

## The European internal auditor's perspective

### Introduction

This issue of *InSights*<sup>1</sup> has been developed to help board directors to better understand the evolving role of the internal auditor in large European public companies, as well as the relationship of the head of internal audit with the audit committee. We explore the evolving scope of the internal audit function, the resources internal audit employs, how the function is overseen and how internal auditors gauge their function's success.

This publication is not meant to provide an exhaustive survey of the internal audit function in Europe, but rather research based on discussions with 16 heads of internal audit<sup>2</sup> from companies represented by European Audit Committee Leadership Network members. The companies are based in seven countries and each have a minimum market capitalisation of more than €3 billion; nearly half are also US Securities and Exchange Commission (SEC) registrants.<sup>3</sup>

In late 2007, three regional audit committee networks in North America held meetings to discuss the evolution of internal audit. Network members predicted that, as the mood of urgency that accompanied the initial Sarbanes-Oxley implementation faded and Section 404 compliance came under control, many companies would start returning to a broader mandate for internal audit. We expected to see a similar trend in Europe and, indeed, many heads of internal audit reported that their companies started making the shift towards a broader, more business-focused mandate for internal audit several years ago.

### Executive summary

In this issue of *InSights*, we focus on four themes:

- **The evolving scope of internal audit: more focus on business and risk** (page 2)

Almost all of the participants in the research agree that internal audit functions in large European companies have become more focused over the past two to three years on assessing the effectiveness of business processes and operations. More recently, internal audit functions have also increased their involvement with enterprise risk management (ERM). While almost all participants agree that internal audit should be aligning its work with the company's risk assessment, some respondents do not believe internal audit should take ownership of risk management, as doing so could undermine their objectivity.

- **Resourcing the function: training the managers of tomorrow** (page 5)

Difficulty finding the "right people with the right skills" has long been a significant impediment to internal audit functions; participants discuss factors contributing to resourcing difficulties and

<sup>1</sup> For more information about *InSights* see *About this document* on page 10.

<sup>2</sup> For a full list of internal audit heads and members who participated in the research, see *Appendix 1* on page 11. Research also included discussions with several subject-matter experts from Ernst & Young, a review of audit committee reports for network members' companies, and a review of other publicly available research.

<sup>3</sup> *InSights* reflects the use of a modified version of the Chatham House Rule whereby names of participants and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Unattributed quotes from participants in the conversations drawn upon for this document are shown in italics.



emphasise the importance of not lowering standards. Speaking about internal auditors' career paths, participants note that the internal audit function can serve as a critical *“human capital incubator”* that develops top talent for the business. Participants also acknowledge the value and convenience of co-sourcing, particularly for hard-to-recruit specialists.

- **Oversight of internal audit: reporting to the CEO and the audit committee** (page 8)

US and Canadian audit chairs predict that the head of internal audit will increasingly report to someone other than the chief financial officer (CFO). In Europe, that trend is even more advanced, with more than two-thirds of the internal audit heads who participated in our research already reporting to the chief executive officer (CEO). Almost all respondents also have an additional reporting line to the audit committee, which is seen as best practice to ensure the independence of the function, despite it rarely being a regulatory requirement.

- **Three signs of a great internal audit function** (page 9)

Heads of internal audit say they know a function is superlative when business unit managers: invite internal audit into their unit to conduct audits, implement internal audit's recommendations, and go as far as to lure internal audit staff to their own teams. Participants believe that obtaining effective feedback on the function from management and peers and implementing benchmarking practices are essential for success.

## The evolving scope of internal audit: more focus on business and risk

A 2007 global study by Ernst & Young shows that “expectations for internal audit functions are not only changing, but expanding”.<sup>4</sup> The focus is no longer on financial audit and internal controls work; internal audit is taking more of a role in assessing the effectiveness of business processes. As one participant remarked: *“There is a shift where we see that audit committees and executive management teams have changed their expectations for internal audit. [Internal audit] used to be very focused on compliance and financial reporting and now that focus has shifted to a more holistic [business] view and therefore a change in the scope of internal audit”*.

While many audit committee chairs in the US anticipate that internal audit's scope of activity will be broader going forward, given the decreasing focus on Section 404 compliance,<sup>5</sup> European heads of internal audit report that the shift has already taken place at their companies: *“When I started work as internal auditor here three years ago, the CEO came to me and gave me one objective: to develop a more entrepreneurial and business-focused function. Since then, we have been focusing on changing the entire mind-set of the function – not just making tick marks but also understanding the business”*. Regarding the seven countries in our research, see what their national corporate governance codes say about internal audit in *Appendix 2* on page 12.

