

Assuring Corporate Compliance and Efficiency

= Internal Audit Challenges in SME =

**ECIIA Conference Panel
Berlin, 21 November 2008**

Assuring Corporate Compliance and Efficiency

The Case of Pension-Fennia

Ms. Tuulikki Help

CAE, Pension Fennia Mutual Insurance

Mission of Pension-Fennia's Internal Audit

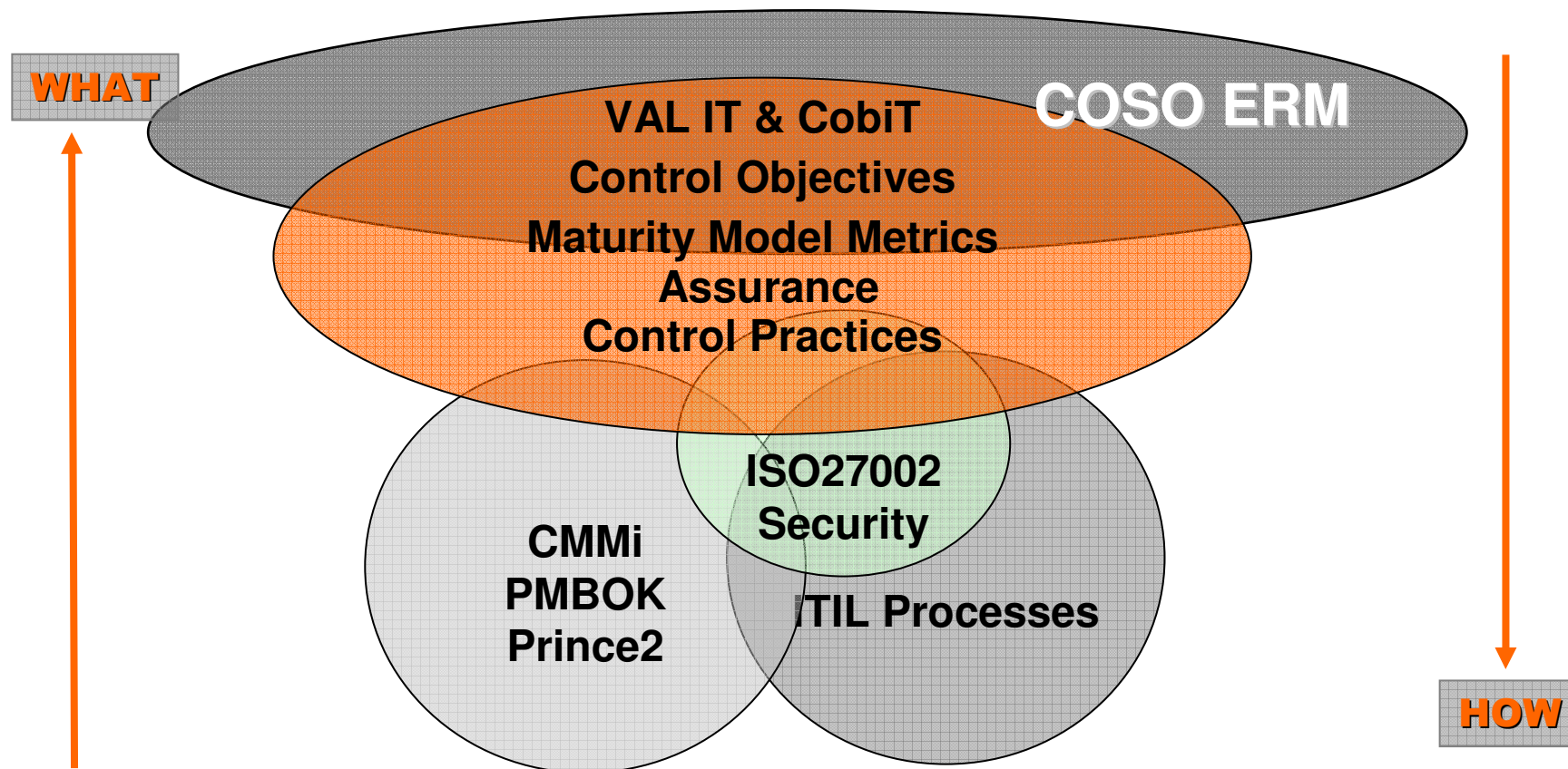
- ◆ **The mission of Pension-Fennia's Internal Audit is to**
 - promote,
 - evaluate and
 - assure
- ◆ **corporate governance**
- ◆ **in both business and IT**
- ◆ **in the most efficient way.**

