



Challenges for Internal Audit in Global Player Companies

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Helsinki, Sept 7th 2006

- Categorization of a Global Player Company
- Deutsche Post World Net – DPWN
- General Potential Challenges for Global Player Companies
- Challenges for Global Player Companies' Internal Audit Functions
- DPWN 's Response to Global Player Companies' Internal Audit Challenges

Categorization of a Global Player Company

Global Player Company

„A Global Player is a large, internationally operating company with economic power and influence over economic and political decisions. A Global Player possesses a dense information network and organizes the production and distribution of goods considering the most cost effective locations globally.”

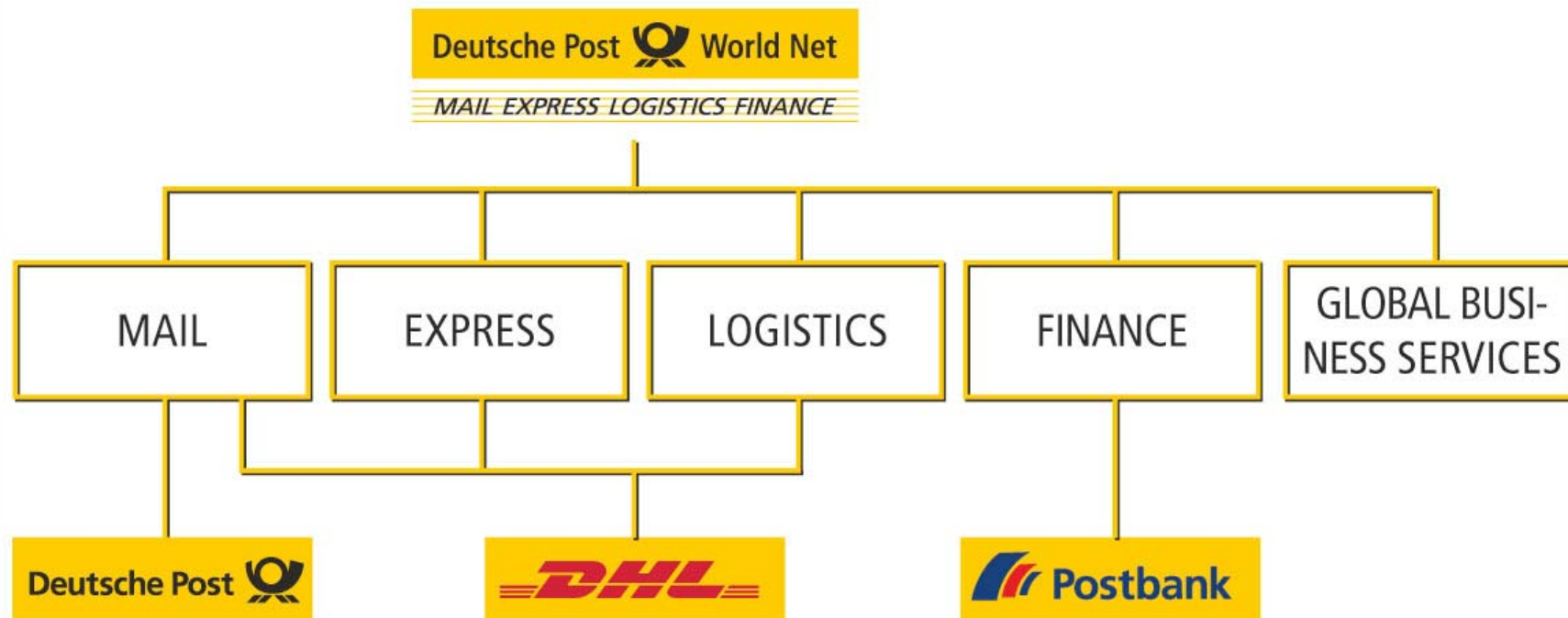
Categorization of a Global Player Company

Differences to „Local Player Companies“

- Diverse management cultures
- Diverse employees cultures
- Permanent flexibility / change
- More potential conflicts of interests
- Multiple Stakeholders
- Multiple legal / compliance requirements
- High degree of structural complexity (Organization, Processes, IT)

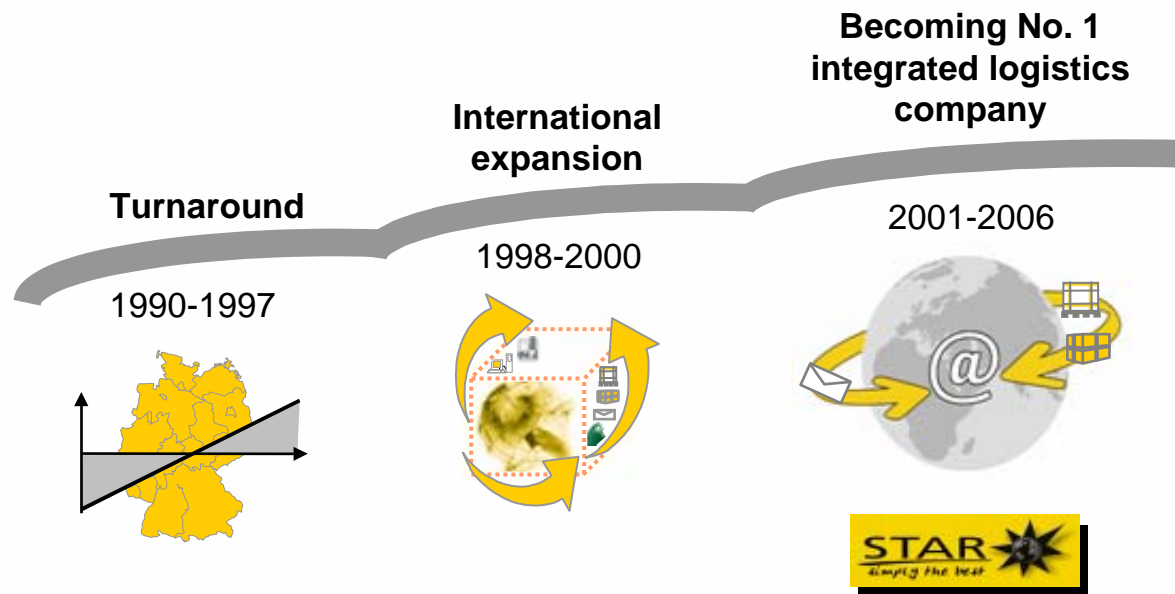
Deutsche Post World Net - a Global Player