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<sup>4</sup> Ernst & Young, *Global Internal Audit Survey*, page 4, 2007. This survey was carried out from January to June 2007 and consisted of interviews with representatives of 138 global companies drawn primarily from the Global BusinessWeek 1,000.

<sup>5</sup> Ernst & Young, *Internal Audit Survey Summary*, 2006. This unpublished survey was conducted in early 2006 via face-to-face interviews with 115 chief audit executives and team members.



Heads of internal audit described the following four core roles for the function:

- Maintaining responsibility for compliance
- Adding value to the business
- Acting as the “third line of defence” in risk management
- Working with the external auditor

In addition, many internal audit functions get involved in special projects and details of some of these can be found in the box on page 5.

### **Maintaining responsibility for compliance**

More than two-thirds of our participants confirmed that their responsibilities still included the monitoring of internal controls over financial reporting: *“In Europe, we’ve got the [European Union] EU 8th Directive and we have to demonstrate that we don’t just have controls, but that we have controls that are really working and have been tested. We have to make sure we are compliant. What we don’t want is an overburdened bureaucratic structure, because if you just have checklists that people tick off, it doesn’t always work”.*

### **Adding value to the business**

As noted earlier, respondents reported that internal audit functions are also focusing their attention on business effectiveness. One head of internal audit said: *“Instead of looking at individual snapshots of the company through compliance audits, we now try to get a feel for everything worldwide by auditing more of the business processes”.*

Many participants said that if companies want internal audit to be successful in its move towards work on business effectiveness, then companies have to stop viewing internal audit as merely a “scorekeeper” or “policeman”; the function must be seen as a valuable business asset to the company. In particular, participants highlighted the need for:

- **Trust.** *“We have consciously been working to establish trust with our auditees so we are not seen as policemen”.*
- **Good communication.** *“We used to have days where audits were not announced and then on Monday morning, internal audit would walk in and say: ‘Hello, we’re the auditors’. Today, we forewarn them, provide a detailed briefing, and make our objectives clear. We don’t want to catch people out, we would rather they see that [the value] we add can be applied in a meaningful way”.*
- **Support at the top.** *“The key success factor is the way the top of the organisation views this function. If they see it as a high-quality group with their best people and see it as a very important role, then it works”.*

### **Acting as the “third line of defence” in risk management**

Respondents often described internal audit as the “third line of defence” when it comes to risk management. One subject-matter expert summarised it as follows: *“We very often talk about the lines of defence of an organisation. Your first line of defence is the operational, business management team, that takes primary responsibility for identifying and managing risk and putting controls in place to do so.*



*The second line of defence consists of the support functions such as IT, finance, tax and legal, who help the business to monitor risks. The third line of defence consists of the organisation's corporate risk and monitoring functions, such as internal audit, compliance, internal control and other risk functions. Among this third line of defence, internal audit is the independent assurance function”.*

The Ernst & Young survey cited earlier reported that there is an increasing expectation among audit committees and senior management that internal audit share “not only what risks are covered in the audit plan, but also what risk areas are not covered by the audit plan”.<sup>6</sup> A quarter of our respondents managed the risk management process directly and a majority reported that they align internal audit's annual plan with the company's risk assessment. Speaking for the majority, one internal audit head said: *“We have taken steps toward being much more risk based in our assessments and we have made progress in aligning our function with the company's greatest risks and making sure those are being carefully monitored”.*

Many participants were opposed to internal audit owning the risk management process. One said: *“It is not in the scope of responsibilities of internal audit to be in charge of risk management. Clearly there should be some coordination with the internal audit department to evaluate risk, but I don't believe we should be the only ones holding the reins”.* Another respondent said that a lot may depend on the maturity of the company's risk management processes: *“In talking to colleagues, I've seen that the evolution of internal audit functions is moving at very different paces and I think internal audit's involvement differs very much based on the level of maturity that an organisation has with respect to risk and controls”.*

Additionally, many participants share the dilemma of not being able to identify good role models for benchmarking: *“All I have ever met are people who speak about ERM, but I have never actually seen an organisation with a successful risk model”.* Another head of internal audit added: *“As we move forward in the evolution of the risk management approach, I think the internal audit model will also evolve to be more strategic and less operational. However, I have not seen one company that has achieved this aim”.* European heads of internal audit offer several explanations for why there are so few examples of successfully implemented ERM processes, including the cost of implementation.

