

FIVE QUESTIONS FOR FIVE INTERNAL AUDIT EXPERTS

Internal audit keeps pace with a changing world

As a professional association for internal auditing, IIA Switzerland (IIAS) promotes the further development of the profession in Switzerland. IIAS CEO Cinzia Visinoni and Expertsuisse Director Marius Klauser spoke to five internal audit experts: Stephan Weiss, Frank Bertisch, Roger Kesic, Klaus Eble and Philipp Lanz.

Stephan Weiss



LIC. RER. POL., HEAD
GROUP AUDIT & RISK
ADVISORY,
ROCHE

Frank Bertisch



LIC. RER. POL.,
BUSINESS ECONOMIST,
HEAD OF INTERNAL
AUDIT AT COOP GROUP

What added value has the updated Three Lines Model created for your organisation?

In a nutshell, not much. The organisational structures and ways of working that we have had in place here at Roche in recent years were already very close to the new model. However, there is one new point that is very important to us: regardless of the reporting lines, collaboration across all three lines is absolutely critical to achieving a good understanding and good coverage of the risks. Constant dialogue is an essential tool. The ethos must be “Together we are strong”. Of course, the independence of the internal audit function must also be assured at all times, even in this kind of environment.

The emphasis now is no longer on functions, but rather on the roles of the various lines. The revised model ensures that the organisational arrangements at the Coop Group better reflect the realities of the situation. There is an explicit wish to add value through audit-related advisory activities, such as project support and second opinions by the internal audit team. The Three Lines Model promotes greater coordination and cooperation between internal audit and the other lines without materially compromising internal audit’s independence.

What themes or tools that have emerged during COVID-19 (e. g. in relation to remote auditing) have proved valuable within internal auditing and will remain in use in future?

The first is actually remote auditing itself. We have now been able to gather some experience of working remotely and will be better able to judge in future when it makes sense to audit remotely and when an onsite audit is preferable. There are still shortcomings with remote audits, for example when it comes to topics such as corporate culture and leadership, where we feel the lack of informal, often unscheduled encounters and observations. The technology to inspect warehouses and laboratories is also not yet advanced enough. The second tool I would like to mention is data analytics, which obviously was in use before COVID-19 but has now been even more widely adopted.

The rollout of the cloud-based Microsoft 365 software shortly before the outbreak of the pandemic proved invaluable. At the IA meetings, we presented and discussed our experiences and technical solutions for remote working. We firmly believe that the new working world will endure beyond the pandemic. There was also a big boost for some other technological advances, such as the further digitalisation of the ICS, and improvements in process mining methodology and data analysis. Now that we have embarked on this road, we will not be turning back.

Roger Kesic



SWISS CERTIFIED
PUBLIC ACCOUNTANT,
HEAD OF INTERNAL
AUDIT, GROUPE
MUTUEL

Insurers have been required to comply with the IIA standards for some time now and are therefore familiar with and used to the Three Lines Model. In addition, the sector's high complexity and dense regulations require us to strive for a principles-based, effective and efficient collaboration across the lines. The updated model does therefore not deliver significant added value. Nevertheless, it underpins the call for processes and structures promoting a common understanding of the roles and for an effective communication and cooperation across all lines.

COVID-19 has taught us that it is possible to conduct remote audits efficiently these days. Providing status updates to auditees at shorter intervals than in the past has proved to be useful in this respect. It involves auditees more actively in the audit process. I can imagine using these status updates as accelerators in the future and getting recommendations validated even before the audit has been completed as a whole. This would shorten the implementation time and reduce the work required to compile and validate audit reports.

Klaus Eble



DIPL.-KFM (D), HEAD OF
ABB GROUP INTERNAL
AUDIT

The main points that I would like to highlight are the opportunities arising from the model to develop new ways of thinking and to identify new optimisation potential. Both are essentially due to the softening of the previously rigid boundaries between the three lines. Examples of this are the prevention of overlaps between different assurance providers (internal and external) or integrated risk assessment and management. Furthermore, there is an opportunity to change the audit focus from the first line to the second line in connection with continuous auditing for baseline assurance in the first line area.

