

The Internal Audit Service (IAS) of the European Commissions annual international conference in Brussels on 27 November 2019.

WORK STREAM:

ENSURING THE RIGHT ORGANISATION, PROCESSES, SKILLS
AND TECHNOLOGY:

**HOW DO (INTERNAL) AUDITORS HAVE TO ADAPT THEIR
WORKING METHODS TO DELIVER AND ADD VALUE**

Dr. Rainer Lenz

19 November 2019

MY THREE KEY MESSAGES:

1 **SWIMMING** IN THE ORGANISATION

2 **INTERNAL AUDIT AS AN ENABLER OF
LEARNING AND CHANGE**

3 **FARMER**



Dr. Rainer Lenz

Director Corporate Audit Services, SAF-HOLLAND Group

13 years experience as CAE

15 years experience as Divisional & Regional CFO

Ph.D. Internal Audit Effectiveness 2013 (@ UCL, Belgium)

Awards

- Audit Innovation Award 2017, 2013
- IIA Germany Award 2013 (DIIR Förderpreis)
- Larry Sawyer Research Foundation Award 2012

Business degrees from GER, FR & UK

CIA, QIAL, CIIA, CEFA, and trained Banker

My profile and background in IA since 2007



Practice

Role	CAE	CAE	CAE
Industry	Pharma	Ceramics	Commercial Vehicle Supplier
Years	2007 - 2013	2014 - 2018	Since 2018
Revenue € bn	2.0 (2012)	0.8 (2017)	1.3 (2018)
Employees	10,000	8,000	4,500
Footprint	Global	Global	Global
# Plants	> 20	> 10	> 20
# Legal entities	> 50	> 50	> 40