- > 500.000 employees => DPWN is Europe's biggest employer
- > 60bn € revenues



DPWN today

DPWN has successfully completed the third phase in its young history and today has reached the leading position



Where are we today

- Leading global player in our industry
- Leading market positions in each major segment
- Significantly improved profitability
- All built on solid financial foundations

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General Potential Challenges for Global Players

Complexity

- Diverse business fields / markets
- High level of product customization
- Extensive number of entities
- Limited visibility into resource availability
- Limited process harmonization
- Size

General Potential Challenges for Global Players

International Environment – Cultural Differences

- Geographical distances, Time difference
- Communication barriers
- Multiple languages
- Different cultural habits
- Religious aspects
- Management styles
- Diverse customer taste
- Currencies, transaction costs



General Potential Challenges for Global Players

Competition

- Heterogeneous markets
- Local Competitions
- Fragmented pricing
- Endogen competition restrictions (e.g. Chinese Government)
- Reputational risks

Legal Requirements

- Labor law requirements
- Financial reporting requirements (IFRS, US-GAAP, HGB)
- Potential for conflict of legal requirements (e.g. SOX whistleblower hotline and local data protection laws)
- Various environmental minimum standards

Coordination of Work Tasks

- Complex Hierarchies
- Multi Layer Organizational Structures (central, regional)
- Diverse reporting structures and reporting lines
- Incompatible communication infrastructure (incompatible systems)
- Long decision ways

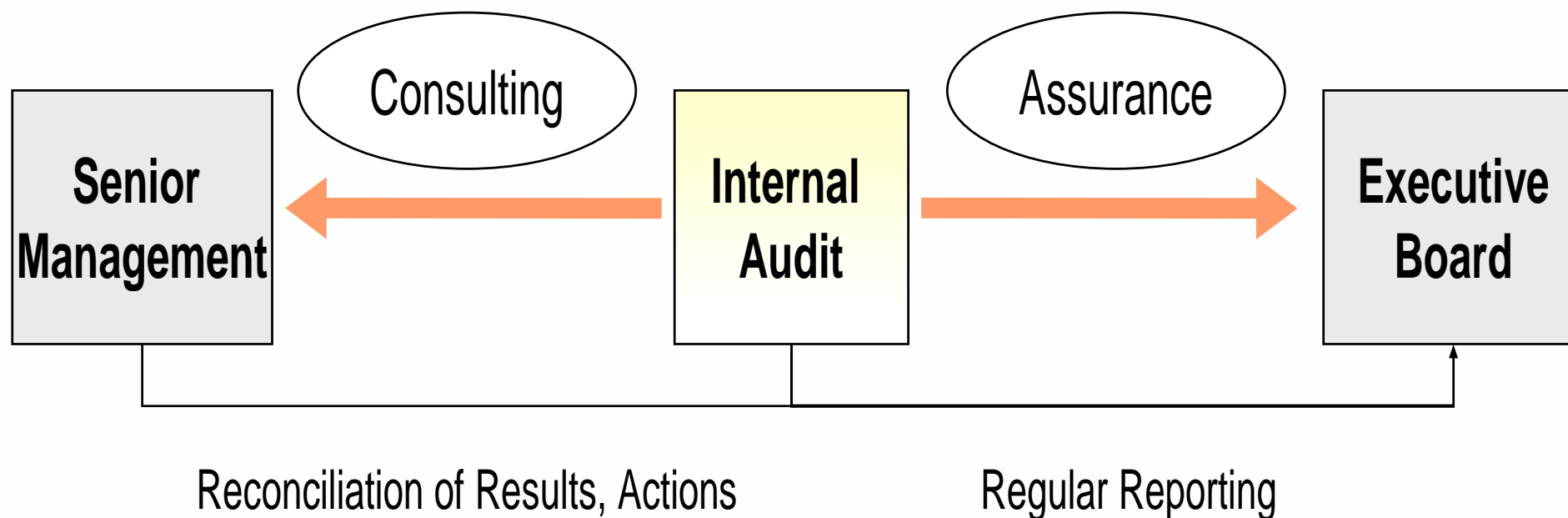
General Potential Challenges for Global Players

Conclusion

- Global Player Companies have to meet a wide range of challenges in their everyday working tasks
- Challenges of the Global Players are at the same time challenges for their individual Internal Audit Functions
- Question is:
 - What are the precise challenges an Internal Audit Function of a Global Player Company has to meet?
 - Where should these Audit Functions focus on?

Challenges for Internal Audit Functions within Global Player companies

Internal Audit provides assurance and consulting services



Historical Change of Internal Audit tasks

■ TRADITIONAL

- Regularity
- Protection of assets
- Reliability of financial data
- Compliance with laws and regulations

