

# AUDIT magazine

*Magazine for internal and operational auditors*

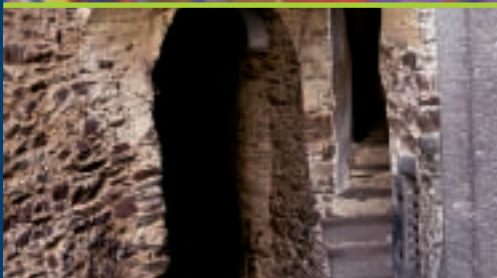
Special Conference issue 2007

**Theme:**

## 10th Anniversary IIA Netherlands



IJA Netherlands,  
a dream come true



A look behind the show  
of the IIA 2007 Conference



Wat does the Audit Committee  
expect from the IA Department



**Ernst & Young is proud  
to announce another  
meeting of the minds.**



Ernst & Young is proud to sponsor the IIA 2007 International Conference. We've always believed that the basis for success lies in insight and quality ideas. But there is one thing we find even more important. Sharing that knowledge.

[www.ey.com](http://www.ey.com)

Risk Advisory Services

 **ERNST & YOUNG**  
*Quality In Everything We Do*

# Open your mind!

Dear readers, welcome to this special edition of *Audit Magazine*. And what a great opportunity it is for us editors to write an editorial. Never before have we created a magazine and written an editorial in English, especially for such a large group of readers! It was nice to do, and after so much work and preparation, we feel proud being able to show what we have been doing to such a big audience.

Quite a few of you are going to be participating in The IIA's 2007 International Conference in Amsterdam -- an exciting prospect! The programme promises you a host of very interesting speakers, the ambiance of the city is great, and in July the weather here in The Netherlands is excellent. In addition to the conference itself, another reason to be excited about this event is the timing: in 2007 the Dutch Affiliate of The IIA celebrates its 10th anniversary!

Amsterdam is an especially appropriate setting for this year's International Conference. It is a city renowned for its long history of sound business practices combined with an acceptance of free thinking. Let's take a little trip into our past and consider how it plays a significant role today, especially as it pertains to this conference.

Some 400 years ago the Verenigde Oostindische Compagnie (VOC) was established in Amsterdam. It was one of the first international companies with shareholders that invested in ships in order to import pepper and other spices to Europe. The company was organized in divisions (cities), each representing a group of shareholders to the interests of all shareholders. The VOC was the start

of the renown of The Netherlands as a trade center all over the world and resulted in the growth of industries and companies of which today ABN Amro, ING, AEGON, Corporate Express, Royal Dutch Shell, Ahold, Philips and Unilever are examples.

The Netherlands, and especially Amsterdam, were a safe haven for free-thinkers during the Middle Ages. Many people fleeing from persecution in their own countries found refuge here. These were mostly craftsman and intellectuals, thereby making The Netherlands an important and influential country within Europe despite its relatively small size. Today the Dutch are still renowned for their liberal attitude toward sometimes more controversial subjects like abortion, soft drugs, and homosexuality.

What does this all mean to you as a visitor of the conference or as a reader of this magazine? First of all, enjoy your stay and be sure to spend time visiting the historic treasures you can find in Amsterdam. Secondly, even though you are not a refugee as so many were a long time ago, we encourage you to embrace the spirit of The Netherlands and open your mind and learn from some of the best and most forward-thinking speakers in internal auditing. It's history in the making.

We hope that you enjoy the conference, read this magazine, and keep this magazine in your archive for future reference. And most of all we hope that sometime during these days or on the way back you think to yourself: I hope these Dutch organize the conference again when it's their 20th anniversary or sooner!



Arijen van Nes Auditor in Chief



Ronald de Ruijter



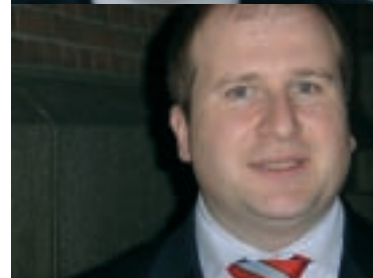
Reinier Kamstra



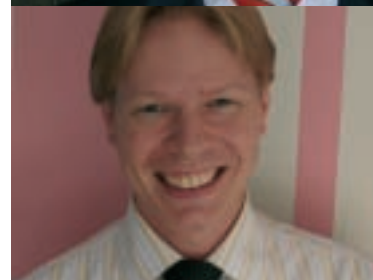
Ronald Jansen



Karin Laker



Laszlo Nagy



Riek Mulders

# THE PROTIVITI INTERNAL AUDIT PORTAL

**T**his electronic workpaper application is the latest addition to our world-class Protiviti Governance Portal.

- Provides a central repository for your audit work
- Facilitates the audit process from risk assessment through execution
- Provides management and the audit committee with dashboards and reporting
- Improves audit efficiency, accuracy and quality through standard templates and process guidance
- Integrates seamlessly with our Sarbanes-Oxley, Operational Risk and Self Assessment modules to give a complete picture of governance

---

*To learn more about our technology solutions or to schedule a demonstration, contact us at 020 346 04 00 or mail [marketing@protiviti.nl](mailto:marketing@protiviti.nl).*

**protiviti**<sup>®</sup>  
Independent Risk Consulting

Know Risk. Know Reward.<sup>™</sup>





## focus 10th Anniversary IIA Netherlands

### IIA Netherlands, a dream come true

**Page 6** An interview with Thijs Smit, Nanning van der Hoop and Paul Hofstra about the starting and growing of IIA in The Netherlands.

### Founding the IIA-Netherlands

**Page 10** Evert van Dijk, one of the founders of IIA-Netherlands brings back memories and reflections of the first initiatives to build a professional organization for the Dutch internal auditors.

### Value Added Auditing

**Page 46** Arie Molenkamp and Jan Driessen tell you about the unique academic schooling in The Netherlands.

### Survey: Internal Control Statement in The Netherlands

**Page 22** Just like in other countries of the world, the Dutch companies issue an in control statement. Wicaksono, Hartog and Bast conducted a survey by sending a questionnaire to the management boards of 248 organizations, both in the public and private sectors located in the Netherlands. Here is what they found out. Some conclusions are probably interesting for you too.

### Role of the Internal Auditor in preparing the In Control Statement

**Page 30** Ernst & Young conducted a survey about the potential role of the internal auditor in preparing the ICS. A contribution of Prof. dr. A. de Bos and M. Oosterom.

### Internal Auditors adding value: Auditing Sustainable Development

**Page 34** A sustainable development is an essential part of corporate governance. Internal auditors are well-positioned to assist management in implementing a sustainability management system and perform system audits after the implementation. What does the internal auditor have to know about sustainability and applicable audit techniques? Hans Nieuwlands will tell you in his contribution.

### COSO and CobiT 4: a symbiosis?

**Page 40** Bart Overbeek and Bob van Kuijck of the Vion Food Group tell you how ICT Governance fits in the total governance of the organization

## focus International Conference

### Double Dutch Pass organizing the IIA 2007 Conference in Amsterdam

**Page 12** An interview with Herman Baars and Leen Paape on organizing the Amsterdam Conference 2007.

### What does the Audit Committee expect from a state of the art IA Department?

**Page 19** Larry Hubbard explains what the Audit Committee needs for their real duty: to build shareholder value?

### Monsters in the Workplace – the organisational Psychopath

**Page 26** Dr. John Clark is the author of two books about organizational psychology: *Working with Monsters* and *The Pocket*. He tells you what can be done dealing with organisational psychopaths.

### Columns

**Page 16 Career Step**

**Page 29 Bookalert**

**Page 49 IIA News** • Nanning van der Hoop reflects on 10 years IIA-Netherlands • Hans Nieuwlands about the European Confederation of IIA: 25 years of history

**Page 52 University news**

**Page 53 Book Review by Renze Klamer**

**Page 39 Column of our Sponsor**

**Page 54 Column of Bob van Kuijck**

**COLOFON** *Audit Magazine* wordt uitgebracht namens Het Instituut van Internal Auditors Nederland (IIA Nederland), tevens eigenaar van het magazine, en de Vereniging van Register Operational Auditors (VRO). De redactie nodigt lezers uit een bijdrage te leveren aan *Audit Magazine*. Bijdragen kunnen worden gemaild aan: a.van.nes@hccnet.nl **Redactieraad:** Th. Smit RA CIA (voorzitter IIA Nederland), G.M. van Gameren RA RO (voorzitter VRO) **Redactie:** drs. A. van Nes RO (voorzitter), drs. R.H.J.W. Jansen RO, drs. R. Kamstra, drs. K. Laker, drs. H.A. Mulders RA, drs. L.Z. Nagy RO EMIA, drs. R. de Ruiter RE RA RO CISA **Verenigingsnieuws VRO en Nieuws van de Opleidingen:** N. Arif RO **Verenigingsnieuws IIA Nederland:** drs. D.J.N. van der Hoop **IIA Nederland:** Postbus 7918, 1008 AC Amsterdam, tel.: 020-3010366, fax: 020-3010392, e-mail: iia@iia.nl, internet: www.iia.nl **VRO:** Postbus 505, 9200 AM Drachten, e-mail: secretariaat@vronet.nl, internet: www.vronet.nl **Bureau redactie:** R. Harmelink, info@vm-uitgevers.nl **Uitgever:** drs. J.Y. Groenink, jeannette@vm-uitgevers.nl **Vormgeving:** M. Maarleveld **Advertenties:** voor informatie over tarieven kunt u terecht bij Bureau IIA Nederland, tel.: 020-3010366, e-mail: iia@iia.nl.

All rights reserved. No part of this magazine may be reproduced, stored in a database or retrieval system, or published, in any form or in any way, electronically, mechanically, by print, photoprint, microfilm or any other means without prior written permission from the publisher.



# IIA-Netherlands, a dream come true

IIA-Netherlands celebrates its 10th anniversary in July 2007 with an international conference organised in Amsterdam. Over 2,000 auditors from many parts of the world will visit Amsterdam to attend an outstanding program with well-known speakers. Thijs Smit, chairman of The IIA Netherlands, is determined to use the energy that this international conference will generate to build a more professional bureau that serves the needs of the Dutch internal auditors.

Interview: drs. A. van Nes RO  
Text: B. van Breevoort

## **This year the IIA affiliate of The Netherlands celebrates its 10th anniversary. What does that mean to you?**

Thijs Smit: "Before I answer that question, I would like to go back to how it started. I was not there when the decision was made to have an IIA affiliate for The Netherlands. This happened during the first Arthur Andersen meeting that was attended, amongst others, by Jan Grooten. I was present in 1997 at the first members' meeting in The Hague in the office of Nationale Nederlanden. For me it was just a two-minute walk, because I was in my last weeks as chief auditor at TNT, which was at that time PTT Post, so my office was just around the corner. I was very impressed by that meeting, and later that

year I was asked to join the Professional Practices Committee. For eight years now I have been a member of the Board. Looking back, I can remember how it was in the beginning. In the first years there was hardly any support staff available. We really started working with a more professional support staff after PricewaterhouseCoopers offered us Mark Stekelenburg as director. Starting with a few hundred members, we have grown to approximately 2,000 members. I will not be surprised if we reach 2,500 members in the near future. If you also take into account all the excellent services we provide to our members and the forthcoming International Conference we will host in July, I truly believe that we have made quite an achievement in only ten years time."

## **How did IIA-Netherlands manage to participate in the International Conference?**

"Mark Stekelenburg, Paul Hofstra and I were in New York during The IIA's International Conference in July 2000. The exceptional program took place at Times Square, in one of the most intriguing cities in the world. The gala event was quite remarkable. It was like they were doing the millennium party at New Year's eve all over again. During the gala event

the three of us were enjoying a cigar together, which was still allowed back then, and I recall saying that we also should organise this type of event in The Netherlands. Without any hesitation everybody agreed. The very next year we went into the competition to host the next International Conference and were extremely disappointed at not being chosen, the honor going to Houston that year. In December 2002 we tried again. We were in close competition with South Africa, which had a great number of members and support staff and a good relationship with the leadership. But we still managed to win, because we were able to show that Philips, Ahold, Heineken, ABN Amro, and ING, as Dutch multinationals, supported our affiliate. This made a tremendous impression, because at first it was not clear to the Americans that these companies were based in The Netherlands. I brought letters with me from most of the CFOs and CEOs of these companies, and this convinced IIA headquarters to give us the honour to organise that important event."

## **How does the future of IIA-Netherlands look like in terms of growth?**

"In my first years as president of IIA-Netherlands, I had predicted that we



could reach the goal of 2,000 members. I knew there were between 4,000 and 5,000 internal auditors (including the public auditors) in The Netherlands that were potential members. To really reach the goal of 2,000 members, we focused on acquiring group memberships, and this greatly contributed to the growth we are seeing now. But it is mainly because we offer something substantial: the Audit Magazine, the IIA Web site, the seminars. It gives excellent value for the money. We need these good services to convince chief auditors of multinationals to sign up their department for a group membership to The IIA. We have currently 20 group memberships which give IIA-Netherlands a substantial base, in addition to the individual memberships and smaller group memberships that also contribute to the whole.”

**Is an increase in members not likely to happen, because of the internationalisation and globalisation?**

“Yes, that is an important factor and it is also very welcome, but growth is not our main goal. We needed the growth to 2,000 members to show in the international arena that we are one of the bigger affiliates and that we are one to be reckoned with. Our members participate in various international committees. We have a representation that is above average. Furthermore, with 2,000 members you can afford to maintain a substantial support staff, which makes you less reliable on volunteers.”

**There is a small group of people working in the bureau of IIA-Netherlands that relies on a large number of volunteers. How do you manage this?**

“In the beginning, we were completely reliant on volunteers, but now only 60% of the work is done by them. My aim is to structurally decrease that to 10% or 20%, because the volunteers always have to perform their duties after hours. The moment they can't deliver, for example due to understandable personal circumstances, The IIA has a gap in performance, which is totally unacceptable for a professional organisation. The bureau has now a staff of five people, but after the International Conference in July I would

Interview with Nanning van der Hoop

## Viewpoints from the director on 10 years of The IIA-NL



**1. How did you get to become director of IIA-Netherlands (IIA-NL) and why?**

“After a long, varied career in international scientific publishing, I decided to broaden my scope and look for a new professional environment. Since my early student's days I have been active in all kinds of volunteer activities, often in a leadership role and almost always with pleasure and satisfaction. As a publisher, I had contact with scientific authors, who mostly wrote for free and could easily be called volunteers – bringing that aspect into my professional life as well. That is why I decided to look for a job where professional staff and volunteers joined forces on behalf of a common goal. Although I had never even heard of internal auditing, the environment and challenges that were sketched to me in my first contacts with the then board members convinced me that The IIA was an organisation worth working for. And I was not disappointed – this turned out to be a challenging job with many returns as we managed to make the organisation grow, both in numbers and quality.”

**2. Can you describe the situation when you started your job and the developments since then?**

“When I joined in September 2001, there had not been a stable staff situation for over half a year. The first challenge was to bring back stability in the member administration, and then start (re)building the member services. I had the luck of having a very able management assistant, who was a tremendous help in this task. After half a year she was replaced by Milka Lesparre, and the two of us started building an office that could be the backbone of all the organisation's activities, which grew steadily, thanks to a very active and capable group of (mostly young) volunteers. During those years a new Web site was designed and built, and Audit Magazine was launched and immediately turned out to be a very successful and tangible representative of what The IIA-NL had to offer the profession in The Netherlands.

It took some time, however, before the membership started growing as well. The real breakthrough came with the introduction of group memberships. At the same time we identified a great need for professional development among the (potential) members. The Co-operative Education Agreement with The IIA helped to get good, existing training material, which was then presented by Dutch trainers from the profession who could add the Dutch professional flavour. This turned out to be a fruitful and highly appreciated combination. During those almost six years, our affiliate grew from about 600 to 2000 members, with strong publications and educational services.”

**3. What were the consequences for the staff?**

“The office staff grew from 1.5 to 5 full-time employees (but only fairly recently). For a long time there were the two staff members who tried to co-ordinate everything and give support to the volunteers as best they could. This was often not enough, but thanks to all those great volunteers who were willing to help out where necessary, we managed to grow our services steadily. We have quite recently switched to an office where tasks have been divided and the staff members each have their own different major responsibility areas. This also means they no longer have the full overview of all activities, and more co-ordination is needed.”

**4. What were high points for you in the last 10 years?**

“The steady growth of our affiliate, both in numbers as well as activities and services, has been and still is a reason for modest pride and professional satisfaction.

My contacts at The IIA global headquarters and particularly my global colleague CSOs have always been personal highlights. I still have very fond memories of the Global Forum meeting in Beijing, in September 2002, partly because it was my first experience with an international IIA event in person, and also because that is where the basis was laid for the growing international contacts afterwards.

like to have a larger support staff that really drives the organisation. We will focus on professionalism. Although the excellent volunteers are highly appreciated, I really think that a bureau with six people who have the right skills, the right leadership, and the right mindset can improve our performance. There are three

elements that are essential: 1. 90% of the courses, seminars, and conferences have to be organised by the support staff with just a little extra effort of volunteers. 2. The staff of the bureau has to increase their support to volunteers, and there should be more guidance by the support staff in the future. We are aware that a

number of volunteers really make the difference, but this contribution should increasingly be coming from our support staff. Therefore we should organise it in a different way and get new people in. 3. Finally, the most important area, where we have to step to the plate and deliver, is to communicate our vision on where we stand as a profession. Currently, we do not take positions in developments such as corporate governance and the report of the Frijns-committee. I can take myself as an example. I have experienced various mergers and acquisitions where the internal audit department had no role during the negotiation process. The first chance for internal auditors to really look at the processes of the acquired company was often after the merger was finalised. In many cases, the figures looked different from the ones that were presented during the merger negotiations. I have an opinion about this matter, but my time is too limited to actually write a position paper about it. So, we need an operational auditor for two days a week to report these views and fill the gap. It fits with the international goal to form a Common Body of Knowledge.”

**You are chief auditor of SNS Bank, a medium-sized bank insurance conglomerate, and you previously worked for Ahold. Why did you want to be president of IIA-Netherlands?**

“I am heavily involved in the Dutch internal audit arena, as well as at the international level. I like my profession. Being president of IIA-Netherlands gives me the opportunity to meet a lot of interesting colleagues in a very natural way. It helps me keep my knowledge up-to-date. Last, but not least, it has provided me with an elaborate network, which helps me deal with issues I encounter in my daily practice. I have been through some very big crises in previous jobs, such as the merger of the Dutch Hoogovens and Corus, and the Ahold crisis. The latter occurred two months before I became chairman of IIA-Netherlands. The Dutch business magazine Quote suggested that IIA-Netherlands honoured me with the position of chairman because of my role as whistleblower

And lately, although the International Conference in Amsterdam has required very long and increasingly intensive preparation, it has given me much joy, particularly now that we can see our cautious vision from four years ago slowly come to life and even exceed our expectations. (When we won the bid, nobody really had a clue as to how intensive and time-consuming this endeavour was going to be, nor how much satisfaction could result from this collective effort.) Here as well, the many many contacts with fellow staff members and volunteers all over the world have given me enormous joy.

And finally, after years and years of slow but steady rapprochement with the Dutch Association of Certified Operational Auditors, the very recent decision in the annual members’ meetings of both institutes to fully integrate the two organizations is the most recent highlight. This will lead to a much stronger organisation that will be the sole representative of the profession in The Netherlands in all its various aspects.”

#### 5. What were lows?

“I did not encounter any real low points, but there have been dissatisfactions when challenges were not met as envisioned. We still face quite a few major challenges. Although the profession is nowadays mentioned as a key player in many important documents in Dutch companies, it is still a major challenge to get the profession to be widely acknowledged as a critical element of business, e.g. in corporate governance.