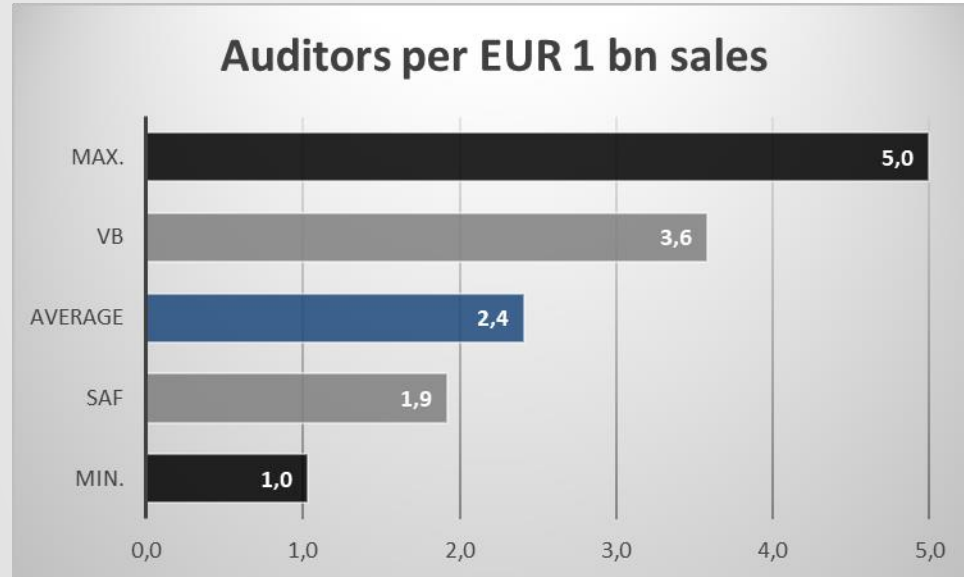


PhD

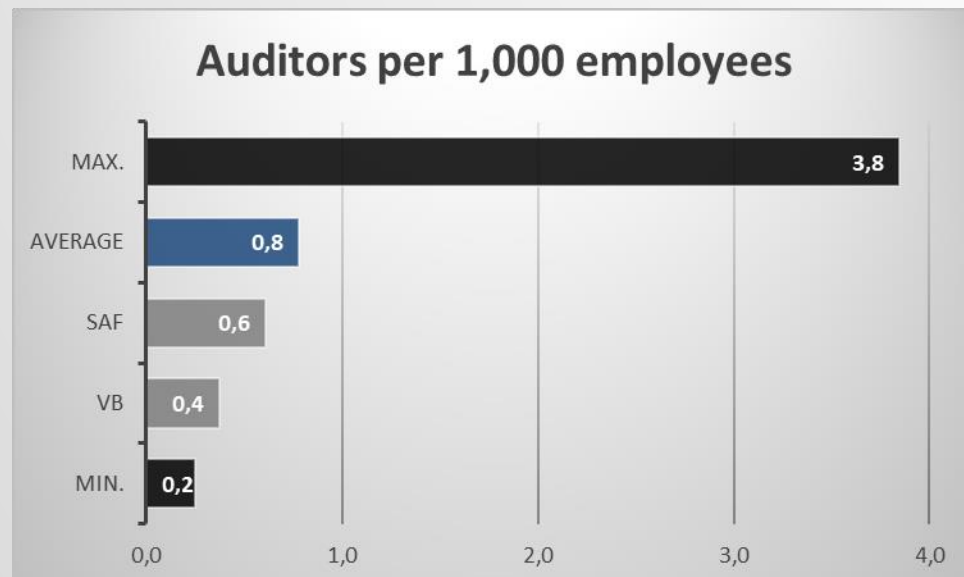
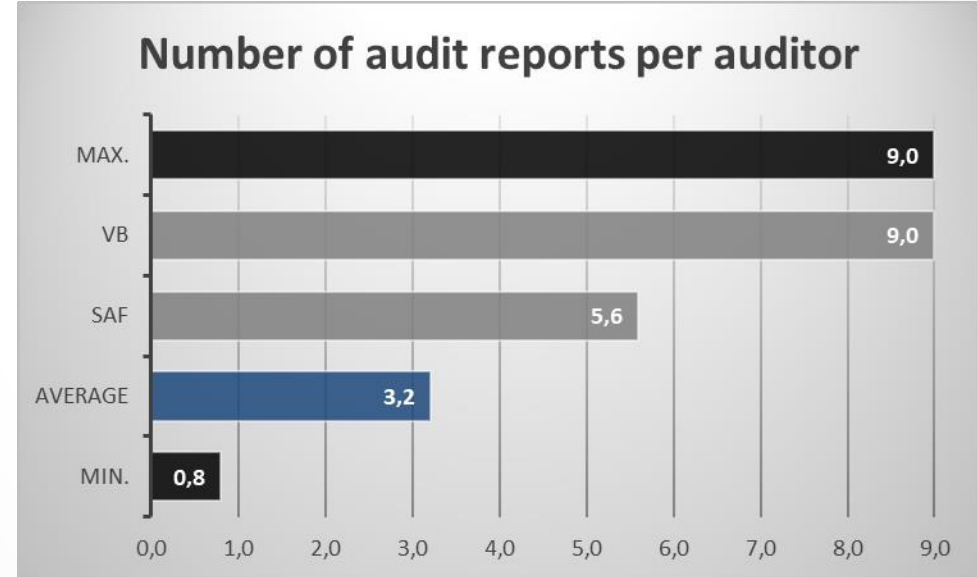
Lenz, R. (2013), Insights into the effectiveness of internal audit: a multi-method and multi-perspective study, Université catholique de Louvain - Louvain School of Management Research Institute, Doctoral Thesis 01 | 2013, <https://bit.ly/2r0WObY>

BENCHMARKING DATA STAFFING & PRODUCTIVITY

Input



Output



- Benchmarking, N = 12
- **Industry** peer-group
- Huge spread
 - Staffing/headcount
 - Productivity
- **IA is contextually bound**