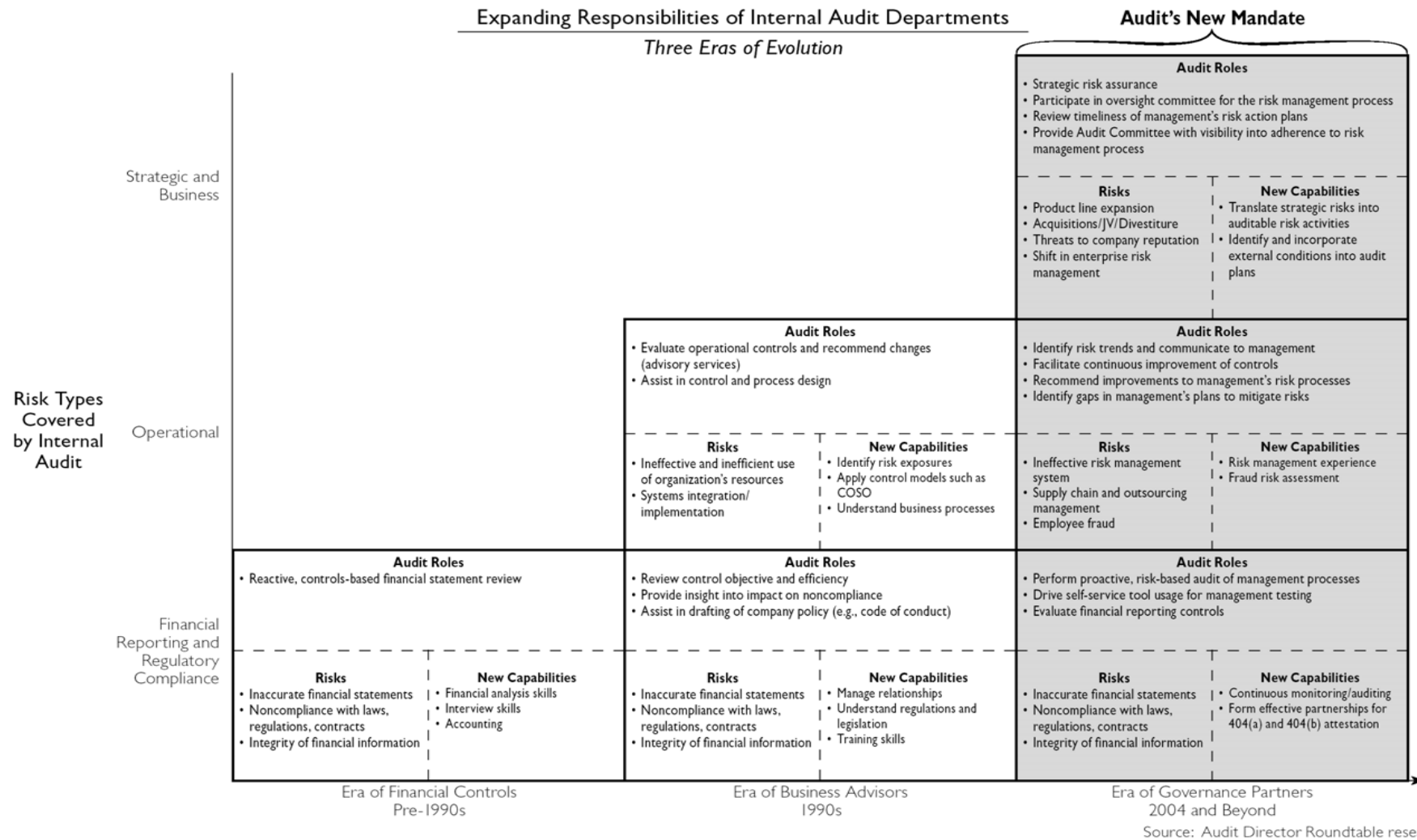
■ MODERN

- Achieving company objectives
- Functionality and efficiency of company processes (Operational audit)
- Advise for the Management (Management Audit)
- Regularity (Financial Audit)

Challenges for Internal Audit Functions within Global Player companies

A GOVERNANCE PARTNERSHIP FRAMEWORK

Maintaining a risk focus will drive leading Internal Audit departments to expand the scope of their future responsibilities



Reporting Lines

- Audit Committee and Board of Directors reporting lines
- Global and local reporting lines
- Direct and indirect reporting
- Difficulties in task prioritisation

Challenges for Internal Audit Functions within Global Player companies

Internal Audit Reporting Relationships

Activity	Owner							
	Audit Committee Chair	Audit Committee (collectively)	CEO	CFO	General Counsel/ CLO	Chief Compliance Officer	CAO/ Controller	Other
Audit Plan Approval	6.9%	88.1%	2.0%	5.9%	1.0%	0.0%	2.0%	2.0%
IA Charter Approval	10.9%	85.1%	5.0%	3.0%	2.0%	0.0%	2.0%	1.0%
IA Policy Guidance	8.9%	57.4%	8.9%	14.9%	3.0%	2.0%	3.0%	9.9%
Audit Work Guidance	12.9%	38.6%	7.9%	21.8%	5.0%	1.0%	5.0%	12.9%
Audit Director Compensation/Benefits	6.9%	14.9%	19.8%	45.5%	12.9%	1.0%	2.0%	6.9%
Audit Director Performance Review	10.9%	17.8%	20.8%	44.6%	12.9%	1.0%	3.0%	5.0%
IA Budget Approval	4.0%	35.6%	16.8%	40.6%	6.9%	1.0%	3.0%	4.0%
Audit Director T & E Expense Approval	1.0%	1.0%	17.8%	45.5%	15.8%	1.0%	5.9%	9.9%

n = 101

Audit Planning

- Risk oriented Planning – Know how of company strategies and risks
 - Focusing the audit to relevant risks which threaten business objectives
 - Strong audit legitimacy and the source to initialize audit subjects
- Process oriented Planning
 - Creation of a cross-departmental view of the audit subject ignoring organizational / jurisdictional or geographical restrictions
 - Distinguishing core processes and supporting processes
 - Stable basis to develop audit subjects
- Annual and multi year planning
- Capacity planning locally and globally

Communication with Internal Audit Function

■ Necessity of regular and clear communication

- Definition of responsibilities - who is communicating to whom?
- Definition of types of communication
 - Ad Hoc Communication, regular communication cycles

■ Ways of communication

- Formal meeting (e.g. Jour Fixes, Conferences)
- Informal Meeting
- Newsletters
- Phone Conferences
- Video Conferences
- Email

Conclusion - Hypothesis

In order to make Internal Audit Function work effectively on global level, central steering and uniform as well as standardized approaches are necessary