Advocacy of the profession is still in its infancy in The Netherlands. Another major challenge is to get more frequent and more thorough professional research off the ground. For this we are happy to have close contacts with the two IIA-endorsed university internal audit schools in The Netherlands; however, this co-operation still has a long way to go toward greater mutual benefit.”

#### 6. What do you think about the functioning of the association and the staff?

“Both the institute and the office are going through a major turning point in which the services are professionalised and many (logistical) organising activities are turned over from volunteers to staff. This way, the volunteers can focus on content, and the staff on the logistics and administration. We are now also looking for dedicated professional knowledge and experience within the staff, to be better able to co-ordinate research and educational development. Meanwhile we face the fact that many of our volunteer leaders have less time available than five years ago, often leading to more distance from the day-to-day operations of The Institute. This must lead to a more time-efficient management.”

#### 7. What do you think is important for the staff and the members?

“In the coming period, in my view the most important challenge is to keep increasing and improving our professional services to our members and the profession at large. This means we should create more possibilities for good research and development of a full range of training opportunities coupled to the breadth of the competence framework. The other challenge is to get the profession more widely and solidly acknowledged, and to get the practitioners to help us achieve that.”

#### 8. What would your goals be for the staff and IIA-Netherlands for the next 10 years?

- To solidify the membership in such a way that we can keep acting as the one and only representative of a profession that is widely acknowledged to be a key player in corporate governance (including in the public sector).
- To tie our members to The Institute by offering them the products and services they need to perform their job in the best possible qualitative way.
- To keep being sufficiently attractive to volunteer leaders so that we always have the benefit of their professional input and support in generating the right output.
- To do all this in close co-operation and consultation with our European neighbours, other affiliates around the world, and the global profession.”



at Ahold. It was an amusing statement, because it was simply not true. In both crises, however, the position as chairman of IIA-Netherlands helped me, then as well as now, to give me a break from the daily problems I had to solve. Moreover, it was not bad for my career, because my last three job offers came from contacts within my IIA network.”

### What are the opportunities for the international conference in Amsterdam in July 2007?

“The three-day conference will require a lot of energy. You can see it and feel it coming. The risk is that all the energy will dissolve after the conference. I recognized that risk a year ago and it will not happen, because the Board will make sure that we stay focused on all the things we have to do. We will show the chief auditors in The Netherlands that we are the recognized advocates of the profession. We will convince them that a group membership unquestionably adds value. This is not easy, because chief auditors of Dutch companies increasingly come from abroad. They don’t readily see the value of a group membership, because they are not familiar with the Dutch situation. That’s why we really have to get our act together. We will therefore organise a special chief auditors lunch during the International Conference to show on a European level that we are an essential resource for auditors who are working in an international arena, because of the extra skills needed to work with international colleagues.”

### What are the future goals of IIA-Netherlands?

“The big challenge for next year will be: getting a bigger and more efficient support staff. We will spread the word about the ‘IIA’ brand and will strongly and positively position the role of our profession in the business environment. At the moment, not every internal auditor immediately thinks about The IIA when he or she wants to further develop professional skills. Our goal is to be among the top ten affiliates in the international arena, because I don’t think we’re there yet.” □

## 10 Questions to Paul Hofstra, one of the founding fathers of IIA-Netherlands

### 1. How did the idea come about to start IIA-Netherlands?

“This idea emerged from the need to develop a separate chapter from the Benelux Chapter. The developments within internal auditing took such a pace that there was a sufficient foundation to build our own chapter next to Belgium. We realized, however, that we could only succeed if there was enough support from the other audit associations, which meant close cooperation with the VRO (Association of Operational Auditors), INTAC (Internal Accountants) and IIA-Benelux.”

### 2. What brought you to the founding meeting at Warnsborn in 1996? Whom did you represent?

“I was treasurer for the VRO and, together with Frank Vrolijk, represented the organization at that meeting.”

### 3. What was your objective upon founding the Netherlands affiliate?

“The primary objective was to establish a solid foundation for the chapter. This meant a common understanding among the other associations, which turned out to be quite difficult because of the different opinions held by each association about the profession and practice of auditing.”

### 4. Has the objective been reached, or if not, is it within reach?

“It certainly has come within reach, and maybe even realized. The key obstacle was the perceived disagreement between financial accountants and other auditors about the profession. In my opinion, that perception is gone. The contradiction stemmed from the desire of a young association, the VRO, to create an own identity, to differentiate itself from the established association of financial accountants (NIVRA).”

### 5. What do you consider to be the high points of the first 10 years of IIA-Netherlands?

“For me personally, the highs were the signing of the founding act of IIA-Netherlands in 1997, and the official recognition of our affiliate by IIA global headquarters. I would also include the International Conferences -- Dallas 1998 and New York 2001 -- during which the foundation was laid to organize and host the conference in Amsterdam in 2007, this very July, in fact.”

### 6. What were the lows?

“The lows would definitely be the fruitless and tiring efforts to merge VRO and IIA-Netherlands. This has taken too much time, in my opinion. Thankfully it finally has become successful, although much later than I had initially hoped.”

### 7. What is your opinion about the Institute right now?

“My opinion is very positive for several reasons. IIA-Netherlands has developed into a professional and still-growing association with plenty of dedication from its members. That is a true asset. Despite the growth, there is hardly any bureaucracy due to a reasonably small professional staff. Secondly I have read the last few years a number of publications that have been truly influential. I would like IIA-Netherlands, however, to further develop to become a true counterpart on the highest political levels. The internal auditors sometimes are kept too much in the shadow of the Nivra, despite our numbers and our professionalism.”

### 8. What have you gained from your hard work for the association?

“Most of all the enjoyment of working as a chairman for four years together with a special group of colleagues in founding IIA-Netherlands and to build it into what it has become today: a powerful and respected association in an exhilarating professional area. It has truly been an energizing experience of which I hold good memories.”

### 9. What developments in auditing in The Netherlands do you foresee?

“I think the internal audit profession is still in its infancy. The enormous momentum in managing and leading complex businesses and government bodies relying more and more on information technology will lead to many interesting discussions around integration, governance, and transparency.”

### 10. What is your aim for IIA-Netherlands over the next 10 years?

“A dominating and visible role in the (internal and political) discussions in which the interests of the profession and the practitioners are well represented. And perhaps the hope that this visibility will lead to balancing the dominant position of The IIA Inc.”

# Founding the IIA-Netherlands

To have a professional organization of their own was for some time a shared desire of internal auditors in The Netherlands. Although there was an IIA chapter in The Benelux and some Dutch internal auditors were members, this was not an ideal situation. Besides, there were several developments in the professional environment, such as the growing importance of the operational audit as an element of best practices, that intensified the need for a local professional organization to serve the needs of internal auditors in The Netherlands.

E. van Dijk

In 1996 at the invitation of Arthur Anderson, a large number of chief internal auditors gathered in Warnsborn, near Arnhem (Netherlands), for a workshop, whose subject was "The Future of Internal Audit." The workshop was a big success, so much so that its results have been followed up and explored in more detail in future workshops over the years. One of the conclusions of the chief internal auditors at the Warnsborn workshop was the need for a professional organization for internal auditors in The Netherlands, and that the time had come to found such an organization. All in all, this was really a result of logical developments in the profession, especially as they applied locally.

## Goal of the founders

The goal of the founders was to create, alongside and in good collegial and professional cooperation with the NIVRA (Netherlands Institute for Register Accountants), a professional organization dedicated to internal auditors in order to:

- Give upper management of companies with an internal audit function guarantees for high level professional internal audit services;
- Offer a resource for all internal auditors in The Netherlands who meet the determined high standards for skills and expertise, including those who cannot obtain NIVRA membership;
- Realize an adequate description and positioning of the internal audit function in The Netherlands;
- Facilitate and support courses, training, research, and development of professionals and professional practices to contribute to sound, contemporary high level professional practices;
- Advocate the profession of internal auditing.



From the left to the right: Rob Krieger, Hans Nieuwlands, Herman Baars, Ad van Alphen, Leen Paape, Jan Grooten, Herman Tijthof (deceased), Evert van Dijk, Rob Geerdink, Hans Borghouts.

Because almost all Dutch internal auditors were active in companies with international business activities, it was obvious to the founders of the professional organization to

partner with the worldwide and reliable Institute of Internal Auditors (IIA). In this way, an immediate and capable start for the organization was made possible. Joining The IIA also meant that IIA-Netherlands realized the advantages of the organization's worldwide expertise and support that gave extra possibilities for international positioning and especially for the guidance and training of internal auditors in The Netherlands.

## Developments

Since the foundation of IIA-Netherlands, there have been enormous developments in the world of financial-economic matters greatly impacting both internal and external auditors as a result. Several new rules of supervisory bodies with respect to external reporting, and explicit responsibilities and codes of conduct for top-management, independent of external auditors, were enacted, for example IFRS the Sarbanes-Oxley Act, Corporate Governance, more strict codes of conduct and quality assessment of the NivRA. The newly founded IIA-Netherlands had to deal with this turbulent environment and took up the challenge of facing these developments.

A high point is the close cooperation with the VRO (Association for Register Operational Auditors) finally resulting in a merger. Other highlights include the presentation of the document "The Profile of the Internal Auditor" to the chairman of the VNO (the Dutch association of entrepreneurs); the publishing of the "Competence Framework"; and the successful "roundtable meetings" conducted by this young professional organization. The low points are few, but not getting the chance to contribute adequately to the Commission Tabaksblat (Corporate Governance) was very disappointing.

## Proud

All in all, IIA-Netherlands can be proud of what it has achieved, but there are very big challenges in the times to come. For instance, in The Netherlands there are still fundamental differences in objectives and scope of job descriptions as well as in positioning of internal auditors, which cast a cloud upon the image of internal auditors. Of course differences are not only understandable, but even appropriate depending on size, typology, and management of companies concerned, but too often the internal audit function has not been positioned adequately, whereas also unfortunately the level of professional practices sometimes needs to be upgraded.

In an ideal world, the partnership between internal and external audit, assuming the right conditions regarding professional quality and positioning, delivers real added value for all stakeholders. External auditors get a much better basis for their independent opinion, internal auditors can operate more efficiently and more effectively, and top management receives better support for managing the business, especially when it comes to business risks and accountability to the public. Moreover an important advantage will be that the cost/benefit ratio of auditing will improve. Now is the time for IIA-Netherlands to work toward making this

ideal a reality, now that the organization has grown and developed the resources to take up these challenges.

Internationally, IIA-Netherlands can be of very great importance. In The Netherlands the manner of practices, particularly in relation to external auditors, is often very special. The fact that all registered accountants in The Netherlands, no matter their professional activities, are member of the NivRA is a very important factor. The so-called multiform organization policy of the NivRA led to a special professional alliance of external auditors with internal auditors that then led to the special relation in the professional practices. With respect to professional cooperation with external auditors, IIA-Netherlands can be a trendsetter for the international professional practices. Of course, this will require much patience and many efforts to prove the value of optimal cooperation between internal auditors, external auditors, and top-management. Of essential importance is to advocate that the supervising bodies in the world also recognize this.

## IT Audit

As said before, significant changes in auditing are happening worldwide and will continue in the years to come. In internal auditing, there is a trend from financial audit towards operational audit, in which the quality of management will get attention more and more as the subject of auditing (management-oriented audit). In addition IT audit will become even more important because business management in all aspects will be driven more and more by IT.

The big challenge for IIA-Netherlands is to take the lead in these developments. In the history of professional developments in The Netherlands, internal auditors have frequently acted as trendsetters, and IIA-Netherlands can and should continue this role.

I myself have put a lot of energy into IIA-Netherlands, and I have gotten much in return for my time and efforts. I am convinced that IIA-Netherlands has clearly proven her *raison d'être*, which gives me a great deal of satisfaction. In the course of my activities I have had the pleasure of meeting many respected colleagues, not only enriching my professional life but also creating many fine memories. This is an exciting era of internal auditing that we now enter, and I look forward to facing the challenges as part of The IIA and IIA-Netherlands. □



Evert van Dijk, former Chief Audit Executive of ABN Amro Bank, retired in 2002. He was a board-member of IIA The Netherlands from 1999 until 2003.

# Double Dutch Pass organizing the IIA 2007 Conference in Amsterdam

*Audit Magazine* had the opportunity to talk with two driving forces of the international conference in Amsterdam: Herman Baars, the IIA 2007 International Conference Amsterdam Chairman, and Leen Paape, Conference Chairman of the Program Committee. Ronald Jansen, editor of *Audit Magazine* interviewed Herman and Leen to get a better understanding of their points of view concerning the Amsterdam Conference. Also a great opportunity to look behind the conference show...

Drs. R.H.J.W. Jansen RO



Herman J. Baars RA RO CIA, IIA 2007 International Conference Amsterdam Chairman.

## How was it decided to hold the 2007 International Conference in The Netherlands?

“The idea was born at the June 2000 International Conference in New York. The idea was in line with the intention of the Board of IIA-Netherlands (IIA-NL) to expend the international contacts and resources to serve the IIA-NL members.”

## What was your role concerning this idea?

“I was involved in the first meetings with IIA headquarters repre-

sentatives. During the 2000 International Conference I sent an e-mail to the International Conference Committee that IIA-NL was prepared to host an International Conference in the future. Together with Hans Nieuwlands, who did most of the bidbook preparation, I presented our bid to host the 2006 conference during the Mid-year meetings in Orlando in December 2001. We lost to Houston (Texas, USA) because the decision had been made that the 2006 conference would be in North American and the 2007 conference would be outside North America.”

## How did you eventually succeed?

“We invited the former IIA President Bill Bishop and the then Chairman of the Board David Richards to the Netherlands to make them more familiar with the people here and what we had to offer. We also updated the bidbook for the conference of 2007 and during the Mid-year meetings in Orlando in December 2002 Thijs Smit and Arie den Butter presented our bid a second time. We won by a narrow margin over IIA South Africa, whose bid was strong enough to merit an immediate guarantee for their organization to host the International Conference of 2009.”

## Who were the competitors and why was Amsterdam chosen?

“We were determined to win and put in what I truly feel was the best bid out of several competing affiliates. We did a good offer presenting a strong organizational team that would make the conference financially successful. Other factors that impressed the decision makers were the appeal of our beautiful city of Amsterdam, and the support of the big international companies whose main offices were in the Netherlands.”



**How was it managing such a large project/team?**

“Well, it was a challenge, and in some ways an adventure. Overall it was a greatly satisfying experience and a pleasure to work with so many dedicated and involved people.”

**How did you organise the whole process?**

“After I was chosen as chairman by the Board of IIA Netherlands in February 2003, we set up an Executive Organising Committee (composed of Nanning van der Hoop, Hans Nieuwlands, Piet Vrolijk, Frans Wolf, Heiko van der Wijk, and myself), established a Foundation (Stichting IIA International Conference Amsterdam 2007), described our functions and tasks, installed specific committees, and recruited the chairpersons to make plans and meet frequently to discuss the forthcoming risks and specific control measures.”

**What were the highlights of the last three years?**

“Getting the contract with IIA headquarters signed because it officially began the process and established the basis for a good international cooperation. The very enthusiastic reactions of the IIA headquarters delegations visiting our country to see our presentations and progress. Seeing the main proposals concerning hotels, convention centre, gala event, and program accepted, approved, and supported by all responsible and involved people and organisations. Most special of all were the successes of the past year, such as the sponsor and exhibition contracts, the number of registrations (a full house by the end of May), the creation of the brochure and Web site, and the planning and progress of recruiting volunteers.”

**What were absolute lows?**

“The passing away of Bill Bishop, who played such an important role to get the conference in Amsterdam and who supported us so strongly, was hard to accept. Of course we also had to face some organisational and personal difficulties, but the team was always there to help each other and to find solutions.”

**What issues do you still have to organise in the weeks before the conference?**

“Every committee has final arrangements to make. So many logistical details have to be taken care of. Special emphasis will be on organising and instructing the volunteers and exhibitors, and coordinating the movement of the delegates around the conference building.”

**What else do you like to share with us about organising this large conference?**

“It’s a huge event which could not be a success without the help of so many enthusiastic people. We all had to be ‘in the flow’ to handle everything, which we were and will be.” □



Leen Paape RA RO CIA, IIA 2007 Conference Program Committee Chairman.

**How did they manage to get you, Leen, as Chairman of the Program Committee and how did you start with it?**

“Hans Nieuwlands asked me to do this due to my role as program director at the Erasmus University (EUR) in Rotterdam. In my innocence I thought the amount of work wouldn’t be too much, but I soon found out otherwise. After that I started recruiting volunteers to help me developing the program around the theme ‘Get into the flow’. This was a fantastic theme for a water-rich country like The Netherlands. And, of course, the Program Committee (about 15 people) got ideas from preceding conferences.”

**What is innovative in the Dutch program in relation to preceding conferences?**

“With a theme like ‘Get into the flow’, we had to pay attention to the special track J, ‘Sustainability’. The theme of the conference refers to the internal audit profession that can be linked to the flow of water and the sustainability of our business practice is one of the upcoming governance issues. However, this theme raised some questions at IIA headquarters. But as this theme is more a part of our fabric in Europe than in the USA, eventually we agreed to use it. The second innovative part is concerning the Practitioners and Educators track ‘to prepare the next generation’ (track K). Amsterdam will be the first conference ever that elevated the educators’ contribution to a full blown track. A third issue is that we tried to reduce the number of consultants as speakers. This was not so innovative, but it has an effect on the composition of the conference.”

**Did you manage to find a good mix of themes and speakers?**

“In my experience it’s important to be a little bit willful in organizing these kinds of conferences. A lot of ideas have been generated in previous IIA conferences. For example, there’s an IIA Handbook providing guidance for organizing committees. Surely



we followed the Handbook as closely as possible, however, to some extent we wanted to make our own way. That fits the character of The Netherlands! We tried to break fixed patterns. For example, we tried to enlist a substantial number of female speakers for the conference. Unfortunately that did not work out as we had hoped for. Our attempt to involve our Royal Highness, Prince Willem-Alexander, as an expert in water management, fell through as well. As a member of the International Olympic Committee he had to visit a conference somewhere else. But we shrugged off those setbacks and kept trying. Eventually we got a great mix of themes and speakers from around the world. One look at the brochure and the program makes this clear. We have a record of some 130 speakers/panelists from some 30 countries.”

### What was the most distinctive thing about organizing the conference?

“That’s an interesting question. The IIA’s approach is to generate as much publicity as possible with the lowest costs possible. For one, the guidelines around travel and accommodation reimbursement has somewhat puzzled me. According to the general guide-

lines, speakers only get limited compensation for cost of travel. Others, like the academia in track K, are fully dependent on compensation from their universities.

Also, as program committee chairman, you’re a popular guy for a while and get a lot of correspondence, for instance from speakers everywhere offering their services – and I received some good ideas!

As a fanatic for my subject, I put in a lot of energy and time. Overall, organizing such a conference has been quite an interesting and unique experience, for IIA The Netherlands, the colleagues of the Program Committee, and for me personally. I look forward to the start of this major event.”

### The conference should trigger the participants to start thinking to further develop the profession. Leen, in The Netherlands you’re an authority in the internal audit field. What developments do you see in our profession for now and the near future?

“In the last year a lot has happened whereby the profession has gotten more attention, but it is developing too slowly. As a profession we’re not fully able to promote the need for transparency and self-governing capability. One thing is sure: the world won’t wait for us auditors to work out our differences. Internally we must continue discussions, while also focusing on communicating with management about the added value of our profession. In my view, so far we have fallen short in these issues.

