is pursuing its own major transformation program as it looks to remain "fit for the future in a digital, connected world," says Day. And second, internal audit leadership is working hard to build a culture of innovation that extends well beyond The Hub.

"We've used everything from hackathons to innovation challenges to behavior experiments to encourage all of our auditors to try new things," says Newham. "We try to allow our people to fail — and fail fast. Failure is OK, as long as we learn from it."

Supervised and unsupervised machine learning, natural language processing, and robotics are areas where the Group's internal audit team is learning a lot of lessons through trial and error, says Day. "Our data analytics team developed a machine learning utility called PAVLOV, which stands for 'Program Association Values to Learn Other Values.'

The utility tries to make associations between different elements of data and pull out insights. And, on the robotics side, we're trying to extract information from systems that is otherwise difficult to obtain so that we can run other analytics on it."

Through machine learning and robotics experiments, the internal auditors at Lloyds Banking Group are rising to the challenge to make innovation part of their DNA. A particular area of success has been the development and uptake of automated tools for testing controls over areas such as user access and projects, reducing the testing time from hours to minutes, and providing the ability to test 100% of the population. The team is rethinking how they work. They are investigating the art of the possible. And they are gaining confidence to try, fail and learn.

"We will keep looking at how to implement these tools and, whenever we see an opportunity to use them, we will try," says Day. "Obviously, these technologies are still very new. Sometimes what we try to do works, and sometimes it doesn't. That's OK as long as we learn fast and make good progress overall — which is happening across the function."

Through machine learning and robotics experiments, the internal auditors at Lloyds Banking Group are rising to the challenge to make innovation part of their DNA.

Microsoft Corporation

Leading With What's Next in Agile Auditing

Michael Williams

Group IT Audit Program Manager

We're leveraging agile methodology to make sure that we can flex our audit approach as these uncertain times warrant. We're also trying to become more creative in how we execute our audits and in the staffing models we deploy.

When two of Microsoft's top internal audit leaders — General Manager of Internal Audit Brian Foster and Senior Director of Internal Audit Dawn Liburd — check in with Group IT Audit Program Manager Michael Williams, they lead with a telling question: *What's next?*

"A lot of internal audit leaders would ask whether the work is getting done on time and on budget," Williams notes. "And, yes, that's crucially important. But Dawn and Brian start by asking how we're embracing opportunities to further develop our people, deploy advanced technology and really think outside of the box. They want to know how we're continually moving the needle to develop a world-class auditing function through the adoption of technology that creates more clarity, effectiveness and efficiencies across all of our auditing segments."

That transformation-friendly tone at the top motivates Williams to hunt for new ways to optimize the company's agile auditing capability, an effort launched three years ago. Recently, Williams has been leveraging his own company's technology tools, including Microsoft Azure DevOps (ADO) tools and Microsoft Power Automate's robotic process automation (RPA) functionality, to bolster agile auditing and drive efficiency. While those elements of transformation are impressive, Williams' unique approach to stakeholder collaboration and the use of a new labor model are equally noteworthy for what they signal for his profession's road ahead.

"We're leveraging agile methodology to make sure that we can flex our audit approach as these uncertain times warrant," Williams says. "We're also trying to become more creative in how we execute our audits and in the staffing models we deploy."

Scope of SOX Work Drives Agile Auditing

Headquartered in Redmond, Washington, Microsoft enables digital transformation for the era of an intelligent cloud and an intelligent edge. The company's mission is "to empower every person and every organization on the planet to achieve more." The company operates subsidiaries in 120 countries and employs more than 151,000 people around the world, the largest portion of whom are technical engineers. That engineering workforce is organized into four groups: cloud and artificial intelligence (AI), experience and devices, AI and research, and core services engineering and operations. The company's industry-leading business and consumer technology offerings include Teams, Dynamics 365, Azure, Office 365, the ubiquitous Windows operating system, and an increasing portfolio of Surface tablets, laptops, and Xbox video game consoles and much more.

> *That transformation-friendly tone at the top motivates Williams to hunt for new ways to optimize the company's agile auditing capability.*

From a functional perspective, internal audit is located within Microsoft's finance group, helmed by Chief Financial Officer Amy Hood. Corporate Vice President Julia Charter leads the audit, risk and compliance group.

Williams' role is threefold. He's charged with driving internal audit innovation from an agile perspective while leading his function's Sarbanes-Oxley (SOX) testing work and the testing of all nonfinancial disclosure (NFD) controls. Williams and his large global team of externally sourced audit professionals (more on that model later) monitor 1,300 to 1,400 Tier 1 and Tier 2 SOX controls that qualify as in scope in any given year. The scope of that controls work helps explain

why Williams is dedicated to continually improving his function's agile auditing capability.

"The number of controls that are in scope changes constantly," Williams explains. "Our stakeholders also change as they onboard or offboard throughout the auditing cycle. We need to cultivate stakeholder involvement and understanding as we work through our process. That means we have to be agile and responsive to the needs of stakeholders who we're trying to audit."

Daily Stand-Ups and DevOps

Until about a year ago, Williams and his team used Excel and Word documents to organize, track and manage control definitions and annual progress on operational effectiveness testing. "From an audit transformation perspective," Williams says, "we focused on how we could use other Microsoft technologies to generate more efficiencies and effectiveness to help us advance our use of agile methodology even further."

That work led to the audit team adopting Microsoft's ADO tools, which support agile software development activities. The dashboarding and communications functionality in those tools are especially valuable, Williams notes. "ADO enables us to automate communications with our stakeholders, who can review our auditing dashboards in real time," he reports. "We no longer have to create a PowerPoint dashboard every two weeks or send lengthy email strings and reminders. We now provide stakeholders with much more transparency."

The ADO dashboards assigned to individual stakeholders are customized to address their needs. A glimpse at the dashboard gives each stakeholder a view of all actions that they are required to conduct to help complete testing. The status of those tasks and their associated due dates are listed in the tool, which also generates automated reminders to business partners participating in audits: *Please provide X, Y and Z to internal audit by June 1 to complete testing.*

"Any stakeholder can go into ADO and see the real-time status of their assigned control as it moves through the testing cycle and ultimately receives a pass or fail rating," Williams notes. "They can track that status on a daily basis or even on a minute-by-minute basis as we work through our testing cycle."

> *Designing innovative measures that produce mutual benefits requires healthy collaborations.*

Lead With Empathy

Williams' focus on his stakeholders' experience is intentional. "The goal of our transformation and innovation work is to make sure that we leverage advanced technology and auditing techniques that not only increase our own efficiency and effectiveness but also do the same for all of our stakeholders," he stresses. "The use of ADO has reduced the amount of work needed on both sides of the fence, and that's crucially important from an internal audit perspective."

Designing innovative measures that produce mutual benefits requires healthy collaborations. Williams and his auditors strive to understand their business partners by reviewing their objectives as well as the types of pressure they face as they work to fulfill their goals. "Our approach is to lead with empathy by making sure that we understand how we can flex and extend as necessary to achieve the overall goal of the auditing project," he adds.

Partnering with Microsoft's engineering teams to discover ways that new and emerging technology tools might further audit's transformation is also important. Williams regularly interacts with one of the company's core financial engineering teams, which has been assigned to support the audit, risk and compliance function. Williams and a fellow internal audit executive meet with that team every two weeks to discuss and identify ways to further audit innovation.

"Often, those meetings consist of a whiteboard session where we think through new ways to leverage Microsoft technology to reduce effort and increase effectiveness in our testing and/or data usage," Williams says. "Ad hoc interactions also occur where we're exchanging new ideas with each other. It's really a matter of being able to reach across the aisle as a traditional accountant or auditor to our engineers so that we can work together to solve a problem."

A New Labor Model

Microsoft's audit innovations also extend beyond methodologies, technology tools and collaborations. Williams' entire team of audit professionals are sourced from four different external services firms (including Protiviti).

Williams says this labor model is primarily designed to accommodate the ebb and flow of the 35,000 staffing hours SOX testing requires in a typical year. "The volume of testing work fluctuates as we go through the interim, remediation and roll-forward cycles throughout the year," he says. "In order for us to manage that body of work, we leverage an outsourced model to provide boots on the ground to conduct the testing. This has not only provided a great deal of support for SOX testing, it has also helped our entire audit function because we're able to leverage the insights concerning industry best practices from all four firms."

Williams acknowledges that managing audit experts from four competing companies initially posed challenges. However, as he discusses how he addressed those issues, the process of managing an external team of 70 experts would sound familiar to someone accustomed to the rigors of managing a large group of full-time employees. "There are a lot more similarities than most people would expect," Williams notes.

Partnering with Microsoft's engineering teams to discover ways that new and emerging technology tools might further audit's transformation is also important.

Of course, each firm has a different way of operating. "The challenge, when bringing in multiple firms, is to make sure that we're all aligned to complete a large and dispersed body of work as one team," Williams says. "It can be difficult to break down those firm walls." Williams did so through careful onboarding, ongoing communication, and the creation of real-time transparency regarding auditing progress and performance thanks to ADO. "We've seen a dramatic increase in collaboration across all firms," he reports. "There are no secrets because we all see the same information regarding progress and hurdles, and we discuss those challenges and successes in our daily stand-ups and through all of the communication channels we've implemented. My role is to help them navigate challenges by responding to those issues in the most effective and efficient manner."

In addition to efficient SOX coverage and access to best-practices insights from four top services firms, Microsoft leverages the innovative labor model as a pipeline

for developing and, at times, hiring additional full-time auditing talent. In turn, Microsoft's four external partners expose their employees to valuable training and development opportunities along with leading-edge auditing methodologies and technologies. "It's been a highly effective model so far," asserts Williams, who has the metrics to prove it.

> *Microsoft's four external partners expose their employees to valuable training and development opportunities along with leading-edge auditing methodologies and technologies.*

Real-Time Access to Auditing Progress

Williams tracks a number of key performance indicators (KPIs) concerning his team's SOX and NFD controls work, including hours to complete testing, hours per control, cost per control and duration of a test (from walk-through to completion).

Since the adoption of agile audits three years ago, the level of effort (as measured by testing hours) and testing costs have decreased steadily. Those improvements increased even more after Williams' team and their business partners began using ADO.

Qualitative signs of success also have materialized. "We've received overwhelmingly positive responses from stakeholders regarding our use of ADO," Williams says. Business partners seem especially pleased to be liberated from emails regarding internal audit requests. They no longer need to figure out if they've responded to emailed requests or to mine lengthy email strings to figure out which task internal audit requested of them.

"They seem extremely happy that they can go into ADO, see their status and receive task assignments in real time," says Williams. "That creates additional efficiencies on their end."

Milaha

Challenging the Status Quo, Including From Within

Asem Alnaser

Chief Internal Auditor

If you don't have the right internal systems and dataset to anticipate what could happen in the future, you won't be able to embark on a digitalization journey. My advice is to ensure that both things exist and that you have control over them; otherwise, your journey will fail.

Strive. Committed. Synchronized. Inspired. These are the four core values of Milaha, one of the largest and most diversified maritime and logistics companies in the Middle East. Headquartered in Doha, Qatar, Milaha started out in 1957 as Qatar National Navigation & Transport Company, the first shipping agent in Qatar. In fact, the company's commercial registration number is literally "1."

