

# Audit Committee Leadership Network

April 2023

ACLN

VIEWPOINTS

## Innovation in internal audit

As risk and regulatory environments grow more complex, internal audit (IA) plays an increasingly important role for large companies. IA teams look at a wide range of risks: long-term uncertainty, cybersecurity, technological advancements, and environmental, social, and governance (ESG), among others. Many teams are therefore examining how they conduct their work and maximize value to their companies, including through innovations in process, technology, and human capital.

On March 2, 2023, members of the Audit Committee Leadership Network (ACLN) convened to discuss how audit committees can effectively oversee and support IA teams as their role expands. Members met with audit executives Nadir Darrah, chief auditor at Citigroup; Marc Sabino, chief auditor – head of innovation at Citigroup; and Brandi Thomas, vice president, chief audit executive, and chief diversity officer at General Electric (GE) to explore this topic.

This *ViewPoints* covers several key themes and good practices that emerged during the meeting and in premeeting conversations:<sup>1</sup>

- **Deploy innovation to respond to rapidly evolving risk environments and expanding IA portfolios**
- **Utilize technology to allow IA teams to focus on higher-value work**
- **Diversify human capital to help meet talent challenges and improve audit quality**
- **Leverage the audit chair as a critical ally to IA**

For a list of meeting participants, see [Appendix 1 \(page 7\)](#); for a list of reflection questions for audit committees, see [Appendix 2 \(page 9\)](#); for guest biographies, see [Appendix 3 \(page 10\)](#).

## Deploy innovation to respond to rapidly evolving risk environments and expanding IA portfolios

Internal audit once focused tightly on financial controls, but the remit is now much broader and IA teams look at a much wider set of risks. Rapid adaptation is key. Mr. Darrah, who leads a complex IA function with over 2,500 staff, explained, “Nothing has changed with respect to the ‘why’ of IA. We provide assurance, agitate within the organization, and try to drive positive change. What has changed is the ‘what’ and the ‘how.’” So too has the “who,” as expanded portfolios require new and different skills on IA teams. Ms. Thomas agreed: “What has resonated for me has been a continual focus on change management.”

Members and guests discussed important considerations for audit chairs, chief audit executives (CAEs), and other IA leaders:

- **Consider overall resilience and make the most of IA’s enterprise-wide lens.** Highlighting complex and interrelated risks such as geopolitical shifts, energy security, cyber risk, and supply chains, Mr. Darrah said that IA teams should think about the operational resilience of the company. *“It’s really becoming a resilience story across organizations,”* he said. *“IA should be looking at its abilities to serve its customers and build in resilience in the face of all these challenges and changes happening.”* A member added, *“The internal audit team has a powerful vantage point, and the organization should be leveraging that.”*
- **Collaborate internally to address the complex risk environment.** It is increasingly vital for IA teams to coordinate with other risk functions, such as compliance, legal, and enterprise risk management (ERM). One member asked, *“How does risk get owned between these functions?”* Ms. Thomas emphasized the importance of overlap: *“The connections between ERM, compliance, and audit were some of the most natural. There was an expectation that we should work together. We have a process and get together periodically to compare our risk assessments. It’s incredibly valuable.”* Mr. Darrah described a similar approach and advised that it is *“really important to have clarity around roles and responsibilities.”* He said Citigroup ensures alignment and effective internal governance across the first, second, and third lines of defense, and recommended having a common risk taxonomy for internal functions. He added, *“These cannot just be risk conversations; they must be aligned to strategy. From strategy comes risk appetite and everything flows from there.”*
- **Include IA early in work on emerging issues like ESG.** With emerging issues—particularly ESG reporting—top of mind for both boards and companies, members and guests underscored the importance of providing IA with a *“seat at the table”* when creating processes to allow for earlier identification of risks and control needs. One member described how *“internal audit is part of ESG planning in more of an advisory capacity right now,”* since many of the processes and controls are still being created, but *“their involvement is contributing to the thought process of how these things get built and controlled from a process perspective.”*

Audit executive guests acknowledged, however, the challenges that exist around IA’s role in ESG reporting and balancing regulatory requirements, business objectives, and stakeholder views. Ms. Thomas said that she has set up a framework for ESG so that *“whatever the businesses ultimately decide related to ESG strategy, we can fit that into the overarching infrastructure and processes we’ve created.”* Mr. Darrah noted, *“As we increasingly move toward ESG reporting, there are more implications and challenges balancing business objectives, widely differing political views, and reporting requirements. It makes for a really critical balancing act for companies, and you have to really look to your*