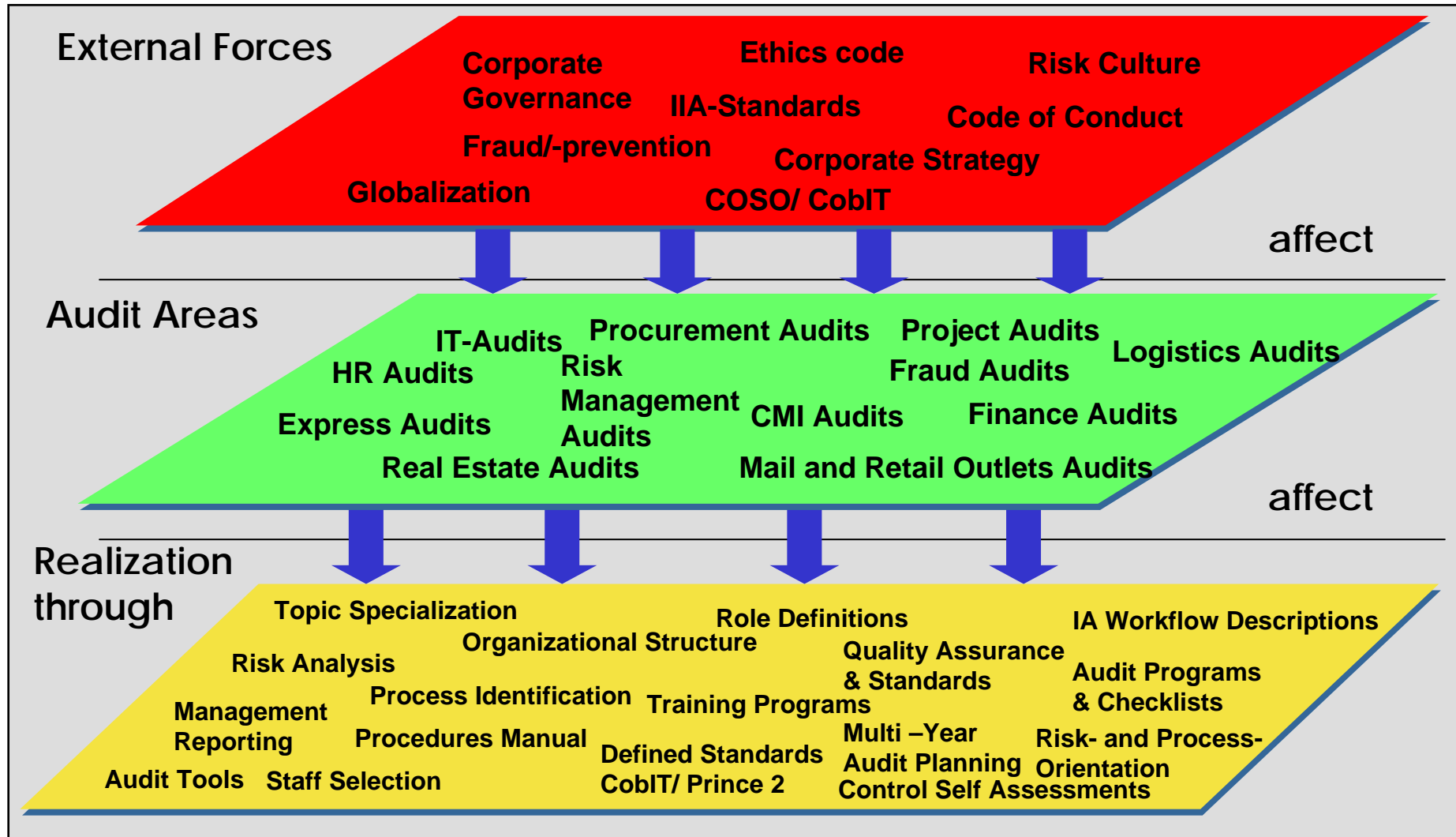
to be shown on example DPWN

Agenda

- Categorization of a Global Player Company
- Overview Deutsche Post World Net – DPWN -
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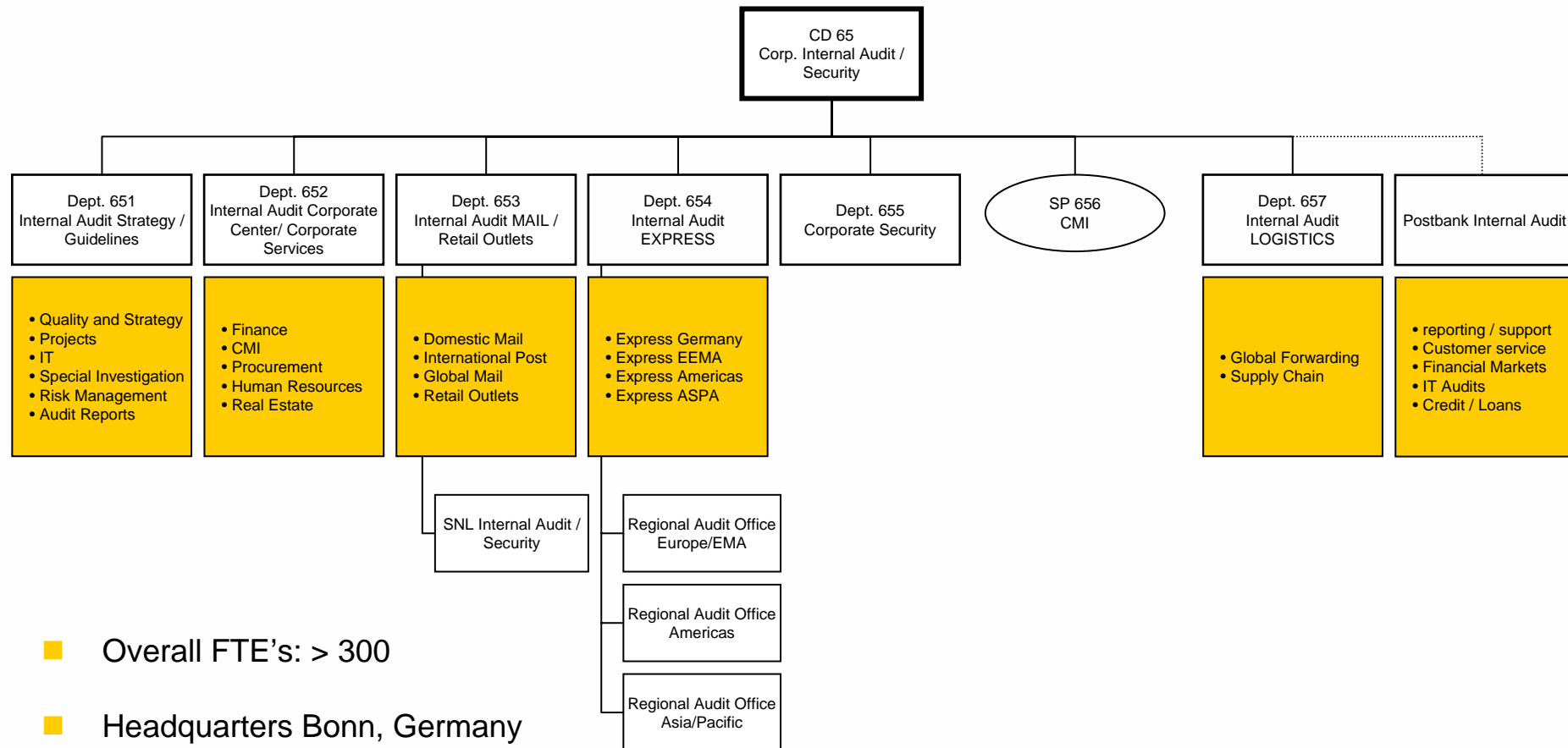
DPWN 's Response to Global Player Companies' Internal Audit Challenges