How to Fulfil the Mission?

- ◆ **By using the best and most efficient tools**

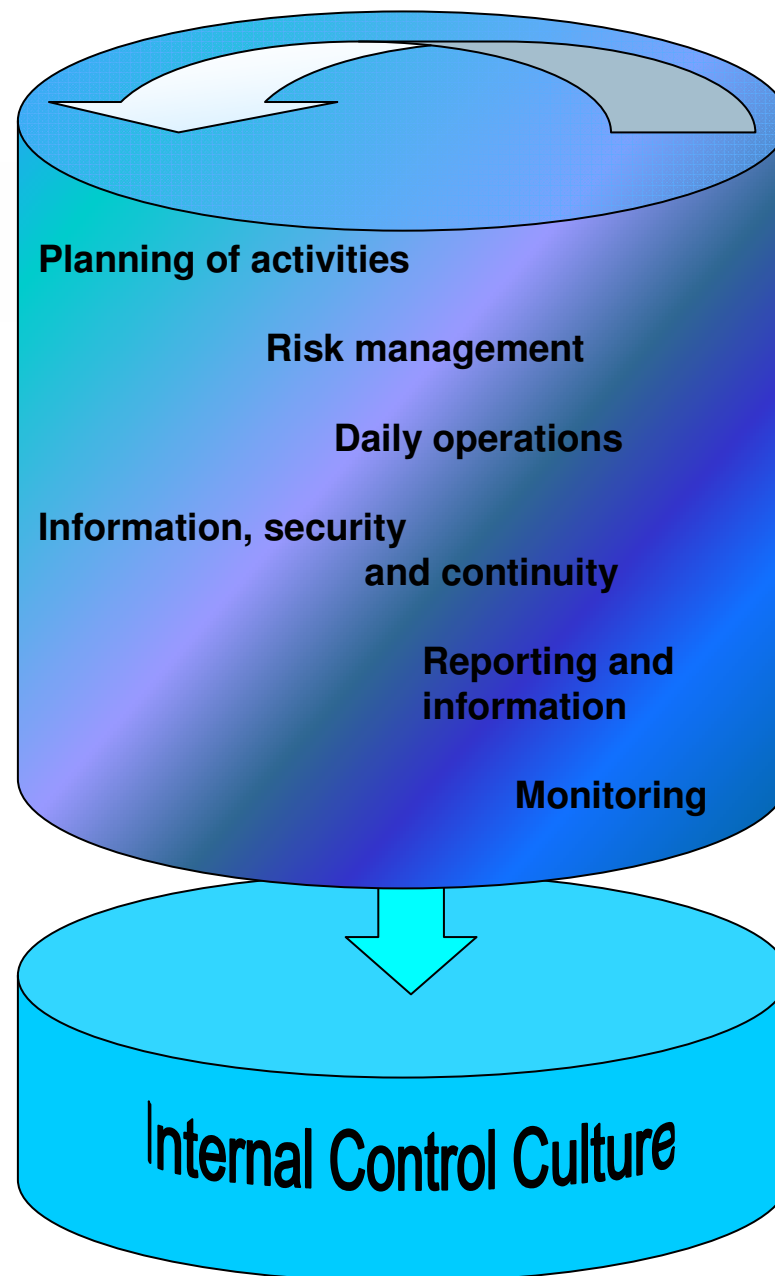
- ◆ **By using efficient working methods**

Which Tools to Use For the Task?



