DIIR Deutsches Institut für Interne Revision e.V.

ECIIA European Confederation of Institutes of Internal Auditing

Organization and structure of Internal Audit in Eastern- and Western Europe within RWE-Group

RWE The energy to lead

Content:

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- The status of Internal Audit within RWE-Group
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The purpose of Internal Auditing within RWE-Group (I)

- Independent, objective assurance and consulting activity to
  - add value and improve an organisation‘s operations
  - help an organisation to accomplish its objectives
  - evaluate and improve the effectiveness of risk management, control and governance process

The purpose of Internal Auditing within RWE-Group (II)

The group wide understanding of “Internal Control” is related to the IIA Standards:

Internal Control is a process within an organisation designed to support the management concerning

- the reliability and integrity of information
- compliance with policies, plans, procedures, laws, regulations and contracts
- the safeguarding of assets
- the economical and efficient use of resources
- the accomplishment of established objectives and goals for operations or programs

The status of Internal Audit within RWE-Group

The status of Internal Audit is marked by following characteristics:

- reporting to Board/Management of the respective company
- independent from auditees concerning findings, conclusions and recommendations
- unlimited access to information and company employees within in the scope of assigned audits
- Internal Auditing has no operational responsibility and no authority to address instructions to other departments

Activities of Internal Audit within RWE-Group (I)

- Audit planning: risk oriented and COSO based
  - Audit Universes for Group Center, Operating Companies and main subsidiaries
  - documentation of all auditable processes/audit areas
  - regularly risk assessments based on COSO Framework
  - presentation of the results of risk assessments to the respective Boards

Activities of Internal Audit within RWE-Group (II)

- Performance of scheduled and unscheduled audits
  - focus on processes and Internal Control
  - Examination and Evaluation of Internal Control with respect to the COSO Framework:
    - The elements of Control Environment and Knowledge of Management
    - The process of risk assessment and the decisions how the risks should be managed
    - The adequacy and effectiveness of control activities
    - The information and communication to Management, Boards, Committees etc.
    - The monitoring of the Internal Control System

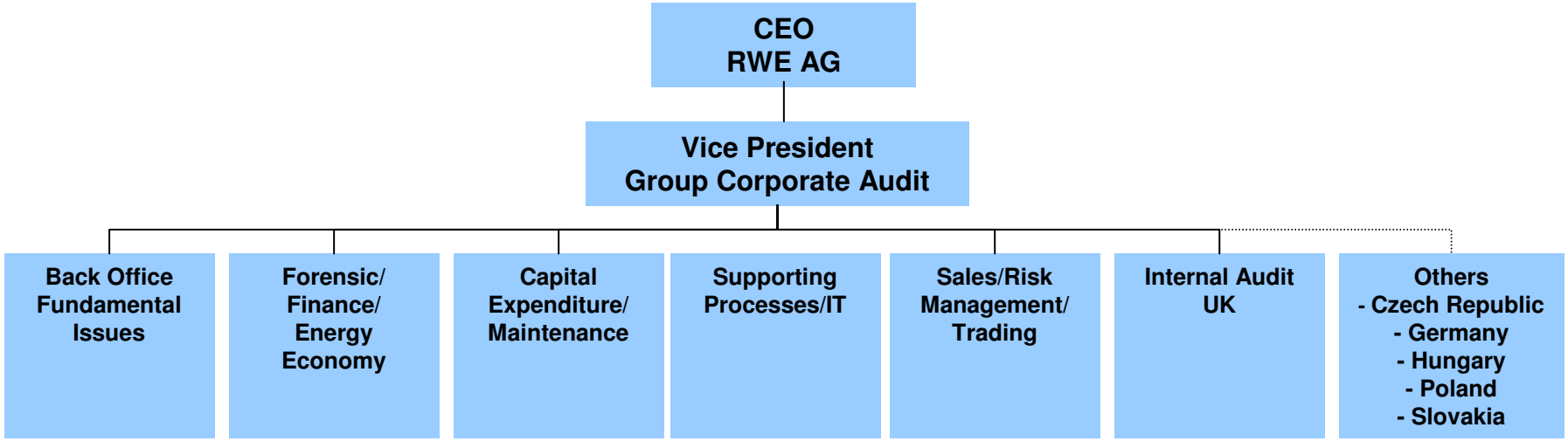
Activities of Internal Audit within RWE-Group (III)

