

European Governance

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Paris conference special

Internal audit under the spotlight

INSIDE: Digital Europe: increased regulation, investment in digital services and cybersecurity test internal audit's capabilities, Henrik Stein elected ECIIA President, Nouy places internal audit centre stage, affiliate news and much more...



Henrik Stein becomes ECIIA President in Board reshuffle



New ECIIA President Henrik Stein

Henrik Stein, Chair of the ECIIA's Banking Committee, has been elected ECIIA President at the body's General Assembly in Paris on September 20, 2015.

Stein has played an active part in promoting the voice of internal audit during his time as a member of the ECIIA's Management Board, and also in his role as a Board member of IIA Germany (DIIR). Since 2003, Stein has been head of the Group Audit function at DZ BANK AG and has focused in his career on internal audit in

the financial services sector.

Farid Aractingi, a member of the ECIIA's Management Board and Chairman of the Board of IFACI (IIA France), was elected ECIIA Vice President. Aractingi is Chief Audit, Risk and Organisation Officer of Renault.

Kristiina Lagerstedt, a member of IIA Finland's Advocacy Committee (she served as IIA Finland's Chairman between 2010 and 2013) was elected to the ECIIA Management Board. She is a member of the Professional

Issues Committee at IIA Global. Lagerstedt is Vice President, Internal audit at Sanoma.

Thierry Thouvenot, Chairman of the Board at IIA Luxembourg and a member of the ECIIA's Public Affairs Committee, was also elected to the Management Board. Thouvenot is Chief Audit Executive of KBL European Private Bankers. Thijs Smit stood down after serving two years as ECIIA President. Angela Witzany also stood down as ECIIA Vice President.

SSM places internal audit at centre of sound management, says Danièle Nouy

"Internal control and internal audit are at the centre of sound management, especially for credit institutions in advanced financial systems," Danièle Nouy, Chair of the Supervisory Board of the

Single Supervisory Mechanism (SSM), told over 800 delegates at the ECIIA's annual conference in Paris this September.

She said the SSM had focused its attention on the controls and

the internal governance of credit institutions, and made them a key feature of its methodology from the beginning. That had given internal audit a vital role to play in ensuring the overall governance framework was effective – siting its position as the third line of defence.

"It goes without saying that the internal audit function has a vital and prominent

role, being responsible for an independent review of the first two lines of defence," she said, "and for proactively promoting best practices within the organisation by addressing the existing main weaknesses in the business areas to the management body and asking for prompt remedial actions."

She said that the SSM assessed how effective

and reliable internal audit functions were during the yearly Supervisory Review and Evaluation Process. It looked at how independent internal audit was from management, whether it had the right resources to do its job, and whether it had enough power to enforce any remediation actions.

See pages 5-8 of conference report.

OECD recognises internal audit's central role in good governance

The OECD has recognised that an independent internal audit function is best placed to assure the integrity of an organisation's accounting and financial reporting systems in its most recent publication.

The OECD says that it is best practice among corporations wishing to demonstrate that risk oversight is in place over such systems to establish an internal audit function that reports directly to an independent audit committee, in a paper – *G20/OECD Principles of Corporate Governance* – presented to G20 Finance Ministers and Central Bank Governors in September 2015.

“It is considered good practice for the internal auditors to report to an independent audit committee of the board or an equivalent body which is also

responsible for managing the relationship with the external auditor, thereby allowing a co-ordinated response by the board,” says the document.

The paper also says that internal audit is ideally placed to oversee an organisation's internal controls, providing it has direct access to the board. Internal auditors should also provide non-executive board members with timely information on risk to help their decision making.

The G20/OECD's principles are intended to help policy makers evaluate and improve the legal, regulatory, and institutional framework for corporate governance, with a view to support economic efficiency, sustainable growth and financial stability, the report says.

To read the document, click here.

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Audit's role in tax transparency

Internal auditors could play a key role in the European Commission's (EC) efforts to improve corporate tax transparency by reviewing organisations' disclosures to the tax authorities, or to the general public, the European Confederation of Institute's of Internal Auditors says.

"Internal auditors are ideally placed to give assurance over the contents of the disclosure document and the controls governing the processes in place to generate it," Thijs Smit, ECIIA's outgoing President, said, responding to the EC's consultation on tax transparency. "So we see no need for an external reviewer to check whether the report has been properly compiled and is based on sound data."

The Commission is canvassing views on whether



Thijs Smit

all large businesses in the European Union should be required to disclose the tax they pay in every country where they operate, either to the tax authorities, to the public, or to both. At present, they are only required to disclose the total amount of tax paid for all EU countries in which they operate in a consolidated statement.