The following were the most important outcomes that we adopted during this pandemic and ones that we will continue to apply:

- Remote working (especially for follow-ups): when used correctly, this tool significantly improves the work-life balance of our team.
- Use of video conferencing software and screen sharing.
- Cloud-based solutions for audit working papers, enabling the real-time and seamless editing of audit documentation by employees based in different locations.
- New recruitment opportunities, even in more remote regions, thanks to new tools/home office solutions.

Philipp Lanz



SWISS-CERTIFIED
BUSINESS DATA
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SPECIALIST, GLOBAL
HEAD INTERNAL AUDIT,
KÜHNE + NAGEL

Kühne + Nagel's corporate governance has transparent structures and clearly defined responsibilities. We base our approach on the ever-evolving global Best Practice Standards, including the Swiss Code of Best Practice for Corporate Governance, as well as the Three Lines Model for our internal structures. The model's six principles were already optimally implemented under the previous Three Lines of Defence Model, with a focus on efficient cooperation across the three lines, adding value and upholding Kühne + Nagel's values, as well as the independence of the internal audit function.

Before COVID-19 hit, Kühne + Nagel's internal audit function had already developed a new, forward-looking concept based on remote auditing and comprehensive data analyses, among other things. However, the era of COVID-19 has accelerated the implementation of the concept, as the planned test phase for remote auditing was omitted. Digital data availability, the options for accessing core applications globally and the high level of digitalisation in general at Kühne + Nagel all proved effective. The data analyses developed make it possible to transfer the findings of the remote audits to a hybrid model remotely and, in some cases, supplement them with on-site audits.

Stephan Weiss

What are the biggest challenges facing internal auditors over the next five to ten years?

Our working methods are becoming more agile, and rules are giving way to principles. This means growing pressure on auditors to be able to adapt. Cybersecurity will remain a huge issue. It is already difficult to access the necessary expertise. Protecting business secrets and retaining knowledge within companies are essential. At the same time, business will also be linking up more with third parties. We do not have a crystal ball that can predict every future trend, so it is important to remain agile, monitor new developments and, where necessary, realign ourselves and adjust our activities.

Frank Bertisch

From today's standpoint: technological change. Internal auditors must have the ability to capably audit digitalised processes and business models – the need for training remains high. Dealing with cyber-risks and applying data analysis also require substantial efforts. Internal audit can rise to these challenges by having a comprehensive understanding of the subject matter – from prevention to operational security and crisis management. The changes in society also have consequences for the internal audit function, and contextual elements such as the corporate culture and evolving management and organisational models must be taken into consideration when analysing the control environment.

From the point of view of internal audit, how might the Swiss Code of Best Practice for Corporate Governance be developed further?

The Swiss Code of Best Practice is a great basis for companies to structure their corporate governance. It also allows them to bring in their own ideas. There needs to be an emphasis on ongoing refinement and implementation. The independence of the various bodies also remains a key topic. Stability of their membership is important too, although it harbours a risk of self-satisfaction and complacency, which is not helpful for well-functioning governance. A recommendation about limiting terms of office for the Board of Directors might make sense from this perspective.

I would draw on Karl Hofstetter's baseline report into the revision of the Swiss Code. It focuses on areas such as the structure and effectiveness of the Board of Directors, risk management and compliance. If the effectiveness of the Board of Directors is to be strengthened, then in my opinion the existence of a professionally organised internal audit function must be mentioned. The role of internal audit in assessing compliance and risk management should also be included. This would give the Board of Directors an additional instrument for evaluating the quality and effectiveness of these governance functions.

How do you think Swiss regulation of internal auditing compares on the international stage?

It's difficult for me to give a clear answer to this question. Regulation is of course important. But I believe that professional standards are just as important, particularly in a field where you have these national differences. Of course, as a global team we always want to live up to the highest standards: we should all strive to be right up there with the best.