- Follow-up
  - Audit reports content (if necessary) “Action Plans” with all recommendations, responsibilities, priorities and the target dates
  - Follow-up-overviews are represented to the Boards by Internal Audit, regularly
  - The Operating Companies have to inform the Group Center about the status of recommendations within the Quarterly Review Meetings

Activities of Internal Audit within RWE-Group (IV)

- Fraud prevention and detection
  - Internal Audit examining and evaluating the adequacy and the effectiveness of the control, for fraud prevention within regularly audits
  - Internal Audit conducting specific audits to discover fraud
  - Internal Audit fostering the sensibility for the fraud risk
  - Internal Audit investigating suspected fraud

Organisation of Internal Audit within RWE-Group



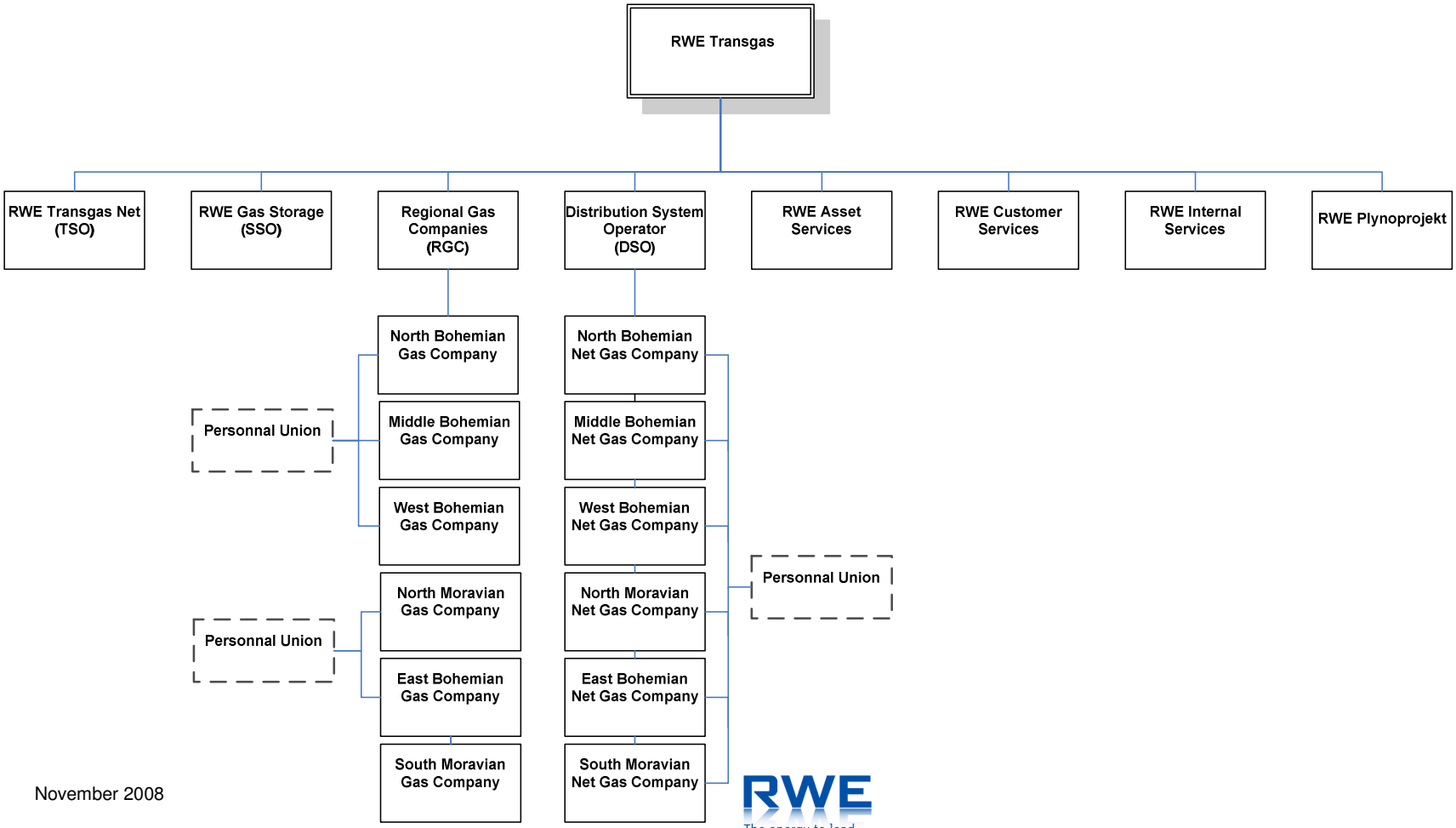
Purposes of Group Corporate Audit (I)