We see this, for example, in the way we want to introduce the IIA’s Standards (The International Standards for the Professional Practice of Internal Auditing). The Standards require an external review at least every 5 years. The first time this Standard was due was December 31, 2006. How serious is an internal audit department that by mid-2007 has not yet had an external review? What does it say if an IAD appears not to meet the Standards of its own profession? Would we prefer to be governed by outside legislation, as is the case with external auditors? Will we wait for that? In my professional experience I learned that having rules and regulations don’t mean the objective view of a third party is redundant. An outside view is needed to get focussed. That’s quite normal for our customer, but in the meantime also very healthy for our own profession. My point is that we may need some pressure to improve the quality of our service delivery. Look at what happened to the external audit profession! Although there are certainly downsides, I believe it did them good. I hope and expect that the conference will contribute to the preparedness of the internal audit practitioners. I wish them three wonderful days.”



The results of this year's PricewaterhouseCoopers State of the Profession Study are in. The 2007 study is part of a continuing series reflecting the consensus opinion among internal audit leaders. The current study identifies five key trends:

- A widening role for internal audit in managing risk.
- Stabilization of the demands from Sarbanes-Oxley.
- An emerging "capacity crisis" among internal audit staff.
- Rotational staffing as a key strategy to refresh and renew talent.

- Concerns around audit report ratings as the best way to achieve important internal audit objectives.

How do you meet these challenges and new demands? How can you accelerate your risk assessment? Where will new ideas and innovation come from?

To learn more about the strategies you can use to address today's challenges, visit [www.pwc.com/internalaudit](http://www.pwc.com/internalaudit) to download the 2007 State of the Profession Study.

# the state of the profession.\*

\*connectedthinking

PRICEWATERHOUSECOOPERS 

# Internal audit careermakers from abroad

When **Johan Hundertmark** was working as department head for Global Due Diligence Management (GDDM) in ABN Amro Group Audit (based in the Netherlands), and was offered the opportunity to work abroad in Saudi Arabia as head of internal audit at Saudi Hollandi Bank (SHB) for a three-year assignment, he didn't think twice.

“The opportunity to work in such a specific country as Saudi Arabia, in this role as head of internal audit, was highly appealing to me when it was offered in early 2006. The Saudi Hollandi Bank (SHB) is a 40 percent participation of ABN Amro Bank, and there is an 80-year



relationship between the two. ABN Amro has a technical assistance agreement with SHB providing them assistance on management and operations without having a direct managerial say on the day to day activities. So while I am on the SHB payroll, I am still considered an ABN Amro expat working abroad.

The Global Due Diligence Management (GDDM) at ABN Amro Group Audit is the department of ABN Amro Bank that is taking care of all operational aspects globally related to 'Know your Client' (KYC) and 'Client Acceptance and Anti-money Laundering' (CAAML). Before, I

used to be responsible for the financial audit department of ABN Amro Group Functions and Business Unit Netherlands. In that role I was responsible for leading the teams within ABN Amro Group Audit, and as such my primary goal was to support Group Audit ABN Amro in attaining their global audit coverage, respectively for finance audit and for audits on GDDM. These experiences both required an international and flexible way of working that I deem a necessity to make the step I have made recently. Leading various teams on various subject matter audits provided me the pleasure of building teams and of achieving our ambitious team goals.”

### Achievements

Johan is proud of his achievements at ABN Amro Group Audit. “I am particularly proud I was able to lay the foundation of the revival of finance and financial audits within the ABN Amro Group Audit. Six years ago, the pendulum had moved too much towards operational audits only. I had the privilege to lead the pendulum on its way back to a healthy equilibrium whereby we now have a healthy balance between operational, IT, compliance and financial audits. As head of internal audit of the Saudi Hollandi Bank, I lead a team of 16 people of various backgrounds and nationalities. Furthermore, I am part of the senior management committee of the bank and as

such co-responsible with my colleagues for the bank overall. As I always have advocated that internal audit should be seen as an integral part of the business, this role realises this pretty well.”

### Once-in-a-lifetime opportunity

“I love the opportunity to work in such a completely different culture and environment, combined with the possibility to be ultimately responsible for an entire bank in the internal audit function, including all internal and external relationships. It is a once-in-a-lifetime opportunity to work in this booming market for a bank that has a long history in the country in a role that is so complete. For my age (36) this responsibility as part of management of a listed company in Saudi Arabia is excellent.”

Johan finds the work-life balance in Saudi Arabia better than it could have ever been in the Netherlands. As a down-to-earth Dutchman, he's a bit ashamed to admit that having a gardener, a maid, and a driver has improved the quality of life for him and his family tremendously. “Especially with three children, aged 4, 2 and 1, it gives me the perfect opportunity to spend much more quality time with them, without concerns about shopping and cleaning. My wife was able to stop working to focus on her studies and the children. Besides spending time with my family, I love to play golf and to take my 4x4 Toyota Land Cruiser to the desert for fantastic trips in the weekends. It is the best opportunity to use the 'PC-Hooft-tractor' for what it is really made for.”

Clearly, Johan is having the time of his life in Saudi Arabia, and he does not plan to come back to the Netherlands any time soon. “My next role will be within ABN Amro (or its legal successor) again. In a few years time, I'd like to be head of internal audit of a larger entity in another country, somewhere in the world.”



Last year **Gil Strahl** joined Liberty Global Europe (based in the Netherlands) as IT Audit Manager Europe.

Gil grew up in Israel, moved to Germany at age 24, and graduated from the University of Mannheim (Masters Degree in Computer Science and Business Administration) in 1999, and started his career as an external IT auditor and consultant at Arthur Andersen in Munich in the Technology Risk Consulting division. Three years later he moved to Frankfurt, working for Deutsche Bank.

“After working three years as a senior IT Auditor (CISA), I joined the Deutsche Bank Retained Organisation team in 2004, managing the outsourced settlement business to Xchanging, ensuring a smooth transition to the new service relationship. The main focus was the realisation of cost targets, delivery of agreed service levels, managing risk according to the requested thresholds, and the implementation of a meaningful investment governance process. I was part of the Risk and Compliance team, responsible for ensuring compliance with legal/regulatory and internal standards, developing and implementing a comprehensive, exception-based risk monitoring system, covering all risk types in coordination with Operational Risk Management, as well as creating and operating a compliance management process. My responsibilities also included ensuring an appropriate IT security management process, facilitating execution and coordination of regular internal and external audits, closure of audit issues, and tracking of audit reports. In these two years I was also the overall project manager for the Network Separation project, logically and physically separating Xchanging from Deutsche Bank systems and controlling the access from the buying party to Deutsche Bank systems.

Deutsche Bank is a very professional and demanding environment, which gave me the opportunity to see a great variety of

IT applications, infrastructure platforms, and technologies, and to learn and experience IT/IS audit, risk, and project management. When the Outsourcing Management project in Deutsche Bank got to the stage where most of the processes and procedures had been implemented and only routine operations were required, the high performers in the project team started moving on.”

#### Adjusting

After having lived in Germany for almost 13 years, Gil and his wife decided to explore living in another location in Western Europe. “We moved to the Netherlands in June 2006. For me and my family, it was easy to adjust to life in the Netherlands. The mentality is relaxed and closer to the mentality in Israel. One thing that makes life much easier here is the fact that everybody can speak English. I love the general life approach of the Dutch. People in the Netherlands are happy, have a smile on their faces, are very friendly and open to foreigners, and have a good sense of humour.

In Germany, work gets the first priority. In the Netherlands, there is life after work, and therefore personal life is appreciated and tolerated more. I am no less efficient or effective than I was in Germany, but here I have more time to spend with my family (I have two daughters, 2,5 and 4 years old) and for playing tennis and squash on a regular basis on a competitive level. My wife and kids are very happy with the change and the new country and were able to find new friends and integrate very quickly. Knowing German and English is helping us to learn Dutch quickly.”

#### Challenges

At Liberty Global Europe Gil is the IT Audit Manager for Europe. Liberty Global is the leading international cable

operator, offering advanced video, voice, and Internet-access services to connect their customers to the world of information, communications, and entertainment. Liberty Global is active in Europe, South America, and Asia. “My responsibility is to set up a professional and knowledgeable IT audit team that will plan, organize, conduct, and formally report on IT audits including SOX in all the 11 coun-



tries in Europe and also support, whenever required, the South American and Asian entities.

In my current position, my main challenges are to achieve global risk and IT security awareness across the organisation, to become a business partner of the different departments in the company, to add value and influence by showing that our audits can add value to the efficiency and effectiveness of the internal business processes, and to build a strong IT audit team. I love having global management responsibility in Europe and using my languages (English, German, Hungarian, and Romanian) while visiting and working with our subsidiaries in Europe. I like the international working environment at Liberty Global, the variety of technology, the location, and the people. The internal audit department employs very good and professional people, and the team atmosphere is very nice and pleasant.”

FEEL FREE  
FEEL FREE

TO TURN  
TO TURN

THE PAGE  
THE PAGE

Frankly, you don't have to spend much time thinking about us. Nor do you need to concern yourself with trivial affairs like staples, toner or memory sticks. As a single-source supplier of business products, we take care of all your office needs. That's why our customers can devote their resources, energy and time to the business at hand. Or even to reading Audit Magazine.

**From products to productivity.**



Productivity in your hands.



# What Does the Audit Committee Expect from a State-of-the-Art IA Department?

Imagine you are charged with understanding a big organization, say 10,000+ people worldwide; providing oversight and evaluation of senior management, a bunch of highly paid, aggressive, smooth-talking people; knowing that the strategic direction of the organization is right, even though the future is unknown; separating multi-year, billion dollar 'good' projects from multi-year, billion dollar 'bad' projects; and you have at most ten days out of every three months to do it. Oh, and all the information you get is thoroughly rehearsed, filtered and reviewed by self-interested parties. Welcome to the audit committee of the board of directors!

L. Hubbard

On the other hand, running an audit department used to be easy, or so it seemed – there were clear priorities for running a department that audited for compliance with policies and procedures. Then controls entered the picture, then risks, then whole new initiatives like balanced scorecards and Six Sigma and COBIT and ISO 9000-something. And then someone put SOX on it. How is a small audit department supposed to give the audit committee an accurate opinion on internal controls when all this other stuff is flying around the different parts of the organization? And just what do the audit committee and board expect from an IA department anyway? Welcome to the job of chief audit executive, where one inaccurate report issued at the wrong time could mean the end of your career with the organization.

There is a way to provide the governance information the board needs from all the information flowing around the organization, and the CAE has a critical role as the 'Keeper of the Cube' - the COSO cube, that is. But it will take everyone involved playing the correct role in the internal control system. After all, governance is about flows of information about risks and controls, and it doesn't matter who supplies the governance information, just as long as it's accurate and that management and the board are getting enough of it.

## The Board and the Audit Committee

A board of directors has a wide set of duties and is responsible for supplying oversight and evaluation of company management.

The audit committee has a more specific subset of responsibilities, providing oversight of financial reporting, risk management, internal control, compliance, ethics, management, internal auditors, and the external auditors.<sup>1</sup> Both groups are highly dependent on company management for information about the activities of the organization. After all, management is at the company every day, while directors are only involved a couple of weeks during a quarter. The problem is not a lack of information – the top challenge of the audit committee is managing the volume of information it receives.<sup>2</sup>

Good governance begins with the audit committee clearly defining the information it needs, and then being sure the information it receives is accurate and timely. A top-notch internal audit department can help with both the definition and the accuracy of that governance information. The first step is clear definition, across the organization, of internal controls – this is the heart of governance information flow.

## A Definition of Internal Controls

Many good definitions (also called frameworks or models) of the phrase 'internal control' exist around the world. It really does not matter which definition an organization uses, as long as the board, management, and the auditors all use the same one. In the United States, the COSO (Committee of Sponsoring Organizations of the Treadway Commission) definition of internal con-



trol, called *Internal Control – Integrated Framework*, is widely accepted, and also widely misunderstood. COSO more recently issued *Enterprise Risk Management – Integrated Framework*, which despite some differences is much the same as the original framework, but only marginally helped with its understanding.

Internal control and ERM, using the COSO definitions, are basically like a coin – looking at one side you can see ‘tails’ and looking at the other side you see ‘heads’ – but it is the same coin. Whether it’s called internal control or ERM, the concepts are exactly the same and really not that difficult to understand. The COSO frameworks are only complex when someone tries to treat them as a menu or checklist or apply them too literally. The same thing goes for CoCo, Cadbury, and all the other definitions of internal control – the concepts are the same, and none of them are checklists. They are principles, not rules.

Internal control is a management responsibility that has four

major, sequential steps. These steps can provide management with reasonable assurance that business objectives will be met. Similarly, when auditors are evaluating internal control, they need to gather evidence that all four steps are functioning as intended.

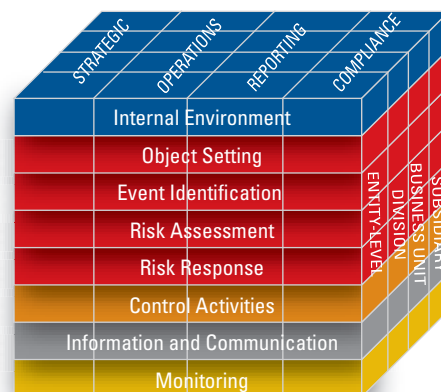
### The Four Steps of the Internal Control Process

To design internal controls (a management responsibility) or to evaluate internal controls (an audit responsibility), four things, in sequence, need to be understood.

First, what impact does the management-created working environment have on the people in the organization? Does it ‘help’ them achieve business objectives, while staying within ethical and legal boundaries (sometimes called a value statement), or does the environment encourage people to achieve business objectives regardless of what it takes to get there? This is called the control environment or internal environment by COSO. An environment is not a tangible ‘thing’ and cannot be seen on policy statements or hard-copy reports. But, it certainly exists in every organization and impacts people’s attitudes. The environment can only be self-assessed by those actually working in the environment. Internal or outside auditors cannot evaluate the environment by simply reading documents or listening to management.

Second, clearly stated objectives and goals must exist, and workers need to know what to do to achieve those goals. This includes how to respond to risks that might get in the way of achieving the objective. Management also must put mechanisms in place to determine if the responses to risks are in fact working. In COSO, these are called the risk assessment and control activities components. No one can ever pre-identify all risk events, so this step is really about ‘being prepared regardless of what happens,’ not about trying to predict the future – because no one can do that.

Third, there must be a monitoring process in place to be sure problems are being reported in a timely manner and that some-



The COSO-model

one besides management looks at the control processes on occasion. This outside look at controls is normally done by the auditors, but it also can be done by regulators and other groups.

Fourth, and finally, everyone needs to be getting the information they need to do their job, and that information needs to be flowing freely around the organization. This includes information about controls, objectives and risks, and monitoring efforts, and is another aspect of internal control that can only be self-assessed. These third and fourth steps are, of course, COSO's monitoring and information & communication components.

When everyone has the same definition of internal control, information can flow from every part of the organization into the governance process and be consistently understood. In many organizations, total quality management, ISO 9003, Six Sigma, balanced scorecards, and other methods of achieving business objectives are used. It would be counter-productive and even damaging to try and replace these efforts with an internal control definition; instead, the information those efforts produce should be mapped, using the framework of internal control, into the governance process. Mapping the information flows in an organization can make the chief audit executive the 'Keeper of the Cube' and also the solution to the audit committee's number one concern – managing the volume of information it receives.

### CAE – Keeper of the Cube

Governance is about accurate information flow, and audit reports help with information accuracy, but that is not enough. The data also needs to be managed and coordinated so those receiving it understand where it fits into their overall responsibilities. Only then can it be easily understood and acted upon. The board, in their ten days a quarter, does not have time to map information flow. The CAE can do that mapping for them, using the COSO cube.

At the front of the cube are the components of control, the same four steps as outlined above (Objective Setting, Event Identification, Risk Assessment, Risk Response, and Control Activities are all part of Step 2). Across the top are categories of business objectives – these four categories can include all the objectives of an organization. The depth of the cube comprises organizational units – a slice for each unit, however deep the organization is in size. So, internal control is really about filling the cube with information – each sub-cube (and there are 64 sub-cubes in this cube: 4 components of control times 4 categories of objectives times 4 organizational units) represents a 'bucket' that needs to be filled with information. If the bucket contains accurate information, then that part of internal control, for that objective, in that part of the business is working.

If there is no information in a bucket, the audit committee needs to decide who should supply it with the information. It does not matter who puts the information in the buckets – internal audit,

TQM, ISO 9003, the external auditors, human resources, planning, etc. What matters is that each bucket of the cube contains accurate information, and that management and the board are considering and taking action where necessary.

Internal audit has the opportunity to identify what organizational units and efforts are putting information into the buckets, and then determine who is assuring timeliness and accuracy of the data items. Only with the cube full of accurate information can the board, audit committee, and management focus on their real duty – building shareholder value. Internal audit, with their knowledge of controls and breadth of responsibilities in the organization, is the only group that can take the lead in assuring the accurate, timely, and complete flows of information needed to be the Keepers of the Cube. □



Larry Hubbard (USA) is a professional trainer and consultant with a background in accounting, auditing and finance. Larry is one of the speakers of the IIA Conference in Amsterdam, Track C: 'Best Practices in Internal Auditing'

### Notes

1. *The Audit committee: Purpose, Process, Professionalism* published by The IIA
2. *A Survey of Corporate Directors* – December 2005 – February 2006 by Hart Research for National Association of Corporate Directors



# Survey: 'Internal Control Statement in the Netherlands'

Issuing an Internal Control Statement (ICS) has become an important and challenging subject. To enhance the knowledge about the nature, content, and realization manner of In Control Statements in the Netherlands, The Institute of Internal Auditors (IIA Netherlands) and Dutch Association of Chartered Operational Auditors (VRO) carried out a survey between December 2005 and June 2006.

F. Wicaksono, P.A. Hartog and A. Bast

The survey was conducted by sending questionnaires to the management boards of 248 organizations of both public and private sectors located in the Netherlands.<sup>1</sup> A total of 75 organizations (30%) from both sectors participated in this survey: 37 from public institutions (42%), 32 from private companies (19%), and six from anonymous respondents.

Due to the relatively low response rate, the results of this survey should only be seen as indications. This article highlights the survey results. A more elaborate and detailed description can be downloaded from the Web site of IIA Netherlands ([www.iaa.nl](http://www.iaa.nl)).

## 1. Use and Presentation

Seventy-one percent of the respondents already have issued an ICS, and another 16% were planning to do so in the near future (year 2005/2006). Thirteen percent of respondents (10) indicated that they did not issue and are not expecting to issue an ICS in the near future, of which seven are public institutions.

All private companies who issued an ICS (or are planning to do so) issued their ICS in the Annual Report, while only 65% of the public institutions are doing so. Results revealed that the ICSs are not in one specific and fixed place in the Annual Report, which is in line with the conclusion given by the Monitoring Commission ('Frijns').

Companies mostly stipulated their ICS in the Risk Management paragraph (more than 60%), as well as in a separate section and in the Corporate Governance paragraph of their Annual Report. Forty-eight percent of the public institutions and 35% of the companies (who issue an ICS) also present their ICS as an internal statement for higher level management.

## 2. Motive and objective<sup>2</sup>

Not surprisingly, almost all companies have (only) corporate governance (Tabaksblat Code or Sarbanes-Oxley) as their motive for issuing their ICS. Public institutions, on the other hand, have a greater diversity in motives. Nearly two-thirds of public institution respondents claimed 'VBTB, IBO Regeldruk & Controletoren' as the main reason, but one-third said that they are inspired by internal motivation. In the case of municipalities, that figure jumps to 64%. By comparison, internal motivation was an essential reason for only 7% of the companies.