Many internal auditors expressed a desire to work more closely with the audit committee in managing risk. One head of internal audit said: *“I would like to know more about the role the audit committee can play in risk assessment. I do not have a full grasp on ERM yet but I want to push and make sure they know what we are doing. During our meetings we are talking more and more about risk”.* Another internal auditor commented: *“My audit committee is much more focused on risk than it has been in the past. I think all of this talk about risk is a big change, but I think that's where we should go in Europe”.*

Indeed, despite the many hurdles that lie ahead, almost all participants would agree with the internal auditor who said: *“I believe those organisations that are being proactive now and attempting to put in place a clear ERM process, supported by systems that are aligned with internal audit, are going to be the ones who win in the end”.*

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<sup>6</sup> Ernst & Young, *Global Internal Audit Survey*, page 13.



## Working with the external auditor

Most of the heads of internal audit report that they work closely with the external auditor. One respondent noted: *“I think the relationship with our external auditor is working well because we work very closely together. I have introduced much more formal planning processes, which take place on a quarterly basis with external audit”*. Another said: *“We try to avoid overlap with external audit and we’re working together a lot more than we used to, so coordination is key when you put plans together. It sometimes depends on the country you’re dealing with, but overall, we work with them closely and meet about once a month”*.

However, several respondents represented internal audit functions with no responsibility for financial audits or internal controls, and so they do not feel a relationship with the external auditor is necessary: *“I have no relationship with the external auditor. We meet once a year for 30 minutes for them to see the audit plan. I don’t need to meet with them”*.

### Special roles for the internal audit function

- **New IT projects.** One head of internal audit said: *“There is an evolving control environment and we are responsible for new projects and the implementation of new systems”*.
- **Remuneration.** Another respondent said: *“We also look at the remuneration of the top executives of the company, including the board members. This is becoming more and more common and it is seen as a best practice and good tone at the top. It was requested by our supervisory board, who see it as a preventative activity and a demonstration that everything is adhered to by top executives”*.
- **Due diligence.** A third participant said: *“In the past, I’ve assisted with disposals ... Some of the projects that we are managing today are acquisitions. In this case, there is a joint interest for the business unit to have local and very skilled resources to help them in doing due diligence for the acquisition. This is also good for us because if we buy the company, we have a good knowledge of their financials already”*.

## Resourcing the function: training the managers of tomorrow

Regardless of the function’s size, “recruiting, retooling, developing and retaining the right skills” remain the foremost challenges for internal audit functions across Europe.<sup>7</sup> Participants’ internal audit functions vary in size from what one respondent called a *“lean and mean”* group of less than 20 professionals to staffs of several hundred, yet all regard themselves as being in a *“war for talent”* that is being fought on many fronts.

For European companies making the shift towards business-focused audits, this has meant recruiting talent with strong business experience. One respondent suggested: *“Many who staffed up to handle [Sarbanes-Oxley] most often have staffed with CPAs [certified public accountants] or equivalent profiles, and now those functions need to go through a transformation and have a much larger proportion of different skills”*.

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<sup>7</sup> Ernst & Young, *Global Internal Audit Survey*, page 2.



Participants offered several explanations for the current recruiting challenge:

- **Geography.** Despite reporting that the market for talent is *“getting much more global”*, some respondents offered a company’s location as a contributing factor in the war for talent. As one internal auditor lamented: *“Being located in a small country can make things very difficult because the other companies in the area are all looking for the same people ... We’re all looking for the same fish in a small pond”*.
- **Competition.** Many participants said that competition from auditing and consulting firms further diminishes the available talent pool: *“You’ve got the Big Four targeting a lot of the same people; [they] take a lot of individuals away from the market”*.
- **Reputation.** One head of internal audit bemoaned the fact that it can be difficult to recruit business-orientated staff because internal audit *“is not a very sexy function”*.

### “Stocking the pond” effectively

While many internal audit functions strive to be a training ground for future executives, one head of internal audit was quick to point out: *“You know how you turn an internal auditor into a CEO? You hire a CEO[-level candidate]. You’ve got to stock the pond before you can fish from it”*. Indeed, participants repeatedly emphasised the importance of identifying and prioritising the type of people and skills that the internal audit function needs.