- Audit Planning on behalf of the Executive Boards
- Auditing company-wide
- Setting Group Standards in order to ensure a common understanding of, and consistent approach to, Internal Auditing
- Setting of quality standards for Internal Auditing within RWE-Group and monitoring of the compliance

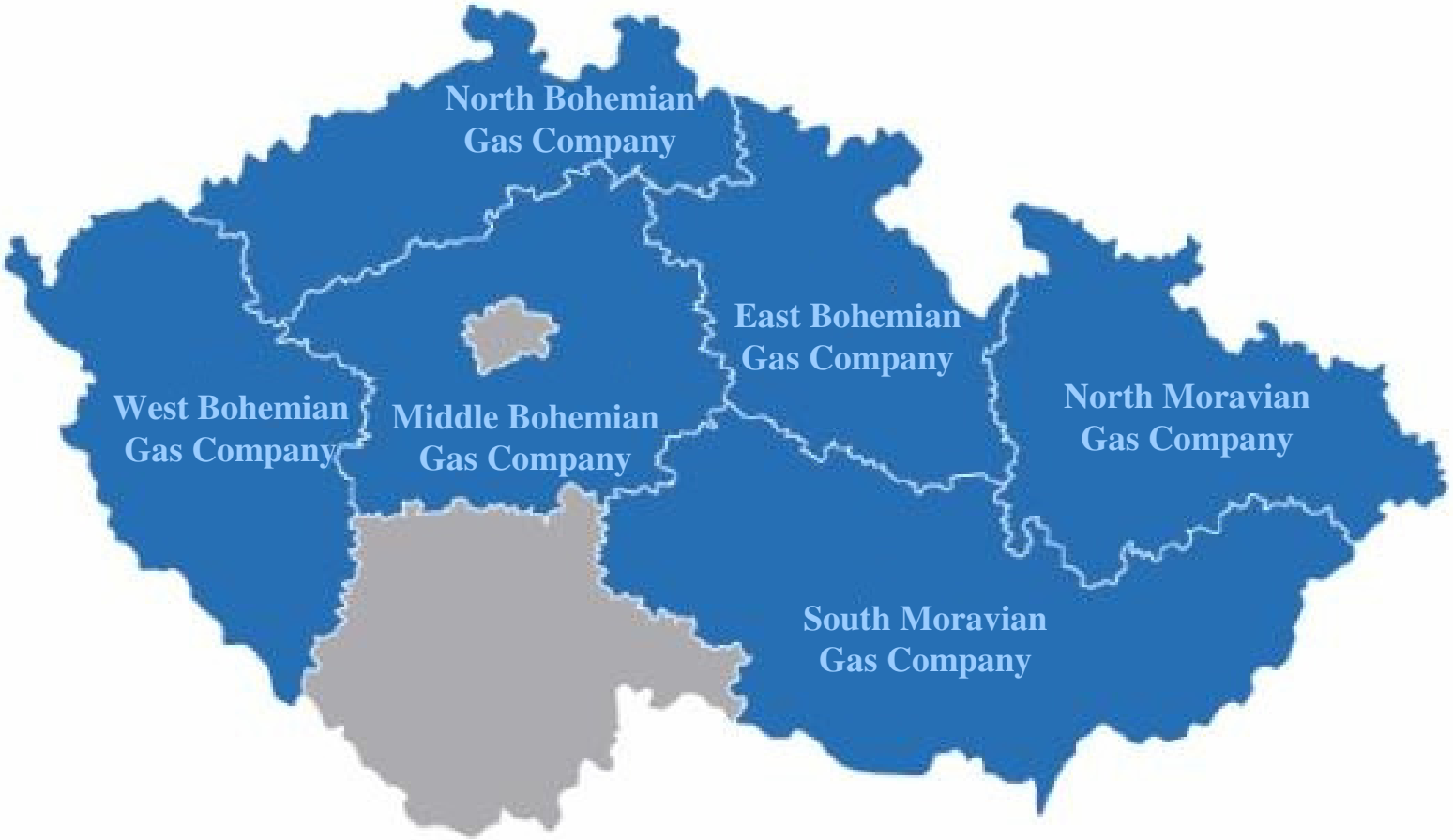
Purposes of Group Corporate Audit (II)