Drs. P.A. Hartog CIA, 1963, Senior Auditing Consultant at Auditing & Consulting Services (ACS), [p.hartog@acs.nl](mailto:p.hartog@acs.nl)  
 Drs. A. Bast EMIA RO, 1967, Head Internal Audit Department at Royal Wessanen nv, [arie.bast@wessanen.com](mailto:arie.bast@wessanen.com)  
 F. Wicaksono, 1982, Intern at Royal Wessanen nv, [felani.wicaksono@wessanen.com](mailto:felani.wicaksono@wessanen.com)



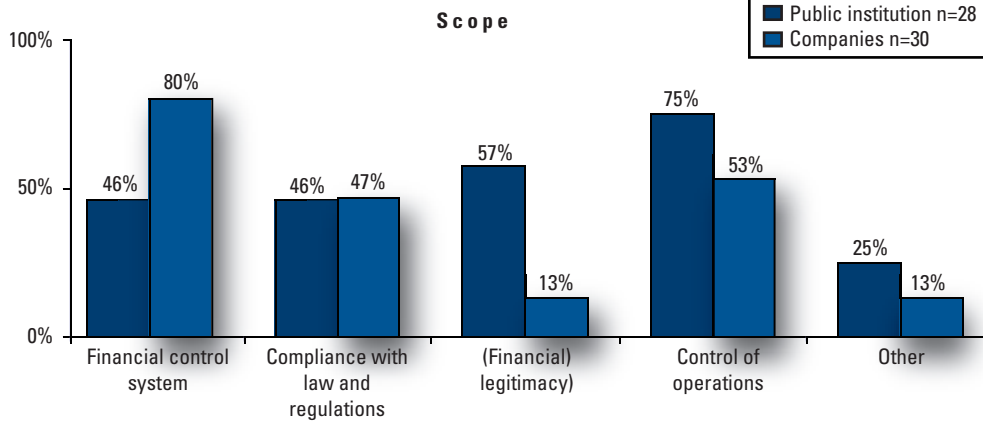


Figure 1: Scope of ICS

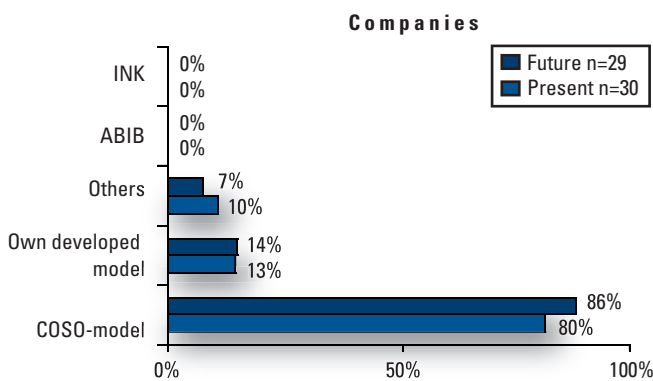


Figure 2: Standards used during ICS evaluation within companies

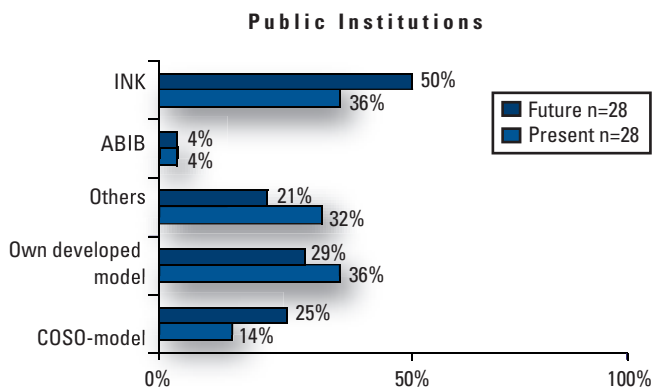


Figure 3: Standards used during ICS evaluation within public institutions

More or less in line with the motive, the objective of the ICS for companies is mainly to increase the confidence of external stakeholders (82%), while public institutions use it more for internal development (52%, expected to increase to 68% in the near future). Approximately one-third of the respondents cited multiple main objectives ('internal development' and 'external stakeholders confidence') for publishing an ICS.

### 3. Scope

The financial control system was identified as the main scope in issuing an ICS by 80% of companies. However, as they are part of the control system as described in the Code Tabaksblat, compliance (47%, growing to 52%) and control of operations (53%, growing to 71%) also are frequently mentioned as the objective of the ICS in companies.

Three-quarters of the public institutions focus on control of operations. In addition to this, 57% of the public institutions also indicated (financial) legitimacy as an important objective, whereas this is the case for only for 13% of the companies (figure 1).

### 4. Framework

The Monitoring Commission recommended that companies should indicate which framework they used during evaluation. From the survey, 80% of companies adopted the COSO (Committee of Sponsoring Organizations of Treadway Commission) framework for evaluation (figure 2).

Public institutions implemented a greater variety of frameworks. Besides COSO, they frequently use the INK and self-developed models. Remarkably, none of the respondents use the INTOSAI model, which was specially developed for public organizations (figure 3).

### 5. Overall conclusion and rating

There seems to be a strong need for giving an overall conclusion or rating. At present, half of the total respondents have reached an overall conclusion in their ICS. This number is expected to increase rapidly to approximately 75% in the coming years. All of AEX respondents expect to reach an overall conclusion in their ICS in the near future (compared to 80% at present).

To draw this overall conclusion, the most-used technique is and will be 'consultation with each other'. A 'weighted score calculation' is used only by approximately 25 – 30%, which is expected to remain the same in the future. A staggering 80% of public





**Public Institutions**

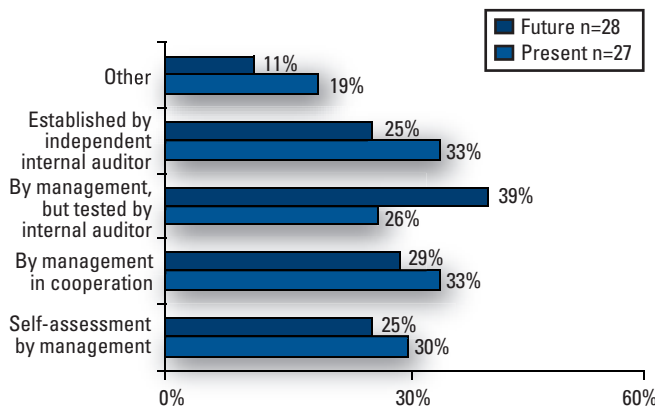


Figure 4: Process of ICS realization within public institutions

**Companies**

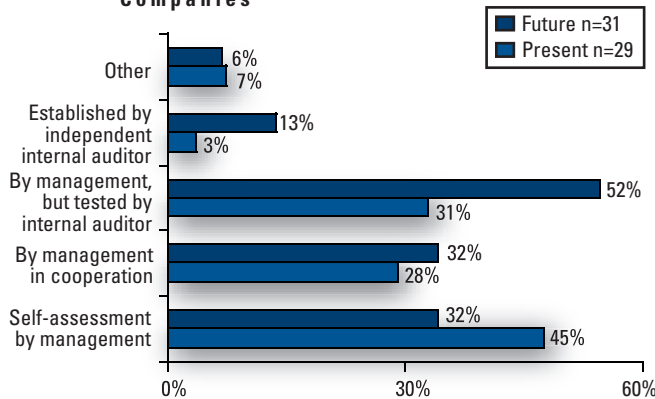


Figure 5: Process of ICS realization within companies

institutions use other approaches at this time, such as assessments and external (accountants’) observations. This seems to be a period of exploring new possibilities, as the use of the other approaches is expected to reduce to only 38%.

**6. Nature of the statement**

A lot of organizations expect to give a positive statement about their control system:

- Public organizations: 37%, growing to 43% in the near future
- Companies: 50%, growing to 76% in the near future

In line with the nature of ‘Mededeling bedrijfsvoering’, which ministries have to comply with, public institutions are more likely to provide an exceptional report than companies (approximately 40% and 10%, respectively).

Negative statements (‘we have not found any evidence that the controls are not adequate’) were seldom used and even not expected to be used in the future. This is remarkable looking at the efforts to get to the Sarbanes-Oxley (SOX) 404 statement which is only about the financial control system, where the Tabaksblat Code also incorporates the controls to assure the effectiveness of operations and compliance.

In terms of the ICS structure, the frequency of adopting one overall statement or a pyramid of statements is more or less equal in both sectors. The use of a pyramid of statements is expected to increase in both sectors. This could be a growing pattern, at which more departments will explicitly evaluate the quality of control.

**7. Process**

As it should be according to theory, the ICS in both sectors is realized primarily by management (either by a self-assessment or in cooperation with others) (see figures 4 and 5).

	Public Institutions		Companies	
	Present	Future	Present	Future
<b>Internal Auditors</b>	1. Reviewer (48%) 2. Consultant (38%) n=27	1. Reviewer (65%) 2. Consultant (38%) n=26	1. Reviewer (61%) 2. Consultant (21%) Facilitator (21%) n=28	1. Reviewer (27%) 2. Consultant (24%) n=29
<b>Controllers</b>	1. Facilitator (46%) 2. Consultant (43%) n=28	1. Facilitator (62%) 2. Consultant (54%) n=26	1. Facilitator (46%) 2. Consultant (32%) Participant (32%) n=28	1. Facilitator (45%) 2. Consultant (35%) Participant (35%) n=26
<b>Management</b>	1. Participant (39%) 2. Initiator (32%) n=28	1. Participant (44%) 2. Initiator (41%) n=27	1. Initiator (52%) 2. Participant (41%) n=29	1. Initiator (55%) 2. Participant (42%) n=31

Table 1: Task division of Internal Auditor, Controller and Management

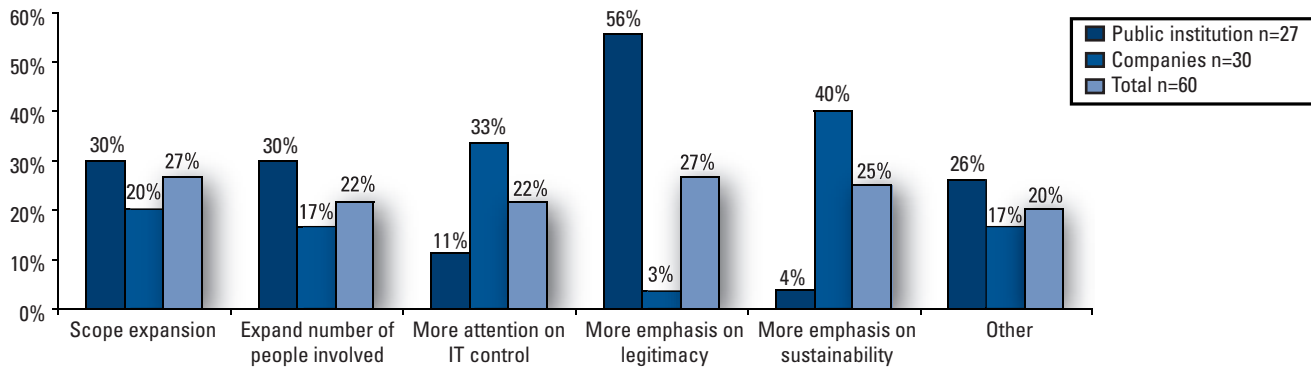


Figure 6: Expected developments

The scenario where the internal auditor tests the ICS provided by management is expected to increase, especially in companies (52% in the near future).

There are some organizations where the ICS is established by the internal auditor (33% of the public institutions, mainly in ZBOs and municipalities, decreasing to 25%; 3% but growing to 13% of the companies).

### 8. Tasks division (table 1)

Internal auditors are identified as having a great variety of roles within ICS (in some cases, having no role). Their main roles are reviewer and consultant. This fits with the internal auditors' roles as described by IIA (Netherlands).<sup>3</sup>

Controllers are mainly recognized as facilitators in both sectors. However, the controller's secondary role in public institutions is that of consultant, and in companies it is initiator and participant.

In line with what is said regarding the process by which the ICS is established, in both sectors management is primarily described as initiator and participant within ICS. These roles are consistent with the division of responsibilities as described in the Code Tabaksblat and the Sarbanes-Oxley Act.

### 9. External auditors' role

In companies, especially for the near future, the main role for the external auditor is 'testing the results' (compulsory according to SOX (29%) or not compulsory (45%)). Other roles (as 'consulting in the set-up' or 'facilitator in the execution') are described on a smaller scale and are expected to decrease in the future. In public institutions the variety is (and expected to stay) greater. External auditors are frequently described as consultant during set-up and testing (both approximately 30%). Also, 29% (decreasing to 19%) of the public institutions see no role at all for the external accountant concerning the ICS.

The subject of consultation with the external auditor differs in both sectors: public institutions consult mainly on the control model to be used (39%) and on the way of executing their ICS

(36%), while companies consult mainly on their ICS text (55%) and about the way of execution (31%).

External auditors have their consultation with all parties involved: management, controllers and, slightly less, internal auditors.

### 10. Pitfalls

Almost 60% of respondents identified 'assurance only in appearance' as the main pitfall in the ICS realization. Respondents also cite 'perfunctory' and 'bureaucracy' as the next two major pitfalls – 52% and 48%, respectively.

A mere 3% of company respondents recognized a 'culture of punishment' as a pitfall, compared to 28% of public institutions.

### 11. Expected developments

When asked about developments in relation to their ICS, public institution and company respondents cited completely different expectations (figure 6). More than half of public institutions expect to have more emphasis on legitimacy (compared to just 3% for companies). Companies, however, are expecting more emphasis on sustainability (40%) and more focus on their IT control (33%).

The above-mentioned expectations may create challenges for internal auditors in the future. □

### Notes

1. Public sector ('public institutions'): central government, province, municipality and ZBO; private sector ('companies'): listed on AEX and on AMX and non-listed.
2. The following survey findings are based on the number of respondents that have issued or plan to issue an ICS and have answered the specific questions on the questionnaire.
3. The Internal Auditor in the Netherlands, Instituut van Internal Auditors Nederland, April 21 2005 and Internal Auditing's Role in Section 302 and 404 of the U.S. Sarbanes-Oxley Act of 2002, The Institute of Internal Auditors, May 26 2004

# Monsters in the Workplace – the Organisational Psychopath

The organisational psychopath seeks power and control over others, thriving on the suffering and misery inflicted upon co-workers. They manipulate people and corporations at will, leaving a trail of destruction and broken colleagues in their wake. They are found in all types of organisation, working at every level from chief executive to junior employee.

Dr. John Clarke Ph.D. BA (Hons) (Psych) G. Cert Ed

Mary was a mid-level manager in an insurance firm. She could manipulate any situation, no matter how bad, so that she ended up looking successful. She lied to both colleagues and clients, but never took responsibility when her deception was exposed. She would simply turn on her charm and ingratiate herself with senior management, laying the blame directly on someone else. Her mood swings were completely unpredictable; one minute she was nice and the next vicious, causing many people in the organisation to fear her. Perhaps what struck her colleagues most was her complete lack of remorse or guilt when caught doing something wrong.

Mary would do whatever it took to look good at the expense of her colleagues. Mary is an organisational psychopath.

## What is an organisational psychopath?

Organisational psychopaths are persons who derive gratification from psychologically destroying co-workers. They do not feel remorse or guilt because they have no conscience. Organisational psychopaths have two main objectives: to get to the top however they can for the financial rewards and power; and to revel in the suffering and misery they inflict on the people they work with.

## How common are they?

It is difficult to know exactly how many there are, because they are expert at hiding themselves within organisations. Researchers around the world believe that one percent of the working adult population are organisational psychopaths. This would be approximately 40,000 working in Sydney, for example. From my experience, I would say there is at least one organisational psychopath in every major company in Australia.

## I thought psychopaths were serial killers and mass murderers, not people I work with

The organisational psychopath is psychologically similar to the serial killer. They both have no conscience, they are both self-serving, self-centred individuals who do whatever it takes to get what they want, regardless of the cost to other people. They both seek power and control over other people. The difference is the serial killer seeks control through physically destroying their victims, whereas the organisational psychopath dominates and controls people by psychologically destroying them.

## How is the organisational psychopath so successful in the business world?

Organisational psychopaths use their charm and manipulative skills to enter an organisation, lying about their experience and credentials. Once they have entered the organisation, they use a different set of tactics to accelerate their promotion within a company. The number and types of strategies used varies because psychopaths are intelligent and charming manipulators who react to situations differently. Broadly speaking, organisational psychopaths create disharmony between co-workers, playing people against one another to their own advantage. They spread disinformation about rivals, and make sure that important people in the organisation have an excellent impression of them, even though they rarely, if ever, deliver on their promises. They network with key figures in the organisation so that when promotion time comes around, they are at the top of the list.

David worked for a large advertising company, and he had a variety of techniques and devious strategies that helped him with promoti-

ons. Amongst other things, he would steal co-workers' projects so he looked better than they did and spread rumours he knew were untrue about his boss. He would even lie to clients to make sure he got the contract and later pass it on to someone else, who would then get the blame when services were not delivered as promised. David always appeared to be an up and coming star in the company; no one realized that he achieved his promotions at the expense of the people around him.

### How can I determine if someone I work with might be an organisational psychopath?

Organisational psychopaths are difficult to identify based on initial impressions. They are highly adept at manipulating people and situations, so they elude detection – for a long time in many cases. In general, organisational psychopaths show a distinct cluster of personality characteristics, as well as anti-social behaviours. These characteristics and behaviours include lack of remorse or guilt, parasitic behaviour, seeking increased power and control within the company, manipulating and intimidating people around them, self-importance, prolific lying, superficial charm, constant need for excitement, and a lack of responsibility.

They do not see work as a place to co-operate with colleagues and be productive; rather, it is viewed as a place to manipulate and control co-workers and 'win' a promotion to a position of greater power.

If you answer yes to four or more of the questions below, it may be worth looking into your situation in more detail.

1. Is your boss prepared to do whatever it takes to get what he wants – regardless of the cost to other people?
2. Has your boss ever taken credit for work you or someone else has done?
3. Does your boss come across as smooth, polished, and charming?
4. Does your boss enjoy being feared by you?
5. Is your boss opportunistic, ruthless...hating to lose and playing to win?
6. Does your boss consider people (s)he has outsmarted as dumb or stupid?

### What happens to people targeted by the organisational psychopath?

When faced with an organisational psychopath's destructive behaviour, victims characteristically report feeling as though they have lost control over their lives. Panic attacks, depression, disturbed sleep and nightmares, relationship problems, confusion, disbelief, guilt, lack of trust, anger, powerlessness, flashbacks, shame, embarrassment, and sexual dysfunction are just a few examples of how victims suffer.

Frank had been in the public service for 9 years when he was promoted to a team leader position. He knew his duties inside out, and he was generally well liked by his peers. There was one team member who was extremely ambitious and who had also applied for the job. He resented Frank's promotion and was determined to undermine him at every opportunity. He refused to do his job, ignored Frank (passive-aggression), deliberately made fun of Frank in front of the team, and openly said that Frank was not the person for the job. He also put in complaints about Frank to senior managers, fraudulently claiming that Frank did not have the support of the entire team. Frank noticed that the other team members were losing respect for him, and some were openly defying him by not performing their duties. Frank reported feeling tired all the time, constant tension headaches, lack of confidence in his ability, and on some occasions he even experienced panic-like reactions just prior to leaving for work. Frank was also irritable, and his wife reported more arguments since Frank's promotion. Frank constantly thought about work, which made him even more anxious, as he was reliving what happened each day.



Ill.: Roel Ottow

Meet us at  
IIA Conference  
2007, booth 43!

The numbers tell  
everything.

All you miss is  
the insight  
and  
the control.

So actually  
the numbers  
don't tell you  
anything.

Process of success **BWise**

Software specialists in compliance, risk management, corporate governance and internal control.

[www.bwise.com](http://www.bwise.com)



Frank stayed in this position for two years before winning another promotion in a different department. When he moved, he noticed that his anxiety symptoms gradually disappeared within a few months.

Employees who stay in the workplace despite the trauma frequently report feeling resentment toward the company they have given so much to; they believe it has let them down by not believing or protecting them.

### Can They Be Cured?

“Rehabilitating” the organisational psychopath is a difficult proposition at best. While no research has examined organisational psychopaths, studies of violent criminal psychopaths suggest rehabilitation programs can actually make things worse. The psychopath can develop new social skills that they then use to manipulate people more effectively.