When recruiting for the internal audit function, heads of internal audit suggest that companies:

- **Decide whether to search inside or outside.** Although participants report looking both internally and externally when recruiting for the internal audit function, one said: *“I think you see quite a number of organisations wanting to implement a model where at least part of the group are hired from within the business”*. Another head of internal audit said: *“Sometimes we will recruit an external auditor for the internal audit function, but we prefer internal people and we prefer people who are experienced in their job. Very rarely will we take someone directly from university or someone who has only been at the company one to two years”*.
- **Establish standards and stick to them.** Despite maintaining that good internal auditors are as rare as *“gold dust”*, participants steadfastly refuse to lower the standards they set for internal audit and its staff. Although frustrated with being short-staffed, most internal audit heads maintain that: *“We don’t want to recruit if people are not good ... We need to increase the number of staff, but we also need to increase the quality of the staff. We need higher-level people”*.
- **Recognise the need for IT and other specialist auditors.** Internal auditors report that finding people with the skills necessary to perform specialist audits – such as IT and HR – continues to be a significant challenge. As one head of internal audit pointed out: *“It’s not just about having more operational experience, it’s also about adding specific skills to the audit teams and reflecting on the new and emerging risks that big organisations [need]”*. Participants repeatedly emphasised the importance of recruiting staff capable of performing IT audits: *“I think it’s important to have expert specialists who have a particular background that’s not necessarily in internal audit – this especially applies for IT people ... I don’t just want business experts; I want business experts in a specific domain”*.



## The career path of an internal auditor

Almost all of the heads of internal audit that we interviewed reported employing a rotation policy whereby the internal audit function is used as a “*training ground*” for promising finance and operations executives. In this model, anywhere from a third to half of those hired will have non-audit backgrounds and will join the function for a two- to three-year assignment before moving on to broader business roles.

Given the need to train staff with non-audit backgrounds, participants discussed two methods of professional practice development:

- **External courses.** One head of internal audit noted: *“Internal auditors have to make sure they live up to the internal audit standards set by the Institute of Internal Auditors (IIA). We have a very intense education process where we send a lot of people to outside seminars”.*
- **Co-sourced training.** One participant pointed out the value co-sourcing the coaching of internal audit staff to external audit firms: *“Instead of relying on the IIA, we should be relying on external coaching to upgrade ourselves and our skills”.*
- **Internal development.** While much of the training is “*on-the-job*”, another participant told us: *“I feel quite strongly that some internal audit functions are not paying enough attention to their professional services. It might be seen as a cost centre, but I think it is essential to have a body of people in the organisation who are constantly alert to changes in the industry and benchmarking all the time, both internally and externally”.*

While several participants agreed that thorough training and rotation through internal audit can provide opportunities for development, others expressed concern over the tension between short-term internal audit assignments and the need to develop deep subject-matter expertise. In an effort to address this concern, internal audit functions always strive to maintain “*a good backbone of professionals*” who make up the remaining half to two-thirds of the internal audit group.

## Co-sourcing to ensure adequate capabilities

When the in-house auditors cannot meet all the needs of an organisation, many companies decide to outsource or, more often, co-source some of the activities. Many heads of internal audit find co-sourcing useful when “*you have a very short-term, focused need*”, but subject matter experts are convinced there is long-term strategic value as well. Entering into a long-term strategic relationship with an internal audit service provider can help an internal audit function address the challenges they face from a people perspective, as well as from a methods and practices perspective:

- **Access to skill sets and methodologies.** One head of internal audit said: *“Whenever we need special skills, [we co-source]. We have a mixture of experts, but if there is a big gap, we will co-source to make sure we have the competency in the team”.* In particular, several participants reported that they used co-sourcing to assist in IT audits as it is hard to recruit suitable people internally or externally. As one head of internal audit said: *“I know it can be a bit pricey [to co-source IT audit], but it’s a lot less expensive than having an expert on your payroll and then having no need for him in two years’ time”.*
- **Capacity to cope with fluctuations in work.** Another participant commented: *“Sometimes there are fluctuating volumes of work and it is not efficient to have staff year round, so we will*



*bring in an external party”. Another participant said that “co-sourcing allows [a fast-growing company] to ramp up quickly and in an effective way”.*