*strategy. That's where IA comes in: to make sure all parts of the organization are following that narrow line available to us."*

- **Think about what talent is most relevant for the IA of today.** GE had a nearly 100-year-old corporate audit program, which was celebrated in business literature; but in response to a need to simplify and restructure the business, the company completely disbanded the program in 2020.<sup>2</sup> *"We had the opportunity to build a new program from scratch,"* Ms. Thomas said. While most companies will not have the ability to start with a clean slate, they can still ask the questions Ms. Thomas and her audit committee asked: *"How do we build an IA team fit for purpose today? What would that look like without legacy issues?"*
- **Assess behavioral risk and cultural factors.** Mr. Darrah underscored an emerging need for IA teams to focus on behavior risk and *"how it impacts the control environment for the organization."* He explained that some issues and problems arise only when certain behavioral or cultural components are present. IA teams should *"ask the questions that get beneath the surface: Why did this happen? What kinds of behaviors and values were being rewarded?"* If companies can address those root causes, he said, *"hopefully it prevents future control issues as well."*

## Utilize technology to allow IA teams to focus on higher-value work

ACLN members reported varying levels of maturity in how their IA functions leverage technologies like artificial intelligence, machine learning, and data analytics, but all agreed that it is crucial for IA to *"stay on the front edge."* The group discussed how to use technology—and innovation more generally—to enable IA teams to improve quality and productivity.

Several key themes emerged:

- **Actively foster innovation.** Innovation can cultivate more creative problem-solving and is a crucial tool to tackle the broader risk agenda that IA teams now face, but empowering innovation is often easier said than done. *"Top-down innovation is usually too controlled and not smart, whereas bottom-up innovation can be chaotic but brilliant,"* one member observed. At Citigroup, Mr. Sabino leads a large team focused solely on innovation in internal audit, utilizing innovation to improve insights and operational efficiency. To do this, he said, *"We are bringing in other types of talent to the IA team to help us think differently, and we are integrating things like machine learning and playing in the Metaverse. We are exploring opportunities to do IA very differently. We also have innovation partners; we meet with external teams for innovation sessions because we want to elevate the industry and there is a lot of opportunity to do that together."*
- **Use technology to redeploy and effectively leverage valuable human skills.** Despite worries that new technology may replace jobs, Mr. Darrah, Mr. Sabino, and Ms. Thomas emphasized that technology should be additive. Mr. Sabino said, *"The benefit of these*

*innovations is that we can redeploy productivity to other areas because there is never enough time. Innovation and technology should be viewed as augmenting the work of humans and adding capabilities, skills, and insights.”* For example, testing whole populations rather than sampling can not only improve audit quality but also free auditors to focus on insights rather than process management. Members whose companies are using advanced technologies within IA agreed. One said, *“Our IA team is very forward looking in terms of data analytics and they use it to enhance the scope of their work, not reduce it.”*

- **Share insights, not just data.** With the growing use of data analytics and technology, IA teams can *“take disparate data sources and provide insights in a very different way,”* Mr. Sabino said. An audit chair agreed: *“The ability of high-throughput data-processing systems to do 100% sampling, pattern recognition, and anomaly recognition has been a transformative change”* and creates a massive volume of data. A member asked guests, *“How do you provide insights to management and what insights have you found provide real value to the organization?”* Mr. Darrah responded that clear communication of findings is increasingly important. He explained, *“We’ve grappled with this concept of whether we provide data or insights. At the end of the day, we want to bring matters to attention in a way that allows them to be actionable. We get our audit teams to think about what the CEO and audit committee should do about this information. How will they try to solve this problem? That begins to get the data into a form that the audit committee can react to.”*

## Diversify human capital to help meet talent challenges and improve audit quality

Members agreed, *“Talent challenges in auditing are significant.”* The *Wall Street Journal* reported in December 2022 that “more than 300,000 U.S. accountants and auditors have left their jobs in the past two years, a 17% decline, and the dwindling number of college students coming into the field can’t fill the gap.”<sup>3</sup> This makes it increasingly difficult for companies to secure finance and audit talent, as well as specialists in areas such as cybersecurity and ESG.