Milaha is the corporate identity of Qatar Navigation Q.S.C., a public shareholding company listed on the Qatar Stock Exchange. Qatar Navigation unveiled its new identity in 2011 — a move inspired, in part, by its desire to celebrate its Arabic roots. At the same time that Qatar Navigation introduced the core values of Milaha, it also set a new strategy and vision to guide the business into the future, with an emphasis on delivering "synchronized solutions that mobilize businesses."

> *The internal audit function's long-term objectives are aligned and synced to support Milaha as the company pursues digitalization.*

Milaha, led by its President and CEO, Abdulrahman Essa Al-Mannai, dedicatedly works to meet that vision through its five fully integrated business units: Milaha Maritime & Logistics, Milaha Capital, Milaha Gas & Petrochem, Milaha Marine & Technical Services, and Milaha Offshore Marine, with more than 100 vessels ranging from offshore support and containers to tankers and barges. Milaha also owns and operates a shipyard and provides agency services to vessels calling local ports. Additionally, the company invests in real estate and trades in marine and equipment lubricants.

As of April 2020, Milaha has a staff strength of more than 3,200 people spread across its offices in Qatar, Africa, Singapore, the United Arab Emirates and the United Kingdom.

Inviting Departmental Disruption and Driving Productivity

Chief Internal Auditor Asem Alnaser has been with Milaha for six years. He reports to the Audit Risk and Compliance Committee of the company's board of directors, and leads a centralized internal audit function, based in Doha, which includes seven other auditors. Milaha outsources some of the work to internal audit partners, which support the core team on a handful of specialized projects annually, according to Alnaser.

The internal audit function's long-term objectives are aligned and synced to support Milaha as the company pursues digitalization. To do that effectively, the internal audit function had to first transform itself, says Alnaser. "We are a very large operation, and eight employees in the internal audit department cannot adequately cover a company that has thousands of transactions," he explains. "So, we decided to embark on our own transformation journey with digitalization."

When Alnaser joined the department, all internal audit tasks were handled manually. "Our first transformation goal was to deploy an audit management tool to standardize our operation internally," says Alnaser. "We set about creating a department with proper goals, procedures, frameworks, standardized reporting mechanisms, and standardized audit programs and testing procedures."

Once they had the new audit management tool in place, Alnaser and his team started thinking about which parts of the company they could monitor continuously using audit scripts. "We developed about 89 scripts that are run through Galvanize Analytics

Exchange Platform, which is linked to Milaha's enterprise resource planning system and other key systems," says Alnaser. "The scripts are running 24/7 and exceptions, if any, are identified daily."

Automation of work has helped to greatly increase the internal audit team's productivity, according to Alnaser. "The output of our department has tripled over the past six years," he says. "We used to conduct 13 to 15 audits annually, and now, we're doing nearly 40."

Making Plans for AI and Inspiring New Ways of Working

Now that Milaha's internal auditors have more time to pursue value-adding projects, Alnaser says the team is making plans to work with artificial intelligence (AI). "We want to use AI technology to help us anticipate areas of possible improvement in the business as a result of current business practices," says Alnaser. "That's a strategic objective for our department during the next two to three years."

This goal is more than aspirational — work is already well underway for internal audit to use AI to identify trends in sales and customer retention, and then help Milaha to anticipate risks and uncover opportunities in those areas. Alnaser explains the nature of this initiative: "The logistics arm of our company helps customers with their supply chains, including warehousing. We have a huge, 30,000-square-foot warehouse in Doha called Milaha Logistics City. One of the things we want to do with AI is anticipate fluctuations in customer demand for that space based on historical demand trends."

He continues, "We want to complete this project in 2021. So, this year, we're working on the scripts, and we're moving quite fast. Also, we've been doing an internal assessment for the last two years to ensure that we have the right data and systems in place to do the kind of analysis we're aiming for — and we now do."

> *Automation of work has helped to greatly increase the internal audit team's productivity.*

Milaha's internal audit function initially decided to transform itself so that it could keep pace with the business as it pursued digitalization. But Alnaser says that, in many ways, the work the department is doing — with support from the board of directors and management — has helped to spur change elsewhere in the organization. He points to the company's embrace of Microsoft Power BI data visualization tools as an example.

When Alnaser conducted an assessment of Milaha's internal audit department digitalization needs, he discovered many opportunities for the department to improve its operations and the way it interacted with other segments of the business. "I suggested to the board of directors, through the audit committee, that Milaha consider implementing certain measures at the internal audit department level that, if successful, could then be rolled out across the business," says Alnaser.

One of those measures was to use Power BI dashboards and data mining tools to present internal audit work, such as exceptions reporting and process-wise risk profiles, in a handier and more user-friendly format. "We implemented this in 2015," says Alnaser. "Every script is linked to a Power BI dashboard and automatically updated when new results come out. The dashboard shows the multiple exceptions as well as

the issues that may exist within a specific process. We share the dashboard with executive management and the board using the Power BI mobile app, so they can get a current snapshot of any gaps in the control environment and an overall view of the current risk profile of the company."

Alnaser continues, "This initiative was well received, and they asked us to share the experience with the rest of the company. So now, our dashboards, data mining tool and Power BI are in use across the organization."

> *As a company, Milaha is committed to continuously challenging the status quo — and Alnaser says he encourages his internal audit team to do that, too.*

Keeping Up With Industry Trends and Thinking Outside the Box

As a company, Milaha is committed to continuously challenging the status quo — and Alnaser says he encourages his internal audit team to do that, too. "I'm always reminding them that we can't just look at the business as it is today," he says. "We need to think outside the box and see what we can recommend that will open new doors for Milaha and help the company grow revenues."

One way that Alnaser prompts innovative thinking from his team is by equipping them with the latest industry knowledge. "I provide them with a lot of subscriptions to shipping industry websites so that they can follow key trends, risks and changes in technology supporting the shipping business. With this knowledge and insight, they can look at how Milaha is doing business now and make recommendations for changes based on emerging risks and advancements in the industry."

He points to a recent discussion the team had about Milaha's current sales process and how digitization of the customer sales experience can enhance profitability and customer loyalty as compared to other competitors regionally or internationally who embarked on this journey. "Milaha is now updating its strategy to have digitization at the core of its operations," says Alnaser.

Setting Up Risk Management and Creating Synergy

Alnaser recently took on the additional responsibility of managing Milaha's risk management department and enterprise risk management efforts. He says internal audit's work with technology, especially around analytics, in addition to the synergy between the two departments, is one of the reasons Milaha's leadership asked him to set up and manage the risk function. The brand-new department was established and staffed in June 2019.

The 274 risk registers that the internal audit team had already developed for all the company's operations were used to create the new risk management framework. "We now have a uniform risk register for the whole organization, and we can actually rate it from two different points of view: risk management and internal audit — two functions that have a lot of synergy," says Alnaser.

Now that the risk management function and framework are in place, Alnaser says the risk management team is looking for opportunities to automate processes. "That's our goal for the next year and a half," he says. "We're baking in technology from the start — not reinventing anything. And that's good because it also creates synergy with the compliance and internal audit functions.

We want one tool that works for them all — one system that fits internal audit, risk management and compliance."

> *Alnaser has this advice for his peers aiming to create a next-generation function: Start from a strong technology and data foundation.*

Based on his experience in helping internal audit to modernize its operations, and in building a new and digitally minded risk management function, Alnaser has this advice for his peers aiming to create a next-generation function: Start from a strong technology and data foundation.

"If you don't have the right internal systems and dataset to anticipate what could happen in the future, you won't be able to embark on a digitalization journey," he says. "My advice is to ensure that both things exist and that you have control over them; otherwise, your journey will fail."

Olympus Corporation

'T' Is for Transformation … and Team

Richard Lebitz

Global Chief Internal Audit Officer

We have a five-year strategic plan built around people. We call it 'Partnership and Technology.' Partnership *refers to our goal to transform the internal audit function into a trusted business partner. People and technology enable that transformation, and they are critical to the success of the future state of the function.*

As he wrestles with the intricacies of Japanese character sets, Olympus Corporation Global Chief Internal Audit Officer Richard Lebitz questions whether there's room for another language in his brain. Besides his native English and the Spanish that he learned while working in Mexico, Lebitz picked up German in Munich during his tenure with previous employer Siemens. His mind is also brimming with milestones associated with Olympus' highly ambitious internal audit transformation schedule along with a deep awareness of the numerous cultural distinctions he's taken great care to address during his sweeping change effort.

"Our transformation started in April of 2019," explains Lebitz, who stepped into the role at the same time. "We began by truly understanding how each region's internal audit function was currently cooperating. Consensus is extremely important in Japanese culture and Japanese companies. Our approach was to figure out the best way to bring everyone in internal audit together to help them understand what needs to change and why."

The internal audit transformation effort followed quickly on the heels of similarly momentous changes within Olympus. In January 2019, the company unveiled its "Transform Olympus" plan for becoming a truly global medtech company. Among many other changes in the transformation plan, the company adopted a three-committee board structure with a diversified board of directors for the purpose of driving efficiency in decision-making, enhanced governance and improved transparency (vs. the audit and supervisory board structure that many Japanese companies traditionally use). The reach and magnitude of these changes intensified Lebitz's focus on cultural nuances that would likely drive, or hinder, change. The steps he implemented in response to that assessment offer valuable guidance to internal audit leaders driving transformation in any country or culture.

"I tried as many tools and approaches as I could," he adds, "to convey as emphatically as possible that we're not transforming the function because 'I'm an American, and this is how we do things in the U.S.'"

> *The internal audit transformation effort followed quickly on the heels of similarly momentous changes within Olympus.*

Celebrating a Century With Enterprise Transformation

Based in Tokyo, Olympus was founded a century ago as a microscope manufacturer. The closely guarded secrets of its lens-polishing technology eventually led to the development of proprietary camera and endoscope technologies. Today, the global company's 35,000-plus employees develop solutions for the medical, life sciences and industrial equipment industries, as well as create cameras and audio products — a business it currently intends to divest.

Historically, Olympus Corporation's primary regional offices operated semi-autonomously. The Transform Olympus initiative will shift the enterprise toward a more centralized model. The overall transformation also calls for a move to a performance-based culture in which individual and team key performance indicators (KPIs) linked to business objectives are identified and measured.

Internal audit's transformation effort calls for the function to move to a centralized model, according to the five-year strategic plan Lebitz and his team developed. The function's 63 internal auditors — based in Japan as well as in Germany, Hong Kong, China, Singapore,

South Korea and the United States — previously operated semi-autonomously. That meant that they operated at varying levels of sophistication regarding the adoption of advanced auditing approaches and tools. A couple of regions had made strides moving to a paperless documentation system, for example, while others still relied on shelves of hefty binders. "The trick was to get everybody to the same level," Lebitz notes, "without anyone feeling like they were being overrun."

> *Lebitz worked to get his staff to embrace a more agile mindset ("try it quickly, learn and improve it") while meeting those ambitious year-one transformation objectives.*

In most regions, the annual audit plan was designed and deployed primarily using a rotational approach. Auditing activities tended to be driven by measures that did not necessarily correspond to the highest risks posed to the organization. Under that approach, rule exceptions and so-called "risk events" were tracked and audited.