How To Be More Efficient In Using Tools?

- ◆ **By combining the context of COSO ERM and CobiT**
- ◆ **Pension Fennia's own CEC model**



Efficient Working Methods?

- ◆ **Control Self Assessments**
- ◆ **Risk Self Assessments**
- ◆ **Control Maturity Assessments**

The Merits of Using Self Assessments

- ◆ **Activates the participants to give their own opinion instead being passively (and possible reluctantly) evaluated**
- ◆ **Management's commitment to future development actions is guaranteed**

AND:

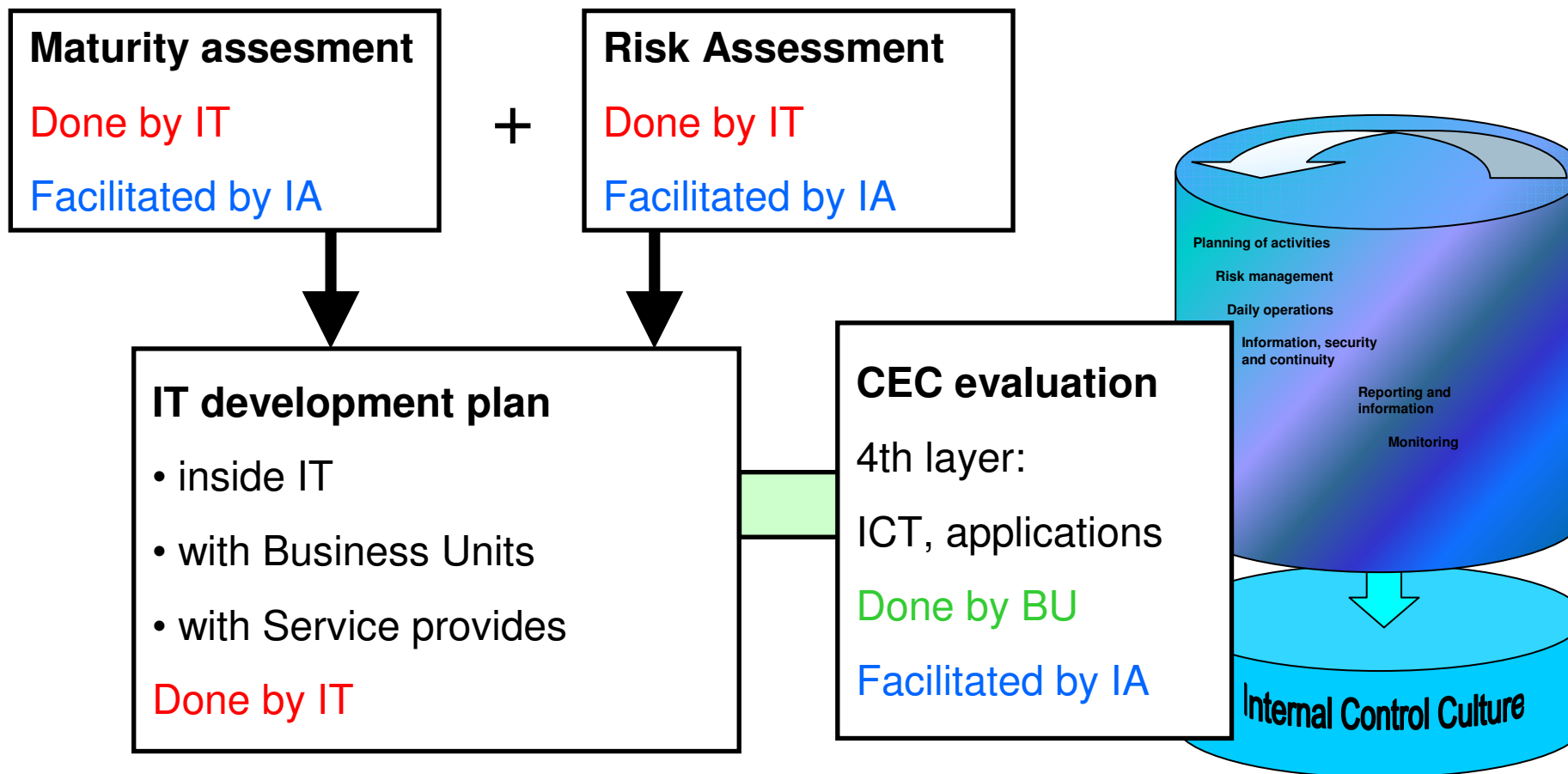
- ◆ **Auditing in future is easier: progress is already under way**