RELATIONSHIPS, PROCESSES & POSITIONING MATTER

(1) Relationships matter: Metaphor *“Swimming in the organisation”*

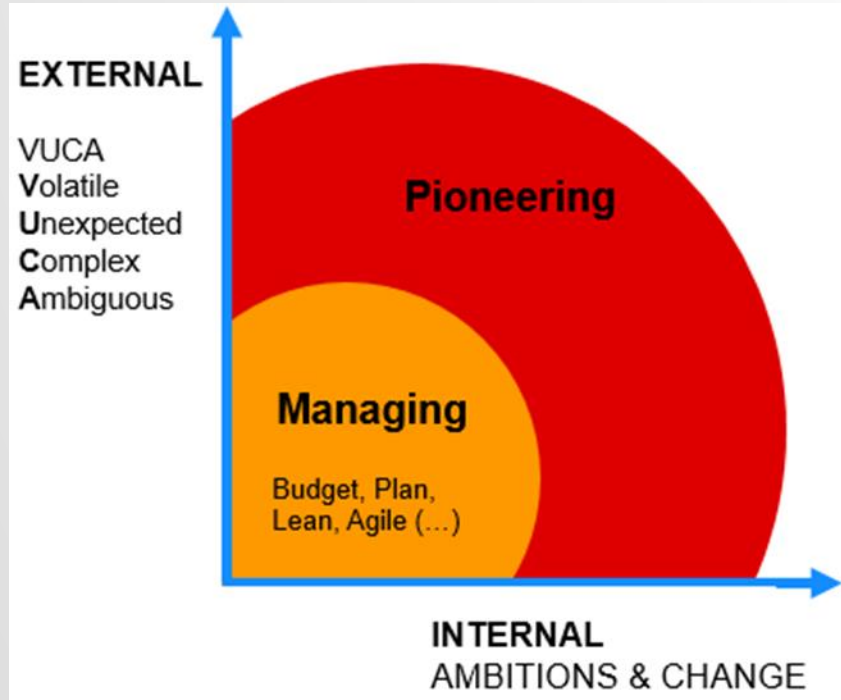
(2) Processes matter: **Internal Audit as an enabler of learning and change**

(3) Positioning and self-image matter: **Farmer** as suggested new metaphor

Having lunch on your own → Swim in the Organization

Three types of auditors:

from *behind-the-scenes* player to *key actor in the governance arena*

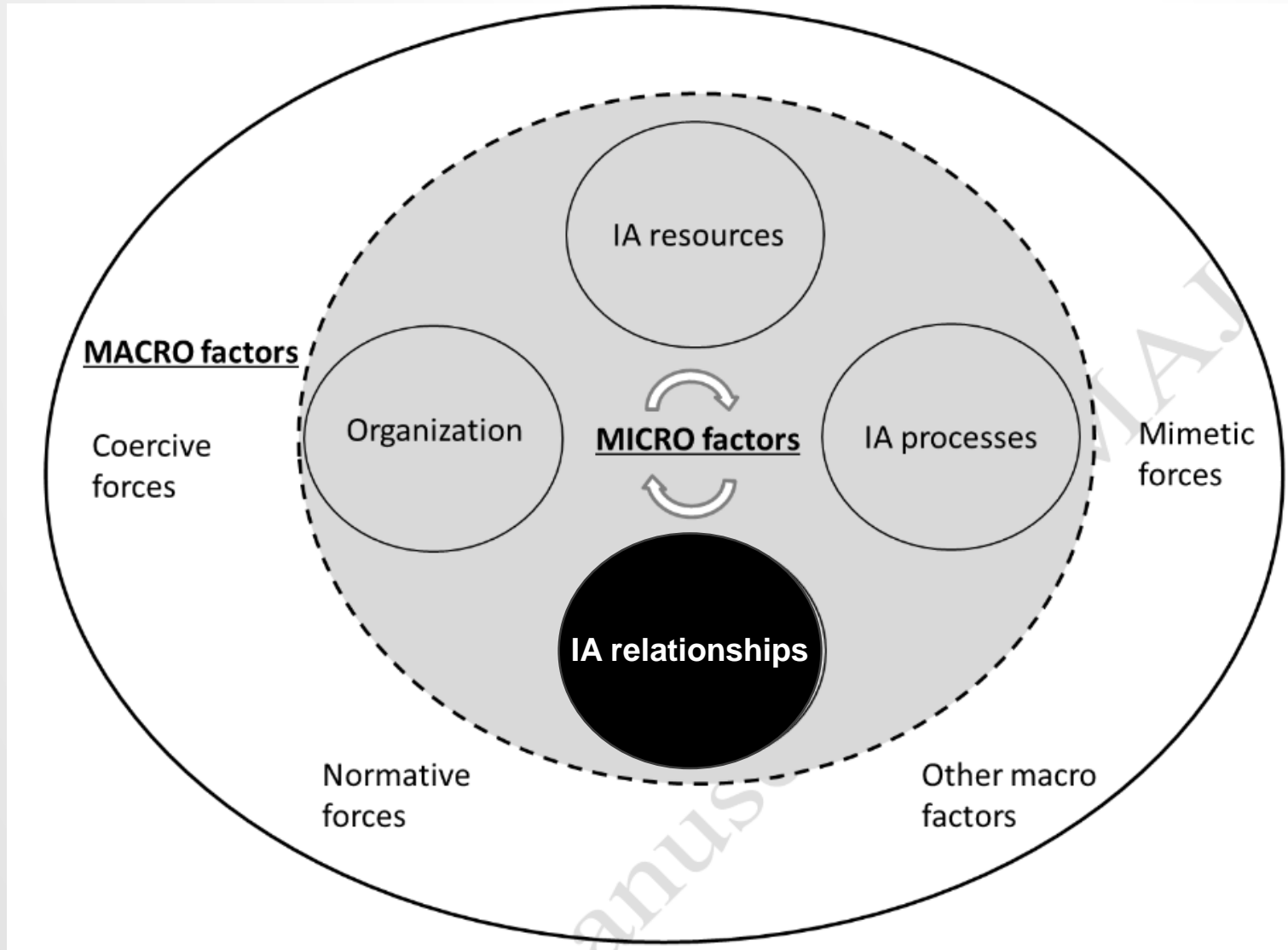


Three types of auditors:

- 1** Standing on the sidelines;
- 2** Swimming in a calm pool;
- 3** Swimming in the wild ocean.

What type are you ?

MICRO FACTORS MATTER MOST WHEN DETERMINING IA EFFECTIVENESS



LITMUS TEST ASSESSING IA EFFECTIVENESS (PART 1 OF 2)

What would **Senior Management** say about you (CAE) and your team?

What would the **Board of Directors** say about you (CAE) and your team?

LITMUS TEST ASSESSING IA EFFECTIVENESS (PART 2 OF 2)