While the regional offices will remain in place, the entire internal audit group will operate as one function globally via a hub (Tokyo) and spoke (the regional audit locations) structure. In addition to the centralized model, some of the most notable components of internal audit's transformation plan include:

- A move to risk-based auditing
- The implementation of a centralized audit management system
- The adoption of a range of advanced internal audit technology tools, such as robotic process automation (RPA)
- The implementation of continuous auditing
- The adoption of an agile auditing approach

The three final items are slated to be implemented in 2021 or after. "We have a five-year strategic plan built around people," Lebitz explains. "We call it 'Partnership and Technology.' *Partnership* refers to our goal to transform the internal audit function into a trusted business partner. People and technology enable that transformation, and they are critical to the success of the future state of the function."

Culturally Sensitive Change Management

The work Lebitz and his team wanted to perform during the first 12 months of their transformation plan was substantial. They planned to go live with the new risk-based auditing approach supported by a new audit management system on April 1, 2020. (The company's fiscal year concludes March 31.)

"The first reaction when we announced this timeline in May 2019 was, 'Why do we have to do this so fast?'" Lebitz notes. That sentiment was expressed well before Olympus and every other business in the world transitioned into crisis management mode in response to the COVID-19 pandemic. "The coronavirus has definitely added another challenge to the mix because we pretty much have everybody working from home now," he adds.

Most of the potential change management obstacles Lebitz sought to address were cultural in nature. For example, the company's internal audit staff included experienced auditors with a vast amount of knowledge, but less experience with current technology. Moreover, the company's rich heritage of designing precision instruments may have generated a bias for perfectionism. Internal auditors and others routinely worked exhaustively to finalize a solution, process or

activity before trying to execute it in practice. Lebitz worked to get his staff to embrace a more agile mindset ("try it quickly, learn and improve it") while meeting those ambitious year-one transformation objectives.

On that count, Lebitz found the following steps to be helpful:

- **Benchmarking:** Lebitz conducted extensive benchmarks within the industry. "It illustrated where we stood compared to our peer group, and we leveraged that information as a catalyst for change," he notes. "Seeing areas where we lagged behind our peer group helped crystallize our focus on making improvements." One of those areas included internal audit's access to the board and the audit committee. The higher use of risk-based auditing by other companies also helped drive acceptance of the transformation effort, while dispelling any notions that Lebitz was trying to Westernize the function.

> *Lebitz says the highly interactive workshops helped his internal auditors "understand that top management and the audit committee are very interested in what we're doing."*

- **In-person, inclusive team building:** The five-day workshops Lebitz and his senior team designed and staged for the entire global function represent the most resource-intensive — and probably the most effective — change management mechanism during the function's first year of transformation. The sessions brought all of the company's internal audit leaders together in one location where they engaged in team building exercises designed to convey the reason for the transformation, provide instruction on risk-based auditing, gain familiarity with the new audit management system and interact with audit committee members. Olympus Corporation President and CEO Yasuo Takeuchi kicked off the workshop series by discussing the important role internal audit played in the company's overall transformation and the drive to strengthen corporate governance. Audit committee members also attended some of the workshops to engage with auditors, share their perspectives on governance and gain a firsthand understanding of internal audit's transformation objectives. After the final workshop, internal auditors responsible for specific transformation workstreams presented the purpose of their activities to the CEO. Lebitz says the highly interactive workshops helped his internal auditors "understand that top management and the audit committee are very interested in what we're doing."
- **Expediting system implementation:** Olympus' internal audit function intentionally selected an audit management system that would require little, if any, customization to implement. "We wanted something that was as close to plug-and-play as possible," Lebitz notes. "If we had to spend time customizing, it would delay other transformation activities." Getting the system in place relatively quickly also enabled more auditors to experience the power of analytics that the system offers, which stimulated buy-in. "It's an evolution," Lebitz stresses. "We're still working on a direct connection to the ERP system so we can automatically pull data. That will help us make progress on our long-term objective of conducting continuous auditing."

- **Picking up the technology:** Centralizing the global audit function created a larger, more unified budget, and Lebitz took advantage of that shift to stimulate technology adoption throughout the five regions. He let his regional leaders know that they would not be responsible for the cost of the new audit management system during the first year of the transformation effort. "I said that I would keep that cost in headquarters because we want them to use it," he recalls. "After a year, we have to start charging for access. But if we had told them that they needed to pay right away, it may have slowed adoption."

Performance Measures to Drive Progress

Transformation progress is measured according to traditional project management techniques. Lebitz and his team monitor the completion of milestones within each transformation workstream. Once the risk-based auditing approach begins, supported by the audit management systems, the function's performance will be measured and managed, based on KPIs such as the time it takes for audit to issue a report and budgeted vs. actual hours.

Certain KPIs also will be integrated into personal performance management plans. This year, for example, auditing leaders will be held accountable for tracking at least one audit in the new audit management system; using the system to support additional audits will give them the potential to drive greater performance and will positively impact the annual performance assessment process. "These are new processes, so we want to give our people a performance incentive to perform these actions," says Lebitz, who is also using KPIs in dashboard-style reports to keep his audit committee updated on the function's transformation activities.

> *Lebitz's global change management strategy shows the value of wrapping one's mind around important cultural qualities to more effectively frame the need for internal audit transformation.*

So far, that new reporting cadence is paying off. "Thanks to their participation in the workshops, audit committee members have a much better understanding of what we are trying to do," Lebitz adds. "The reports I share with them provide a real-time view on what's really taking place throughout the world from an internal audit perspective."

Lebitz's global change management strategy shows the value of wrapping one's mind around important cultural qualities to more effectively frame the need for internal audit transformation in terms that internal auditors, the audit committee and other stakeholders will understand and embrace.

Note: Protiviti conducted this interview with Richard Lebitz in March 2020. He died unexpectedly on August 5, 2020. His inspiring leadership in internal audit transformation and change management will now be continued by Pierre Lacroix.

Rabobank

An Appetite for Audit Innovation

Klaas Leendert Leijendekker

Global Head of IT Risk & Continuity Management (formerly Global Head of Expertise Pool of Audit Risk Management & Treasury)

If you look at the responsibilities of the next-gen auditor, every auditor should embrace and internalize the opportunities of data-driven assurance and make it an integral part of the process-oriented operational audit. Fortunately, the tools are becoming more self-explanatory, and data is available on more platforms.

One of the Netherlands-based Rabobank's primary missions is to drive sustainable food production around the world. So, it's fitting that the financial services company also has a voracious appetite for innovation.

The global bank's stated commitment to meaningful innovation is evident in a "moonshots" program through which entrepreneurial employees pitch ideas for process improvements or new revenue streams to a panel of internal judges who reward the most promising proposals with funding. As an example, one of those winning pitches, which featured a more secure way to manage wire transfers, was eventually spun out into its own company.

Rabobank's internal audit team, led by Chief Audit Executive (CAE) Rudi Kleijwegt, has formulated and executed its own moonshots in recent years. These innovation initiatives include data-driven assurance, agile auditing, artificial intelligence (AI) and more. Audit leaders also embrace a human-centered approach to the function's transformation, one that focuses as much on culture and behavior as it does on next-generation technologies, according to Klaas Leendert Leijendekker, in his former role as Rabobank's Global Head of Expertise Pool of Audit Risk Management & Treasury.

"We're working on addressing culture and behavior in our transformation," Leijendekker notes, "because it greatly improves our ability to identify the root causes of observed operational deficiencies."

Welfare and Prosperity at Home, a Sustainable Food Supply Globally

Rabobank's history traces back to the late 19th century and the small agricultural cooperative banks initially founded by Dutch farmers and horticulturists. The "cooperative" designation that Rabobank maintains today means that customers can opt to become members, as nearly 2 million customers have done.

The bank's lineage is evident in its two largest business pillars. Under the first pillar, about 90 Rabobank offices serve 6.7 million retail customers and 800,000 business customers in the Netherlands. Each of these offices operates with a certain degree of independence to serve those customers and local communities more effectively. Under its second business pillar, Rabobank operates sizable international banking operations, primarily focused on the food and agriculture industries. Rabobank also offers leasing services and other asset-based financial solutions through its DLL subsidiary. Three smaller Rabobank subsidiaries focus on mortgages and related financial products, residential development services, and real estate investments, respectively. In total, Rabobank operates in 40 countries worldwide and serves approximately 10 million customers.

> *Audit leaders embrace a human-centered approach to the function's transformation, one that focuses as much on culture and behavior as it does on next-generation technologies.*

Of Rabobank's 280 internal auditors, 180 cover business operations and functions in the Netherlands. As CAE, Kleijwegt formally reports to the audit committee and administratively to Rabobank's CEO. Leijendekker was responsible for auditing the company's risk management and treasury functions, and his team included 25 auditors. He started his career as an IT auditor with a multinational professional services firm in 1992, and via a posting in Argentina and other

audit and risk management positions, he became responsible for audits in the areas of risk management and treasury.

> *Rabobank's pursuit of meaningful innovation translates to a thoughtful approach to transformation within the internal audit function.*

The internal audit function's mission is twofold. "First, we want to make sure that our reporting and assurance work, our audit coverage, is as robust and efficient as possible," Leijendekker notes. "We continually evaluate how to make use of new techniques and approaches to fulfill that objective. Second, we strive to add value to the first and second lines of responsibility."

Agile Audits, AI and Data-Driven Assurance

Rabobank's pursuit of meaningful innovation translates to a thoughtful approach to transformation within the internal audit function. Internal audit leaders recognize that innovation requires attention to training and development along with objective assessments of challenges — especially those related to managing change — that arise when new technologies and auditing approaches are put in place.

Expectations of internal auditors' technological proficiency are high but realistic. "If you look at the responsibilities of the next-gen auditor, every auditor should embrace and internalize the opportunities of data-driven assurance and make it an integral part of the process-oriented operational audit," Leijendekker says. "Fortunately, the tools are becoming more self-explanatory, and data is available on more platforms."

The function is pursuing numerous transformation and innovation initiatives. The way in which those efforts are managed, and how specific challenges are addressed within each effort, are as notable as the types of technologies and processes that are being implemented, as the following experiences demonstrate:

- **Addressing Agile Auditing Challenges:** Rabobank initiated agile auditing a little more than a year ago to achieve two related objectives: Maintain alignment with business partners who are embracing agile methodologies and strengthen auditing coverage. "We saw that the business, especially our Dutch operations, was organizing according to agile principles," Leijendekker notes, recalling that some of his auditors who specialize in risk management were getting called on more frequently to participate in cross-functional agile squads. "It became increasingly apparent that we could not continue with our traditional mode of working while spending more of our time on agile squads."

  It also became evident that there are hurdles to clear if internal auditors are to fully embrace an agile approach. For example, some of internal audit's compliance-related work must be completed by certain dates, according to regulators like those at the European Central Bank (ECB). "I have a couple of auditors working on model risk audits, and when they need to complete a two-week sprint in an area that's required by the ECB, we have to pull them off other work," says Leijendekker. He's currently looking at ways to reduce the growing number of scheduling conflicts that crop up as more cross-functional agile squads tackle various pieces of work. Leijendekker also assigned a member of his team to create a set of standardized agile terms

and definitions (e.g., the length of a sprint period) to reduce miscommunication. "And I've told my team that our managers may have more difficulty adapting to agile auditing," he adds. "Audit departments have traditionally been fairly hierarchical. Managers tend to want to read every communication before it leaves the department. With agile, though, at some point managers just have to find a different way to assume responsibility for the final result."