## **Oversight of internal audit: reporting to the CEO and the audit committee**

Typically, heads of internal audit report both to management (often the CEO or CFO) and to non-executive directors of the company (often the audit committee). The specific person or body to whom they report varies according to company, national corporate governance code and local custom. The European Confederation of Institutes of Internal Auditing recommends: “To guarantee the independence of the internal audit activity, the chief audit executive should report functionally to a body such as the audit committee and administratively at the level of the CEO of the organisation”.<sup>8</sup>

### **Reporting to the CEO or CFO?**

When audit committee chairs in North America convened to discuss the future of internal audit, many shared the view of one audit committee chair, who remarked: “[We are seeing that] more and more companies are moving away from the CFO [administrative reporting line] because of potential conflicts of interest. Reporting could be to the CEO”.<sup>9</sup>

More than two-thirds of the participants in our research are already reporting directly to their CEO, perhaps because as European internal audit functions have shifted away from traditional compliance activities to more business improvement work, that trend has been mirrored by a shift in the reporting line. One head of internal audit noted: *“I think it’s better to report to the CEO of the company because they are in charge of the business”*. In response to concerns that reporting directly to the CEO might compromise the objectivity of the function, one participant said: *“I think you are more independent when you can go directly to the head of the company and ask them to talk”*.

### **Reporting to the audit committee?**

Provisions within the EU’s 8th Directive state that the audit committee should take a greater degree of fiduciary responsibility in monitoring the effectiveness of a company’s internal audit function.<sup>10</sup> For European companies listed on the New York Stock Exchange (NYSE), the listing requirements include a specific reference to internal audit: “The audit committee must have a written charter that addresses the committee’s purpose – which, at minimum, must be to assist board oversight of ... the performance of the company’s internal audit function”.<sup>11</sup> Participants believe that the audit committee can play an important role in supporting internal audit’s objectivity. As one head of internal audit said: *“It’s important that controls are taken seriously and that internal audit is the eyes and ears of the board and that management understands our role ... The audit committee needs to make internal audit’s role very clear”*.

<sup>8</sup> European Confederation of Institutes of Internal Auditing, *Internal Auditing in Europe*, page 15, February 2005.

<sup>9</sup> Audit Committee Leadership Network in North America, *The Future of Internal Audit, ViewPoints*, page 8, 6 November 2006. Available at: [http://www.tapestrynetworks.com/documents/Tapestry\\_EY\\_ACLN\\_Nov06\\_View15.pdf](http://www.tapestrynetworks.com/documents/Tapestry_EY_ACLN_Nov06_View15.pdf).

<sup>10</sup> European Union Directives, *8<sup>th</sup> Company Law Directive, Article 41*. Available at: <http://www.8th-company-law-directive.com/Article41.htm>.

<sup>11</sup> NYSE, *Final NYSE Corporate Governance Rules*, approved by the SEC on 4 November 2003, page 10. Available at: <http://www.ecgi.org/codes/documents/finalcorpgovrules.pdf>.



While all internal audit functions of companies listed on the NYSE are required to maintain a relationship with the audit committee,<sup>12</sup> only four of the seven countries represented in our research have corporate governance codes that mandate such a relationship.<sup>13</sup> Regardless of whether or not the reporting line is required, almost all of our participants said that they do report to the audit committee.

Even when a clear reporting line does not exist, internal audit heads can rely on their audit committee chair for support: *“Although my reporting line is very clearly to the CEO, I also feel comfortable speaking with the audit committee chair and I wouldn’t hesitate to raise issues if I felt that someone was stalling or not taking up with a specific issue”*. The internal auditor may meet the audit committee chair privately from once a year to once a month to discuss the audit plan and any other pertinent issues. The audit committee can also provide support for the head of internal audit by inviting them to participate in executive sessions.

### Three signs of a great internal audit function

When asked what separates a great internal audit function from one that is merely good, participants identified three distinguishing elements:

- **Positive reputation: the function is invited into the business.** One internal auditor noted that being valued by the organisation was a sign of a successful function; another agreed, saying: *“Internally, you want to be sure internal audit is the go-to department. You want it to be the go-to for your career and also the go-to for guidance. If you can build that level of enthusiasm for your internal audit department, then that’s a great function”*.
- **Value add: the function’s recommendations are implemented.** One head of internal audit said: *“I think the ability to shape business decisions separates the good from the great. The result is not your audit report, it is what is that [report] a catalyst for? I would always define [success] by how we enable the business”*.
- **Good people: the function provides a training ground for business leaders.** One participant said: *“For me, best-in-class is if there is a continuous effort to try to steal people from internal audit. The more people [management] wants to steal from me, the better I know we’ve done”*. An internal auditor with experience in both a good and a great internal audit function commented: *“I’ve experienced both and I think having great people is really the difference. It’s a great feeling to see your people not only moving outside your department but also seeing them develop their careers even further and become senior management and directors”*.