My Motto:

◆ **Better Prevent than Cure**

Summary: Linking IT and Business Governance



◆ Thank you for your attention!

- Ms. Tuulikki Help, CAE
 - Mutual Insurance Company Pension-Fennia
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Assuring Corporate Compliance and Efficiency

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Overview

- ◆ **CLAAS fact sheet**
- ◆ **Miele fact sheet**
- ◆ **Objective of the presentation**
- ◆ **Auditing business divisions in SME**
- ◆ **Conclusions**
- ◆ **Internal control and risk management**
- ◆ **Business crime prevention and criminal proceedings**
- ◆ **Management support concerning new developments**
- ◆ **Analysis of new administrative procedures**
- ◆ **Legal and professional support**
- ◆ **Privacy and data protection**
- ◆ **Customs issues**
- ◆ **Key Messages**

- ◆ **CLAAS is a family-owned company founded in 1913**
- ◆ **Family members within the supervisory board**
- ◆ **CLAAS is a manufacturer of agricultural machinery and tractors**
- ◆ **CLAAS manufactures at 12 plants located worldwide**
- ◆ **CLAAS produces combine harvesters, foragers, tractors, mowers, balers, telehandlers, large selection of headers and other accessories for the machines**
- ◆ **CLAAS has a worldwide sales network of 11 subsidiaries**
- ◆ **Nearly 8.400 employees**
- ◆ **Turnover is € 2,7 billion**
- ◆ **6 employees in the Internal Audit department**

- ◆ **Miele is a family-owned company founded in 1899**
- ◆ **Two family members of the 4th generation are part of senior management**
- ◆ **Miele is a manufacturer of household appliances in the premium sector**
- ◆ **Miele produces appliances in 13 plants mostly located in Germany**
- ◆ **i.e. Miele produces washing machines, dishwashers, tumble dryers, ovens, hoods, hobs, microwave ovens, vacs, aso.**
- ◆ **Miele has a worldwide sales network of 40 subsidiaries**
- ◆ **Nearly 16.000 people are employed at Miele**
- ◆ **Turnover is € 2,8 billion**
- ◆ **10 employees in the Internal Audit department**

Objectives of the Presentation

- ◆ **Differences between Internal Audit & Consulting in SMEs and DAX, STOXX etc. companies**
- ◆ **Overview of the business fields shows following chart according to survey of more than 100 SMEs**

Auditing Business Fields in SME

Auditing business fields in medium-sized family-owned enterprises				
Auditing & Consulting				
Internal control and + risk management	Management information and problem-analysis	Independent analyses	Legal and professional support	Miscellaneous
Compliance / Truth & Fairness	Unscheduled and scheduled status reports	Process optimising	Consulting concerning legal issues in defined areas (i.e. IT)	Privacy and data protection
Preventative assurance of assets	Analysis of problems and proposed plan of necessary actions	Management support concerning new developments	Legal coordination	Customs issues
Business crime prevention and criminal proceedings	Resolving of differences between departments	Analysis of new administrative procedures	Special reports according to professional inquiries	Travel management

Conclusion 1



Area of conflict between:

◆ Daily work:

- various topics
- limited resources
- requirements of shareholder
- requirements of executive board
- expert function

and

◆ Complexity of topics

=> assign the „right“ priorities

Conclusion 2



On one hand:

Demands on employees

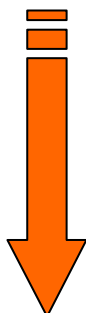
to be an „allrounder“

and

On the other hand:

„to know everything“

to the examples of daily work



Conclusion 3

Suggestion:

- ◆ **Large companies and SME both face similar business fields**
- ◆ **Due to extended staff capacity large companies can cover comparabel risks more deeply**
- ◆ **In addition IA functions in SME are very often confronted with non-typical audit tasks**



The individual risk of a Chief Audit Executive in a SME appears to be much higher

Auditing Business Fields in SME

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Internal Control and Risk Management

- ◆ **Claas has implemented its risk management system on a voluntary basis, which is generally an obligation by German Law**
- ◆ **1999 introduced by IA, 2003 updated by IA, 2008 general overhauling by IA and Controlling because of essential changing risk landscape and requirements by the shareholder / board of directors**
- ◆ **Requirements of the statutory auditors were included to anticipate German law mandating CLAAS to operate a risk management system**
- ◆ **Monitoring and supervision done on a monthly tracing basis by Controlling**
- ◆ **=> Class lives it**

- ◆ **First of all, a good fraud prevention is the old 4 eye-principle**
- ◆ **If a criminal case occurs, it is very important to have a very effective internal coordination concerning criminal proceedings**
- ◆ **Because of the limited staffing resources in SME it is necessary to have clear and effective deputy - regulations**
- ◆ **In SME it is not feasible to assign one or two permanent staff members in charge of such special issues**

Management Support of New Developments

- ◆ **Miele IA was assigned by senior management to evaluate the flow of production material based on the present construction drawings before building activities started**
- ◆ **The findings and recommendations of IA led to the result that a new construction concept was needed**
- ◆ **In another case IA of Miele was asked by the managing director of a subsidiary to evaluate the logistics concept before its implementation**

Analysis of New Administrative Procedures

- ◆ **Claas IA is not directly involved in year end closing activities**
 - For improving the fast close process IA was asked to analyse time consuming factors
 - reinstallation of an intercompany reconciliation guideline as well as a monthly monitoring system

- ◆ **Analysis of transportation costs shows strong demand to implement an automated SAP tool**
 - IA supported the new installation
 - IA acts as a mediator between involved Claas companies
 - Support and consulting function is expected by the shareholder

Legal and Professional Support

- ◆ **Usually SMEs do not have an own legal department**
- ◆ **If an important legal issue arises, it has to be considered, which specialized law office should be involved**
- ◆ **Miele IA has coordinated such matters in the fields of**
 - information technology
 - criminal law
 - competition law
 - privacy
- ◆ **In addition to the coordination the senior management is provided with IA consultancy on IT and privacy issues**

Privacy and Data Protection

- ◆ **Expert function for / of IA**
- ◆ **According to German Law every new employee has to be informed about privacy and data protection**
- ◆ **Long-time staff has to be educated periodically by training/awareness sessions**
 - responsibility and realisation by IA
- ◆ **In future it will be done through a self assessment system**

Customs Issues

- ◆ **The survey concerning the additional tasks of IA in SME shows in one case that IA is responsible for customs issues in total**
- ◆ **At Miele IA is involved in the special customs issues according to C-TPAT (Customs Trade Partnership Against Terrorism) and AEO (Authorised Economic Operator)**

Key Messages

- ◆ **The tasks and challenges in SME, DAX, Stoxx, or other large companies are similar**
- ◆ **We think our contribution shows that the internal auditor in a SME has to be more a generalist than a specialist**
- ◆ **In SMEs it is not possible to employ auditors who are only focussed on specialized topics**
- ◆ **IA can not cover all the risks so deeply in comparison to IA in DAX, Stoxx, or other large companies according to the similar business fields**

◆ Thank you for your attention!

- Thomas Oetting
 - Chief Audit Executive, CLAAS KGaA mbH
- Wolfgang Günther
 - Head of the Audit Department, Miele & Cie. KG