### What Can Be done?

The most effective strategy that can be employed when dealing with the organisational psychopath is to have a detailed knowledge of how they operate. Once the modus operandi of the psychopath is understood, it becomes much simpler to predict, and to some extent control, their behaviours. However, you need to remember that they are, and always will be, self-serving. □



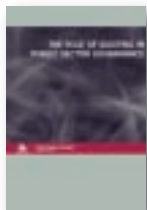
Dr. John Clarke has a Ph.D. in Psychology from the University of Sydney. He is a consultant psychotherapist who specialises in the area of organisational psychology, in particular difficult-to-work-with people, including the workplace psychopath. He has lectured and consulted for a wide range of organisations in this area, and is the author of two books on the topic, *Working With Monsters* and *The Pocket Psycho*, both published by Random House Australia. [john@drjohnclarke.com](mailto:john@drjohnclarke.com)  
See also the book review on page 53.



**bookalert**

## The Role of Auditing in the Public Sector Governance

The Institute of Internal Auditors • Available online:  
[www.theiia.org/guidance/standards-and-practices/](http://www.theiia.org/guidance/standards-and-practices/)



After a broad international consultation, the IIA published a new booklet on the Role of Internal Auditing in the Public Sector. ECIIA member countries France, UK, Italy, Hungary, Finland, the Netherlands and Morocco provided input for this important document.

This paper presents IIA’s position on the importance of the public sector audit activity to effective governance and defines the key elements needed to maximize the value the public sector audit activity provides to all levels of government. The principles we discuss are relevant to national, regional (i.e., state or provincial), and local (i.e., county, city, or village) governments, as well as quasi-governmental and international government organisations. They also may apply to other publicly funded entities. The practice guide is intended to point to the roles of audit (without differentiating between external and internal), methods by which those roles can be fulfilled, and the essential ingredients necessary to support an effective audit function.

## The Role of Internal Audit in Corporate Governance in Europe

Current Status, Necessary Improvements, Future Tasks  
European Confederation of Institutes of Internal Auditing (ECIIA)  
• ISBN: 9783503100569 • € 24.95



Based on a survey between all national Institutes of Internal Auditing in Europe this book shows a widespread picture of European Corporate Governance activities and Internal Audit: - Specific questions regarding the current involvement of Internal Audit in Corporate Governance aspects; - the State of the art of Internal Audit:

position, scope and quality management; - Focal points for improving the role of Internal Audit in Corporate Governance in Europe. All insights of the book are concentrated on European companies and offer European solutions for Internal Auditing. They are empirically founded and written in a clear and direct way for practical use. This is the first work for the European profession of Internal Audit that formulates eight focal points for improving the role of Internal Audit in Corporate Governance in Europe. The book shows how Internal Audit can fundamentally strengthen good Corporate Governance.



# Practice investigation: 'Role of the Internal Auditor in preparing the In Control Statement'

The Institute of Internal Auditors (IIA Netherlands) and the Dutch Association of Chartered Operational Auditors (VRO) have conducted a survey into the In Control Statement (ICS) in the Netherlands. Further to this survey, which is also included in this publication, Ernst & Young, under the auspices of IIA/VRO, conducted an investigation of the potential role of the internal auditor (IA) in preparing the ICS. A key element of the investigation was a number of in-depth interviews held at listed companies. This article sets out the main findings of the investigation.

Prof. A. de Bos and M. Oosterom

## 1. Introduction

Directors have to include an ICS in the annual report in the context of corporate governance (the Dutch Corporate Governance Code [Tabaksblat Code] and the Sarbanes-Oxley Act [SOX]). This article addresses the roles of the IA in preparing the ICS in the context of the Tabaksblat Code and SOX and the inter-relationships between these roles. Section 2 sets out the notable similarities and differences between the Tabaksblat Code and SOX on the basis of a literature survey. Section 3 reports on seven in-depth interviews that elaborate on the aforementioned IIA/VRO survey. Finally, the conclusions are set out in section 4.

## 2. Comparison between the Tabaksblat Code and SOX

The key to good corporate governance is the system of managing and controlling a business and rendering account for this. The Tabaksblat Code and SOX differ as a result of their different historical and cultural backgrounds. A specific difference is that the Tabaksblat Code is principle-based while SOX is rule-based. This is reflected in the fact that the Tabaksblat Code defines principles based on best practices, with instances of non-application being explained under the 'apply or explain' principle. The rule-based approach under SOX is set out in SOX section 404 and Auditing Standard No. 2 of the Public Company Accounting Oversight Board (PCAOB). The rule-based approach under Section 404 does not allow any instances of non-application. However, recent SOX developments provide a larger scope for a risk-based approach.

Since the recommendations made by the Corporate Governance Monitoring Committee ('Frijns Committee'), the scope of the ICS in the context of Tabaksblat, on which an unqualified statement has to be issued, has been limited to financial reporting risks in the Netherlands. A description of risk management and control systems relating to other risks (strategic, operational, and compliance risks) is sufficient. The SOX 404 ICS also only relates to financial reporting risks. A notable difference between the two ICSs is the involvement of the external auditor. Under SOX, the external auditor has to issue two reports: one on the quality of the assessment by the management and one on the



Similarities	Tabaksblat Code	SOX 404
Legally binding	Yes, Section 391(4) of Book 2 of the Netherlands Civil Code	Yes, Public Law 107–204
Statement	Financial reporting risks	Financial reporting risks
Model	COSO as model	COSO deemed adequate
Differences	Tabaksblat Code	SOX 404
Scope	Registered office in the Netherlands	Listed companies in US
Basic parameter	Principle-based, with best practice	Rule-based using strict criteria
Non-application	Apply or explain principle	Not allowed
Time span	Entire year under review	Year-end
Future	State no indications for non-effectiveness in current year	Not applicable
Other risks: -strategic -operational -compliance	Description	Not part of SOX 404
External auditor	No auditor's report	Auditor's report required
Documentation and test requirements	Not specified	Specified in great detail
Extra framework of standards	None	PCAOB Auditing Standard number 2

Table 1: Similarities and differences between Tabaksblat Code and SOX 404

quality of the internal controls relating to external reporting. The PCAOB has issued Auditing Standard Number 2 for carrying out procedures substantiating these statements. This has created an additional set of standards. The external auditor only performs marginal testing for the ICS in the context of the Tabaksblat Code. This limited review entails that the auditor assesses, to the extent of its competence, whether the annual report, including the ICS, has been drawn up in accordance with Section 393 of Book 2 of the Netherlands Civil Code and is consistent with the financial statements.

The ICS drawn up in accordance with the Tabaksblat Code and SOX relates to external financial reporting. However, the scope of the procedures required and the related documentation requirements are much stricter under SOX than under the Tabaksblat Code. In our opinion, the main reason for this is the rule-based approach under SOX. In addition, the major involvement of the external auditor as external examiner for SOX is most likely to have led to detailed procedures under SOX. Extensive testing assists the external auditor in mitigating the risk of possible claims as far as possible.

Principle V.3 of the Tabaksblat Code stipulates that the IA can play an important role in assessing and testing the internal risk management and control systems. Further details of this role are not given in the Tabaksblat Code or in the recommendations of the Frijns Committee. Similarly, SOX does not comment on any role of the IA. Although an internal audit function is required under corporate governance rules issued by the New York Stock Exchange, the role of the internal audit function is not detailed further. The IIA describes this role more explicitly in its publications in 'Internal auditing's role in sections 302 and 404' (May 2004) and 'Practical considerations regarding IA expressing an opinion on internal control' (June 2005).

### 3. Practice

As stated earlier, the results of the previous IIA/VRO survey into the way the ICS is prepared, in particular the role of the IA in this, require further explanation. For that purpose, we have conducted in-depth interviews with the managers of seven internal audit departments of listed companies. The companies were selected based on their above-average interest in the ICS and the role of the IA in this. They included two dual listers. The various internal audit departments display considerable differences in the levels of maturity, staffing, and involvement in the ICS, partly due to the history of the governance, the structure of the company and expectations concerning the work of the IA. Section 3.1 includes findings related to the previous IIA/VRO survey. Section 3.2 sets out a number of other findings.

#### 3.1. Findings relating to the previous IIA/VRO survey

##### *Method of preparation of the ICS*

The previous IIA/VRO survey reports that 45% of all companies currently prepare the ICS based on self-assessment, the approach used by all seven listed companies interviewed by us. The self-assessment is based on the operation of the risk management and control system. Part of the explicit evidence is the Letter of Representation (LOR) or internal ICS from the management of underlying operating companies or business units. Only one company did not require a written statement from lower levels of management, but held assurance meetings twice a year in which 'in control' was discussed as part of a dialogue with the underlying management. In addition, the following matters were identified mainly as additional evidence: assessments and testing by the internal audit department, following up issues requiring improvement and action plans, whether or not incidents occur, as well as matters reported in the external auditor's management letter. We regard



self-assessment as the principal tool for the preparation of the ICS. At SOX companies, the evidence is more structured, with the results of the tests having the greatest impact on the final ICS. For these companies, the Tabaksblat Code ICS is a result of the SOX efforts and is considered a by-product. The companies say they do not have to do any additional work in connection with this.

**Scope of testing**

The first IIA/VRO survey shows that, in 31% of cases, the ICS is prepared by the management with IA carrying out the testing. This percentage is expected to increase to 52% in the near future. Our in-depth interviews show that the scope of the tests carried out by the internal audit department differs strongly for each company examined. The largest scope applies to SOX companies, with the IA being a genuine assurance provider. The extent of testing at companies that issue an ICS under the Tabaksblat Code is notably diverse. At the company doing the most testing, the IA

**Role of internal auditing**

The IIA/VRO survey shows that the role of the IA covers a wide range of aspects. The IAs were allowed to state more than one role, the main ones being reviewer (61%), consultant (21%), and facilitator (21%). The survey shows that the role of reviewer in particular will be increasingly important in the future. Our in-depth interviews also reveal this wide-ranging picture. A significant point is that the heads of internal auditing of both SOX companies are responsible for the day-to-day management of the SOX project. This is the specific wish of the company's management. However, this leading role is based on the competences of the heads of internal audit and not so much based on the internal audit function. This major involvement of the heads of internal audit may be a danger to the independence and objectivity of the department, which, moreover, is recognised by the heads of internal audit concerned.

A significant point is that a number of the internal audit departments of Tabaksblat Code companies play an important role. At companies where the IA conducts extensive and structured testing, the roles of initiator, manager, and adviser are also developed. At these companies the review role is accordingly more important than at organisations with less testing.

All interviewed IAs made it clear that they recognise and monitor the risk of becoming owner of the risk or process. Line managers always have responsibility for the risks and the process. The role of reviewer is developed, albeit

to a lesser extent, at companies where the role of internal auditing is limited. Based on our interviews, the main influences on the scope of the role of internal auditing are the maturity of the organisation's corporate governance, maturity of the internal auditing department, expectations of the company's management concerning the work of the IA, and the personal interest and competence of the head of internal auditing.

**3.2. Other findings**

This section sets out our findings not directly related to the findings from the previous IIA/VRO survey, but providing information on the role of internal auditing.

**Documentation**

In common with the diversity of testing, the documentation of evidence for the ICS is highly divergent. In connection with this, a clear distinction can be made between SOX companies and Tabaksblat companies. SOX companies have very detailed, structured files. Documentation supporting the ICS of Tabaksblat companies is generally fragmented and less formalised. This finding results in part from the lack of guidance and external checking in the Tabaksblat Code.

**The scope of the tests carried out by the IA department differs strongly for each company examined**

tests all the key controls at the ten largest operating companies, while the other operating companies perform the testing themselves, owing to the limited staffing level of the internal audit department. Most internal audit departments do very limited testing and mainly in areas with the highest risk profile, based on the impact and probability of the risks, following the method used by the external auditor. The most mature departments set up a clear policy and framework for the risk management and control system (effectiveness) and supply guidance to optimize the testing (efficiency). In our opinion, the reason for the diversity in the scope of testing of the internal audit department, among others, is the lack of guidance in this area and the lack of an external examiner in the form of the external auditor. In addition, the management philosophy and the role of the department envisioned by the company's management are important factors. As a result, it is possible that the tests are carried out by other departments within the company, or by third parties.

In the end, it's not the party carrying out the testing that is relevant, but whether the total testing conducted at the various companies provides similar assurance. Since the ICS of the various Tabaksblat companies represents the same value to the user, the ICS has to be tested using the same scope.



### Internal audit statement

One internal audit department issues an internal statement to the audit committee on the risk management section of the financial statements, which includes the ICS. This statement does not contain a final conclusion, but a description of the procedures and related findings. Another internal audit department within a SOX company issues an internal statement on the ICS to the board of management. This type of report is only possible if based on thorough testing. This is guaranteed at the company concerned.

### Author of the ICS

In some cases, the head of internal audit prepares the text of the ICS and related risk section in the financial statements. The text is prepared in consultation with the relevant parties and is validated by the CEO and CFO. The fact that the head of internal audit is the author requires proper measures to help prevent the threat of management responsibility being assumed. These measures may include the audit committee challenging the CEO and CFO in connection with this.

### 4. Concluding remarks

We identified a wide variety of practice examples showing great diversity in the role of the IA. At SOX companies, the internal audit department usually is a genuine assurance provider. The main differences compared with Tabaksblat Code companies are the scope of testing and the extensive filing by the SOX companies. Day-to-day management by the head of internal audit for the SOX projects is a potential threat to independence and objectivity. In that case it is important that proper steps be taken to ensure independence and objectivity, such as direct supervision of independence and objectivity by the audit committee.

The main similarity noted at the Tabaksblat companies interviewed by us is that the ICS is prepared on the basis of self-assessment. However there are differences in the role of internal audit and also in the scope of testing substantiating the ICS. Every ICS has to be substantiated by equal-scope tests, whether or not carried out by the IA. This presents a challenge to the management of the companies and the internal audit profession to arrive at a best practice.

Significant influences causing differences in the role of internal audit are the mode of the corporate governance and the included management philosophy, the maturity of the internal audit department, and the company's expectations with respect to the work of the IA. In our opinion, the involvement of the internal audit department in issuing guidelines and procedures for the design and operation of the risk management and control system is good. It creates a consistent approach and opportunities for

benchmarking between the various operating companies or departments within the company. The core responsibility of the IA is to offer additional assurance, which means that performing risk-focused tests is fundamental. Finally, the internal audit interviewees stated that challenging the key risks and key controls, as well as monitoring the follow-up of improvement projects and action plans are also duties of the IA.

All IAs concerned stated that they want to do more testing in the future. This is related to their primary task, which is providing

**All IAs concerned stated that they want to do more testing in the future**

additional assurance. The increase in testing is partly based on the needs of the company's management, which envisions a more prominent role for the IA in developing a mature risk management and control system. Several IAs have stated their intention to issue a certificate or report on the ICS in the future. Such a certificate or report adds value to the ICS, as well as underscores the added value of the modern internal audit function, both within and outside the organisation. □



Prof. dr. A. de Bos RA (left), partner at Ernst & Young Accountants and Professor of Business Economics at Erasmus University. He is Head of the Professional Practice Development department of Ernst & Young, specialising in corporate governance and IFRS issues. E-mail: [auke.de.bos@nl.ey.com](mailto:auke.de.bos@nl.ey.com)

M. Oosterom (right), senior staff member at Ernst & Young Accountants. He is currently completing the final stage of his training as Registeraccountant. E-mail: [marcel.oosterom@nl.ey.com](mailto:marcel.oosterom@nl.ey.com)



Internal auditors can add value by assessing their organization's sustainability management system

# Auditing Sustainable Development

Increasingly, boards of directors are realizing that sustainable development is an essential part of corporate governance. The number of companies publishing sustainability – or corporate social responsibility – reports continues to grow. Formerly seen as a marketing tool, today these reports are used to demonstrate transparency on policies and progress made on the company's economic, environmental, and social responsibilities.

H. Nieuwlands, CIA, CCSA, CGAP, RA

Sustainable development thinking emerges quickly and affects many organizations, both in the public and private sector. Organizations are recognizing that they need a system to structure formerly scattered elements of sustainability information gathering and fill in missing links. Internal auditors are well-positioned to assist management in implementing a sustainability management system and perform system audits after the implementation phase. To do so, however, they must acquire knowledge about sustainability and applicable audit techniques.

## The Sustainability Management System

According to the United Nations' Brundtland Commission, sustainable development is a process of change in which exploitation of resources, the direction of investments, the orientation of technological development, and institutional change are in harmony and enhance both current and future potential to meet human needs and aspirations. Sustainable development seeks to find the balance between economic, environmental, and social performance.

Organizations following the Global Reporting Initiative's (GRI's) reporting guidelines use specific performance indicators to identify reportable sustainability achievements and challenges. GRI also requires that the organization describe its sustainability management system. In addition to having a sustainability policy and strategy, such a system should include four phases: 1) planning and risk management, 2) implementation and operations, 3) checking and corrective action, and 4) management review and continual improvement. Management is responsible for implementing the sustainability management system, and internal

auditing should perform an assessment of its adequacy and effectiveness.

## Policy and Strategy

The sustainability policy should be appropriate to the nature, scale, and sustainability impacts of an organization's activities, products, or services. Internal auditors should review the process that sets and reviews the policy. Auditors should test whether the policy is consistent with the organization's strategic plan and other policies, and verify that it includes all relevant laws, regulations, protocols, and industry standards. They also should determine whether the policy has been communicated to all stakeholders. Further, the policy should be reviewed to identify if it reflects top management commitment and clear targets and objectives.

The sustainability strategy should be consistent with the sustainability policy and overall organizational plan. Processes that have been recognized as being critical to the risk assessment process should be addressed, and the strategy should provide sufficient information and direction to enable effective sustainability objectives, targets, and plans. To determine the practical usefulness of the sustainability strategy, internal auditors should interview those involved in defining the objectives, targets, and plans; review the processes associated with generating them; and communicate their conclusions to top management and the board.

## Planning and Risk Management

The planning phase of the management cycle links the sustainability policy and strategy to objectives and targets. Auditors

should determine whether described roles and responsibilities are consistent with the strategy and policies, included in job descriptions, and understood by relevant staff and employees. To accomplish this, auditors can review personnel files and conduct interviews or surveys.

Internal auditors should investigate whether systems designed to ensure consistency of objectives and targets with the policy and strategy are adequate and effective. In particular, they should review whether specific objectives and targets assigned to one employee are in conflict with those assigned to another employee. For example, if a buyer in a supermarket chain is instructed to procure fruit at the lowest price possible, desired aspects of labor conditions or the use of pesticides at the supplier's plantation may not meet the company's sustainability standards. Internal auditing should evaluate whether objectives and targets meet specific, measurable, achievable, risk related, and time bound (SMART) criteria.

Given the sustainability objectives and targets set as a result of the organization's policy and strategy, procedures should be established and maintained to identify controllable aspects of the organization's activities, products, and services. Internal auditing should review the design and maintenance of these procedures. In particular, the determination of relevant aspects by which sustainability impact will be measured should be subject to review. GRI's Indicator Protocols can be used as reference materials to determine the best suitable performance indicator. Examples are direct and indirect greenhouse gas emissions by weight, or the noise in decibels produced by departing airplanes within 10 kilometers from an airport.

The auditors should ensure that sustainability aspects are included in the organization's risk management. In their consultancy role, internal auditors can assist management in identifying, evaluating, and implementing risk management methodologies and controls to address sustainable development risks. As part of their audit, they should gather evidence and determine whether the objectives of the risk management processes have been met.