Internal Audit is influenced by...



DPWN 's Response to Global Player Companies' Internal Audit Challenges

DPWN Internal Audit Organisation



- Overall FTE's: > 300
- Headquarters Bonn, Germany
- International Locations: 4

Principles of the structure of DPWN Internal Audit

- Internal Audit organizational structure follows business organization structure.
 - Internal Audit Departments are mirror images of Business Units on corporate, regional and local level
 - Clear accountability and responsibilities for Audit Topics within the function
- Internal Audit of DPWN is set up within a clear Matrix organization
 - Disciplinary (administrative) responsibilities
 - Functional responsibilities
 - Responsibilities of Internal Audit have been clearly defined in “ICADE Codes”
- Direct and central reporting lines
 - All regional Audit Functions are reporting directly to their responsible Corporate Audit Function in the Headquarters
 - No reporting requirements to local or regional Business Units

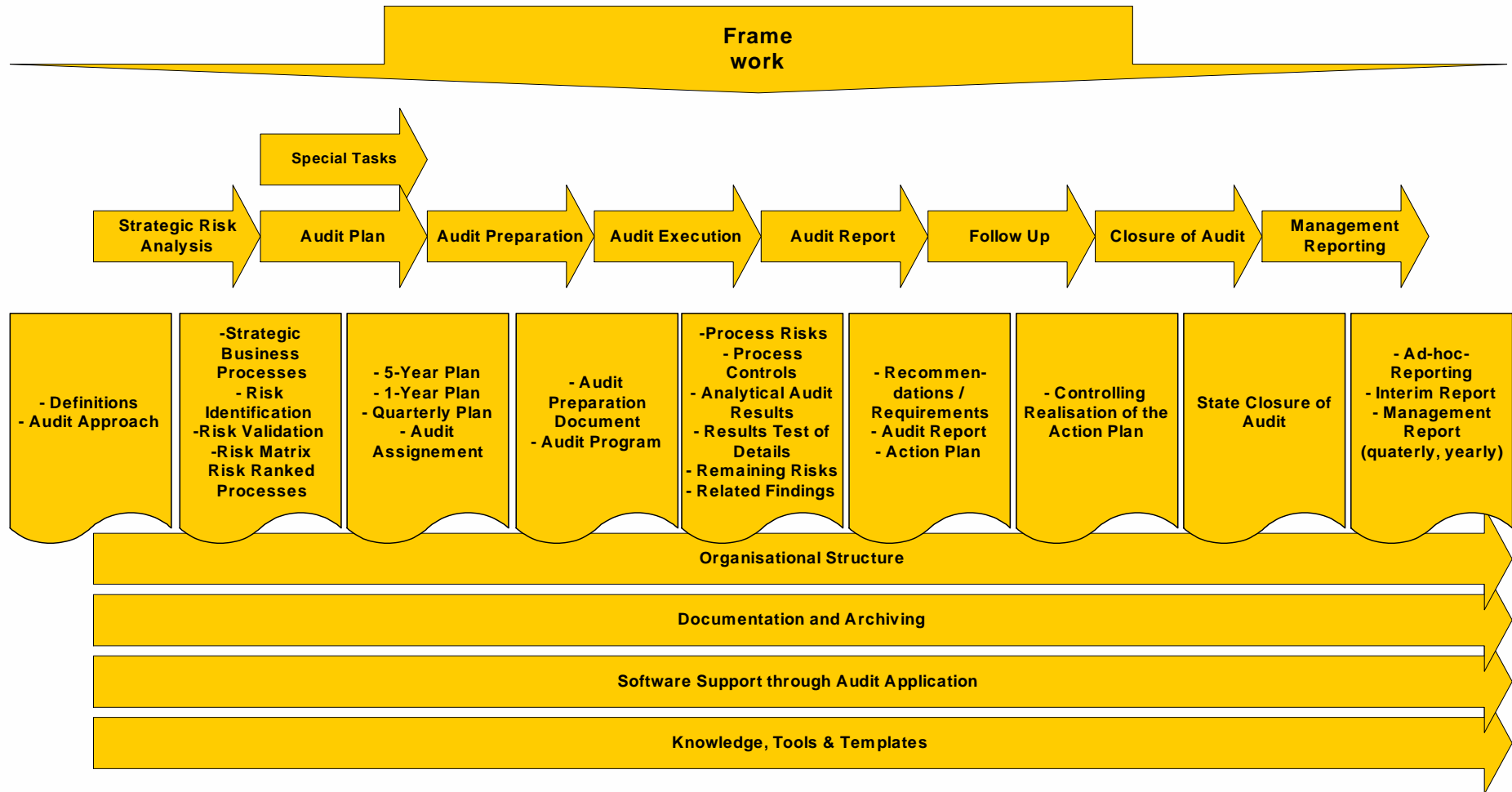
Structure of DPWN Internal Audit

- Corporate Internal Audit Function in the Headquarters is set up with overall Heads of Departments responsible for a specific Business area and Senior Experts
- The Senior Expert is the functional leader of an audit area (e.g. Finance, Logistics, IT)