- Quarterly Reporting about essential findings and Follow-up to the Board of RWE AG and the Boards of RWE Companies commissioning Group Corporate Audit
- Participation in the Quarterly Review Meetings of Group Center with the Operating Companies
- Regularly reporting to the Audit Committee of RWE Supervisory Board
- Cooperation with external auditors

RWE-Group in Czech Gas Industry (I)



RWE-Group in Czech Gas Industry (II)



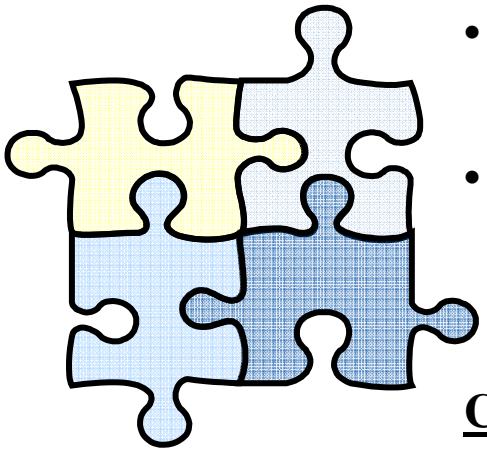
Co-sourcing approach to Internal Audit in RWE CZ (I)

RWE TG – leading company

- RWE TG IA department = Group internal audit for RWE CZ
- Head of IA reports to the CEO of RWE TG

Ernst & Young – Business Risk Services

- Team of approx. 20 internal auditors
- Executive Director, Managers, Leading Seniors, Seniors, Juniors