### Implementation and Operation

Auditors should determine that overall responsibility for the sustainability program and its management system is assigned to one individual who reports to top management. Auditors should interview this person to assess the effectiveness of the reporting line. Also, the auditors should evaluate whether the sustainability manager is sufficiently empowered to ensure realization of the program and interview top management and others in the organization to learn their perspective on the manager's effectiveness. Further, auditors should review formal reports to top management. These reports may reveal problems in achieving desired results. Auditors should evaluate whether corrective actions to address these problems are adequate.

The process by which resources are allocated to enable achievement of sustainability objectives and targets should be reviewed. Auditors should assess whether there is a process formally accepting commitments to objectives and targets by responsible

managers. Also, auditors should determine whether there are consequences if they are not met. Scrutiny over the feasibility of objectives and targets will be much better if failure to meet them results in noticeable penalties. Internal auditors should evaluate whether auditable performance indicators have been set. Performance indicators are auditable if they meet smart criteria and the trail from original source data to reported figures can be tested.

Resources to accomplish objectives and targets include people, specialized skills, measurement and other equipment, precautionary measures, working conditions, and money. Internal auditors should review formal policies and instructions and test their adequacy by inspection and interview. External assessments by authorities (e.g., those who review compliance with environmental regulations or working conditions) can be of help to the internal auditors in understanding the organizational level of sustainability maturity.

Additionally, internal auditors should determine whether an overall training program has been established to introduce sustainability thinking into an organization. The purpose of training is to create sustainability awareness and understand the roles individuals should assume and the responsibilities they have to achieve objectives and targets. Auditors should verify that top management is a strong sponsor of this training program. Top



Photo: Marja Brouwer

Hans Nieuwlands is coordinator, internal auditors and CSR, at Royal NIVRA in Amsterdam, the Netherlands.



management may demonstrate this by kicking off each training session or sending personalized invitations to employees. Internal auditing should check whether employees at all levels of the organization receive training based on the level at which they operate. Auditors should verify that the purpose of each training program is clearly set and that an evaluation system has been established to measure its quality and effectiveness. The auditors may observe one or more training sessions to get an impression of the quality of the training program. They also can use surveys amongst the trainees for the same purpose. Finally, internal auditors should review the adequacy of the sustainability communication plan. This plan should describe the purpose of, and channel(s) used for, each communication. Internal auditors should also evaluate how the effectiveness of the communication – in terms of increased awareness – is measured, and whether the communication plan is adjusted when needed. Communication channels may include: Internet and

## Periodic management review is essential to ensure continuous improvement

intranet, staff magazines, press releases, open door events, conferences, advertisements, webcasts, and a formal sustainability report. Auditors should evaluate whether the communication plan is tailored to the needs of the organization and whether the goals of the communication plan are consistent with the sustainability policy and strategy.

### Checking and Corrective Action

There is a long history of reporting on financial performance based on widely accepted criteria. Most internal auditors know how to test the reliability of quantified reports by evaluating the adequacy of performance indicators, given the set sustainability objectives and targets. Internal auditors should evaluate the adequacy and effectiveness of the processes generating the performance indicators. Process weaknesses may surface during interviews with users of these indicators. Internal auditors should further investigate these to identify root causes.

Performance indicators are an effective monitoring tool if they are used for corrective action when needed. Whenever possible, performance indicators should be quantitative, as they are easier to audit for reliability than qualitative measures (e.g., safety, comfort).

Auditors should evaluate the effectiveness of measures taken to register reported nonconformities with the sustainability management system. The processes should include reports and complaints from both inside and outside the organization. Auditors should review the complaint settlement process and test its effectiveness by selecting a sample of complaints and following

through on them, including communication to the complainer. Interviews or surveys also can help the auditor identify whether the root cause of the complaint has been eliminated.

### Management Review and Continual Improvement

Periodic management review of the adequacy and effectiveness of the sustainability management system is essential to ensure continuous improvement. Auditors should review processes resulting in information used for this review, testing the accuracy of the information, and evaluating the plausibility of information that cannot be tested. Auditors should verify that controls are effective to ensure that the information provided is consistent with other reports used to monitor performance. Based on internal audits performed, the chief audit executive (cae) should also provide input for the management review. However, internal auditing should not be responsible for management decisions resulting from these audit reports.

Auditors should determine whether the review conclusions are clear and lead to actions that ensure continual improvement of the sustainability management system. The auditors should verify that objectives and targets are reviewed periodically and adjusted when needed. Also, they should verify that the outcome of the management review, and its resulting adjusted objectives and targets, are communicated clearly and included in the planning phase for the next period, thus closing the loop of the sustainability management system.

### Adding Value

Internal auditors have an opportunity to demonstrate added value to their sustainable organization. Roles auditors can play include:

- Assist in the design/implementation of the sustainability management system.
- Assist in creating sustainability awareness or training employees.
- Perform limited scope audits requested by top management.
- Perform supply chain audits.
- Perform compliance audits.
- Advise on the appointment of outside assessors.
- Coordinate audit activities by external assessors.

Auditors must have a good understanding of sustainability concepts and known best practices in the industry. To enhance credibility, the cae should consider recruiting sustainability specialists. □

This article is based on Sustainability and Internal Auditing (August 2006), The IIA Research Foundation.

This article was reprinted with permission from the April 2007 issue of *Internal Auditor*, published by The Institute of Internal Auditors, Inc. ([www.theiia.org](http://www.theiia.org))





Intercontinental Hotel Frankfurt  
Frankfurt, Germany  
12-14 November 2007

Providing the Essentials  
to Secure Your Network

Join us for a variety of sessions  
that will provide a complete and  
balanced perspective of both the  
programme and technical sides of  
information security.

Earn up to **32** CPE hours.

[www.isaca.org/nsc](http://www.isaca.org/nsc)

'I will  
accelerate  
my professional  
development'.



'I will  
discover  
new directions'.



Intercontinental Hotel Frankfurt  
Frankfurt, Germany  
12-14 November 2007

Providing Strategic Vision for  
Information Security Professionals

**INVEST IN YOUR FUTURE**  
Attend the Information Security  
Management Conference,  
designed specifically for  
those with security  
management responsibilities.

Earn up to **32** CPE hours.

[www.isaca.org/infosecurity](http://www.isaca.org/infosecurity)





# GET ON BOARD!

**'The Interview'**  
Tuesday 10 July 2007  
at 10.30 am cet

**ROBERT HALF INVITES YOU  
TO JOIN 'THE INTERVIEW'  
AT THE INTERNATIONAL  
IIA CONFERENCE**

Attracting talent, Keeping your best people and teambuilding are a few of the important challenges audit departments are facing at the moment. During 'The Interview' top sailor Roy Heiner – Olympic bronze medal winner 1996 and Technical Sailing Director ABN AMRO ONE, winner of the Volvo Ocean Race in 2005/6 – will tell you how to handle these hot topics in top sports and how they apply to internal audit.

**More information:**  
[www.iaa2007.com](http://www.iaa2007.com) - concurrent session L-5 'The Interview'

Worldwide leader in specialised  
financial recruitment

[www.roberthalf.net](http://www.roberthalf.net)



Robert Half®

# Looking back from great success

W.T. Eysink\*

Looking back from great success is one of the challenging angles when reflecting on factors that support the growth of an organization or profession. This point of view was also raised during the first seminar for the directors of internal audit departments 11 years ago, in 1996 in Arnhem, "The Blueprint of Internal Audit". This timeframe is not a coincidence, as this seminar led to the establishment of the Dutch Institute of Internal Auditors. An interesting question now is, What were the "looking back from great success" themes and strategies at that time?

The main themes in 1996 were: focus on business risk management, and move from a reactive to proactive role. The main strategies foreseen were positioning internal auditing as part of the internal governance structure within the organization, and the establishment of a Dutch Institute of Internal Audit.

Other than the establishment of the institute, which is celebrating its 10th anniversary, one could say, "Nothing has changed."

In order to address this statement we have to understand what happened in the meantime. The most recent seminar for the directors of internal audit (2006) in this series addressed the different scenarios an organization and its internal governance possibly can go through and what we actually went through and experienced over the past decade.

After a period of financial successes in the late 1990s, there was a world of *trust*. Trust was the only criterion required to base an investment on. Several scandals changed this atmosphere of trust, and thus altered corporate governance dramatically. A *chaotic* period ensued, resulting in a need for *structure*. In order to restore trust, new laws and regulations were issued addressing more internal control, and governance codes were extended. Presently, it seems that after having this structure in place, we are now entering a

*control* period, in which trust is being restored and regulations are reviewed and scaled back to realistic proportions.

The role of internal auditing changed tremendously during these last 10 years. A decade ago, internal auditing placed more focus on business risk, supporting management by following their business decisions. A period of scandals brought changes to some basic assumptions about being in control and the related roles and responsibilities of internal auditing. Being supportive towards management is only possible in an organization with sound internal governance and clear lines of responsibilities. Objective: increase the quality of the (basic) internal control and governance, and thereby restore trust.

So, it seems that the themes and strategies decided in 1996 are still valid. Instead of only dealing with business risk, the role of internal auditing has been extended to preserve and even create value. A good focus on business risk/value is only possible with this sound internal governance structure. The focus and strategies identified in 1996 remain; the underlying scenarios have changed. As such, internal auditing is in itself a flexible function adapting itself to the relevant scenarios. The Dutch Institute of Internal Auditors managed to use this period for further growth, appearing more and more on the agenda of the corporate governance players.

I congratulate the Dutch Institute of Internal Auditors on their milestone anniversary, but also for the progress realized during the past decade, reflecting the points of focus of that time. The topics and strategies listed in 1996 are still valid, and the turnaround in corporate governance over the last decade provides a more solid foundation than ever before. I look forward to "looking back from great success" 10 years from now to see how much has changed, and how our profession has adapted to handle those situations.

\* Wim Eysink, Deloitte



# COSO and CobiT 4; a symbiosis?

In the last ten years, it has become clear that the financial markets are no longer satisfied with only financial information and are in need of transparency in other areas. Reports on internal control and separate management statements thereon should restore confidence. The question is how an enterprise-wide Internal Control Statement (ICS) aligns with already existing control statements? This issue is specifically relevant for Information Communication Technology (ICT) governance, because an ICT organisation uses a variety of control models. But how does ICT governance fit in the total governance of the organisation?

Dr. J.R.H.J. van Kuijk RA RC and Dr. B. Overbeek RE.

This article discusses how COSO (the Committee of Sponsoring Organizations of the Treadway Commission) and CobiT 4<sup>1</sup> (Control Objectives for Information and related Technology) jointly can help management and internal auditors in obtaining certainty about ICT governance as input for an ICS. The experience from the Vion Food Group is an illustration that COSO and CobiT can actually work together in practice.

## Introduction

After some financial scandals, the Sarbanes-Oxley Act was introduced in the United States in 2002. In many countries around the world, this Act has dominated the project calendar of companies for several years now. For a number of Dutch companies listed in the United States, 2006 was even the year of truth. The annual report 2006 should contain a statement of management with respect to the 'Internal Control over financial reporting,' which should be audited by an external auditor.

In The Netherlands, the Tabaksblat Code has obliged listed companies in the Amsterdam Stock Exchange to make their internal risk and control system transparent and issue an ICS. As compared to SOX, this Dutch regulation is broader because it is not limited to internal control over financial reporting. Moreover, it is not very prescriptive and does not require detailed documentation. In the last few years, a large number of Dutch companies has taken a proactive attitude towards this matter and initiated Internal Control projects. In these projects, risk and controls are documented and internal controls are tested. Some of them took

an approach that can be characterised as SOX-lite, which is comparable with developments in the United States. These projects should give management comfort that risks are adequately managed and enable them to issue an ICS.

An organisation that starts an Internal Control project often uses templates that give guidance to the risk analysis and internal controls within regular business processes, such as purchasing and sales. These templates contain general process descriptions and a set of standard internal controls. ICT processes and control activities are often minimized or even excluded. Moreover, there are no templates available for the general processes in the ICT organisation, such as ICT change management and configuration management. On top of that, ICT departments often use their own models and approaches such as ITIL, CMMI, ISO17799, CobiT, Val IT and PRINCE2. This illustrates the difficulty to review and assess the ICT governance in an Internal Control project. This contribution aims at giving some guidance to an organisation in reviewing ICT governance as part of an Internal Control project.

## Diversity in ICT governance models

A central ICT department of a large organisation receives all kinds of questions and requests from its internal customers that relate to uncertainty about ICT governance. In essence, all these questions relate to the key areas of internal control as mentioned in the COSO-model, i.e. (1) reliability of financial information, (2) effectiveness and efficiency of internal controls, and (3) compli-



ance with laws and regulations. As a consequence, the demand for certainty regarding ICT governance can come from various parts of the organisation and can differ in nature, depth, and timing.

The Service Level Management process, in which the ICT organisation accounts for its level of service provided to the organisation via Service Level Agreements (SLAs), often gives insufficient information about ICT governance as intended from the COSO perspective. Usually, it relates to the effectiveness and efficiency of a specific part of the ICT organisation. However, internal control issues require a broader approach. For example, in reviewing the automated data processing, the reliability of the financial reporting and the compliance with laws and regulation are also attention areas.

Because many models are developed to control specific ICT problems (e.g. ITIL, CMMI, ISO17799, CobiT, Val IT, and PRINCE2), it is obvious that these models are also used in practice by organisations. As a consequence, at many places within the organisation documentation is available about ICT risks and controls. In giving assurance about the quality of the ICT governance, it is clear that there is a need for a relatively easy – even modular – unlocking of this fragmented documentation. This will help to make the process more efficient and can simplify the issuance of an ICS. But is it possible to use one umbrella model for ICT governance?

**Structure in ICT governance**

Before discussing such an umbrella model for ICT governance, the position of ICT control in the organisation is discussed. This is necessary because we need to know who is responsible for issuing an ICS on what part of the organisation. ICT manage-

ment can give an ICS on ICT processes, but cannot cover the ICT control within the user organisation and business processes. After all, the user organisation determines how business process control is supported by ICT applications. By sharply defining responsibilities between user and ICT organisation, an overlap between control areas is prevented. Figure 1 clearly shows the relationship between financial reporting, business processes, and the ICT organisation. Furthermore, it shows how the application and general controls fit into the organisation.

In a nutshell, figure 1 shows that *general controls* are a precondition for control over IT infrastructure services. In turn, the IT infrastructure services support the financial applications. The applications include *application controls* that contribute to the control of business processes. Subsequently, these business processes feed the financial reporting within the company.

**General controls**

The general controls can be described as controls that aim at control over basic ICT processes. Figure 1 indicates that these controls are mainly relevant for databases, operating systems, and networks. Besides, they also relate to general application controls such as control over functional change management and application security. The defined categories of control such as Program Changes and Computer Operations are the minimum requirements for reliable financial reporting. However, the scope of an ICS appeals to a wider range of control over ICT activities.

**Application controls**

Besides general controls, application controls also are important for controlling ICT. Application controls are included in software applications input controls and authorisations, among others. Therefore, application controls are an integrated part of the controls of a business process.

The existence of application controls within an application, as such, is not a guarantee for operating effectiveness during a certain period.

The responsibility area of ICT management concerns the general controls, whereas the rest of the organisation is responsible for application controls. Although ICT management will support the organisation in the design, the business is primarily responsible for application controls. The application controls are part of the regular business processes. The supply and demand of ICT services meet

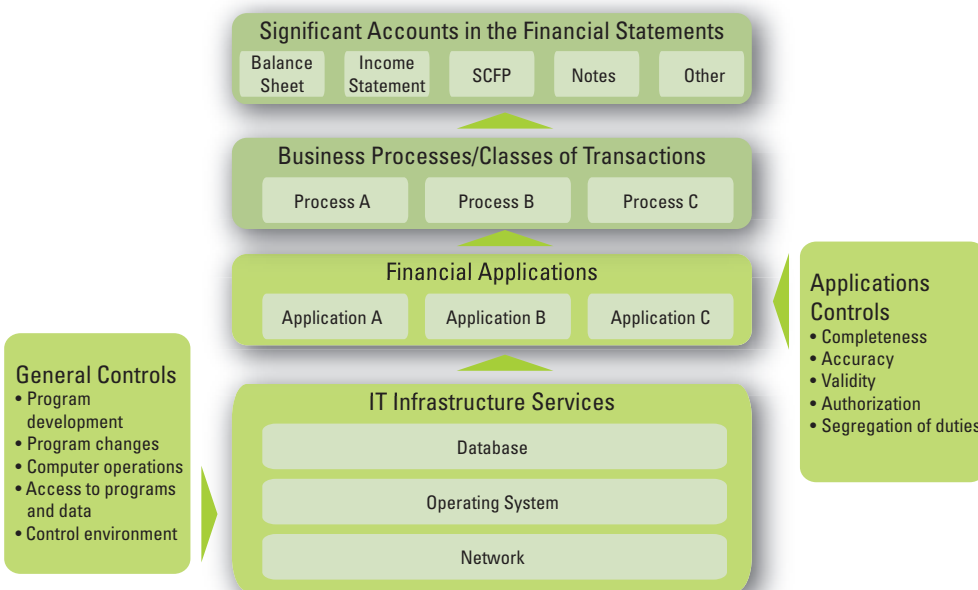


Figure 1: Position of application controls and general controls within the organisation (Source: ITGI, 2006a).

on the boundary of ICT and business. Demand of ICT is usually translated into a programme of requirements which is translated to ICT solutions by the ICT organisation. The ICT organisation cannot take responsibility for the programme of requirements, therefore the boundary between business and ICT is a shared responsibility in which, in our opinion, the ICT organisation should take the lead as a service provider. Hence, we can conclude that activities leading to an ICS for the ICT organisation should focus on general controls. The application controls will be tested in the regular internal control test program to issue an ICS.

### CobiT as umbrella model

The Sarbanes-Oxley Act in the United States has led to increased attention for internal control. In fact, the act promoted the worldwide acceptance of COSO as a standard model for internal control. The COSO model has been adopted by many large companies in the world to support risk management activities. However, the COSO model has not been specifically designed for control over ICT. Therefore, the Information Systems Audit and Control Association (ISACA) has strongly devoted itself during the past few years to have CobiT fit into the ICT control part of SOX compliance. Moreover, ISACA indicates that CobiT 4 is an ICT governance framework that emphasises regulatory compliance and allows managers to bridge the gap between strategy, business risks, control requirements, and

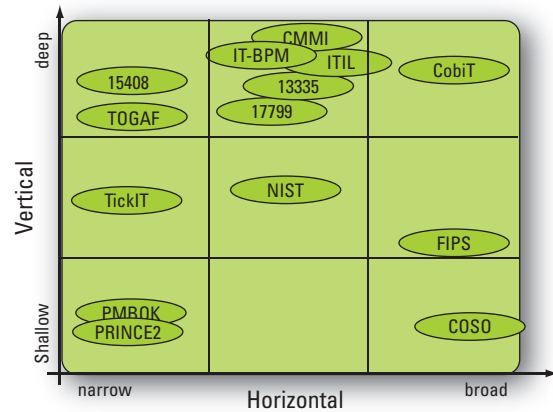


Figure 2: Depth of ICT-governance models versus scope (Source: ITGI 2006b).

technical issues. Two questions arise at this point: How does CobiT connect to the existing control models of an organisation? And, is CobiT the ICT governance framework?

The CobiT model of the IT Governance Institute (ITGI) is presented in various publications as an umbrella model for ICT control. ISACA supports this view. Additionally, the Dutch Institute for IT auditors (NOREA) positions CobiT as a governance model for ICT processes (general controls). But let us here evaluate CobiT using the minimum requirements such a model must satisfy in order to serve as an umbrella model. The ITGI gives an overview of International IT Guidance (ITGI, 2006b) with reference to its own CobiT model. The publication discusses the application range of a number of well known international ICT control models and evaluates the range and depth of the models, which is discussed hereafter. In the end, the efficiency criterion is discussed further.