The consultation is part of the Commission's broader Action Plan for Fair and Efficient Corporate Taxation and closed on 9 September.

For more details click here.

Affiliate news

Boards should not approve strategically important outsourcing projects without first getting full assurance from their internal audit teams that the potential risks have been properly considered and effective controls are in place, warned the Chartered Institute of Internal Auditors (IIA UK and Ireland) in a report it launched at its annual conference in September 2015.

The institute said the role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively.

Drawing on the experience of outsourcing and best practice in organisations across the public and private sector, including the Ministry of Justice, EDF Energy, Crossrail and the BBC, the report highlighted the importance of internal audit in providing assurance on the proper management of the risks associated with outsourcing.

Failure to foresee and manage



Ian Peters

outsourcing risks can result in service failures, delays in the implementation of new projects, significant additional costs and reputational damage, undermining the cost savings and other benefits that outsourcing is intended to deliver, said the report.

"Outsourcing the service does not outsource the risk. Organisations may think they have thrown the risk 'over the fence' but this is absolutely not the case," Ian Peters, the body's Chief Executive, said. **Read the report here.**

To achieve a more prominent spot in the Dutch Corporate Governance Code, IIA Netherlands visited many stakeholders in 2015, including representatives of investors, employers, regulators, professional associations and even political parties. As a result, the institute is recognized as a trusted partner in good governance. Later in 2015, the monitoring committee of the Code will announce its update. IIA Netherlands has also created a forum for chief audit executives (CAEs). About 50 CAEs have registered as members and meet every 6-8 weeks to discuss trending topics over dinner. In 2016, the affiliate plans to transform the forum into a wider service, to provide benchmarking and other services.

In addition, IIA Netherlands increased the number of commercial partners it works with to 10, including EY, KPMG, Deloitte, PwC, RSG Finance, FSV, BDO, Corbulo, CPI and Protiviti. All partners have exposure at the annual IIA Conference.

Under the spotlight



Greater regulation and pressure from businesses to thrive after a protracted period of low-to-no growth has put internal auditors under the spotlight, as delegates at this year's ECIIA annual conference in Paris heard. Arthur Piper reports

"It is important for internal audit to stay in the spotlight and imperative that it can and does make a difference," Henrik Stein, the newly elected ECIIA President, told over 800 delegates at this year's annual conference, which was held in Paris, 20-22 September 2015.

Stein said that a raft of regulatory and reporting reforms across Europe had made internal audit's role and responsibilities more critical than ever. Those changes included the introduction of the Single Supervisory Mechanism (SSM)

in the financial services industry, fresh requirements for companies to disclose more information in the non-financial sections of their

audit are at the centre of sound management, especially for credit institutions in advanced financial systems," Danièle Nouy, Chair

"It is important for internal audit to stay in the spotlight and imperative that it can and does make a difference"

accounts, and the European Single Digital Market. "These will all have a substantial impact on how we work as internal auditors," he said.

"Internal control and internal

of the Supervisory Board of the Single Supervisory Mechanism (SSM), said in her plenary speech to the conference.

She said the SSM had »

Henrik Stein



» focused its attention on the controls and the internal governance of credit institutions, and made them a key feature of its methodology from the beginning. That had given internal audit a vital role to play in ensuring the overall governance framework was effective – siting its position as the *third line of defence*.

“It goes without saying that the internal audit function has a vital and prominent role, being responsible for an independent review of the first two lines of defence,” she said, “and for proactively promoting best practices within

the organisation by addressing the existing main weaknesses in the business areas to the management body and asking for prompt remedial actions.”

She attempted to allay fears that internal audit would come to be seen as an extension of the regulator, rather than an independent assurance provider to the business. She positioned the SSM as supporting internal audit and making sure it was properly aligned and resourced within financial services firms. “Now more than ever, a robust and capable internal audit function, with the skills to identify

risk control deficiencies and with the independence and authority to pursue its role, is essential to also ensure the adequate discharge of management body responsibilities,” she said. “In this vein, internal auditors are, as well, a traditional ally of the prudential regulator.”