> *Innovations centered on auditing culture and behaviors, which Rabobank internal auditors refer to as "CUBE," are just as important to driving the function's evolution.*

- **Risk Appetite Assurance:** One of the primary challenges any internal audit function pursuing transformation faces is balancing those activities mandated by regulators against the audit committee's expectations. Given that Leijendekker's audits of risk management and treasury operations contain a high percentage of required work, he and his team need to be especially strategic in choosing where to invest their smaller share of discretionary activities. "One of the audits that we're preparing to conduct will examine the company's risk appetite," he reports. "We want to look at how that risk appetite is developed, how it is set and how it is applied during the year. That's really important."
- **Auditing AI Ahead of Time:** One of the roles of Rabobank's third line of responsibility is to support the bank in demonstrating the effective and sustainable controls in place to the audit committee and external regulators. "We already see that internal and external supervisors are asking how we're auditing AI," Leijendekker notes. "Fortunately, we already started reviewing how the bank assesses and avoids biases and/or profiling. We are working within the three lines of responsibility to enhance the approach." When they initially assessed some of the bank's AI capabilities, Leijendekker says that he and his team quickly realized that "we really can't fall back on auditing an operational process and merely see the outcome, potentially in the form of zeros and ones." In response, Leijendekker assigned one of his auditors to work with a colleague from internal audit's data-driven assurance group to develop a new auditing approach for AI applications throughout the business. That work, he adds, is a good example of the function's ongoing drive to enhance audit coverage through innovation.

Innovation CUBEd

Innovations centered on auditing culture and behaviors, which Rabobank internal auditors refer to as "CUBE," are just as important to driving the function's evolution, according to Leijendekker.

"In the past, auditors tended to stay away from culture and behavior," he explains, "mainly because those areas are difficult to subject to traditional audits. We've focused on improving our efforts in those areas because we believe that doing so in combination with our data-driven insights helps us get to the root causes of deficiencies more quickly and accurately."

For example, when a data-driven analysis raises a potential red flag, an auditor will combine that finding with the "5 Whys" iterative questioning approach used by many auditors for years.

As an example, an auditor may begin the discussion about a specific finding by asking an auditee why she did not know about the issue. When she replies that she did not have the time, the auditor will ask why that's the case. The business partner might respond that her manager did not seem to prioritize reporting the issue given that numerous other matters had more pressing completion deadlines. After a couple more questions and some additional discussion, the auditor may conclude that the issue arose not because of the manager's prioritization approach but due to a gap in new-employee training regarding two-way communication. Perhaps the employee did not bring the matter to the manager's attention.

"The data shows us where potential deficiencies exist," Leijendekker notes, "but our follow-up interactions shed light on why those issues arise and the best ways to eliminate them."

> *Achieving true innovation requires serious consideration of whether a new technology or process adds value.*

That two-pronged approach aligns with Rabobank's description of the meaningful innovation it embraces as a corporate value. Achieving true innovation, as the company explains on its website, requires serious consideration of whether a new technology or process adds value. By pairing its use of advanced technologies with a deeper understanding of cultural and behavioral drivers, the company's internal auditors are performing transformation for the purpose of strengthening the third line of defense and adding value to the business.

Salesforce

V2MOM and Setting a Vision for Salesforce Audit

Art Perez

Senior Vice President, Audit Executive

The V2MOM planning process is part of the secret sauce at Salesforce.

At 1,070 feet high, Salesforce.com, inc.'s headquarters building, Salesforce Tower, is the tallest building west of the Mississippi. Salesforce brings companies and customers together by delivering personalized experiences to its customers by using the integrated customer relationship management (CRM) platform called Salesforce Customer 360. The platform provides powerful products for improving marketing, sales, commerce, service, IT and more.

> *Benioff attributes Salesforce's ongoing success as a company largely to a management process he developed called "V2MOM" – which stands for vision, values, methods, obstacles and measures.*

The cloud computing giant's global workforce was about 50,000 strong in March 2020 — up from 10,000 employees less than a decade ago. And for the fiscal year ended January 31, 2020, the publicly traded company reported revenues of $17.1 billion.[1]

These are impressive feats for a company that once struggled — hard — to get the backing of investors. As Salesforce chairman, CEO and co-founder Marc Benioff explained in a 2019 interview, venture capitalists in Silicon Valley at the end of the 20th century couldn't envision what Salesforce would become or see how important the future of cloud computing was for the tech industry.[2] "When we were raising money, no one would give us money," he said.[3]

Obviously, a lot has changed since Benioff, a former Oracle executive, and three co-founders launched Salesforce in 1999. The team wrote the company's original sales automation software and launched it to customers in the latter half of that same year. Today, more than 150,000 companies around the world use Salesforce CRM software to operate more effectively.

Benioff attributes Salesforce's ongoing success as a company largely to a management process he developed called "V2MOM" — which stands for vision, values, methods, obstacles and measures. In a 2013 blog post, Benioff explained that "V2MOM is an exercise in awareness in which the result is total alignment."[4]

"The V2MOM planning process is part of the secret sauce at Salesforce," says Art Perez, the company's senior vice president and audit executive. "It starts at the very top and cascades down through everyone in our workforce. I've always been very impressed by how the V2MOM process aligns the entire company around the vision of what we want to achieve, and what we stand for: trust, customer success, innovation and equality. Those are Salesforce's top corporate values."

The V2MOM also drives transparency at Salesforce, says Perez, who joined the company eight years ago as vice president of finance compliance and is presently in his third role with Salesforce. "There's an app that we use within our own platform that allows every employee in the company to look

[1] Salesforce.com, inc., Form 10-K, for the fiscal year ended January 31, 2020, available at SEC.gov: www.sec.gov/ix?doc=/Archives/edgar/data/1108524/000110852420000014/crm-20200131.htm.

[2] "Marc Benioff Couldn't Get Any VCs to Give Him Money When Launching Salesforce — Now It's Worth $124 Billion," by Tom Huddleston Jr., CNBC.com, November 8, 2019: www.cnbc.com/2019/11/08/marc-benioff-no-vcs-would-give-him-money-to-launch-salesforce.html.

[3] Ibid.

[4] "Company Alignment: The Salesforce Secret to Success," by Mark Benioff, Salesforce Blog, May 1, 2020: www.salesforce.com/blog/2013/04/how-to-create-alignment-within-your-company.html.

up each other's V2MOMs," he explains. "So, I could look up Marc Benioff's. And my team members can look up mine. What is my vision for Salesforce Audit? What are our values? What methods and priorities will I drive this year? How will success be measured? What are our obstacles? That level of transparency, which supports trust, enables us to be aligned and focused around what we're all seeking to achieve at Salesforce."

Developing a Vision to Protect Salesforce at $30 Billion-Plus in Revenues

Perez has been working to transform internal audit at Salesforce into a next-generation function since he became the top audit executive in August 2018. His plan to reach that goal includes three key steps: The first, which is well underway, is setting the vision and strategy for internal audit.

As part of that effort, Perez published a V2MOM for the function in February 2019. The core strategic vision, he explains, "is to protect Salesforce on its journey to reaching $30 billion-plus in revenues by focusing on the most important risks." Perez's vision for audit also includes being "valued for technical expertise, business insights, advice, leadership in the profession and the development of future leaders for Salesforce."

The values that Perez set for his team in the V2MOM — trust, customer success, scale and equality — align closely with the company's core values. "I believe that our vision for what we're aspiring to be as an internal audit organization and the values that we stand for help to frame the meaning behind our goals and objectives," says Perez. "I really can't talk about the latter without talking about the former."

Today, Salesforce's more than 50 audit professionals are all aligned globally on the team's multiyear vision and FY21 objectives, reports Perez.

Collaboration and Making Strategic Hires

The second component of Perez's plan to create a next-generation internal audit function at Salesforce is to build a team capable of accomplishing the objectives set out in the strategic vision. That team doesn't just include members of internal audit, Perez explains.

"When I think about the team that I need to achieve our vision, I think, 'Who are the leaders I need to collaborate with not just within my audit team but also across the company? Who are the key stakeholders? And who are my business sponsors who can provide input on risks and drive issues identified — the folks who can help me build a perspective on where the audit organization was when I took it on, where it is today and where it needs to get to in the future?'" he says.

> *The values that Perez set for his team in the V2MOM — trust, customer success, scale and equality — align closely with the company's core values.*

Perez says he also thinks a lot about growing and refining his team's overall skill set and addressing critical gaps: "When I started leading the function 18 months ago, the feedback I consistently received was the need to build up additional technology and cybersecurity skills. So, I immediately set out to deepen our bench strength in those areas, including hiring resources with cyber and engineering operations experience and revisiting our technology audit leadership roles."

One example of a recent hire Perez made to do exactly that was Salesforce's vice president of internal audit. "She's a former chief

information security officer for a Fortune 50 company," Perez says. "Before she was in that role, she was leading a data analytics initiative at the company, led IT compliance and was in internal audit. With her diverse technology and cyber background, she's really helping us to push our transformation process forward in terms of talent and technology enablement."

Tech Enablement and Heavy Lifting on GRC Solution Implementation

A critical part of the internal audit function's technology journey has been its role in Salesforce's implementation of its governance, risk and compliance (GRC) platform, according to Perez. Audit was part of a cross-functional team that "took on a lot of heavy lifting in the early days, including around defining requirements for the solution," he says.

"It's an enterprise solution that is utilized not only by our audit team, but also by the security compliance team, enterprise risk management team and some other risk management functions at the company," Perez says. "We worked closely with the vendor, our IT organization and other teams to collaborate on the design and implementation for Salesforce."

Internal audit currently uses the new "eGRC" solution to support its work related to Sarbanes-Oxley (SOX), so the team's deep involvement in the implementation process made good sense. "We support the company's SOX program," Perez explains. "In addition to the typical internal controls testing around SOX, we help facilitate SOX program management across the company. Another part of our team helps advise the business on SOX issues related to mergers and acquisitions. And we advise on change events and other enterprise-level projects that could impact Salesforce's internal controls from a SOX perspective, or affect the risk landscape we help monitor."

> *A critical part of the internal audit function's technology journey has been its role in Salesforce's implementation of its governance, risk and compliance platform.*

Audit was also instrumental in Salesforce's implementation of the control certification process for SOX in the eGRC platform. "Anyone who owns a SOX control at the company is required to certify that their control is designed properly and operating as designed — from control owners to managers, leaders and our CFO," Perez explains. "This attestation process has been instrumental in strengthening SOX accountability all across the chain and forms an important component of the company's focus on strong governance for SOX and internal controls."

Perez says he is also looking forward to his team using Salesforce's eGRC solution to enable other internal audit processes later this year.

Seeing Positive Results Inside and Outside of Internal Audit

The third part of Perez's plan to transform internal audit at Salesforce into a next-generation function is something that sounds simple, but in practice, definitely isn't: collaborating with stakeholders and executing to achieve set objectives.

The team is making good progress on all fronts and seeing some measurable results. "We have increased our throughput on our audits, for example," Perez says. "And we've seen a 50% increase in audit report issuance, and a 44% increase in the number of audit advisory or readiness projects we conducted year over year. Also, our team morale is high, which is awesome."