- 1 Scope and depth:** The umbrella model should cover a large part of the activities of an ICT organisation. Moreover, the model should be able to capture detailed internal controls.
  - 2 Efficiency:** The umbrella model for ICT control should connect to ICT control models already in use for specific ICT processes within the organisation. The main advantage is that available documentation can be used and no redundant work is done.
- In order to serve as an umbrella model, CobiT should score high on each of these criteria.

#### Ad. 1 Scope and depth

The scope of the model indicates to what extent and how ICT activities within an organisation are covered. The depth of a model is important for an Internal Control project. On the one hand, it is necessary to make the controls specific, in order to attach the ICT control in the current situation to the umbrella model. On the other hand, the model must be detailed enough to achieve a balanced statement on ICT control within the organisation. Moreover, the information should suffice to enable testing of controls. The depth and scope of the control models that were part of the ITGI evaluation are depicted in figure 2.



Dr. J.R.H.J. (Bob) van Kuijck (left), RA, RC is Corporate Director Internal Audit at the Vion Food Group and lecturer at the Executive Master of Internal Auditing programme at the University of Amsterdam.  
Dr. B. (Bart) Overbeek (right), RE is Senior IT Auditor at the Vion Food Group.

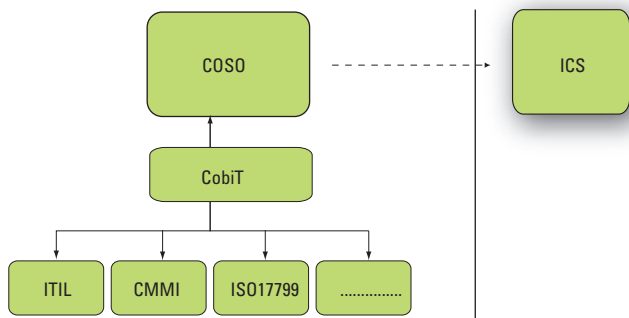


Figure 3: CobiT and existing ICT control frameworks

Figure 2 indicates that CobiT scores best, as compared to other models, on both depth and scope. From this figure it is also clear that COSO has an adequate scope concerning ICT control, but, as discussed before, lacks the necessary depth. Models like ITIL, CMMI, and ISO17799 have a relative good score, but lack the necessary coverage needed for an umbrella model.

#### Ad. 2 Efficiency

The second criterion concerns the efficiency of the model and relates to the question whether or not it is possible to use existing ICT control models. Figure 3 shows that CobiT complies with this requirement. However, does CobiT also fit into existing governance framework? Relatively many organisations are working on an ICS have chosen COSO as a point of departure. COSO already has a long history and is generally accepted around the world. It was published in 1992, refined in 2003, and SOX explicitly refers to COSO as a generally accepted framework for internal controls. Therefore, it makes sense to align CobiT with COSO. Moreover, CobiT can serve as a contextual framework to link all control models used in the organisation. The mapping of existing documentation and control mechanisms helps to establish ICT governance in an efficient manner. The relationship between CobiT and other models is depicted in figure 3.

The considerations above confirm that CobiT fits the requirement of efficiency and moreover has sufficient scope and depth. Therefore, CobiT can function as an umbrella model within an enterprise-wide Internal Control project and serve companies in need of an ICS. Furthermore, applying CobiT will enable the reuse of existing ICT governance structures and limits the administrative burdens of (new) documentation.<sup>2</sup> In summary, CobiT has a match with COSO that is continuously improved, and CobiT can serve as an umbrella model that helps to align with other control models. The fact that CobiT is supported by many institutes and professional bodies makes it more and more a widely accepted framework.

#### CobiT within Vion Food Group

Because Vion Food Group (VION)<sup>3</sup> as a whole is not listed at a stock exchange, there are no strict requirements regarding inter-

nal control as enforced by regulations such as SOX. However, the Board decided in 2005 to issue an ICS in 2008 for the year 2007 and employed an approach that can be characterised as SOX-lite. The Internal Audit department of VION actively supports the organisation in reaching this ambition. At the beginning of 2006, an Internal Control project was started that aimed at increasing the transparency as well as testing of the existing system of internal controls at more than 120 operating companies. The entities had to be visited by Internal Audit and support was given to local management in describing the risks and (key) controls using the COSO framework. Subsequently, the controls were tested as part of the financial audit program that was approved by the external auditor. In the future, the general manager and financial manager of an operating company will be asked to review the adequacy of the system of internal controls and make a statement to business unit management twice a year. In turn, this management will make a statement towards division management. As a result, a cascade model will be deployed that eventually enables top management to issue a group-wide ICS.

The documentation of an internal control project can be supported by an automated tool. This makes it possible to simplify the necessary monitoring and to report efficiently. VION uses the tool B Wise<sup>4</sup> in the SOX-lite project. The documentation comprises process descriptions in which key controls are identified in control matrices, including various characteristics per key control, e.g. risks managed, frequency of monitoring the key control, and the responsible reviewer.

At the start of the Internal Control project, it was decided that the ICT organisation within VION was an integral part of this project. Based on a preliminary study, VION has chosen to elaborate a combination of COSO and CobiT. At the end of 2006, the Internal Audit department carried out an ICT risk inventory that led to an ICT audit strategy and plan for the period 2007-2008. The inventory indicated that the use of governance models within the ICT organisation was still limited. As a consequence, the CobiT model could not fully benefit from documentation already available from ICT models. On the other hand, this circumstance made the decision to use CobiT easier in that the implementation was not hindered by existing ICT models and documentation in different formats.

By carrying out ICT audits within the ICT organisation, ICT management together with Internal Audit identifies internal controls that are already available and some that are missing. In this process, documentation is generated and a selection is made of the key controls to be included in CobiT. Furthermore, action plans are used to make necessary improvements within ICT controls. The focus is on controls that safeguard reliability of automated data processing, while at the same time taking into account the efficiency and effectiveness of ICT processes. As discussed earlier, the scope is on general controls because the ICT organisation cannot take responsibility for implemented



application controls. However, these controls are covered in the business process reviews as part of the Internal Control project. Subsequently, the process of structural monitoring will start within the organisation. In accordance with the ICT audit plan 2007-2008, the focus in the beginning years will be at the most important processes. In future years, all ICT processes gradually will be described and assessed.

The processes covered with CobiT are documented in the application B Wise in the same way as other business processes are documented within VION. The responsible ICT managers will be asked bi-annually to identify the key controls and to indicate whether or not these work effectively. This information about the ICT control is the basis for management to issue an ICS regarding the ICT organisation as part of a company-wide ICS. □

## Conclusion

In practice, more and more the combination of COSO and CobiT is found within organisations that want to issue an overall ICS. Especially in the area of control over financial reporting as part of the SOX requirements, the use of COSO and CobiT is a common approach. Despite the fact that the scope within such environments is restricted to the reliability of financial reporting, CobiT can also be used in a broader perspective. The Internal Control projects that are executed in many organisations, similar to the Vion Food Group, have a need for such a broad employable model that also has the right depth. Moreover, the fit of CobiT with existing governance models in the ICT area is an important requirement. CobiT seems to be a perfect choice because the model acts as an umbrella model for the ICT governance at the supply side of the ICT organisation. Existing models such as ITIL and CMMI can be linked to the CobiT framework and elaborate in more detail how ICT activities can be organised and controlled. If more companies will use COSO in combination with CobiT, there is more pressure on professional bodies of (IT) auditors and regulators to declare CobiT as best practice. Therefore, you can truly state that COSO and CobiT together have the potential to be a true symbiosis!


## References

- IT Governance Institute (2005), Control Objectives for Information and Related Technology, 4th Ed.
- Fabian, R. (2007), Interdependence of CobiT and ITIL. Information Systems Control Journal, Volume 1.
- IT Governance Institute (2006a), IT Control Objectives for Sarbanes-Oxley, The Role of IT in the Design and Implementation of Internal Control over Financial Reporting, 2nd Ed.
- IT Governance Institute (2006b), CobiT Mapping, Overview of International IT Guidance, 2nd Ed.
- Lambeth, J. (2007), Using CobiT as a Tool to Lead Enterprise IT Organizations, Information Systems Control Journal, Volume 1.
- NOREA (2004), IT Governance; An Exploration.
- Weill, P. and J.W. Ross (2004), IT Governance: How Top Performers Manage IT Decision Rights for Superior Results. Harvard Business School Press, Massachusetts.
- Van Kuijck, J.R.H.J. (2006), SOX-lite approach. Audit Magazine, December.

## Notes

1. Control Objectives for Information and Related Technologies (CobiT). Whenever CobiT is mentioned in this article, reference is made to version 4.
2. The ITGI included many accepted standards in their analysis. Some standards have not been included (e.g. ASL, BiSL). However, these standards should be taken into consideration when establishing improvements of CobiT. This will help to further increase the general acceptance of CobiT.
3. In 2006, the Vion Food Group had worldwide a sales volume of € 7,5 billion. See for further information [www.vionfood.com](http://www.vionfood.com).
4. B Wise is a tool that supports management in enterprise risk management and compliance. It helps them to make risk and control transparent. See for further information [www.bwise.com](http://www.bwise.com).





We put our experience  
where it's needed.

Right here.

Jefferson Wells is known as the firm that only engages professionals with years of experience, specialized expertise and a gift for zeroing in on results. And we put that experience where it's needed. So you don't need to bring in the nation's top professionals. They're already here.

[www.jeffersonwells.com](http://www.jeffersonwells.com)

JEFFERSON  
WELLS   
A Manpower Company

Internal Audit • Technology Risk • Tax • Finance & Accounting

Jefferson Wells is not a certified public accounting firm.

©2007 Jefferson Wells International, Inc. All rights reserved.

Value Added Auditing:

## an **interview** with Arie Molenkamp and Jan Driessen

*Audit Magazine* spoke with Arie Molenkamp and Jan Driessen, two men who have made an enormous contribution to the growth and the direction of internal auditing in The Netherlands.

Interview: drs. R.H.J.W. Jansen RO and drs. A. van Nes RO

### The beginning of internal auditing

Molenkamp: "In the early nineties we started a post-graduate course in internal auditing at Rotterdam as a natural follow-up to the different training courses we developed and delivered for our clients with KPMG. We were fully confident that there was more

potential for internal auditing as a profession in organizations. We came to this conclusion after conducting a roundtable discussion on internal and operational auditing in 1991 at which heads of internal audit discussed what internal auditing could mean for organizations in The Netherlands. The situation then was that primarily the external accountant was involved with the internal audit department, especially in the finance area. A management oriented approach to internal or operational auditing was hardly the focus.

However, a number of companies were already going one step further than just cooperating with the external accountant. An example was Royal Dutch Shell, where a policy of proactively helping and advising on business risks and controls to management was introduced. The auditor was the independent "sparring partner" of management, pointing out risks and analyzing consequences of management decisions. Shell used the so-called 'breeding ground,' or flow model, to train people in three weeks time as internal auditor."

Driessen: "Contrary to what some people say, I believe that this was a valid training process. It is perfectly possible to create an independent mindset in three weeks' training. In practice I have seen people adapt very rapidly to such a new role. An important

aspect is, however, that you are supported by your colleagues. Especially at smaller audit departments there is frequently insufficient power to stand up to management. Much depends on the attitude toward management. An auditor once told me in this regard: internal auditors must defy management."

### Unique academic schooling

Molenkamp: "Erasmus University was the first to have a one-year post-graduate degree in Internal auditing, which we had developed there and had positioned along with the established courses on accountancy and control. Three years later, in 1996, we were asked to set up a post-graduate program at the University of Amsterdam, to further develop the managerial model of internal auditing which we strongly advocated. This was developed as a two-year program

In 1993 Jan Driessen and I, along with Jens van der Kerk, wrote a book concerning operational auditing. We found it necessary to put our concepts on paper in order to substantiate the managerial approach to internal auditing in Europe, because in The Netherlands no specific literature on this topic existed. Detailing our vision was necessary to clarify the operational audit approach within auditing. In The Netherlands at that time, there were strong internal audit departments which certified annual accounts and which had strong ties with the external accountant. Several heads of internal audit departments were very interested in exchanging views with us on changing internal audit. They have supported the post-graduate education from the beginning to an important degree, thereby helping us to develop a more management driven model."

Driessen: "The post-graduate internal audit education in Amsterdam definitively established itself in 2003 with the ability



to grant the title Executive Master of Internal Audit. (EMIA). We had to fight hard in Amsterdam to be able to offer this EMIA title and had to show we (fully) complied to the academic standards. The fact that we now offer a full academic degree is an important achievement.”

Molenkamp: “In The Netherlands our universities now grant academic degrees, whereas in the past this was done exclusively by professional associations. You now see a shift toward academic degrees being more and more accepted as a standard.”

Driessen: “This degree puts us on the map internationally. It indicates the quality of the education in an international context. Similar degrees abroad are almost nonexistent. In the United Kingdom one can acquire an academic master’s degree in internal auditing. Like The Netherlands, they do promote the CIA (Certified Internal Auditor) designation but at the same time there is a strong demand amongst internal audit professionals to learn and really understand the principles of risks, controls and auditing on a more academic level. In the United States in most of the academic programs I know internal auditing is part of the training for a master’s degree accountancy.

In the beginning, financial accountants had a big influence on the development of internal auditing. This led us to choose a similar format for our curriculum, namely a part-time, two-year program. That is rather unique in the world.”

Molenkamp: “Furthermore you now see that a selection has developed in the educational offerings. Besides our post-graduate, more academic program, there are also post-bachelor courses that focus more on the managerial aspects of internal auditing and its hands-on application. The majority of these students attend Hogeschool in The Hague and the Hoge school Avans.”

Molenkamp continues: “Before we could start the postgraduate program, we needed to present our projections for such an endeavour. For example, we were asked how many potential students there could be for such an education, and at the time we estimated 500 people.”

Driessen: “They did not believe us, but said that if we could attract even 10 percent of that, we would be break even. Currently the program boasts more than 500 alumni, meaning that our estimate turned out to be conservative.”

Molenkamp: “Back then the prevalent opinion was that internal auditing would not further develop. The postgraduate accountancy education people were skeptical and felt there was no need for a separate program for internal auditing.

This sensitivity was made evident by the reaction to an article in which Jan Driessen and I were interviewed by the *Financieel Dagblad* (Dutch financial newspaper). We reviewed the text of the interview before it was published and found nothing which could be politically incorrect. However, we did not know that the

newspaper was going to run a photo with the article. This photo was of the head office of Shell, and then the trouble began. This apparently led to the impression that the external auditors were out to take over the internal audit function at the multinational companies. Naturally, this was not our intention; we advocated a professional internal audit function as a must-have for top management.”

Driessen: “More and more we began to see job listings for professionally trained internal auditors (ROs) equaling the RAs (Dutch CPAs) in number. To me, that was an indication that the value of internal auditors was recognised by companies.”

Molenkamp: “Another indication was when ABN Amro conducted a recruitment campaign in which a mirror was used as the artwork.”

Driessen: “Another unique feature of the profession in The Netherlands is that we in this very small country used to have two associations for internal auditing: the VRO (Vereniging voor Register Operational Auditors) and The IIA The Netherlands. Now they have merged into one body, but still professional



Ill.: Roel Ottow

association governs the internal audit program at the universities, which gives more weight to membership in The IIA due to the credibility associated with an academic degree.”

### The status of operational auditing

Molenkamp: “Another development is that the internal auditor now has a clear role as a consultant to management. Take for example DSM (a biochemical company). They said goodbye,



more or less, to the internal financial audit including its annual account checking activities, to develop a more managerial approach of operational auditing. They even changed the department's name in to Corporate Operational Audit. This development was initiated by management of the Board itself."

Driessen: "In less and less companies in The Netherlands internal audit departments play an important role in executing internal control activities, which also sometimes means that management rethinks the value and costs of having a state of the art internal audit department in house and evaluates the pros and cons of co-sourcing and outsourcing the function to external service providers. The hiring of external expertise is starting to happen now more and more because of the shortage on the labour market. This can be a problem in the case of complex high-quality audits. More traditional audit activities, on the other hand, are far more easy to outsource. However, I know that some companies, especially operating companies of an American parent company, fly in experienced auditors who are supported by Dutch auditors to perform the more complex high-quality audits."

## This degree puts us on the map internationally

Molenkamp: "In non-profit as well as for-profit organizations, we now see a tendency toward centralisation of activities in the field of control and internal audit. For very specific services, however, a decentralised approach can be desirable. Take for example large Ministries"

Driessen: "An other typical Dutch approach to internal auditing is that we, as a rule, first build a reference model out of management strategies and control objectives. The strength of having a reference model is that you can discuss that upfront with management, get their fingerprints on it, and so use 'the eyes and ears' of management to look at the object of your research. An auditor is, in my opinion, nothing less than an extension of a management layer. You must think as a manager."

Molenkamp: "With its increasing role in the supervision of companies, internal auditing gains importance, and the board and audit committee depend more and more on internal audit departments to find answers to complex questions. This leads to dual reporting lines. Globally we see, however, the discussion arising among internal auditors who wonder whether they should report directly to the board and the audit committee, given their relation to executive management."

Molenkamp: "Another difference between The Netherlands and other countries is that here the government and the mid-sized and small companies have internal audit departments. Since 2004, even lower level government bodies have the obligation to main-

tain an independent audit function which also focuses on the compliance of decisions.

Auditing in Canada has been a trendsetter, with sophisticated concepts concerning the function of internal auditing, such as compliance auditing. In our concept of operational audit, we have integrated these developments as well. In the United States, auditors have generally used a rule-based approach since 1992, whereas auditors in the United Kingdom and The Netherlands have been more principle-based. Thanks to the several recent bookkeeping scandals, the rule-based approach has become more important in The Netherlands too."

Driessen: "The future of the profession of internal auditing depends on what will be the position of internal auditing in light of governance legislation like Tabaksblat and Sarbanes-Oxley. Is the internal audit department the natural partner of management, or is it a function that supports management with their set of controls Will it carry out the rules mandated by Sarbanes-Oxley and Tabaksblat, or focus more on support of management? A second development is that both audit committees and external auditors will work more closely together with the internal auditors. This emphasizes the need to organize internal audit more effectively within organizations. The internal audit service must prove its added value, which is not simple. The main question will be on what problems will we focus and advise management."

Molenkamp: "Audits of primary processes will be more standardised because they have been taken into the management control framework. This has resulted in a trend at many organisations toward a more Anglo-Saxon model, where the audit function focuses particularly on risks concerning policy-making and reflecting on strategic issues; in this way the internal audit function can show its added value as an instrument for management."

Molenkamp: "Finally, I wonder myself sometimes if the profession of internal auditor is really a stepping stone to a management position or a career in itself. Americans approach the function according to the flow, or breeding ground, model. A recent study in The Netherlands shows the majority of postgraduate students leaves the audit profession after a couple of years.

Driessen: "This result begs further research on the matter. In practice, I don't see the breeding ground model having much success in The Netherlands. Only in management career paths, in which internal auditing is one of the steps, does flow take place. But if one starts at an internal audit department, one remains there as a rule. Of course, if you find the profession interesting and challenging, that is not a bad thing."





# 10 years IIA-Netherlands — the miracle path to being the focal point of global internal auditing in July 2007



**From a modest beginning to being part of a worldwide network, internal auditing has come a long way in The Netherlands. Today's auditors are promoting the profession at home and monitoring audit developments abroad. IIA-NL is very proud that the global internal audit community will come to Amsterdam in July 2007 and join in celebrating its 10-year anniversary.**

## Historical background

As of old the Dutch economy has largely been based on international trade and transport, due to the geographical position of The Netherlands, with important harbours on the North Sea, and lying at the mouth of the Rhine, the main artery to the European markets. Due to that geographical location, shipping and ship-building were strongly developed, and from that came trading. From medieval times the Dutch were considered to be the main traders of Europe. This led to a world-wide trading empire in the "Golden" 17th century, with a monopoly in many parts of the world. At the same time, in contrast to the rest of Europe, the political structure was based on mutual consultation and compromise in a Parliament rather than a strong central autocracy (from their birth in the mid-16th century, The Netherlands were a Republic formed by largely autonomous provinces). Partly due to protestantism, there was a collective aversion of imposed uniformity, while strong class distinctions were not tolerated. Technology and science played a major role, all through the population. This historical cultural background has greatly shaped the current economical culture. After economic disasters and depression struck The Netherlands in the 1930s, control became an important issue for Dutch companies, and this inevitably led to the development of the external audit profession.