(+) Interpersonal factors

Shared goals

Shared knowledge

Mutual respect

(-) Interpersonal factors

Functional goals

Exclusive knowledge

Disrespect

(+) Communication

Frequent

Timely

Problem-solving

(-) Communication

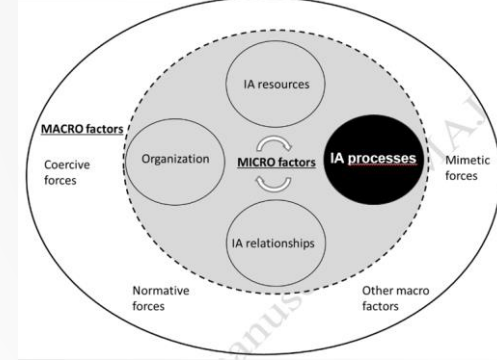
Infrequent

Delayed

Finger-pointing



PROCESSES MATTER

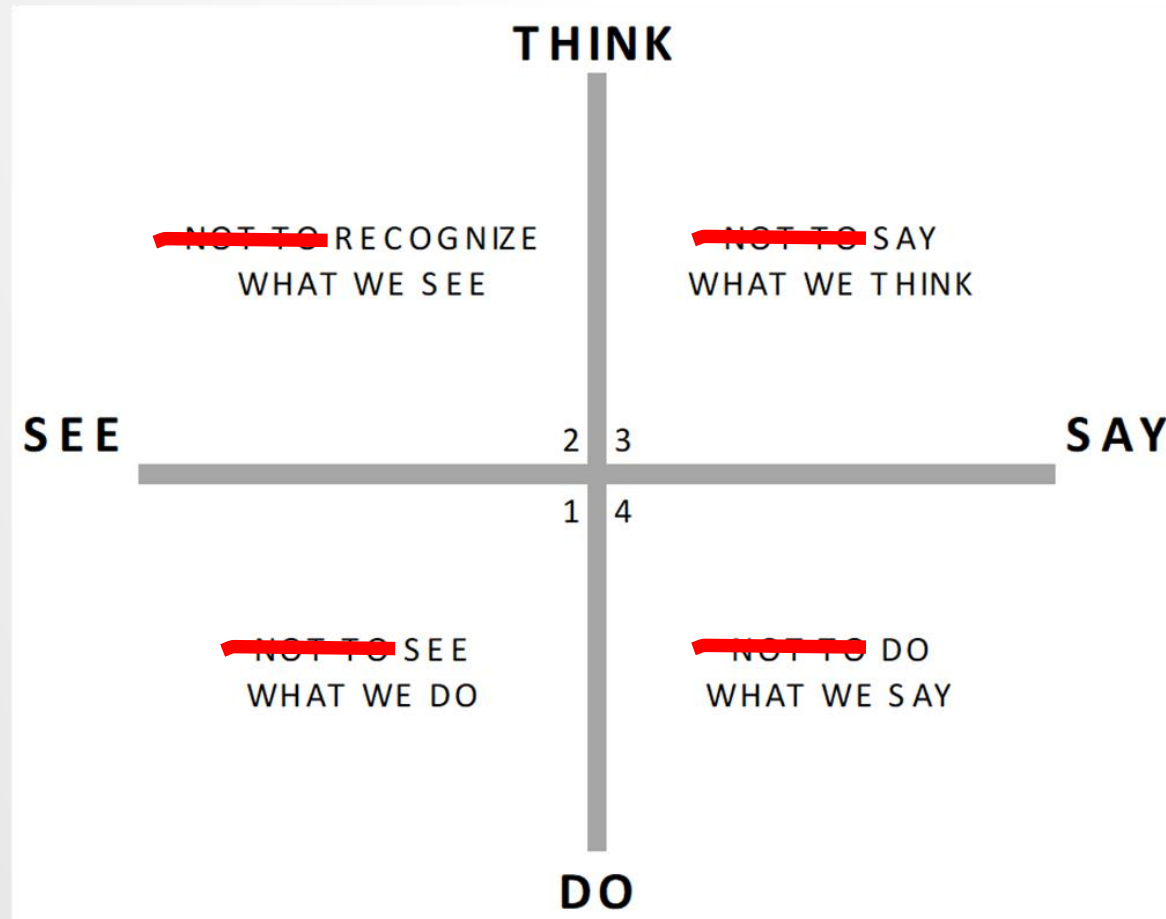


(1) Relationships matter: Metaphor *“Swimming in the organisation”*

(2) Internal Audit as an enabler of learning and change

(3) Positioning and self-image matter: **Farmer** as suggested new metaphor

~~FOUR BARRIERS~~ TO LEARNING & CHANGE



A GLIMPSE INTO MY INTERNAL AUDIT PRACTICE:

What a difference a year makes!

Key processes: “IA is risk-based or useless!”