Perez says internal audit is also receiving positive feedback from the business and the audit and finance committee of the board. "Our business partners and senior leaders have told us they appreciate how we are focused on the most important risks and have deepened our bench of technology skills, improved our execution, and set a strategic vision to protect Salesforce at $30 billion-plus in revenues," he adds.

Perez says internal audit is also receiving positive feedback from the business and the audit and finance committee of the board.

That said, the team still has a lot of work ahead to achieve the vision Perez outlined in the function's V2MOM. "Don't get me wrong. I'm not saying we're there. There are things we need to continue to work on, iterate in an agile way and continuously improve," Perez says. "However, I'm quite proud of our team and pleased by the results we have seen so far. It has been a lot of hard work, but I'm grateful to work at this great company and for the opportunity to lead our team through this transformation."

SF Express

Digital Agile Audits Focus on Stakeholders' Needs

Michael Liu

Chief Audit Executive

We believe in the concept of continuous monitoring and auditing based on big data. Our agile audits enable a more comprehensive and in-depth coverage of risks while driving closer collaboration with business departments.

Today's swiftly changing business and technology environment affects every company. In order to adapt to the changing environment and meet the needs of continuously upgrading customers, SF Express constantly innovates.

Michael Liu, Chief Audit Executive of SF Express, believes that the rapid development of the company's technological strength is both a driving force of underlying success and a key factor in the transformation of all functions. His internal audit function adheres to the concept of "continuous monitoring and auditing based on big data," using that principle to guide continuous innovation and improvements. "We need to continuously improve our auditing methods, apply the concept of digital auditing, build up a true audit center of excellence, drive audit tasks through a continuous monitoring model, and effectively leverage the value of agile auditing," Liu asserts.

Global Delivery, Drones and Large R&D Investments

Headquartered in Shenzhen, China, SF Express was established in 1993. SF Express is listed on China's A shares, with a current market value of ¥200 billion. In 2017, the company began rapidly expanding its global footprint. Today, the company operates in more than 20 countries. As a leading integrated services provider of automatic express logistics, SF Express provides high-quality logistics services related to distribution as well as to the front end of the value chain (production, supply and sales links). The company's data analysis and cloud-computing capabilities are equipped to deliver a range of customer solutions, including warehouse management, sales forecasting and more. As an operator of air and ground logistics networks, SF Express leverages aircraft and drone fleets. The company's information network consists of smart devices, a range of packaging technology, machine-image recognition and other advanced technologies.

Liu stresses that SF Express invests significantly in innovation and advanced technologies to meet customer needs. He reports that "huge investments" are dedicated to IT-related research and development on an annual basis.

> *Liu's 60-person internal audit function, originally formed in 1998, has a tall task keeping internal audit on track with their business colleagues' commitment to ongoing, technology-driven transformation.*

"Our company's ever-advancing business and technology capabilities present a highly challenging situation for the internal audit department," Liu notes. "But they also provide us with great data and technology resources. Those resources give us a great opportunity to lay the foundation for pursuing our own innovation and transformation. China's e-commerce industry has developed in an incredibly rapid manner. The company is well aware that it needs to make continual adjustments to meet changing customer expectations, and we know that our internal audit function needs to adapt to improve how we serve the company."

All of that is to say that Liu's 60-person internal audit function, originally formed in 1998, has a tall task keeping internal audit on track with their business colleagues' commitment to ongoing, technology-driven transformation.

The Need for Data Drives Ongoing Transformation

Prior to its transformation, the SF Express internal audit function organized its work around a traditional annual audit plan while relying on past audit results and management's opinions to audit specific areas of the company. Since then, the internal audit function has tried numerous data analysis tools while using the company's internal big data platform to collect and process data.

Liu and his team realized that their traditional auditing approach was falling short. "We became acutely aware that we were not addressing risks in real time," Liu reports. "We were doing the highest-quality auditing work possible," he says. "We did not form a closed-loop monitoring of risks. We have to rethink our work model and how to realize the value of our audit."

> *Internal audit continued on its transformation journey while gauging opportunities to provide additional value to the business.*

That realization drove Liu to initiate what he emphasizes is an ongoing transformation. Some of the foundational elements of the endeavors that have been put in place or are in the process of being implemented include:

- An overhaul of the traditional process to make it risk-based while enabling continuous auditing.
- A recasting of the audit-business relationship to make it more collaborative and focused on generating greater effectiveness and efficiency for both parties.
- The introduction of advanced auditing technologies, including data analytics, process mining and robotic process automation (RPA).
- The implementation of communication, structure and talent management enablers designed to sustain internal audit transformation and innovation over the long term.
- Increased investment in infrastructure. This has allowed Liu and his team to redesign the system architecture of the audit operation. Liu says that today the function organizes its view of auditing into three perspectives: the auditing foreground, middle ground and background. The investment and redesign, Liu notes, have stimulated the adoption of many new data analysis models, the continuous accumulation of knowledge capabilities, the comprehensive coverage of risks, timely risk monitoring and highly accurate risk-tracking.

"When we began our transformation, one of our objectives was to get to a point where the rest of the organization views us as highly innovative," Liu says, "so that they will be more proactive when helping us to coordinate access to data and other crucial resources we need to perform our work."

To that end, internal audit continued on its transformation journey while gauging opportunities to provide additional value to the business. For example, a team of auditors created an automated process for the risk profiles of new suppliers. The project team collected and analyzed a massive supply of data (including auditing data) related to the risk profiles of existing suppliers. That work created a set of rules now used to risk rate prospective new suppliers after they submit their information to SF Express. As a result, Liu explains, new suppliers automatically receive a risk rating that can be compared

to the existing portfolio of suppliers. Consequently, procurement and other parts of the business evaluating new suppliers can make better selection decisions. "This is an example of how we use technology to create value," he adds.

The key to innovation and transformation is the audit middle ground. "Think of our audit middle ground as being like a shopping mall, with thematic data packages placed on the shelves in various categories," Liu explains. "When the audit project needs to be executed, it is equivalent to the auditors pushing the shopping cart into the shopping mall. They can take a data package on any subject from the shelf according to the needs of the project and put it into the shopping cart." Those pre-analyzed data packages help auditors quickly focus on risk points, which in turn help them draw audit opinions.

> *Liu stresses that successful enablers of sustained internal audit transformation consist of activities that tend to be more interpersonal in nature.*

Liu points to three other benefits of internal audit transformation:

1. Faster responses to changes in the business and risks. "We now update the existing thematic data packages and create new ones in our audit middle ground to drive audit projects," Liu notes. "At present, some audit projects are driven by data and models, and some are from audit plans at the beginning of the year. The proportion of model-driven projects will continue to increase."
2. A shorter project cycle that responds to new and emerging risks in a more agile manner.
3. A wider variety of audit communications. "Our audit output is no longer just a long audit report," Liu reports. "We offer more variety in our communications, including audit reports, memos and risk reminders." That helps strengthen and accelerate interactions between internal auditors and business partners when they need to address any anomalies that arise.

"We believe in the concept of continuous monitoring and auditing based on big data," Liu adds. "Our agile audits enable a more comprehensive and in-depth coverage of risks while driving closer collaboration with business departments."

Softer Skills Yield Sustainable Results

Despite his function's focus on implementing advanced auditing techniques and technologies, Liu stresses that successful enablers of sustained internal audit transformation consist of activities that tend to be more interpersonal in nature.

The first action Liu took after deciding to initiate internal audit transformation and establishing objectives to guide the endeavor was to share those goals with his audit committee. "We had to gain their understanding and support," says Liu, who credits the following enablers with sustaining internal audit transformation over the long haul.

- **Communicating to stakeholders:** Liu's early communication efforts yielded benefits. After the audit committee learned of the internal audit transformation goals and plans from Liu, they began sharing with him benchmarking information on internal audit transformations at other companies.

Liu and his senior leaders also began sharing similar information with as many business group and functional leaders within SF Express as possible. The purpose of this effort was twofold: to inform business partners of forthcoming changes in auditing approaches and tools, and to enlist their support in coordinating resources. The IT function would play a key role in helping internal audit obtain new technology tools and access to data, for example. Human resources (HR) partners would support the function's new emphasis on recruiting and developing internal auditors with deeper technological experience and skills. These communications also were used to convey Liu's message that internal auditors were intent on developing more collaborative working relationships with all stakeholders.

> *Auditors do not need to have the same skill sets as their IT colleagues, but they should be able to operate in a data-driven manner.*

- **Creating new structural and reporting mechanisms:** The traditional organizational structure of the audit department, divided by project and business area, has been transformed into three groups: risk research, digitalization and audit management. Each group has its own focus while working cooperatively with each other. "In order to achieve the transformation of our audit department, an entire closed-loop pipeline operation has been formed," Liu says. "We deeply understand the business, carry out risk research, establish a monitoring model, conduct risk-triggering audits, track risk points and give feedback to the business." Inside the function, Liu created a supervisory team, belonging to the audit management group, which is responsible for overseeing internal audit transformation. That team reports directly to Liu and keeps him apprised of transformation progress, challenges and opportunities.
- **Managing talent:** "Regardless of the specific technology tools used to drive innovation, the most essential aspect of internal audit transformation is our team," Liu says. "That's why we're so focused on recruiting and developing internal auditors with four essential skills." Those four competencies include:

  1. *Communication skills:* "Strong auditing depends on effective communication," Liu acknowledges. "But good communication also helps us inform the business of the true value of our audit work."
  2. *Business acumen:* Internal auditors must continually ensure that their activities remain aligned with the business while maintaining the function's independence.
  3. *A data mindset:* Auditors do not need to have the same skill sets as their IT colleagues, Liu explains, but they should be able to operate in a data-driven manner. That requires knowing what data is needed, how to access it and what types of analytics to subject it to.
  4. *Technology expertise:* Liu wants his auditors to develop expertise in at least one advanced technology area. "Our best auditors," he reports, "tend to have a deep working knowledge of two different technologies."

Using those skill sets as a guide, Liu has revamped his function's recruiting and development activities. New training programs — instructed by subject-matter experts from the business, as well as outside professionals — have been designed and delivered to existing staff. Employee performance evaluations are also based on criteria within the current innovative transformation model. Performance management programs were updated to reflect demonstrated performance in those four competency areas. "The purpose of our performance appraisal system we're developing is to improve the self-driving force of auditors," Liu explains. "With the development of the new audit model, the career development channel to improve the comprehensive quality of auditors has gradually opened up. Our auditors will get closer to the business and understand it even better, master the ability to provide cross-functional, technical-oriented services, and gradually take the mindset of business operations."

"Technological tools are important parts of transformation and innovation," Liu adds, "but we cannot optimize our use of those tools unless we create an entirely new internal audit culture."

Starbucks Coffee Company

Brewing Up a Balanced Blend of Innovation, Productivity and Future-Focused Capabilities

Randa Saleh

Vice President, Chief Audit Executive

Our audit innovation strategy is largely centered on leveraging data analytics and automation to elevate internal audit's capabilities and drive greater value. Starbucks is moving really fast with AI and other technologies to support business initiatives. Our team needs to be agile and conversant in them, so that we can provide relevant insights.