Members and guests discussed strategies they are using to address talent challenges:

- **Prioritize diversity and inclusion.** Diversity of all kinds, including background and experience, is critical to a well-rounded IA team capable of analyzing issues from a variety of angles. A member of the European Audit Committee Leadership Network recently emphasized the importance of diversity in IA, especially for global companies: “All of our audit teams are diverse in international background, experience, knowledge, and gender. We are completely convinced that if you want a successful approach in internal audit, you need a diverse team.”<sup>4</sup> Ms. Thomas underscored this view: *“My goal on any team is to get a variety of different perspectives at the table and create a situation where the best ideas can win.”* Diversity was a key priority as Ms. Thomas built a new IA team within GE, but she emphasized that incorporating a lens toward diversity, equity, and inclusion (DEI) with

existing teams is equally important. She offered questions that audit chairs can ask management:

- What training has your team undergone related to DEI?
- What is your team's involvement in internal initiatives designed to foster DEI?
- How do you ensure diverse slates of candidates for promotions and interviews?
- **Recruit creatively and look for new types of skill sets.** Audit chairs noted that they are increasingly focused on recruiting, succession planning, and enhanced training as companies struggle to source and retain finance and IA talent, especially at senior levels. Audit executive guests encouraged members to look beyond traditional talent pools for building and upskilling their IA teams, especially as the need for specialist and technology-related skills increases. Mr. Darrah said, *"The recent innovations and technologies we have determine the kind of workforce you are looking for. IA isn't just formed by accountants but by technologists, data scientists, and others."* Mr. Sabino agreed: *"Look for different talent to bring in. The labor market is running short on accountants, but we have others to tap into. People with different backgrounds can be very valuable and can think differently about how to connect data and trends across the organization."* Members highlighted examples including hiring an internal CAE candidate from another business unit and having the audit chair play a role in training the person and bringing a former IA leader back from retirement.
- **Use external experts and co-source talent.** To address talent shortages, companies are using a variety of strategies to fill open roles, including bringing in external experts and co-sourcing talent with audit firms. *"We are increasing the frequency of co-sourcing with some of the audit firms for IA,"* one member said. Another said, *"We can't seem to keep talent long enough because they keep moving on,"* so the company adopted a *"hybrid model, with someone who oversees audit, as well as hired consultants to provide the expertise we need."* Ms. Thomas noted that GE *"uses partnerships because great talent is hard to come by. We use a Big Four firm as a major co-source. We knew we wanted to do a lot of cyber and innovation and they help us test differently. We had to say, 'We need you to meet us with some of these skill sets. We have people, but not enough.'"*

## Leverage the audit chair as a critical ally for IA

Reflecting on the need for continued evolution in IA, members wondered how to best support internal audit teams. *"What can audit chairs do to be most helpful to you?"* one asked the guests. Mr. Darrah, Mr. Nadir, and Ms. Thomas offered three recommendations:

- **Help establish a clear mandate.** Whether a company is making smaller, iterative changes or exploring a total transformation, audit chairs should work with management and the rest of the board to help create clear mandates for the CAE. Ms. Thomas described how, in her case, *"The request was change. That was the mandate, which was very helpful. It was already socialized with the board."* An explicit, public mandate can help the CAE implement



the strategy and ensure the right resourcing. Mr. Sabino said that his audit chair's role was critical: *"We started with a team of 25, and now we're up to 100 about four years later. It was tone at the top with the audit chair's support that allowed us to build out and develop."*

- **Protect IA's independence and credibility.** Mr. Darrah advised audit chairs to play an active role in protecting the independence and credibility of IA. Not only can audit chairs set the tone for how IA functions are viewed, but they also can ensure that they have the necessary budget and resources, and monitor how IA is supported by management. Mr. Darrah suggested that audit chairs ask themselves, *"How does your audit team keep independence from and credibility with management? How do you hear management talk about internal audit? How and when does management involve internal audit?"* If an audit chair observes IA operating *"on the sidelines,"* he warned, *"then you have a problem."* Members agreed, with one noting, *"Management needs to recognize that the stature and independence of IA is paramount."* They noted that they pay close attention to how management views and interacts with IA. One audit chair oversaw the *"evolution"* of their company's IA *"from being viewed as a necessary evil to an embraced resource."* He said that *"management now looks to IA first and has them on speed dial, which is a good spot to be in."* Another member looks to see if *"IA is at the CEO's top table,"* to assess the kind of respect that IA has within a company.
- **Be a trusted thought partner for the CAE.** In this dynamic, ever-changing environment, CAEs highly value input and collaboration from the audit chair. As Ms. Thomas put it, *"Being able to troubleshoot with the audit chair is incredibly helpful. There is an instant understanding of what audit is and how we can best be of service."*

## About this document

The Audit Committee Leadership Network is a group of audit committee chairs drawn from leading North American companies committed to improving the performance of audit committees and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