Audit work, from kick-off to reporting

Audit cycle & positioning

Corporate Audit Satisfaction Survey

Rating of issues and grading the overall report

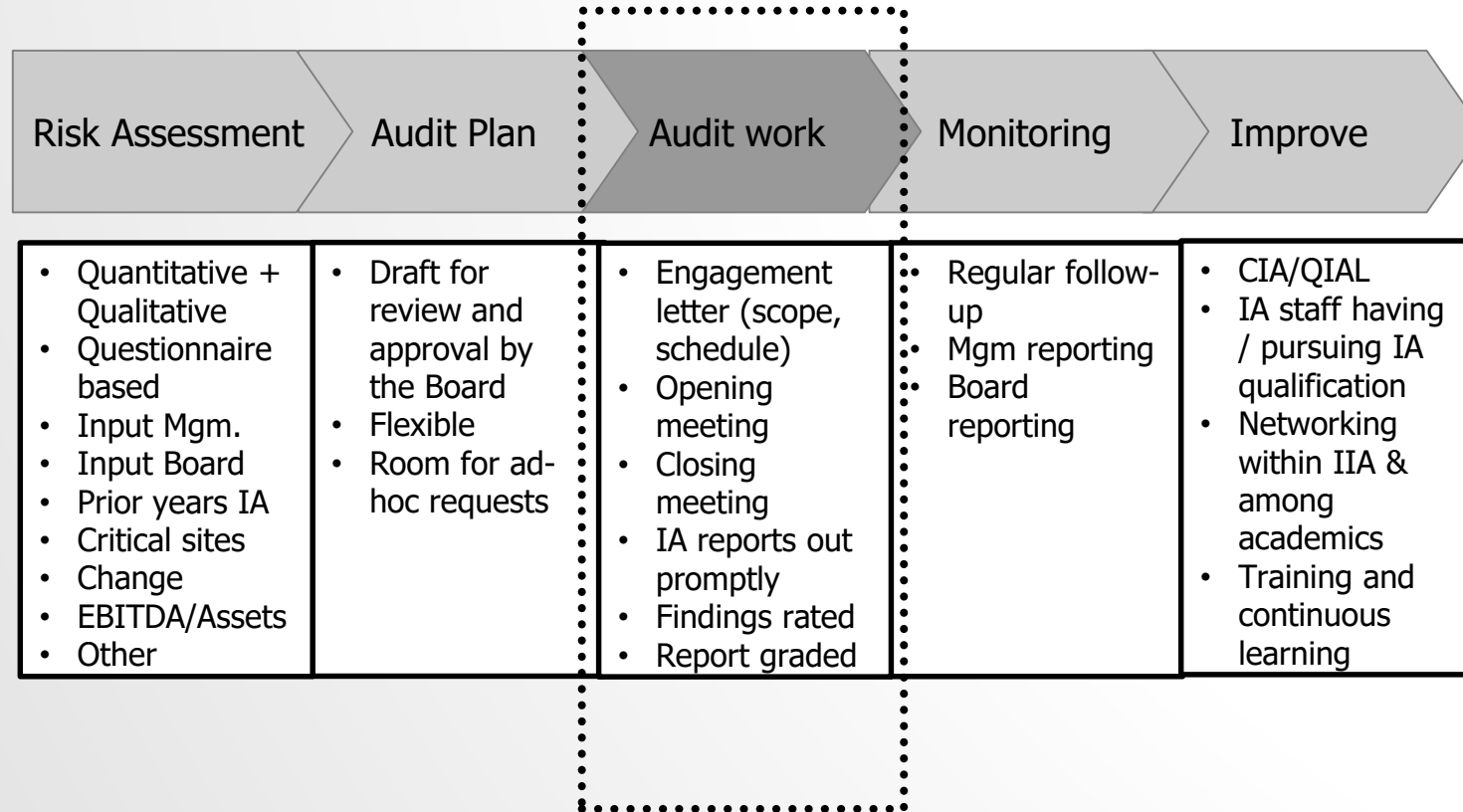
“Nothing’s good unless you do it”

WHAT A DIFFERENCE A YEAR MAKES!

Criteria	Upon arrival	One year on	Change
Overdue findings	The <i>RULE</i> with about 90% of all open	The <i>EXCEPTION</i> with single digit number only	Strong focus on implementation of suggested actions
Tracking the ageing of overdue findings	∅ > 1 year	N/A	Has become an irrelevant parameter
Time to report after end of fieldwork	∅ 8 weeks	100% within 10 days	Fastened delivery of meaningful reports
Productivity per FTE p.a.	6 reports p.a.	8 reports p.a.	Up 33% (1 FTE for free)
Overall positioning and perception by peers and auditees	“Watch-dog” / “Police”	“Guide” / “Protector” / „Change Agent“	Identity matters
	Basis for non-acceptance, non-tolerance, distance	Basis for IA effectiveness	