- He/She is responsible for the overall coordination and execution of his audit area
 - Central contact person within the Corporate Center for all issues regarding the audit area
 - Customer Management
 - Identification and Review of strategic issues concerning the audit function
 - Development of Methods, KPI's, Audit Programs
 - Responsibility for the overall audit plan of the function
 - Scheduling of audits in close coordination with the local audit managers
 - Quality Assurance of the audit reports and audit documentation
 - Creation of Management Reports
- There is a very close working relationship between the Senior Expert in the Corporate Center and the respective audit managers in the regions.

Structure of DPWN Internal Audit

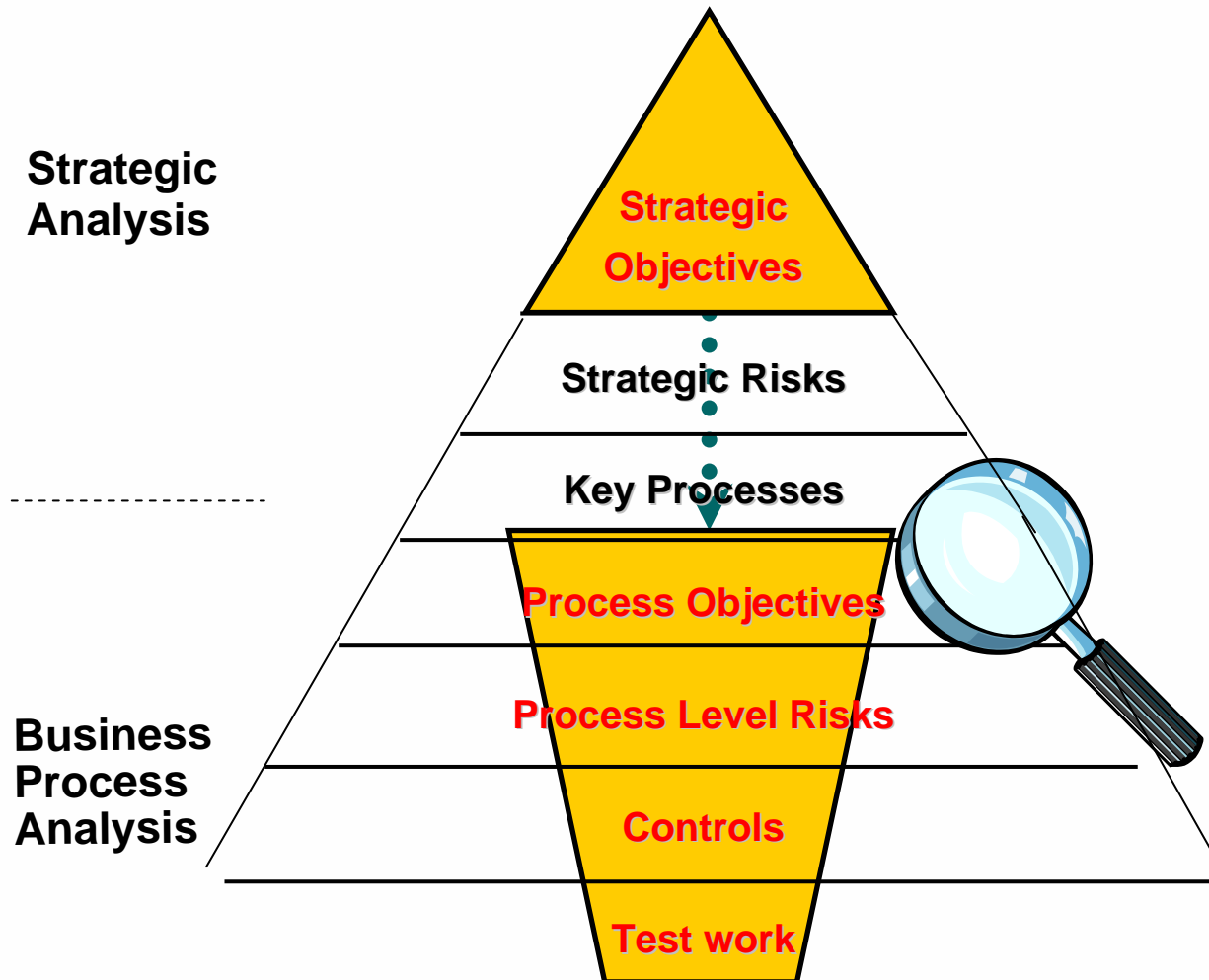
- Internal Audit Function of DPWN has a **central budget**
 - For the Internal Audit function of DPWN **all costs** (including the costs of the Regional Audit Offices) are Corporate Center Costs, as these are paid centrally.
 - It makes no difference, if people are located in the Corporate Center or in the regions, as all costs are paid out of the Corporate Internal Audit Budget.
 - Provides Independence for Internal Audit Function, as there is no dependency on local organizations or business units
 - Possibility to plan and steer Audit function on a global basis