No matter what they order — a Pike Place Roast, a Nitro Cold Brew, a London Fog Tea Latte or a Mocha Frappuccino — Starbucks Coffee Company's customers get a bit of literary history with every cup. The company is named after the first mate of the *Pequod* in Herman Melville's classic novel *Moby Dick*. And its ubiquitous logo is inspired by the sea: a twin-tailed siren from Greek mythology, who has had a few makeovers since the first Starbucks opened in Seattle's famed Pike Place Market in 1971.[1]

The "Original Starbucks" is still in operation at 1912 Pike Place, although it's not actually the store's first location. From 1971 to 1976, Starbucks operated at nearby 2000 Western Avenue. The coffee retailer and roaster was owned and operated by business partners Jerry Baldwin, Zev Siegl and Gordon Bowker, who met as students at the University of San Francisco. The trio were inspired to sell coffee after learning how to roast beans from Alfred Peet, founder of Peet's Coffee & Tea, which originated in Berkeley, California.

In 1981, Howard Schultz, Starbucks' chairman emeritus and former CEO, first walked into a Starbucks store. From his first cup of Sumatra, Schultz was drawn into Starbucks, and he joined the company a year later. In 1983, he traveled to Italy and became captivated with Italian coffee bars and the romance of the coffee experience. He had a vision to bring the Italian coffeehouse tradition back to the United States — *A place for conversation and a sense of community. A third place between work and home.* From the beginning, Starbucks set out to be a different kind of company. One that not only celebrated coffee and its rich tradition, but also brought a feeling of connection.

Schultz left Starbucks for a short period of time to start his own Il Giornale coffeehouses. In 1984, Starbucks' owners purchased Peet's. And, in 1987, they sold the growing Starbucks business to Schultz — their former director of marketing — with the help of local investors.

Starbucks went public in 1992, and it now has more than 32,000 retail stores in 80-plus markets around the globe, with its largest growth markets in North America and China. It also sells its many coffee and non-coffee products through an array of distribution channels, including grocery stores. Recently, it formed a global coffee alliance with Nestlé to accelerate and grow the global reach of Starbucks' brands in consumer-packaged goods and foodservice.

> *Starbucks set out to be a different kind of company. One that not only celebrated coffee and its rich tradition, but also brought a feeling of connection.*

A Growing and Diverse Internal Audit Function

Vice president and chief audit executive (CAE) Randa Saleh joined Starbucks in 2016 from Starwood Hotels & Resorts Worldwide, Inc., where she was CAE. Since then, she has been expanding and elevating Starbucks' internal audit function, in terms of both capacity and capabilities.

Most of the team's 25 auditors work at the company's Seattle headquarters, also known as the Starbucks Support Center (SSC). The team is globally based, with the SSC-based team covering North America, Europe, the Middle East and Africa, and Latin America. The rest of the team is based in China, where they serve Starbucks' expanding

[1] "Who Is the Starbucks Siren?" by Michelle Flandreau, Starbucks Stories & News, December 23, 2016: https://stories.starbucks.com/stories/2016/who-is-starbucks-siren/.

China operations as well as the rest of the company's operations across the Asia-Pacific region. Starbucks also relies on co-sourcing arrangements to supplement technical and language capabilities and to support its Sarbanes-Oxley (SOX) audit program.

"We find that having a globally based team is really important because it allows us to be much closer to the business, build relationships, understand the cultural nuances and be more knowledgeable of the specific risks within Starbucks' various markets," says Saleh. "We're also proud to have more than 10 languages represented across our diverse team."

An Opportunity to Expand and Enrich Risk Management

Brand protection is at the core of the internal audit mission at Starbucks, according to Saleh. "We work as an independent advisory practice, of course, but also support management and the board through assurance and advisory practices and by supporting the company's enterprise risk management (ERM) processes," she explains. "We believe our work helps to strengthen the organization by providing insights through a risk-informed lens."

Expanding and enriching Starbucks' ERM capabilities is a current priority for Saleh and her team. "Over the past year, we have elevated the ERM program at Starbucks by up-leveling the framework and enabling a more consistent process," says Saleh. "Everyone was managing risk, but in disaggregated and disparate ways. So, working with our risk committee, our team began developing a framework in 2019 to try to pull everything together. While the effort is still in its infancy, it has been a productive process and has begun to gain natural traction."

Saleh says she expects it will take about three years to get Starbucks' ERM process up and running — and automated. "There's an opportunity for us to leverage data from the many different platforms as key risk indicators to provide insights on risks and how well they are being managed," she says.

> *Brand protection is at the core of the internal audit mission at Starbucks.*

CFO Pat Grismer and Starbucks' general counsel jointly oversee the ERM process, and they are both providing strong support for internal audit's ERM efforts, Saleh says. "They have really championed the reimagined ERM process to provide a concise and consistent framework and methodology that will help provide clarity on the key risks and related indicators so that they can be measured, prioritized and managed more effectively," she explains.

Focused Preparation to Meet Future Demands

Saleh describes Starbucks as a very forward-looking organization in that it's always seeking new and innovative ways to serve its customers. She says the internal audit function must be prepared to support the company as it pursues new strategies, especially those involving mobile platforms enabled by data analytics and emerging technologies like artificial intelligence (AI).

To help ensure they are prepared, internal audit recently adopted an audit innovation strategy to keep them "focused on innovating for the future, enhancing our productivity and strengthening our team capabilities," says Saleh.

"Our audit innovation strategy is largely centered on leveraging data analytics and automation to elevate internal audit's capabilities and drive greater value," she explains. "Starbucks is moving really fast with AI and other technologies to support business initiatives. Our team needs to be agile and conversant in them, so that we can provide relevant insights."

Where Saleh really wants her internal audit team to shine is in their use of data analytics — and that has prompted her to start recruiting specialized talent for the function. "We knew from the outset that the use of data analytics in our audits would only be effective if we have specialists on our team who really know how to use these tools and apply them, and we needed critical mass," says Saleh. "That said, I still need the full team to embrace data analytics — otherwise, we can only take our work so far."

Saleh says part of her strategy in hiring specialists is to have them inspire, enable and train the rest of the team. In late 2019, she hired a data scientist to supplement the data analytics resources. That individual is now one of three people leading data analytics and innovation efforts for the function. "Our data scientist is not an auditor by background or training," says Saleh. "He has a computer science background. He introduced many 'foreign languages' to our team — programming languages, that is — which has had a monumental effect to unlock automation capabilities."

Saleh says the internal audit team is now experimenting with data visualization and analytics products like Alteryx. Their tool kit has greatly expanded beyond the use of the audit analytics and management solution Arbutus, and it has extended to complementary programming languages like SQL and Python.

While the internal audit team has not yet delved into using AI, Saleh says it is on their road map, and they are building foundational capabilities. "We are working with various teams at Starbucks that are already experimenting with AI," she explains. "We're learning how they develop the algorithms and leverage them in the business."

Where Saleh really wants her internal audit team to shine is in their use of data analytics — and that has prompted her to start recruiting specialized talent for the function.

A Welcome Presence on the Front Lines of Transformation

Saleh says she promotes innovative thinking in the internal audit function not only by getting the team to "put their heads together" to problem-solve and generate new ideas, but also by offering regular training leveraging internal capabilities and conducting self-assessments. Moreover, she organizes special events like hackathons and contests. "We actually have a SOX audit automation contest happening now," says Saleh. "We're asking people to come up with the most ideas to automate our SOX program."

She says that contest was inspired partly by the work of an individual who came to the internal audit function through a rotational program within Starbucks' finance organization. "This partner has a finance background, but he also studied information sciences and has a passion for this automation that led him to learn a lot on his own," says Saleh. "He's been helping us develop automation in our SOX testing. He has exactly the type of skill set that we want to leverage and expand across our core team."

Under Saleh's guidance, the internal audit team's increased efforts to focus on innovation, enhance their productivity and expand their capabilities have made them a welcome presence as Starbucks plans and executes transformational initiatives. Saleh says her team now often works side by side with the business and technology teams to assess risks and help ensure that foundational activities and processes supporting new initiatives for Starbucks operate like "a well-oiled machine."

However, Saleh admits that collaboration between internal audit, the business and IT was "a little clunky" at first. "I think that's partly because there tends to be some suspicion about internal audit's presence," she explains. "It comes with the territory. But now, our business partners have become more used to the routine, and they are definitely looking for our input because they see that we add value. Now, they come back to us and say, 'Hey, here's what we're doing. Can you give us some advice?' Or, 'You should look at this new thing that we are doing.'"

TopBuild Corp.

Installing an Analytics Champion

Ninette Lewis

Director of Internal Audit and Chief Audit Executive

Analytics and automation are the touchstones of my strategy toward developing and driving a high-performing audit function. Most of my efforts have centered on replacing manual activities with automation and laying the groundwork for advanced data analytics. I knew I needed to find someone with unique skills and experience to take our audit department to the next level.

Internal audit transformation hinges as much on shrewd talent management decisions as it does on the implementation of advanced processes and technologies. TopBuild Director of Internal Audit and Chief Audit Executive, Ninette Lewis, recognized this was the case while working to balance audit coverage requirements, the construction industry's fraud risks and the transformation of her lean audit group.

"Analytics and automation are the touchstones of my strategy toward developing and driving a high-performing audit function. Most of my efforts have centered on replacing manual activities with automation and laying the groundwork for advanced data analytics," Lewis says. "I knew I needed to find someone with unique skills and experience to take our audit department to the next level."

> *Internal audit transformation hinges as much on shrewd talent management decisions as it does on the implementation of advanced processes and technologies.*

When a talented, untraditional candidate for that role materialized, Lewis saw the potential and the opportunity to bring unique and critical skills to the department. She hired Christian Romero, a lawyer who had amassed deep experience in cybersecurity, loss prevention and corporate investigations, as TopBuild's internal audit senior manager of fraud strategy and compliance investigations. Although Romero had not previously worked as an internal auditor, Lewis says his technological skills and expertise have quickly elevated the function's next-generation internal auditing capabilities.

While Lewis is more modest about her role in driving innovation, her emphasis on staff training and development offers useful insights for audit leaders looking to develop more innovative cultures.

Moving Fraud Risks Through the Funnels

A leading installer and distributor of insulation and building material products to the U.S. construction industry, TopBuild employs close to 10,000 people, including nearly 7,000 installers who operate from 275 branches via the company's TruTeam and Service Partners businesses. Based in Daytona Beach, Florida, the Fortune 1000 company and its internal audit function address the same risks of fraud that pervade most of the construction industry. Since TopBuild's insulation products can be used in any home or commercial structure, they're prone to theft from any of the thousands of job sites TopBuild's installers work at each day. In addition, the company operates and maintains a large truck fleet, necessitating the daily purchasing of large volumes of fuel and automotive parts — all of which pose the potential for sizable fraud risks as well.

"We're highly focused on fraud prevention and detection," asserts Lewis, whose 11-person function is challenged to cover as much ground as possible. A team of five internal auditors conducts 100 to 120 branch location visits each year. The scope of that work ranges from formal inventory observations to full-blown financial and operations audits. That work represents the function's "branch support" work funnel. Lewis organizes the rest of her staff's activities into two other funnels: Sarbanes-Oxley-related "internal control over financial reporting" and "strategic fraud detection, investigations and analytics." Lewis, who reports directly to the chair of the company's audit committee

and administratively to TopBuild CFO John Peterson, stresses that her auditors frequently collaborate across all workstreams. "We all share the love," she adds.