There is no legal basis in Switzerland for the operation of an internal audit function, other than in the banking, insurance and health insurance sectors. In other industries, the Swiss Code acts as something of a "soft law". The story is similar in many other countries around the world. In the USA, for example, the stock exchange operators (e.g. the New York Stock Exchange) require companies to have an internal audit function. I assume that similar moderate regulations apply across the globe. That said, we in Switzerland have a large number of medium-sized companies with their own internal audit units.

Roger Kesic

An increasing complexity in business models, a higher regulatory density and accelerated digitalisation: changes in the corporate risk landscape will become more frequent and more substantial. Above all else, this will require adaptability. To be relevant, internal audit will need to adjust knowledge and working methods to changing circumstances continuously. This environment will also require managing risks more and more on a holistic basis across all lines of defence - the benefits for corporations are obvious. As the extended arm of the Board of Directors, internal audit must play a key role in this process.

The Code is designed as a reference work and strives for a “healthy balance of management and control”, without unduly tying companies’ hands in how to approach it. Internal audit is without any doubt key to achieving this healthy balance. The references in the Code to internal audit are sporadic, general in nature and do not contradict the IIA standards. This gives companies the desired – and necessary – freedom in the implementation as they see fit. The IIA standards serve as additional best practice guidelines.

FINMA expects insurance companies to set up their internal audit function in line with the IIA standards. These regulations are kept fairly brief. Nevertheless, the requirements in terms of the organisation, working methods and quality are implicitly clear. This is a good Swiss solution. Internationally, the rules may be formulated in greater detail in some areas. However, this does not alter the fundamental work and purpose of the internal audit function.

Klaus Eble

We see the following as the biggest challenges that internal audit departments will face:

- Flexibility and agility relating to audit processes, more informal agreements and communication rather than rigid structures and reporting processes.
- Increasing digitisation and complexity relating to the issues to be audited (e.g. more complex IT systems with various interfaces in the area of cloud computing, integration of new technologies like blockchain).
- Greater focus on increasing efficiency within the internal audit function by using modern tools such as continuous auditing and continuous risk assessment.
- Subsequent avoidance of inefficiencies and overlaps in the audit/work order with regard to end-to-end assurance.

As mentioned in response to the first question, the Swiss Code could pick up on the topics of avoiding overlaps with assurance bodies and changing the audit focus from the first to the second line in the company. It’s particularly worth highlighting the role of risk management here. The main objective in an ever faster changing world should be to ensure the agile and prompt identification and handling of risks.

Essentially, the Swiss regulations are comprehensive and represent all important economic, national and cultural aspects. There is neither overregulation nor are decisive points insufficiently regulated as compared with other countries.

Philipp Lanz

Internal auditors need to keep pace with the advancing digital transformation and the use of new technological developments. The auditors of tomorrow must learn how to use these technologies themselves, while also being able to audit the digital solutions implemented by the company. In addition, many audit areas are set to become more complex over the coming years due to various external influences on the company, new business models and changes in work processes.

The Swiss Code of Best Practice is revised on a regular basis, with new developments taken into account in the updated versions. If anything, the accelerated pace and agility of economic developments (new laws and regulations, macroeconomic and political events, the green agenda, etc.) call for shorter intervals between updates. The principle of effective compliance management as a complement to the Swiss Code is a good approach. Whether or not this approach could also be applied to risk management and internal audit, including the impact of this Three Lines Model on corporate governance, is also worthy of consideration.

Under Swiss law, it is not required to establish an internal audit function. An audit department is recommended by the Swiss Code and, depending on the industry, there is even an obligation to perform an internal audit. Irrespective of the legal requirements, the internal audit function is guided by the International Professional Practices Framework (IPPF Standards). A welcome addition would be best practice guidelines or maturity models demonstrating how internal audit functions can become more innovative and add further value in future, alongside compliance with international standards (basic level).