Impact

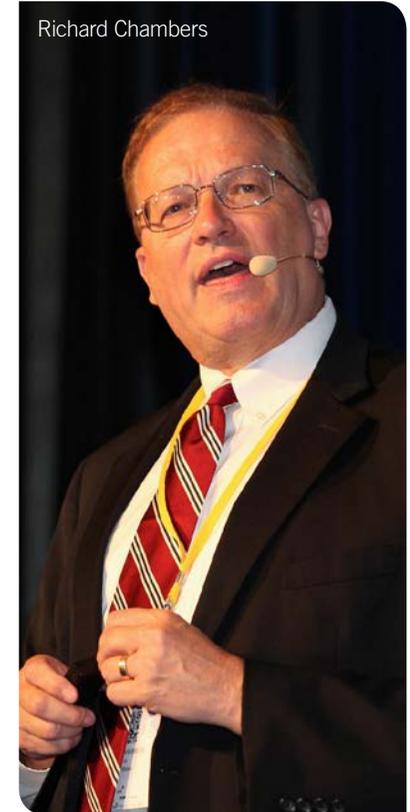
In a breakout session that considered the impact of SSM on internal audit’s activities, there was a cautious welcome to how the first year of its existence had gone. “The supervisory body relies heavily on internal audit functions to fulfil its role,” Ernesto Martinez Gomez, Deputy to Chief Audit Executive, Santander Group, said. “In the long term, that shows we’re important, but in the short term it means we must be up to

the challenge.” He said that while internal audit must consider SSM as a key stakeholder, it needed to remember that its most important stakeholder was still the board.

Richard Chambers, President and Chief Executive Officer of Global IIA, said that it was important for CAEs to develop strategies for aligning with stakeholder expectations during this time of rapid change.

“Internal auditors need to provide insight into how well the company is managed,” he said. He said that executive management often needed internal audit to act as business partners, while boards and regulators wanted the function to be independent – a situation that required departments create awareness across stakeholders about what its capabilities and »

Richard Chambers



“Now more than ever, a robust and capable internal audit function, with the skills to identify risk control deficiencies and with the independence and authority to pursue its role, is essential to also ensure the adequate discharge of management body responsibilities”



» role was. While formal meetings remained an essential part of internal audit's job, he also urged auditors to engage stakeholders in more relaxed and informal meetings to encourage them to open up and share their expectations and worries.

"Continuous change needs a strategy that allows us to continually realign our work to meet stakeholder expectations," he said. "Hindsight, insight and foresight has to be part of the portfolio of value that internal audit delivers."

In a company that is spread over many geographical locations, internal audit can act

as the cement that helps hold the strategic direction of the business in place. "I see internal audit as a way for me to implement the strategy of the group and to check that everything is on course in our very decentralised business," François Pérol, Chairman of the Board, BPCE, the largest banking group in France, said. He said for this to work, internal audit needed to demonstrate strong independence from the local business units and be highly professional and skilled. Without strong internal audit, he said, the business would run the risk of pursuing different strategies in different locations.

He said that while the audit plan is imagined and designed by group audit, he personally devotes plenty of time to listen to the auditor's plans and recommendations. "I often spend a couple of hours listening to internal audit conclusions direct from the internal auditors, and that is very useful to me," he said. "Each audit report comes with a letter from me to the business unit endorsing its recommendations."

The three lines of defence model is invaluable in providing

internal audit with the right level of independence, he said. The audit findings from the individual business departments complement the top-down views held by the executive group.

Learning from experience

"In the first five years of my time as a chief executive officer, I didn't think that internal audit was very important," Jean-Louis Beffa, Honorary Chairman of Saint-Gobain and Senior Adviser to Lazard Frères, told the conference. "But I have learnt from experience that internal audit is very important."

He said for internal audit to be effective, it needed to be ahead of the rest of the company in its understanding of the business and the threats that it faced. "It has to have a very high degree of confidence and influence," he said.

Beffa said that it was crucial for internal audit to understand the changing nature of the business world – something he believed that a Chief Executive Officer should devote his own time to as well.

The world had changed from one that was primarily dominated by the US and Europe, to one that is now more global. He said that »



Jean-Louis Beffa



José Angel Gurria



» competing models of capitalism were now emerging from China and Japan and that those views were gaining traction globally – especially when it came to how to invest in technology and training for employees. He also said that the financial crisis had damaged confidence in the Anglo-Saxon model of capitalism and that today alternatives from Germany, Sweden and Switzerland, which relied more heavily on employer participation at board level, were attracting more attention.

José Angel Gurria, Secretary-General of the OECD, said that another legacy of the crisis had been a growing lack of trust in institutions by a public that was concerned about the perception and reality of corporate corruption. He said that while strengthening internal controls was one of the key tools in the fight against corruption in both countries and companies, internal audit played a central role in stamping out such practices.