Lewis and her team rely on a robust and adaptive risk assessment process to execute those 100-plus site visits each year. The assessment produces a risk rating for each branch location based on comparisons of past- and current-year sales, end-of-year inventory levels, inventory variances, the date of each branch's most recent audit, previous instances of fraud, employee and manager turnover rates, and credit memo counts, among other data points. Each location receives a risk weighting based on that analysis, and then Lewis and her field auditors consider those ratings in conjunction with any risk factors they've gleaned through conversations with their business partners. Those sessions ultimately produce a list of the 100 to 120 locations the branch support auditors will visit in the upcoming year.

Lewis and her team rely on a robust and adaptive risk assessment process to execute those 100-plus site visits each year.

"It's fairly easy to select about half of our site visits," Lewis reports. The remainder are chosen based on a rotational schedule and branch size. The largest operations tend to receive annual visits due to the size of their inventories. "We try to touch every location at least once every five years," Lewis continues. "Although we plan our site visits at the beginning of the year, we also revisit our plan each quarter and consider new risk data. Depending on what we discover in those quarterly reviews, we'll determine if any location should fall off or get added to the list due to changing circumstances."

Lewis brought on Romero to apply that sort of data-driven risk assessment to many more internal auditing activities.

Three Variations of Advanced Analytics

Romero's official hiring in January 2019 was fortuitous. Lewis had been searching for quite a while for a senior audit manager to lead the function's analytics activities and had yet to find a viable candidate. In May 2018, TopBuild acquired United Subcontractors Inc. (USI), a provider of insulation installation and distribution services to the residential and commercial construction markets. Lewis met Romero (who was working for USI) during the integration work that followed the acquisition. His unique combination of loss prevention, cybersecurity and analytics work for USI "perfectly fit what we were looking for in an analytics champion," Lewis reports. "You can't really put together a job request for someone like him."

Prior to earning his law degree, Romero specialized in retail loss prevention before expanding his roles beyond physical security into information security and data analytics. He was attracted to the TopBuild position Lewis offered because he saw that the company recognized how much untapped value resides in its data.

"I saw that the company wanted to harness analytics solutions to drive the business, and I saw that Ninette wanted similar solutions to expand our audit coverage," Romero recalls. "By using machine learning, artificial intelligence (AI) and related technologies, I knew we could offer a new level of assurance to TopBuild while giving the board and senior management even more comfort in our function's practices."

Romero's lack of internal audit experience did not concern Lewis. Romero began his intensive training by first learning TopBuild's business and then delving into audit workflows and adapting to his new profession's independence mandate.

As Romero began creating new data analytics projects, he identified three enablers of success:

1. Quickly demonstrate value to the business;
2. Establish a healthy working relationship with the information technology (IT) function; and
3. Partner with top-notch third-party vendors.

Those practices helped Romero get several projects up and running during his first 12 months on the job, including the following:

- **Fleet Fuel Card Analysis:** Fuel card fraud is common within companies that operate large vehicle fleets. Criminals can skim gas station card readers, steal cards (or card data), or siphon fuel from trucks. Employees can use fuel cards to purchase gas for personal vehicles. Romero targeted fuel cards for the first advanced analytics project because the data was clean, and the volume of fuel card transactions made comprehensive manual reviews of the data impossible. "We previously utilized manual reviews to examine samples, but that was rarely sufficient to identify a pattern," Romero notes.

  The analytics and data visualization solution the TopBuild internal audit function implemented let Romero scan the complete data set of fuel card transactions to sniff out anomalies. Besides greatly increasing internal audit's fraud detection capabilities, Romero and his colleagues identified new risks related to certain vehicles that had been placed out of service for lengthy periods. They also identified opportunities to improve fuel card distribution and PIN assignment processes, and they shared all of their newfound insights with their business colleagues. "We've been able to add value to the business through the normal course of our audit work thanks to our use of analytics," Romero says.

- **Using AI to Eliminate Human Bias:** In addition to applying analytics to fraud detection, TopBuild's internal audit function will be integrating AI into its analyses of inventory management (honing in on inventory transfers) and expense management. AI, Romero stresses, helps eliminate bias from analyses. "As business leaders, we tend to focus on squeaky wheel issues," he notes. "As auditors, we develop biases toward finding problems that we've personally experienced or uncovered in the past. AI-injected data analytics tools remove all of those biases, which greatly improves our analysis. We can get to the actual root cause in a much quicker fashion. By sharing our analysis of those root causes with our business partners, they will be able to mitigate problems much sooner."

> *Besides greatly increasing internal audit's fraud detection capabilities, Romero and his colleagues identified new risks related to certain vehicles that had been placed out of service for lengthy periods.*

- **Digital Forensics:** TopBuild's internal audit function is also deploying analytics to bolster fraud investigations and related recovery activities. "The analytics are helping our forensics work," Romero

reports. "And that capability helps set us apart from traditional audit departments." By enhancing how the internal audit function prevents, detects and ultimately mitigates fraud, Lewis and Romero expect to identify incidents of fraud more quickly so that the dollar amount of those incidents is lower than if those incidents were detected weeks or months later. "This helps us create a culture of deterrence," Lewis adds. "Everyone in the company knows we're constantly looking at these things."

Changing the Auditing Culture

Lewis has focused on changing her function's culture through communication and training. "As the leader of the function, it's my job to make sure we have the talent we need to sustain our transformation over the long term," she notes. "Part of that involves adjusting how we recruit and hire talent, which we're doing. It also involves pushing our existing auditors out of their comfort zones."

To that end, Lewis has instituted new training and development programs and activities. After the annual audit plan has been completed, Lewis devotes a "Pencils Down" week to what amounts to a far-reaching self-assessment. Auditors discuss what went well and what needs to be improved from a functional perspective. Lewis also organizes training sessions. This year, for example, TopBuild's audit function hosted an auditing technology training seminar that was also attended by auditors from several other Florida-based companies.

> *After the annual audit plan has been completed, Lewis devotes a "Pencils Down" week to what amounts to a far-reaching self-assessment.*

"The board has commended our internal audit team for our training capabilities," Lewis adds. "Now it almost feels like we're conducting a little bit of training regarding the value of analytics every time we meet throughout the year. Continually discussing what analytics can do for us is one of the ways we're going to achieve our long-term goal of introducing more efficient and effective ways of auditing."

Zurich Insurance Company Ltd

The Leading Edge of Internal Audit Transformation

Martin Studer

Head of Group Audit

Our ambition is to build and sustain one of the most effective and career-inspiring internal audit functions in the insurance industry. That means committing to perpetual renewal and reinvention and embracing modern methods like data science to make smart, risk-based choices and enable the leaders of our business to do the same.

Six years into a sweeping transformation effort, Head of Group Audit Martin Studer routinely receives more than 150 applications for job openings with his global team at Zurich Insurance Company Ltd (Zurich) — regardless of whether the position is for an internship or a more senior role. The spike in applications, together with the steady flow of audit-trained talent from his team into pivotal roles across the wider Zurich organization, are a testament to the remarkable value that internal audit innovation can generate.

Word has gotten out regarding Zurich's audit team's commitment to a customer-centric approach focused on providing timely assurance and key insights for their stakeholders — Zurich's executive management and business leaders, the audit committees, and the company's local and group regulatory supervisors. "We have really pushed ourselves to develop an outcomes-based attitude," says Studer. He spent 22 years at a multinational professional services firm, including 12 as a partner and service line leader for business risk and internal audit services to global organizations, before taking the helm of Zurich's Group Audit function in 2014. "Ultimately, audit is most useful and successful when we deliver business-relevant insights that help leaders make the decisions in front of them today and anticipate the challenges and opportunities coming tomorrow. We aren't interested in acting as organizational historians who report on why something went wrong 18 months ago."

The future is an exciting place for Studer and his team. "Within five years, internal audit functions will look radically different than they do today," he says. "Our auditors must be prepared to interact with robots, data science, and other advanced techniques and tools while collaborating in a truly virtual space, no matter where they sit. We're looking for people who want to join Group Audit for the career-enhancing experiences they will gain during their time with us."

Studer's vision for internal audit was given a boost by the arrival of incoming Group CEO Mario Greco in 2016, who launched the entire Zurich Group on a customer-led and digitally driven transformation journey. Established in 1872, Zurich Insurance Group runs retail and commercial businesses that offer life insurance as well as property and casualty policies across numerous global geographies and countries.

Word has gotten out regarding Zurich's audit team's commitment to a customer-centric approach focused on providing timely assurance and key insights for their stakeholders.

Studer reports to the audit committee of Zurich's board of directors, as well as administratively to the Group CEO. His audit function is fully vertically integrated throughout Zurich's global operations, whereas Group Audit's budgeting, hiring, resourcing and other administrative tasks are managed centrally by Studer and the three fellow internal audit leaders on his executive team. Proud to be seen as a mini-footprint of the group they support, Group Audit's 230-strong team includes a variety of internal subject-matter experts, 95% of whom are certified auditors with a dual background, and co-sourced professionals are dispersed across 19 global locations.

"Our ambition is to build and sustain one of the most effective and career-inspiring internal audit functions in the insurance industry," Studer says. "That means committing to perpetual renewal and reinvention and embracing modern methods like data science to make smart, risk-based choices and enable the leaders of our business to do the same."

Moving From Adequate to Outstanding

Studer laid out his vision for Group Audit's transformation at a time when the function was respected and meeting expectations from a professional standards perspective. However, average performance did not sit well with him. "We lacked an edge," he recalls. "Frankly, we were at risk of not providing our stakeholders with what they would soon need." Studer and his team quickly got to work.

> *Zurich's audit team re-evaluated and redefined their function's approach to diversity, independence and performance management in ways that would truly empower each internal audit professional to innovate.*

One of their first transformation actions was identifying what the function wanted to be known for. This was distilled into *inspiring assurance insights for timely stakeholder decision-making*. Next, they scrutinized what each of their internal audit stakeholder groups truly wanted from the function and documented these expectations in ambition statements. They determined that executive management needed internal audit to understand how it could help senior leaders swiftly change strategic direction in a safe way as new challenges arise. They concluded that the board and audit committee would be better served by different reporting formats and audit information that was more relevant to their agenda. Regulatory supervisors appear to value the internal audit team's ability, as Studer puts it, "to give them reason to believe that our work functions as the company's conscience, to the point that they can rely on it as a key source of assurance."

To address the needs of its own people, Zurich's audit team re-evaluated and redefined their function's approach to diversity, independence and performance management in ways that would truly empower each internal audit professional to innovate. "We knew that our commitment to think and act independently from the business would remain the same," Studer says. "But we fleshed out what independence means for our internal auditors from intellectual, emotional and ethical perspectives." That way, auditors could learn skills that would enhance their performance and career growth, develop the communication skills and emotional resilience necessary to operate confidently when challenging interpersonal dynamics materialize, and receive recognition for complying with their profession's ethical standards. In Studer's view, this has been achieved and is considered one of the clear differentiators and assets setting Group Audit apart.