*ViewPoints* is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

*The perspectives presented in this document are the sole responsibility of Tapestry Networks and do not necessarily reflect the views of network members or participants, their affiliated organizations, or EY. Please consult your counselors for specific advice. EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Tapestry Networks and EY are independently owned and controlled organizations. This material is prepared and copyrighted by Tapestry Networks with all rights reserved. It may be reproduced and redistributed, but only in its entirety, including all copyright and trademark legends. Tapestry Networks and the associated logos are trademarks of Tapestry Networks, Inc. and EY and the associated logos are trademarks of EYGM Ltd.*

## Appendix 1: Meeting participants

The following members participated in the meeting:



**Judy Bruner**  
Audit Committee Chair,  
Applied Materials and  
Seagate Technology



**Jeff Campbell**  
Audit Committee Chair,  
Aon



**Anne Drinkwater**  
Audit Committee Chair,  
Equinor



**Bill Easter**  
Audit Committee Chair,  
Delta Air Lines



**Bella Goren**  
Audit Committee Chair,  
Marriott International



**Robert Herz**  
Audit Committee Chair,  
Morgan Stanley and  
Fannie Mae



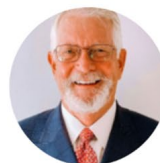
**Dagmar Kollmann<sup>†</sup>**  
Audit Committee Chair,  
Deutsche Telekom



**Arjun Murti**  
Audit Committee Chair,  
ConocoPhillips



**Ann Marie Petach**  
Audit Committee Chair,  
Jones Lang LaSalle



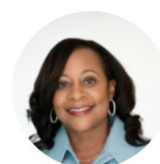
**Tom Schoewe**  
Audit Committee Chair,  
General Motors



**Leslie Seidman**  
Audit Committee Chair,  
GE



**Jim Turley**  
Audit Committee Chair,  
Citigroup



**Robin Washington**  
Audit Committee Chair,  
Salesforce

<sup>†</sup> Member of the European Audit Committee Leadership Network

The following members participated virtually in the meeting:



**Alison Carnwath** †  
Audit Committee Chair,  
BASF and Zurich  
Insurance Group



**Ted Craver**  
Audit Committee Chair,  
Wells Fargo



**Pam Daley**  
Audit Committee Chair,  
BlackRock



**Gretchen Haggerty**  
Audit Committee Chair,  
Johnson Controls



**Liz Hewitt** †  
Audit Committee Chair,  
Novo Nordisk and  
Melrose PLC; Non-  
Executive Director,  
National Grid Group  
PLC



**Charles Holley**  
Audit Committee Chair,  
Amgen



**Lori Lee**  
Audit Committee Chair,  
Emerson Electric



**Nancy McKinstry**  
Audit Committee Chair,  
Abbott



**Kimberly Ross**  
Audit Committee Chair,  
Cigna

EY was represented in all or part of the meeting by the following:



**Julie Boland**  
US Chair and Managing  
Partner and Americas  
Area Managing Partner,  
EY



**John King**  
Americas Vice Chair -  
Assurance, EY



**Pat Niemann**  
Americas Audit  
Committee Forum  
Leader, EY

† Member of the European Audit Committee Leadership Network



## Appendix 2: Reflection questions for audit committees

- ? How has the internal audit function evolved at your company in recent years? How have the scope and priorities of internal audit changed?
- ? How does your internal audit function balance its time between traditional assurance and advisory tasks? In what areas has internal audit expanded beyond its traditional scope to add value for the company?
- ? How do internal audit, enterprise risk management, and the compliance/legal functions overlap and work to ensure no gaps in coverage? What challenges or issues have you experienced?
- ? What are the biggest challenges for internal audit in the next three to five years?
- ? To whom does your chief audit executive report (functionally and administratively)? How effective is the current approach?
- ? How has your audit committee evolved its oversight of internal audit in recent years?
- ? How often do you, as audit chair, and your CAE interact? What format works best for those interactions?
- ? Where has your internal audit team made its largest technology investments? What benefits have those investments provided?
- ? What concerns have you encountered with internal audit's growing use of technology (e.g., ensuring that machine learning models are appropriate, unbiased, and effective)?
- ? What role is your internal audit team playing in ESG and nonfinancial reporting? How are you expecting this to evolve in the next few years?
- ? How is internal audit involved in reviewing third-party relationships and risks? Are you employing any helpful technologies?
- ? How involved are you in assessing your IA talent pipeline? What good practices has your company employed to overcome talent challenges within IA?
- ? How do you see the talent needs of the internal audit function changing?
- ? What is your company doing to upskill, reskill, recruit, and retain talent to meet those needs?