Rigorous assessment is another mark of excellent internal audit functions. Participants are currently using four primary forms of assessment:

- **Internal review by management and the board.** Internal audit will often work with both the board and management to establish several key performance indicators (KPIs) with which to gauge the effectiveness of the internal audit function: *“We have our own quality assurance reviews. I do quarterly reviews using KPIs and working closely with the CEO and getting feedback”*.
- **Self-assessment.** Many internal audit functions conduct self-assessments using interviews and questionnaires. One head of internal audit who found success with this approach said: *“We do a*

<sup>12</sup> The NYSE’s Final Corporate Governance Rules is available at: <http://www.ecgi.org/codes/documents/finalcorpgovrules.pdf>

<sup>13</sup> See Appendix 2 on page 12.



*whole quality assurance which we execute across all of [the businesses]”. Another said that getting input from guest auditors working with the internal audit team was also a great source of developmental feedback for staff.*

- **External review.** Many participants use an objective evaluation of internal audit to take the pulse of the function. Generally conducted every three to five years, this external peer review asks all significant stakeholders to make a comprehensive assessment of internal audit’s performance. One head of internal audit appreciated *“having someone come in and just kick the tires”*.
- **Benchmarking.** Participants report that they will often meet their peers to discuss and assess their attempts to improve the function. One participant reported that additionally *“we have [benchmarking] experts, and we use them every time we have a doubt”*.

Some participants still report struggling with evaluation: *“We have assessments from the auditees, but if you really want to be accurate, it’s pretty vague. Establishing a meaningful set of KPIs for internal audit is something I’ve given myself as an objective”*.

## Conclusion

The internal audit functions of large European public companies have been on a journey for the past few years as they move from focusing on financial auditing, internal controls and compliance activities to providing what many heads of internal audit see as more value-added services involved in improving business effectiveness. This shift may have impacted who they report to in the company (with the CEO replacing the CFO) and who they recruit (business people and specialists, rather than auditors). Whether this shift is permanent or just the latest fashion is not clear, but perhaps the lasting legacy will be a new generation of business managers in Europe who, having spent part of their careers in internal audit, understand and support both a strong control environment and business effectiveness.

## About this document

*InSights* is produced by Tapestry Networks to provide assessments of key issues of interest to audit committee members in Europe. Initially, *InSights* will be distributed to members of the European Audit Committee Leadership Network who, in turn, will share it with colleagues on audit committees and boards, and their advisers. It will be distributed by Ernst & Young to its partners. Anyone who receives *InSights* may share it with those in their own network. The ultimate value of *InSights* lies in its power to help all constituencies develop their own informed points of view.

*The views expressed in this document represent those of the participants interviewed. They do not reflect the views nor constitute the advice of network members, their companies, Ernst & Young, or Tapestry Networks. Please consult your advisers for specific advice. Ernst & Young refers to all members of the global Ernst & Young organisation.*

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## **Appendix 1: Research participants**

European heads of internal audit and subject-matter experts who participated in the research through one-to-one or small-group teleconference discussions between January and March 2008 included:

- Mr Marc Andolenko, Senior Vice President Audit Group, Areva
- Mr Laurent Arnaudo, Vice President of Corporate Audit Services, Alcatel-Lucent
- Mr Peter Bieri, Head of Corporate Audit, Roche Holding
- Ms Inge Boets, Global Leader of Business Risk Services, Ernst & Young
- Mr Simone Bontempo, Chief Audit Executive, Atlantia
- Mr Joop Brakenhoff, Senior Vice President and Chief Internal Auditor, Royal Ahold
- Ms Diane Côté, Group Audit Director, Aviva
- Ms Heléne Gunnarson, Senior Vice President of Group Assurance, Sandvik
- Dr Thomas Knoll, Senior Executive Vice President of Corporate Audit, Deutsche Telekom
- Mr Nils Lindholm, Senior Vice President of Internal Audit, Svenska Cellulosa Aktiebolaget
- Mr Michael Marchesani, Head of Group Audit, Zurich Financial Services
- Mr John Ramsden-Knowles, General Manager of Corporate Audit Services, ING Group
- Mr Ian Rushby, Former Group General Auditor, BP
- Mr Anthony Simpson, Head of Corporate Audit, Continental AG
- Mr Martin Studer, Leader of Business Risk Services in Central Europe, Ernst & Young
- Mr Arnout van der Veer, Director of Corporate Audit Services, Reed Elsevier
- Mr Vincent Vallejo, Senior Vice President of Audit and Special Projects, Vivendi



## Appendix 2: What national corporate governance codes say about internal audit

The following table examines the position of internal audit in the seven European countries represented by research participants.