Integral to their success was the development of a performance scorecard that included ambitious and specific key performance indicators (KPIs) such as:

- Being the assurance source for timely decision-making;
- Being known for anticipatory and fully adaptable assurance;
- Being known for sharing perspectives rather than delivering reports;
- Being relied on for the value the company derives from its investment in Group Audit (rather than for merely delivering against the budget); and
- Being known throughout global recruiting markets for differentiated, career-enhancing experiences (rather than for simply delivering on employment contracts).

Studer placed great emphasis on three points regarding how the function's transformation and innovation progress should be measured and managed:

1. The function would set bold performance objectives;
2. They would accept the fact that they might fail to achieve many of their ambitious performance targets early on in the transformation effort; and
3. They committed to candidly acknowledging — and transparently reporting — those misses when they occurred, in part, to help them develop the adjustments and routines needed to fulfill those standards in the future.

> *Employee satisfaction as measured by the net promoter score methodology has improved by more than 60 points in the past three years.*

Data Science, Innovation and Agile Talent Management

Group Audit's overall transformation has progressed in an impressive manner. Employee satisfaction as measured by the net promoter score methodology has improved by more than 60 points in the past three years. Some of Group Audit's most notable transformation and innovation strides include:

- **Data-driven process improvement insights:** Group Audit has hired 10 experienced data scientists and trained (so far) about one-third of its staff in advanced analytics approaches. "We've invested heavily in data science to make smart, risk-based choices about our audit plan and fine-tune the scope of what we audit to optimize how we address risk and maximize our benefit to the organization," says Studer.

  The knowledge the data science team imparted helped the function to develop an internal dashboard that leverages multivariance analysis, natural language processing, social media sentiment analysis and related approaches that generate and sort millions of correlations among hundreds of operational data points sourced from throughout the enterprise. "We filter out correlations, outliers, and observations that are statistically relevant for specific business units and guide to parts of the business that somehow position far from the logic of the regression line. And we've baked this capability into our risk-based audit planning," Studer explains.

  The additional depth of these insights helps internal audit offer guidance that goes beyond observations on the performance of key controls and helps business partners pinpoint the root cause of issues that prevent the achievement of targeted business outcomes. For example, Zurich's Group Audit function has zeroed in on the source of policy-handling errors, claims-handling inefficiencies and underwriting biases in some parts of the business. "Our data-driven insights allow us to have much more informed and convincing conversations with management and the business," Studer notes.

- **Innovation:** "We've used design thinking as a tool to generate a whole lot of new ideas around audit scope, how we begin audits and how we drive sustained innovation as an internal audit function," Studer explains. By rethinking the design of the audit process, internal auditors are engaging in "much richer and substantive dialogue with management" concerning

how to align audit activities with current business priorities.

Inside the function, internal auditors used the "TED Talks" model to develop a library of 60 (and counting) "ZED Talks" video presentations focused on internal audit transformation and innovation approaches, ideas, and hacks. These talks are the product of virtual collaborations between a diverse group of internal audit professionals.

> *Using the long-running TV show* Shark Tank *as a model, teams plan and pitch transformation and innovation ideas to a panel of judges.*

The function also deploys the same types of virtual teams in its annual innovation championships. Using the long-running TV show *Shark Tank* as a model, teams plan and pitch transformation and innovation ideas to a panel of judges consisting of internal audit leaders, business function executives and even external partners. Winners get the green light and funding to implement their ideas. Studer has also created internal audit's own Research & Innovation Lab, a platform that acts as a kick-starting place for ideation and execution of innovation projects. Recent ideas that were explored include the application of *system dynamics*, as well as deriving audit assurance from *chaos theory*.

- **Agile talent management:** Zurich's Group Audit function has deployed video platforms and other virtual collaboration tools that enable it to mine rich veins of auditing talent regardless of where those resources are based globally. After realizing that the function had access to a high concentration of deep auditing talent in Argentina, Studer and his senior team promoted several Group Audit directors — who occupy the second-highest leadership rank in the function — in that country who invest most of their time working on auditing matters in Zurich operations outside their home territory. "As subject-matter experts, they influence work we do in different parts of the world," Studer explains. "They each own a global portfolio of work and relationships, but they don't have to travel constantly because we introduced virtual collaboration protocols." The mindset underpinning innovation at Group Audit is referred to as *idea meritocracy*. Those who have great ideas and the courage to own their ideas will get equipped with what is needed to bring them to life — no matter where they work or what rank they have.
- **Diverse staff decisions and development:** In addition to implementing new mentoring programs to help his staff sharpen their innovation abilities, Studer has made what he describes as "courageous" staffing moves. One of those changes illustrates Group Audit's commitment to multidimensional diversity. The function's highest leadership tier now includes four executives: the Head of Group Audit, a Group Audit chief operating officer, a professional practices director and a strategic assistant. That four-person team consists of two women and two men, including professionals from the United Kingdom, Switzerland, Latin America and the Asia-Pacific (APAC) region. The newly formed strategic assistant position has proved crucial to broadening the perspective and diversifying the thinking of the top team. Candidates for the role, which has an 18-month tenure, are not selected based on seniority, but according

to the degree to which they embody the function's transformation and innovation values, Studer explains. "We brought a young senior auditor — not a *senior manager* — from APAC to operate as a member of our executive team with all the powers that go along with the role of a Group Audit executive team member. After a year and a half, they rotate back into a business auditor role at a higher level. Our first experience with this approach was highly successful, and not only from a career-development perspective. That individual's unique perspectives helped us transform faster than we could have accomplished otherwise."

Trust, Time and Transparency

When asked to identify the key drivers of internal audit transformation and innovation success, Studer mentions trust, time and transparency. "Our business is trust, and the currency we pay with is trust," he notes. "As auditors, we need to understand that so we can foster and sustain trust with all of our stakeholder groups." Studer adds that Zurich's audit committee and executive management team trusts him and his function to carry out a long-term transformation. The radical transparency internal audit embraces when reporting on performance would not be possible without that. Nor would that candor be possible without the "long runway" of time the senior leadership and the board have granted Zurich's audit group to carry out its transformation.

> *When asked to identify the key drivers of internal audit transformation and innovation success, Studer mentions trust, time and transparency.*

"They've given me six years so far to change our culture and how our internal auditors operate," Studer concludes. "That was crucial in letting me give my people comfort that they can grow and change, even when it is painful to do so. I am not a naturally patient person, but deep-rooted transformation takes a lot of time. If you truly want to transform at the core of how the audit function adds value to the business, you need time. The trust and that long runway have a positive compounding effect on our transformation."

ABOUT PROTIVITI

Protiviti (www.protiviti.com) is a global consulting firm that delivers deep expertise, objective insights, a tailored approach and unparalleled collaboration to help leaders confidently face the future. Protiviti and our independent and locally owned Member Firms provide clients with consulting and managed solutions in finance, technology, operations, data, analytics, governance, risk and internal audit through our network of more than 85 offices in over 25 countries.

Named to the 2020 Fortune 100 Best Companies to Work For® list, Protiviti has served more than 60 percent of *Fortune* 1000 and 35 percent of *Fortune* Global 500 companies. The firm also works with smaller, growing companies, including those looking to go public, as well as with government agencies. Protiviti is a wholly owned subsidiary of Robert Half (NYSE: RHI). Founded in 1948, Robert Half is a member of the S&P 500 index.

PROTIVITI INTERNAL AUDIT AND FINANCIAL ADVISORY PRACTICE — CONTACT INFORMATION

Brian Christensen
Executive Vice President,
Global Internal Audit
+1.602.273.8020
brian.christensen@protiviti.com

Andrew Struthers-Kennedy
Managing Director
Leader, IT Audit Practice
+1.410.454.6879
andrew.struthers-kennedy@protiviti.com

AUSTRALIA

Lauren Brown
+61.03.9948.1200
lauren.brown@protiviti.com.au

BELGIUM

Jaap Gerkes
+31.6.1131.0156
jaap.gerkes@protiviti.nl

BRAZIL

Fernando Fleider
+55.11.2198.4200
fernando.fleider@protiviti.com.br

CANADA

Ram Balakrishnan
+1.647.288.8525
ram.balakrishnan@protiviti.com

CHINA (HONG KONG AND MAINLAND CHINA)

Albert Lee
+852.2238.0499
albert.lee@protiviti.com

FRANCE

Bernard Drui
+33.1.42.96.22.77
b.drui@protiviti.fr

GERMANY

Peter Grasegger
+49.89.552.139.347
peter.grasegger@protiviti.de

INDIA

Sachin Tayal
+91.124.661.8640
sachin.tayal@protivitiglobal.in

ITALY

Alberto Carnevale
+39.02.6550.6301
alberto.carnevale@protiviti.it

JAPAN

Yasumi Taniguchi
+81.3.5219.6600
yasumi.taniguchi@protiviti.jp

MEXICO

Roberto Abad
+52.55.5342.9100
roberto.abad@protivitiglobal.com.mx

MIDDLE EAST

Sanjay Rajagopalan
+965.2295.7772
sanjay.rajagopalan@protivitiglobal.me

THE NETHERLANDS

Jaap Gerkes
+31.6.1131.0156
jaap.gerkes@protiviti.nl

SINGAPORE

Nigel Robinson
+65.6220.6066
nigel.robinson@protiviti.com

UNITED KINGDOM

Mark Peters
+44.207.389.0413
mark.peters@protiviti.co.uk

UNITED STATES

Brian Christensen
+1.602.273.8020
brian.christensen@protiviti.com

THE AMERICAS

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

ARGENTINA*
Buenos Aires

BRAZIL*
Rio de Janeiro
Sao Paulo

CANADA
Kitchener-Waterloo
Toronto

CHILE*
Santiago

COLOMBIA*
Bogota

MEXICO*
Mexico City

PERU*
Lima

VENEZUELA*
Caracas

EUROPE, MIDDLE EAST & AFRICA

FRANCE
Paris

GERMANY
Berlin
Dusseldorf
Frankfurt
Munich

ITALY
Milan
Rome
Turin

NETHERLANDS
Amsterdam

SWITZERLAND
Zurich

UNITED KINGDOM
Birmingham
Bristol
Leeds
London
Manchester
Milton Keynes
Swindon

BAHRAIN*
Manama

KUWAIT*
Kuwait City

OMAN*
Muscat

QATAR*
Doha

SAUDI ARABIA*
Riyadh

UNITED ARAB EMIRATES*
Abu Dhabi
Dubai

EGYPT*
Cairo

SOUTH AFRICA *
Durban
Johannesburg

ASIA-PACIFIC

AUSTRALIA
Brisbane
Canberra
Melbourne
Sydney

CHINA
Beijing
Hong Kong
Shanghai
Shenzhen

INDIA*
Bengaluru
Hyderabad
Kolkata
Mumbai
New Delhi

JAPAN
Osaka
Tokyo

SINGAPORE
Singapore

*MEMBER FIRM

"Organizations and internal auditors are on a journey to not only think about urgent matters that need attention today but also determine what's on the horizon and beyond."

— **Brian Christensen**
Protiviti Executive Vice President
Global Internal Audit

protiviti®

#ProtivitiFutureAuditor

© 2020 Protiviti Inc. An Equal Opportunity Employer M/F/Disability/Veterans.
Protiviti is not licensed or registered as a public accounting firm and does not issue
opinions on financial statements or offer attestation services. PRO-0920-101123