Real revolution

He described the new rules on “country-by-country” reporting – where companies need to specifically state in which

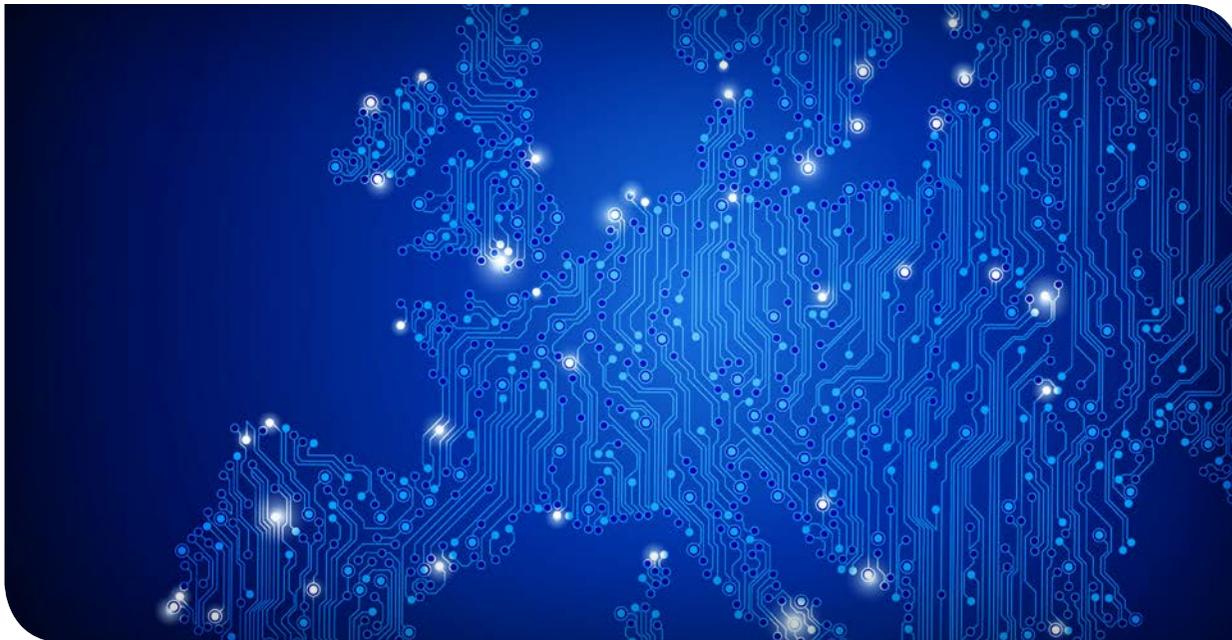
jurisdictions their profits arise – as “a real revolution.” “It will require large multinationals to disclose where they deploy their assets,” he said, leading to improved transparency and paving the way for the ability of the business community to rebuild public trust.

“Hindsight, insight and foresight has to be part of the portfolio of value that internal audit delivers”

Pierre De Villiers, Chef d'état-major des armées, Ministère de la Défense, France, told the conference that the French army had widened the role of internal audit in 2011 to deal with the various change programmes that it was conducting. Internal audit, he said, had become a key tool in helping him achieve the organisation's broader strategic aims. He summed up many stakeholders and internal auditors aspirations when he concluded, “for me, internal audit is an insurance for the present, and a great help for the future.” ■

Digital Europe

Europe is facing increased regulation just at the time when many companies are preparing for greater investment in digital services and cybersecurity – key topics at this year’s ECIIA annual conference



While two years should be long enough for most companies to get ready for Europe’s forthcoming General Data Protection Regulation (GDPR), Claus-Dieter Ulmer, Head of the Privacy Department and Chief Data Protection Officer at Deutsche Telekom Group said it is time to start preparing for the new regime. That is because GDPR is a fundamental shakeup of the way data will be protected in Europe.

Not only that, but the new regulations will have teeth with serious breaches and infringements attracting fines from between 2% and 5% of a company’s turnover. “In a worst-case scenario, that could represent €3.2bn for Deutsche Telekom,” he said.

He said the current regime relied on a directive that was not directly binding on companies in a uniform way across Europe because it was

“Data has become the raw material that powers many companies and businesses and its use is creating new situations for people and legislators alike”

“In future, companies will only be successful in Europe if people know that they will handle their data in the right way,” he told delegates at the ECIIA’s annual conference in Paris on 21 September 2015. “Data has become the raw material that powers many companies and businesses and its use is creating new situations for people and legislators alike.”

implemented differently within different countries. It was also unclear, he said, whether its provisions could be enforced within an international context.

GDPR aims to harmonise data privacy throughout Europe, create a level playing field by ensuring it is implemented in the same way across the zone’s jurisdictions, thereby creating legal certainty for both citizens and companies »

» alike. Its provisions should come into effect 1 January 2018.