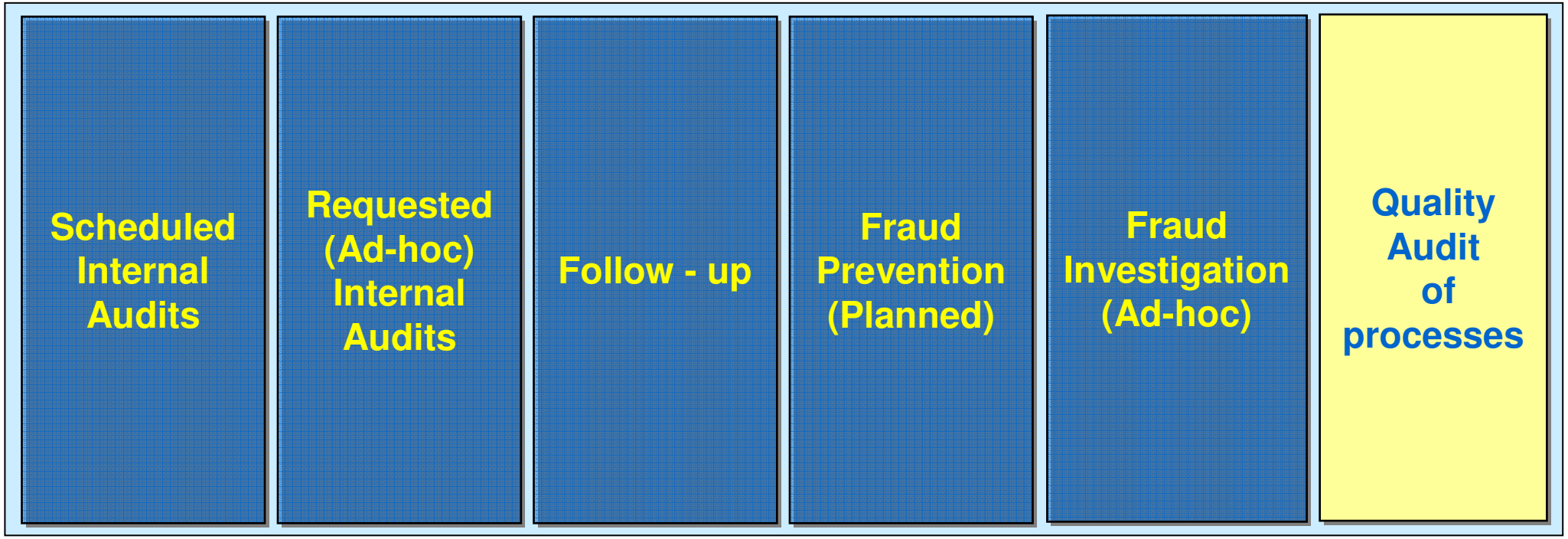
Companies of RWE CZ

- IA Coordinators
- Customers (= representative of the Company) for each individual audit

CEO Roundtable

- regular monthly meeting of CEO's of all RWE CZ Companies have on the agenda IA topics

Co-sourcing approach to Internal Audit in RWE CZ (II)



Allocation of responsibility in different phases of the audit process

- **Annual IA plan for RWE CZ**
  - Audit Universes – priority processes
  - BoD's proposals of audit focus in priority process
  - Result: - Year scheduled of internal audits
    - A card for each audit – aims, targets and extends of audit, customers, manager, leading senior
- **Performance of the audit**
  - Pre-audit, assessment of the process risk, audit program, fieldwork, report (findings and recommendation)
- **Corrective activities**
  - Finding and recommendation vs corrective measures
  - Internal Audit Portal (auditor, coordinator, responsible manager, superior)

Fraud Prevention Program (I)

Creation of awareness about Fraud **State improvement**

Company attitude assessment towards Fraud Investigation	Controls verification on company level	Verification of existence of monitoring and transactional controls	Verification of specific controls of Fraud investigation	Control monitoring of Fraud Investigation	Report on findings from monitoring	Ombudsman system

Education and training in Fraud field - Compliance

Fraud Prevention Program (II)

Basic FPP documents

1. Fraud Prevention Policy
   - essential document that assigns program principles (controls testing, employees training), its rules (respect, sincereness) and tools (dealing with superior, ombudsman).
2. Fraud Investigation Guideline
   - guideline specifies the details of Fraud Prevention Policy document.

3. Fraud Contingency Plan
   - document is designed for BoD Members, managers and specific employees that will participate on Fraud investigation. It specifies its duties and systematic plan.
4. Guide to the Ombudsman system
   - document describes ombudsman duties, information about where and how to contact him, what such a announcement should contain.

Ombudsman system has been launched on September 1st, 2008 and providing company is White & Case.