## Appendix 3: Guest biographies

**Nadir Darrah** is chief auditor at Citigroup, appointed as such in March 2022. He is responsible for the Internal Audit department, which includes the delivery of audit assurance on governance, risk management, and the control environment, across Citigroup.

Mr. Darrah has been part of the Citigroup Internal Audit team since 2015. Most recently, he was chief auditor, Citibank, N.A., (CBNA), Transformation and Data, responsible for overseeing audit coverage for CBNA, leading global assurance over data quality, and centralizing validation efforts related to Citigroup's Office of the Comptroller of the Currency (OCC) and Federal Reserve Board (FRB) consent orders.

Prior to that, he was regional chief auditor for APAC, providing independent assurance to stakeholders as it related to the control environment in the region. Earlier, he held a number of senior leadership roles across internal audit. He also served as chief auditor, CGMI, ICG Securities Services, Regulatory Reform, Governance & Conduct. He has over 26 years of audit experience.

Mr. Darrah joined Citigroup Internal Audit from Barclays, where he also held numerous senior leadership positions. Preceding Barclays, he had internal audit roles within GMAC and Kinnevik Group, in addition to spending five years in public accounting with PwC.

**Marc Sabino** is chief auditor – head of innovation at Citigroup, appointed as such in August 2017. He is responsible for the Internal Audit Innovation Team, which includes the strategic vision of an innovation strategy to support the mission of driving positive change and being a game changer in the industry. Mr. Sabino leads a team that identifies and executes innovation and automation opportunities and performs data analytics to drive insights and operational efficiency.

Previously, Mr. Sabino was in Citigroup Productivity as the head of business intelligence and analytics and the head of human capital reporting and analytics responsible for driving Citigroup's analytics strategy with a focus on how the organization can better use data and technology solutions to manage revenue, employees, HR processes, banker and branch productivity, recruiting, diversity, and more. Mr. Sabino's 25-year career at Citigroup began in April 1992 when he joined finance. His professional experience has focused on significant business and process transformation within the financial services industry, with the delivery of large projects, process reengineering, and innovation. Given the breadth and depth of the areas and projects that Mr. Sabino has worked on, he has significant experience of all financial products, functions, and processes. Prior to joining Citigroup, he was the senior product control lead at Lehman.

**Brandi Thomas** is vice president and chief audit executive and chief diversity officer at General Electric (GE). Her responsibilities include building and leading the GE Audit and Risk Advisory Services team, generating, refreshing, and completing the internal audit plan. GE is building and fostering world-class risk management through risk-based, technical audit and leadership development. Ms. Thomas and her team evaluate GE’s systems of internal controls, including operational efficiency and effectiveness, considering the company’s risks, goals, policies, and processes. In 2022, with the announcement of the separation of GE into three publicly listed companies, her focus shifted toward building three independent internal audit teams and consolidating corporate audit responsibilities into each of them.

Her role as chief diversity officer promotes diversity, equity, and inclusion for all GE employees and focuses on community engagement and diversifying GE’s supplier base. She supports GE’s Employee Resource Groups through sponsorship, engagement, and making sure that they are properly resourced.

Prior to joining GE, Ms. Thomas was vice president, corporate audit for Delta Air Lines. She also has a background in technology, having served as the first chief audit executive at Uber Technologies, Inc. She began her career at General Electric as a graduate of the Financial Management Program and GE Corporate Audit Staff. She returned to GE to apply her insight and skills, gained in various industries including manufacturing, software, technology, and aviation, to GE Internal Audit. She has a background in public accounting from Ernst & Young LLP.

## Endnotes

---

<sup>1</sup> *ViewPoints* reflects the network’s use of a modified version of the Chatham House Rule whereby names of members and their company affiliations are a matter of public record, but comments are not attributed to individuals or corporations. Italicized quotations reflect comments made in connection with the meeting by network members and other meeting participants.

<sup>2</sup> Ted Mann and Nina Trentmann, “[GE Disbands Corporate Audit Program](#),” *Wall Street Journal*, November 11, 2020.

<sup>3</sup> Lindsay Ellis, “[Why So Many Accountants Are Quitting](#),” *Wall Street Journal*, December 28, 2022.

<sup>4</sup> Tapestry Networks, *Combating Corporate Reporting Fraud: Learnings from Leading European Audit Committee Chairs* (Waltham, MA: Tapestry Networks, 2023), 5.