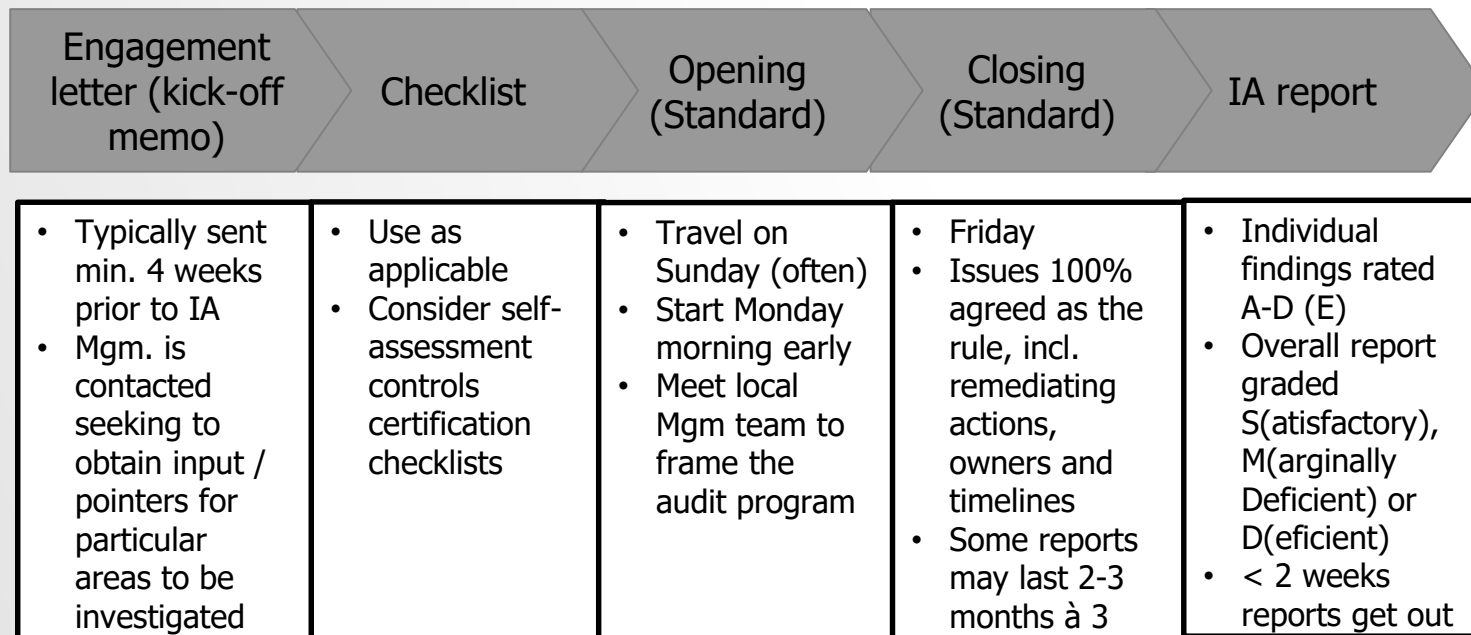
Positioning and processes impact relevance and productivity of IAF

KEY PROCESSES: “IA IS RISK-BASED OR USELESS!”



AUDIT WORK, FROM KICK-OFF TO REPORTING

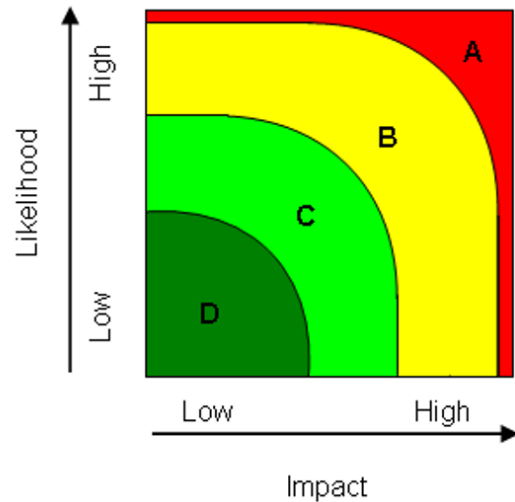
Standard protocol



c. 4 weeks + 1 week fieldwork → **Final report**, signed

RATING OF ISSUES AND GRADING THE AUDIT REPORT

1) Risk Matrix (Illustration) / Risk assessment approach



2) Assessment of the individual findings

Significance / risk	Description
A: Very high	Immediate action and monitoring of the implementation of the action needed on highest management level.
B: High	Action without undue delay and monitoring of the implementation of the action needed on high management level.
C: Medium	Action needed.
D: Low	Implementation of the action is expected.
E: Recommendation	Potential for improvement.