Country	What the corporate governance code says
<b>France</b> <sup>14</sup>	The audit committee should monitor the internal audit function, review the material risks and off-balance-sheet commitments, interview the person in charge of internal audit, issue an opinion regarding that department's organisation, and be informed of its programme of work. The audit committee should receive internal audit reports or a summary of those reports.
<b>Germany</b> <sup>15</sup>	No information regarding the internal audit is found in the German code.
<b>Italy</b> <sup>16</sup>	The person responsible for internal control will usually be the person responsible for the internal audit function. The internal audit function may be entrusted to persons external to the issuer, provided that they are adequately professional and independent; these persons may also be responsible for internal control. These organisational choices should be disclosed to the shareholders and the market in a company's corporate governance report.
<b>The Netherlands</b> <sup>17</sup>	The internal auditor should operate under the responsibility of the management board. The internal auditor can play an important role in assessing and testing the internal risk management and control systems. The audit committee should focus on supervising compliance with the help of the recommendations and observations of internal and external auditors and the role and functioning of the internal audit department. The external auditor and the audit committee should be involved in drawing up the work schedule of the internal audit function. They should also take account of the findings of internal audit.
<b>Sweden</b> <sup>18</sup>	The audit committee should meet regularly with the company's auditors to keep informed of the aims and scope of the audit work and discuss coordination between external and internal audit and views on the company's risks. The board in companies that do not have an internal audit function should annually evaluate the need for such a function and explain its position in its report on internal control.
<b>Switzerland</b> <sup>19</sup>	The company should set up an internal audit function, which should report to the audit committee or to the chairman of the board. The audit committee should form an impression of the effectiveness of external audit and internal audit, as well as of their mutual cooperation. The audit committee should discuss with the internal auditor the review of individual and consolidated financial statements, as well as interim statements intended for publication.
<b>United Kingdom</b> <sup>20</sup>	The audit committee should monitor and review the effectiveness of the company's internal audit function. If there is no internal audit function, the committee should consider annually whether there is a need and make a recommendation to the board; the absence of such a function should be explained in the annual report.

<sup>14</sup> The French Corporate Governance Code for Listed Companies is available at: [http://www.ecgi.org/codes/documents/cg\\_oct03\\_en.pdf](http://www.ecgi.org/codes/documents/cg_oct03_en.pdf).

<sup>15</sup> The German Corporate Governance Code is available at: [http://www.ecgi.org/codes/documents/corgov\\_endfassung\\_e.pdf](http://www.ecgi.org/codes/documents/corgov_endfassung_e.pdf).

<sup>16</sup> The Italian Corporate Governance Code is available at: [http://www.ecgi.org/codes/documents/codiceautodisciplina\\_en.pdf](http://www.ecgi.org/codes/documents/codiceautodisciplina_en.pdf).

<sup>17</sup> The Dutch Tabaksblatt Code is available at: <http://corpgov.nl/page/downloads/CODE%20DEF%20ENGELS%20COMPLEET%20II.pdf>.

<sup>18</sup> The Swedish Corporate Governance code is available at: [http://www.ecgi.org/codes/documents/swedish\\_cg\\_070913\\_en.pdf](http://www.ecgi.org/codes/documents/swedish_cg_070913_en.pdf).

<sup>19</sup> The Swiss Code of Best Practice for Corporate Governance is available at: [http://www.ecgi.org/codes/documents/swisscodeofbestpractice\\_english.pdf](http://www.ecgi.org/codes/documents/swisscodeofbestpractice_english.pdf).

<sup>20</sup> The UK Combined Code on Corporate Governance is available at: [http://www.ecgi.org/codes/documents/frc\\_combined\\_code\\_june2006.pdf](http://www.ecgi.org/codes/documents/frc_combined_code_june2006.pdf).