Uniform and Standardized Audit Workflow



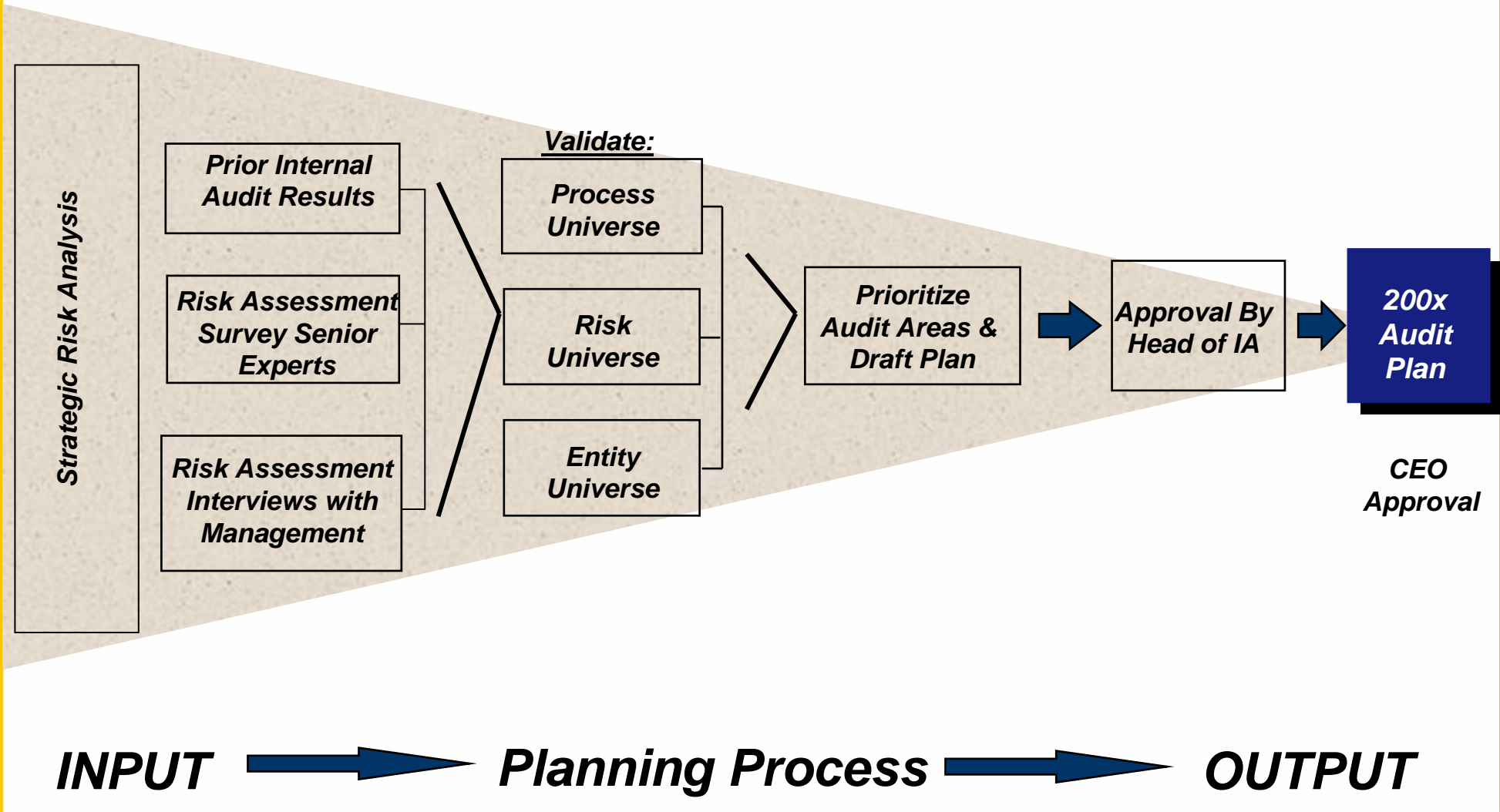
Uniform and Standardized Audit Workflow

- Standardization of Audit Work on a global scale:
 - Working Procedures for different audit functions
 - Audit Programs and Tools
 - Audit Templates
 - Audit Processes
 - Consistent and uniform audit approach
- Uniform standards eases working on a global level
- Recognition of Audit Work performed by Internal Audit globally through Board of Management is also a marketing effect for Internal Audit function



- Through the Strategic Analysis, strategic risks facing the organization are identified.
- Linking our processes to these risks helps to determine the appropriate audits to address those risks consistently throughout the organization.
- It is important to remember, that business processes have been implemented to address strategic objectives and to respond to the strategic risks.
- Hence, on the basis of the strategic risks, we have to decide, which processes and entities will be subject of the audit plan.

Risk and Process Oriented Planning



Risk and Process Oriented Planning

- Standardized planning process for all Audit functions globally
- Set time frame for overall annual planning cycle has been defined
- Risk and Process oriented planning is performed on a
 - Quarterly basis (detailed planning including resource scheduling)
 - Yearly basis (planning of audit subjects per Audit function on detailed process or entity level)
 - Multi-Year basis (planning on overall process level)
- Multi-Year Planning supports to ensure that whole audit universe is audited during a set time period
- Cluster of Processes in “A-”, “B-” and “C-” Processes
 - Depending of Risk Grading (A,B,C), decision on Audit Cycle (1-5 years)
- Time buffer within audit plan to account for Special Audit Requests set by the Board of Management

Risk and Process Oriented Planning

Overview:

- 5-Year-Audit Plan
 - Defining the audit cycle of processes using a ABC-structure of materiality
 - To be updated on a yearly basis
- 1-Year Audit Plan / Quarterly Audit Plan
 - 1-Year Audit Plan is to be assigned by the chairman of the board
 - Deriving audit subjects by using
 - CSF (Critical Success Factors) and
 - KPI (Key Performance Indicators)
- Defined workflow to integrate special audit assignments (including special investigations) which are not covered by the audit plan

Implication / Benefit:

- Covering the entire „audit universe“ set up by business processes – no audit free spaces
- High risk processes are to be audited on a yearly basis; all significant processes have to be audited in appropriate time periods
- 1-Year Audit Plan as an official audit legitimacy
- Adequate allocation of employees by means of specialization & qualification
- Guided management interviews are held
 - to ensure an early agreement on proposed audit subjects including adjustments & additions proposed by business units/management
 - to be integrated in the audit plan
- Time/resource buffer to respond to special audit tasks