3) Report classification / Overall grading

Full Report	A		B
Satisfactory (S)	0	and	0
Marginal Deficient (MD)	0	and	≤ 3
Deficient (D)	≥ 1	or	> 3

Audit Report (Type 1: Assurance, Type 2: Advisory)

Audit Engagement and Scope
 Executive Summary
 Overall Grading
 Details of Audit Findings and Observations

- Risk / ID #
- Audit Finding / Observations
- Risk / Impact
- Action / Recommendation
- Responsible
- Due Date

Signatures

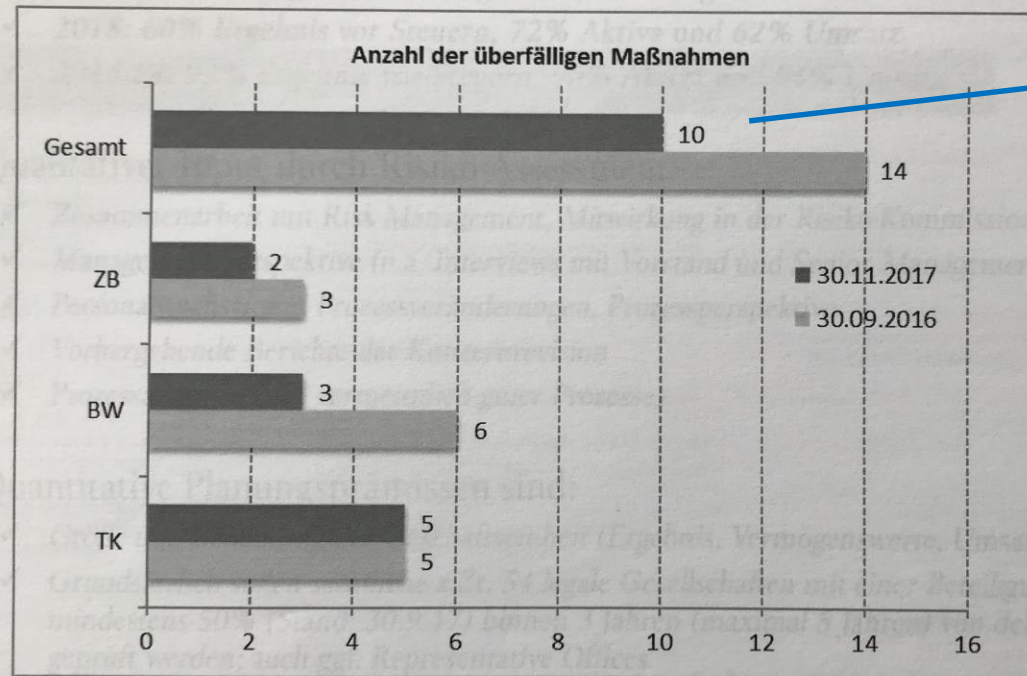
CORPORATE AUDIT SERVICES SATISFACTION SURVEY



“NOTHING’S GOOD UNLESS YOU DO IT“

97% der A & B - Maßnahmen wurden umgesetzt

Board reporting
January 2018



2017:
10 overdue issues;
3% of total A&B issues

Details, siehe bitte im Anhang

Kontinuierliche Umsetzung in beiden UB und in den ZB.

POSITIONING MATTERS

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(2) Processes matter: **Internal Audit as an enabler of learning and change**

(3) Positioning and self-image matter: **Farmer** as suggested new metaphor

FARMER AS SUGGESTED NEW METAPHOR FOR AUDITORS

Key attributes:

- **Has little or no formal authority**
- Works indirectly; sows the seeds
- Humble; open minded; asks questions
- **Focuses on strengthening things**
- Positive associations like growth, harvest, nourish, take care of, change of seasons, waiting etc.
- Very respectful towards nature

Relationship to others:

- **Cares about good conditions to grow**

Culture:

- **Result-driven and outcome-focused**



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https://www.researchgate.net/profile/Rainer_Lenz2/stats