Quality Audit Process Procedure

QUALITY AUDIT PROCESS PROCEDURE

Phase 1 Inspiration

	Activity		Output	Implemented example
1.1	Specification of process in RWE organisational structure	→	Outline process map and process description	Process „Utilisation of measures from customer satisfaction survey 2006“
1.2	Draft process metrics system	→	Model of process quality measurement	Concrete setting of quality criteria, evaluation scale, weights and standards for PQI measurement (Process Quality Index)
1.3	Process quality measurement	→	Filled-out checklists	Preparation and sending of checklists, training of evaluators and collection of filled out evaluations
1.4	Interpretation of process quality measurement results	→	Results of process quality measurement (PQI and partial PQI minima)	Processing of checklists data, correction of mistakes, PQI calculations, determination of weak points in quality

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Phase 2 Innovation

2.1	Analysis of the reasons of problems in process quality	Identified reasons of problems with process quality	Discussion and evaluation of reasons for lower quality of concrete activities of audited process
2.2	Formulation of draft measures aimed at improving process quality	Draft measures	Discussion and proposal of relevant corrective actions
2.3	Establishment of action plans / projects aimed at improving process quality	Action plan / change project	Adoption of corrective actions and their implementation
2.4	Evaluation of process quality audit	Final report on process quality audit	Submission and discussion of final report of the project Quality Audit of the process "Utilisation of Measures from Customer Satisfaction Survey 2006"

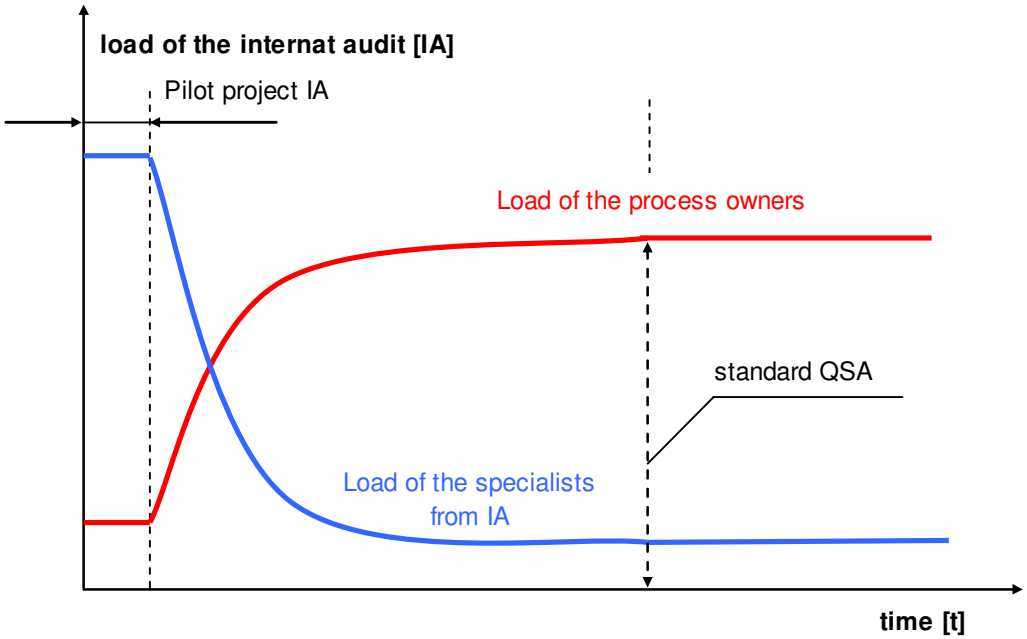
Phase 3 Implementation

3.1	Implementation of action plans / change projects	Changes in processes	Application of changes in the process "Utilisation of Measures from Customer Satisfaction Survey "
3.2	Implementation of Quality Self Assessment	Quality audit conducted by owner based on QSA principle	Utilisation of a team of trained evaluators and conducting quality audit of "Utilisation of Measures from Customer Satisfaction Survey 2007", including verification of impacts of implemented corrective actions from previous QA

Quality Self Assessment

Use of QSA

=> gradual decrease of share of the Internal Audit

=> gradual increase of share of the process owners

Internal Audit will continue to secure expert, methodological and independent support in preparing and evaluating quality audit results