Risk and Process Oriented Planning

- Planning is conducted centrally by Senior Experts for their specific Audit functions in the Corporate Internal Audit Department
 - Support for Planning through Regional Audit Managers
- Planning Process involves a close coordination with management in order to ensure coverage of topics which have been seen as urgent or necessary by management itself
 - Regular interview cycles with Senior Management and Board of Management
- Capacity Planning of Auditors is done centrally through the responsible Senior Experts with the support of the local Audit Managers
- Joint Audits are embedded in Global Audit Plan

Execution of Audits

- Execution of Audits follows a standardized process including a clear definition of the
 - Audit Preparation Phase
 - Execution Phase
 - Opening and Closing Meeting of an Audit
- DPWN Internal Audit executes their audits based on the annual audit plan through regional Audit teams and global audit teams
 - Global Audit teams contain a mixture of specialists from all over the world
 - Regional Audit teams are set up by specialists of a specific Regional Audit Office
- Joint Audits contain specialists from different Audit Functions (e.g. Logistics, IT, Finance) to ensure that different aspects to an audit are covered by the audit team
 - Provision of best possible support to an audited unit or entity
 - Joint Audits have to be planned centrally in order to ensure that resource allocation and capacity planning are in line with overall audit plan
- Standardized Reporting Process with the use of uniform templates

Execution of Audits

Overview:

- Emphasis on the audit preparation phase
- Standardized approach during the audit execution phase
- Established feed back workflow

Implication / Benefit:

- Timely and comprehensive audit notification & coordination with the entity to be audited
- To concentrate on the significant risks (no audit from A – Z)
- To shorten the audit time on site
- To ease the audit execution of all involved parties
- Audit activities are phased from the general perspective to detailed audit activities
- Emphasis on a process level audit
- Feed back form has to be completed by Senior Management

Management Reporting

DPWN Corporate Internal Audit uses different types of Management Reporting

- Regular Meetings with key stakeholders
 - Members of the Board of Management
 - Senior Management in the different regions
 - Scheduled Meetings twice a year to discuss upcoming and newsworthy issues
- Annual Management Report
 - Yearly Report to Board of Management about all audits performed in previous year, including major information of the audits as well as recurring findings in a specific audit area
- Semi Annual Report
 - Overview of audits performed in the reporting period, including issues for escalation, issues which request Management Attention and Follow Up's performed

Quality Review

- A regular Quality Review is a Basis for complying with the IIA Standards

1300 – Quality Assurance and Improvement Program

The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. This program includes periodic internal and external quality assessments and ongoing internal monitoring.

1311 – Internal Assessments

Internal assessments should include:

- Ongoing reviews of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal audit practices and the Standards.

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Quality Review

- A regular Quality Review is mandatory by Definition in the procedures manual of DPWN Corporate Internal Audit

The Head of the Internal Audit Corporate Department will ensure that Internal Audit has a programme for continuous quality assurance and improvement, encompassing all areas of Internal Audit's work. This programme will include internal and external assessments and guarantees the effectiveness of Internal Audit as well as compliance with professional standards. Internal assessments will take place annually and Internal Audit Corporate Department will also undergo a quality review by an external auditor at least every five years.

Approach to Quality Review

- Standard Questionnaire with quality criteria, based on the IIA Standards 1300ff.
- Review of the compliance to the Standards regarding the audit workflow, focusing on
 - Audit Planning
 - Audit Preparation
 - Audit Execution
 - Audit Reporting
 - (Audit Follow Up and Closure)
- All participants of the audit (including the Senior Experts in the Corporate Center), as defined in the ICADE-Codes are part of the Quality Review
- Sample of Audits performed in the
 - Corporate Center,
 - Regional Audit Offices,
 - Audit Service Branch, Germany

Training and Development

- Auditors at DPWN Corporate Internal Audit have general Audit Know How but are specialized in one certain field
 - Possibility to cover all audit types with specialized auditors leads to a higher acknowledgement of audit work in the business units
- Introduction of a Global Training Concept for whole audit function, covering
 - General Audit Training
 - Business specific topics
 - Soft Skills (including language skills)
 - Management Skills
- Each Auditor has a personal development plan, which is discussed with his/her superior on an annual basis

Training and Development

- Audit Teams are set up on a global level as a mixture of experienced auditors and “fresh blood”
 - Coming from a business department inside the company moving into internal audit
 - Coming from external audit companies joining the internal audit function
 - Starting with Internal Audit after finishing university
 - Coming from a specialized area outside of the company to join Internal Audit (e.g. Architects, former Police officer, etc.)
- Department gives the opportunity to all members of the audit function to move to another Audit Office for a predefined period
 - Through Standard and uniform audit approach, working methods do not change – easy settling in for auditors
 - Possibility to gain international experience within the company

Communication

- Communication is a major instrument to keep a large and internationally operating audit department functioning
- Necessity to make everyone feeling to be part of audit function
- Clear communication of decisions and tasks to whole audit function
- Clear definition and communication of responsibilities
- Regular Meetings take place on different levels within audit function
 - Jour fixes within specific audit departments
 - Jour fixes on different management levels within the audit function
 - Meetings with the Regional Audit Offices
 - Regular Newsletters
 - Global Audit Conference (every two years)

Overall Conclusion

- Challenges arising for Global Player Companies' Internal Audit Functions can only be met through
 - a clear and defined structure of the audit organization
 - Clear reporting lines
 - Clear definition of roles and responsibilities for each level within the audit function
- The more central an audit function is steered and coordinated, the more important is a clear, regular and stringent line of communication towards all organizational levels of the audit function
- Global Player companies are flexible and rapidly adapting to change
 - Internal Audit Function has to adapt to these changes at all times and proactively has to consider possible upcoming tasks in the future
 - Otherwise, these changes cannot be handled by the Internal Audit function in the long term

The Picture of the Internal Audit Function being a “toothless Tiger” has to be seen as a Picture of the Past



Thank you for your interest!

Bernd Schartmann, Executive VP Corporate Audit and Security
Helsinki, 7. September 2006