Under GDPR, he said, companies would have to obtain explicit and informed consent from customers as to how their information could and would be used. In addition, a person would have a “right to be forgotten,” where he or she could request that the data controller must take all reasonable steps for their data to be erased.

Ulmer said that internal audit could play an important role in helping their organisations prepare for the new regime.



Claus-Dieter Ulmer

That could include initiating the process, conducting gap analyses and working with others in the business on strategy and implementation (See *Data protection check list*).

“It might be a good idea to come at these problems from the perspective of the criticality of data rather than the possible financial effects of getting it wrong,” he said. “You may not be able to measure those at this stage.” He said that internal audit needed to get involved with preparing for GDPR soon.

Strategy

Meanwhile, auditors heard that embarking on a digital strategy could not be approached with the attitude that it was business as usual. “You need to put your digital strategy at the top of your list of priorities,” Yves Tyrode, Chief Digital Officer at the French rail operator SNCF, said. “If you do not, you won’t be able to achieve the same results compared to businesses that are pure digital players.”

SNCF has become the largest e-commerce site in France, receiving 10 million visits a month



Yves Tyrode

and selling 78 million tickets online in 2014. At the core of the company’s strategy was the goal of leveraging digital technology to give each user more power. For employees, that meant trying to make their life easier through less red tape and paperwork; for customers, through seamless, stress-free, and mobile access to services; and for SNCF and its partners, the increased innovation through more reliable, robust resources, and solid partnerships.

“Acceleration is key – that means not applying five to ten year thinking in your strategy,” »

Data protection check list

What companies should do now:

Gap Analysis

- Implementation period for the General Data Protection Regulation of two years
- Many processes that have to be implemented (privacy by design, privacy impact assessment, incident reporting)

Implementation project

- Involvement of all affected companies of a group of undertakings
- Different levels of implementation in different companies
- Governance and steering

Internal audit

- Can initiate the process – depends on the data protection officer and his role
- Can support the gap analysis (“helicopter audits”)
- Can support the data protection officer in checking the implementation of the requirements.

Source: *Deutsche Telekom*

“Acceleration is key – that means not applying five to ten year thinking in your strategy”



Nuvin Goonmeter

that we are firmly underway with this project, I don't want to lose agility – nor do I want to create

cybersecurity, they often lacked the required skills and resources to tackle the issue effectively.

“In future, companies will only be successful in Europe if people know that they will handle their data in the right way”

a business within a business. The whole company has to come along on the digital journey.”

Security

Cybersecurity also struck a prominent chord at the conference. Nuvin Goonmeter, Director of Cybersecurity at PwC, France, said that it is difficult to gauge whether the actual number of cyber attacks is increasing, although the number of reports had risen: “Companies are reporting more incidents, but it begs the question of whether they are now better placed to detect attacks than before.”

He said that while internal audit was well positioned within the three lines of defence model to help their organisations deal with

“A lot of companies now have a dedicated cybersecurity team and its budget tends to reside with the Chief Information Officer,” he said. That is why he urged internal auditors to collaborate with those teams, and others within their organisations, to increase awareness of threats and develop responses (See *Cybersecurity next steps*).

As businesses travel further down the path to digitisation, internal auditors will need to develop both practical skills and adopt new ways of thinking about how business works. That could be a challenge for those whose training budgets are already stretched to breaking point. Not meeting that task head on, though, is not an option. ■

Cybersecurity next steps

Cybersecurity action points for internal audit:

- Ensure that your cybersecurity strategy is aligned with business objectives and is strategically funded
- Identify your most valuable information assets, and prioritize protection of this high-value data
- Understand your adversaries, including their motives, resources, and methods of attack to help reduce the time from detect to respond
- Assess cybersecurity of third parties and supply chain partners, and ensure they adhere to your security policies and practices
- Collaborate with others to increase awareness of cybersecurity threats and response tactics.

Source: *PWC*

Data protection key points

- The regulation will apply across Europe
- Companies are liable to fines of up to two percent of their corporation's annual global turnover
- Companies will have to notify those whose data has been breached
- Organisations must notify the authorities about data breaches as soon as possible
- Companies with 250 or more employees have to employ a corporate data protection officer.

Source: *European Commission*

Our mission

- » To be the consolidated voice for the profession of internal auditing in a widely defined Europe by promoting sound corporate governance with the European Union, its Parliament and Commission and any other European or global institutions of influence.
- » To promote corporate governance and the profession in economically emerging countries, as appropriate, within the wider geographic area of Europe and the Mediterranean basin.
- » To promote the mission of the Global IIA.

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