## Audit pioneers

Before long, audit pioneers developed the view that the board of directors should be responsible for an organisation's financial management and should provide reliable information necessary for financial justification. Many also supported external auditors' use of internal measures and systems esta-

blished by the organisation. Thus, the need for control management and efficiency led to the emergence of internal auditing in the late 1930s. From then on, there was a gradual development whereby internal control steadily gained importance, particularly in the larger companies; external accountants started using (and trusting) internal control systems. Concurrently, there was a gradual development from purely financial to operational control. With growing industrialisation and scaling up of companies, business leaders increasingly began to view improved control as a necessity. Although there was no specific event that ignited the profession, internal auditing may have been first recognised when the national Accountants' Register Organisation (NIVRA) started an internal accountants' chapter (INTAC) in the mid-1980s.

## Internationally oriented country

Historically The Netherlands have been characterised as an extremely internationally oriented country. The country houses an exceptionally large percentage of multinationals (companies governed by an international board and listed on more than one stock exchange) such as Philips, Shell, Unilever, Heineken, Akzo Nobel, ABN-Amro and ING. Like in all scopes of business, the Dutch internal audit profession has been oriented internationally as well, partly driven by the business interests of these multinational companies, but certainly also because of an inherent interest in acquiring best practices across borders.

## Getting organised

Since the 1980s, three organisations were active – more or less independently – in internal auditing in The Netherlands: INTAC, VRO

(the association of Certified Operational Auditors) and IIA-Benelux, the Chapter of The IIA that served Belgium, Luxembourg, and The Netherlands. After various attempts by these three associations to end the fragmentation of their efforts, a roundtable of about 20 CAEs finally resulted in the signing of a declaration of intent to form one single organisation for internal audit in The Netherlands.

## Teething years

After its foundation, IIA-NL did not get off to a flying start. It had to create its own place beside its sister organisations as well as within the worldwide IIA landscape, find its way and add value to the profession and its practitioners, create its own products and services – in short, get through the teething years. Setting up a stable organisation of volunteers with a small support staff took most of the time and effort from the first board. A newsletter was started, a few booklets published and a Web site set up, while the first professional issues were tackled by the CPP and courses and workshops organised. Particularly the latter helped to offer value to the internal audit audience. The start of a new and well received professional journal proved to be another high-value benefit for the internal audit community. An extensive and much more user-friendly update of the Web site definitely helped to add value to the community as well. At the end of those first five years, a sufficiently sound financial situation had been reached to be able to increase the professional staff and make a leap towards more and better services to the internal audit community.

## Turmoil and developments

This internal development coincided with the turmoil and rapid developments in the field caused by international scandals, which definitely left their marks in The Netherlands, being the home of so many multinational companies. These developments gave a big boost to risk management, and led to a recon-

sideration of financial audits as an inseparable part of the internal audit toolbox. When corporate governance became a focal point of the business world (and the press!), a committee was installed early in 2003 by the Dutch business world, with the task to set up a code of conduct for corporate governance based on present views and circumstances. This code was made into law in early 2005. Internal auditing is mentioned in the code, although IIA-NL would prefer this basic codification to become more solid in the future. The greatest challenge facing The Netherlands' internal auditors is the need to increase awareness of the profession, especially at executive management levels. IIA-NL is looking to improve such awareness by uniting internal auditors from divergent core areas such as government, banking, and multinational industries. To get more attention in the media as well, IIA-NL published a position paper on the role and value of internal auditing in The Netherlands and distributed this widely to board members. In the past year, overtures were made to the national Monitoring Committee on the Corporate Governance Code (Frijns).

## Growth – membership and services

Since the early days with about 500 members, the real growth started about 5 years ago. Having improved and extended the products and services, a group membership was successfully introduced, in which (individual) membership was offered to whole audit departments in one go, causing a steep rise in the membership to currently about 2,000. A further great jump will occur soon, thanks to the merger with the VRO by the end of this year.

In addition to seminars on present-day issues and topics, IIA-NL has developed a training package using internationally available material presented by experienced Dutch professionals (who add local cultural and linguistic flavour). The core of the services to members lays in professional practices, which has the full attention of a very active committee. Besides, IIA-NL has always had a strong relationship with the two IIA-endorsed university schools offering post-academic IA courses. We are currently looking into mutually establishing more thorough research opportunities.

Since a pilot in 2002, about 60 companies have joined GAIN (The IIA's Global Audit

Information Network), making it possible to create a purely Dutch benchmarking group, divided into three main industry categories. It is not merely the instrument and reports which make this such a strong service, but the professional networking offered by the group. Another development is the increase in the number of Certified Internal Auditor (CIA) examinations held in The Netherlands since 2000. Nowadays, as many as 200 participants sit at each examination and over 450 internal auditors are now certified.

## International

From the start, the IIA-NL has understood the importance and value of being part of a global community. For a long time now, IIA-NL members have served on quite a few committees of The IIA. In addition, one of our most active members has played a considerable role in the EC-IIA over the past years, currently as chairman. The fact that IIA-NL was proudly entrusted with the organisation and hosting of The IIA's International Conference in 2007 in Amsterdam considerably gained momentum for the international awareness and vice versa.

## The European Confederation of Institutes of Internal Auditing: 25 years of history

Hans Nieuwlands, RA, CIA, CCSA, CGAP, President ECIIA

The roots of the European Confederation of Institutes of Internal Auditing (ECIIA) go back to 1975 when Charles Duly (UK) started organizing informal meetings of presidents and representatives of local European organisations of internal auditors. In 1981, Paris hosted the first formal meeting of presidents of the European institutes of internal auditing. The conclusion was that cooperation between internal auditors from European institutes had become more and more necessary. They recognized that the profession of internal auditing was not only developing within organisations due to changing business objectives, but also because of political and economical influences. This development could not be ignored, because European institutes have long needed to define common positions due to historical and economical ties between their countries.

In 1981 the European Economic Community (EEC) issued a directive on auditing which could

involve internal audit. The participants of the Paris meeting decided that it was important and urgent to establish contact with the EEC and decided they needed a platform for doing so. The Letter of Intent to establish the European Confederation of Institutes of Internal Auditing (ECIIA) was signed on 19 October 1982 in Frankfurt by the Benelux (representing Belgium, Netherlands and Luxembourg), France, Finland, Norway and the UK. From those modest beginnings, ECIIA now represents 30 countries and more than 25000 internal auditors.

Over the years, ECIIA has published several position papers on internal auditing, internal control, fraud, and corporate governance. These publications can be found on the Web site [www.eciia.org](http://www.eciia.org). ECIIA presidents have met with influential representatives of the European Union, European Committee, the Fédération des Experts Comptables Européens (the representa-

tive organisation for the accountancy profession in Europe) and other influential European organisations. In addition, ECIIA has submitted comments on various exposure drafts of new policies and directives to ensure that reflections from internal auditors would be included. The annual European Internal Audit Conference is another main product of ECIIA. The conference rotates amongst the various countries within the wider European area. In addition, ECIIA also sponsors the European Academic Conference on Internal Auditing. In 2007, the University of Pisa organised the 5th edition of the conference.

The latest challenge that ECIIA is facing is trying to convince the EC that internal auditing is an essential element of corporate governance. This may take us some years, but considering how much we've accomplished in 25 short years, it is very likely only a matter of time.



# Amsterdam Business School

## Executive Master of Internal Auditing *Challenging and Excellent*

»Thinking Business«

The Executive Master of Internal Auditing, a two-year part-time master programme, is offered by the Amsterdam Business School, which is part of the prestigious University of Amsterdam. The Amsterdam Business School offers excellent education that can compete with the best in the world, combined with the friendly atmosphere of cosmopolitan Amsterdam.

### Quality

The EMIA-programme meets high-quality requirements and is supervised and acknowledged by the Institute of Internal Auditors Inc. and the Dutch chapter of the organization. We are also accredited by the Dutch Association of Operational Auditors.

### Curriculum

The EMIA-programme keeps its curriculum up to date through close contact with CEOs, CFOs and CAEs of prominent national and international organizations, as well as constructive co-operation with renowned foreign professors. As a result of this co-operation, Audit Committee reporting, Risk Management, SOx and the Dutch Corporate Governance Code have been incorporated in the curriculum. More recent topics in the programme are the increasing influence of stakeholders in relation to the independent position of the auditor, quality assurance reviews and new forms of auditing.

### Students

The EMIA-programme provides students with the theoretical knowledge, the required attitude and the practical skills for executing the internal audit function to a very high standard.



## Erasmus University Rotterdam: Erasmus School of Accounting & Assurance (ESAA)



### One of the four centers for internal auditing excellence in the world

The Internal Auditing Education Partnership (IAEP), established by The Institute of Internal Auditors, (The IIA), the international body that unites more than 130,000 internal auditors globally, is designed to support universities and colleges at three levels of participation: Entry, Partner, and Center for Internal Auditing Excellence. As a Center for Internal Auditing Excellence, our Internal/Operational Auditing programme has met the high requirements of the program and offers a comprehensive internal audit program. The other three such centers are at the University of Pretoria (South Africa), Louisiana State University (USA), and the University of Texas-Dallas (USA).

### Course objective

After graduating in Internal/Operational Auditing, you will have command of a wide range of relevant skills, such as developing policies for implementation, organisation, and operation, and taking on management responsibility. You will be able to proactively support an organisation in the design and leading of complex audits, and other tasks including risk management and re-organisational trouble-shooting. As an Internal/Operational Auditor, you will have the skills and capability to support senior management on a wide range of issues.

### Course duration

Candidates with a university master's degree will be admitted to the two-year course. Candidates with an HBO bachelor's degree will be admitted if they can prove relevant work experience and have obtained a further post-HBO degree, or if they have gained that academic level through their work experience. The Internal/Operational Auditing course has an accelerated-track option for candidates who have already graduated with a post-master's degree in accountancy, IT auditing or controlling. After a five-day introductory course, these candidates proceed directly to the second year.

### The curriculum

The Internal/Operational Auditing course is modularised. In order to optimise the link between theory and practice, much focus is given to subjects such as audit methodology and audit skills. In the first year, the following subjects are covered: Auditing, Administrative Information Control and Organisation, Strategic Management, Risk Management, Financial Management Information, and Management Control. In the second year, in addition to audit skills and practical audit experience, the following subjects are covered: Control Frameworks, Management Accounting, Behaviour Controls, Quantitative Analysis, Ethics, and a module of choice:

- Governmental Auditing
- Auditing at Financial Institutions
- Integrated Auditing and Latest Developments

Students finish the course with a final thesis. Each student chooses a subject after consulting with one of the course lecturers and writes a paper or report. The final exam of the course is to orally defend the paper under scrutiny. Accelerated-track students who have previously written a thesis for a post-master's course will write a discussion report.

### Unique relationship with 'IT auditing'

The incoming group for college years 2007-2008 will have a unique and renewed curriculum, in that the Internal/Operational Auditing course and IT audit course modules have been homogenised. This gives students the possibility to gain two post-master's degrees in three years. After completing one of the courses, it is possible to enter the other course directly after the second year.

### International networking

Our course is part of a network between a number of international universities in the audit field, including a particularly close relationship with Cass Business School in London. ESAA annually invites

international professors to give lectures, the goal being to exchange knowledge and increase awareness of developments in the field of Internal/Operational Auditing in other parts of the world.

### Continuing education

Internal/Operational Auditing is a specialized area which is constantly evolving, with new insights frequently developing. The professional auditor in the field must stay current on the latest developments. ESAA facilitates and organises a number of events in order to address this need:

- \* Audit Executive Course: For directors and management team members from audit service companies;
- \* Summer and Winter Courses: The opportunity for audit professionals to study the most recent developments in auditing and Internal/Operational Auditing, as well as the option to take IT audit courses;
- \* Roundtable: For information exchange between the teaching resource team and the students' employers. In this way ESAA can direct the course program to fully meet the expectations of the employers.

### Degree and title

Once you have successfully graduated from the course, you will receive the title 'Executive Master in Internal Auditing' (EMIA). If you also have a minimum of three years' work experience, then you can register with the VRO and gain the additional title of 'Register Operational auditor' (RO). In addition, this course can enhance one's preparation for the Certified Internal Auditor® (CIA®) exams.

### Information

Further information about the course and contents of the curriculum can be obtained from: Erasmus School of Accounting & Assurance, Internal / Operational Auditing, Room H13-2, Postbox 1738, 3000 DR, Rotterdam. Tel: 010-4082437 / 4082217, Fax: 010-4089157, E-mail: [esaa-ioa@few.eur.nl](mailto:esaa-ioa@few.eur.nl), and Internet: [www.esaa.nl](http://www.esaa.nl).



# How to recognize Hannibal

Dr. John Clarke • *Working with Monsters* • Random House Australia • ISBN 1740511549

R. J. Klamer

I heard once if you are studying to become a medical doctor, you are inclined to feel the illnesses you are studying about, or to recognize them in the people around you. Reading *Working with Monsters*, by John Clarke, had that same effect on me. Suddenly I was recognizing psychopaths everywhere, wondering where this manager would rank on the psychopath scale, and if that former colleague could be classified as an organizational psychopath, and so on.

At first, when I picked it up, I expected a managerial book on behavior in the workplace, but it was more of a full study on psychopaths. Up until that point, my knowledge on psychopaths was about the same as most other people – what I learned watching Hannibal Lecter in the film *The Silence of the Lambs*, or perhaps a little reading about despotic figures like Idi Amin or Adolf Hitler. But Dr. Clark's very informative – and convincing – book was quite an eye-opener.

For starters, Dr. Clark states that between 0.5 and about 2 percent of adults are psychopaths. Not a very exciting statistic, until you consider that this means a lot of these people must be in the workplace, and relatively successful, at that. So, how can psychopaths walk and work side-by-side with us, without us knowing? I mean, if they all behaved like Hannibal, we'd figure it out soon enough.

For the manager, that is exactly the point made in this book: How to recognize the psychopath in the workplace. How can one determine whether a person is just behaving badly, or causing real damage due to psychopathic behavior? On the one hand, you have some typical behaviors, such as lack of remorse or guilt, an

impersonal sex life, impulsive behavior, lack of responsibility, prolific lying and deception, and a constant need for excitement. On the other hand, not all psychopaths have the same set of behaviors, and exhibiting one or two of them is not sufficient to be classified as a psychopath. And that is a good thing, because based on these behaviors alone, I initially determined that a lot of the people in my workplace could be psychopaths (myself included, at times).

No, identifying psychopaths involves much more than observing a behavior or two. The book thoroughly examines the various types of psychopaths and their characteristics. More to the point, it identifies four types of psychopaths one can encounter in the workplace: organizational, corporate criminal, violent criminal, and occupational.

The occupational psychopath is motivated by having power over others (picture an overactive police officer who tickets and harasses individuals over the slightest infractions of the law). An environment built on strong control and strict rules enables these people to live relatively normally. Both the corporate and violent criminal psychopaths are motivated by the ease of success and the advantages of the crime.

The organizational psychopath, however, is perhaps the most difficult to identify, disguised best because of the behaviors that are usually rewarded in the corporate world. Often a very pleasant person and fast-rising star, he may steal projects, ruthlessly use other people to climb to the top, and cause enormous chaos in his wake. The pain and problems inflicted by these psychopaths to colleagues is often

aggravated by the disbelief encountered if complaints are made. Those receiving the complaints are prone to think, "How can such a successful person be causing that? The victim must be partly to blame."

Dr. Clarke goes on to describe what an individual manager can do to recognize and identify this type of psychopath. What strikes me is that in the stories he writes about his own cases, his advice is never to lock these types away. Of course, the corporation has a responsibility to protect the other employees and the corporate image. The psychopath is often asked to leave or sent on 'overseas development'. I was hoping that Dr. Clarke would have had a better course of action to take. Is that really where the responsibility of the organization ends? Yes, the problem goes away, but only to wreak havoc in the next job.

*Working with Monsters* is easy to read, enlightening, and populated with numerous examples from Dr. Clarke's own experiences as a criminal psychologist. It made me conscious about the risks we are taking with people around us and aware of the signs. I can only hope I won't find any "monsters" where I work.

See also the article on page 26,

Renze J. Klamer, management consultant at Sentele b.v. ([www.sentele.nl](http://www.sentele.nl))  
Duinvoet 8, 8242 RB Lelystad,  
+31 320 23 12 80,  
[klamer@sentele.nl](mailto:klamer@sentele.nl)



# The meaning of Royal companies and decorated managers

Dr J.R. van Kuijk \*

In an effort to prevent future financial scandals like those at Enron and Worldcom, the U.S. Congress introduced the Sarbanes-Oxley Act (SOX) in 2002. Billions of dollars have been spent since then to ban bad behaviour in corporate management. An additional cost is the significant management attention and resources that the Act requires in many companies worldwide.

However, SOX has put too much emphasis on the internal control system, which has led to red tape. In my opinion, risk assessment and cost benefit considerations should be taken more into account. Streamlining the number of key controls and SOX-lite are key phrases in the new approaches to the SOX requirements. Moreover, corporate history teaches that additional rules alone do not help to prevent the occurrence of scandals. There is more to it. Responsible and ethical behaviour of corporate management are key to the prevention of financial scandals. But how can you identify a company's management team as trustworthy from the outside?

Let's have a closer look at the Netherlands. Although some soccer players like Johan Crujff and Ruud Gullit are very popular in the Netherlands, the Royal family is still our national pride. This pride is reflected in a system of decorations and granting titles of court supplier. Each year, the Queen honours people for bravery or the contribution of exceptional or outstanding value to the community.

In addition, a company can obtain the title of court supplier if it has been more than a hundred years in business, has proven to be solid and reliable, and whose management's behaviour has been impeccable throughout the years. This title gives a company the right to add Royal to their name. The privilege is coveted because it helps companies in

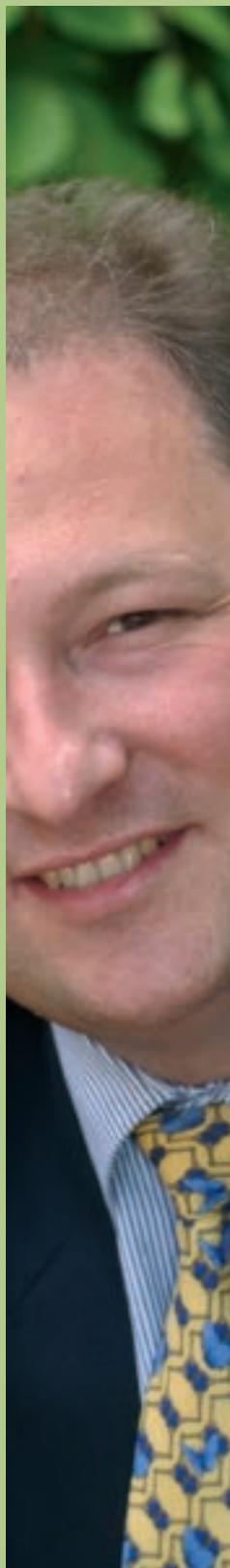
doing business, especially in an international setting. In fact, the addition of Royal to a company's name radiates reliability. However, during recent years we have seen that it can mislead shareholders and other interested parties. Royal Shell and Royal Ahold are living examples of Dutch companies that could not live up to the Royal designation, as scandals arose in these companies. Might the decoration of individual managers be a better measure to identify trustworthy companies?

Since May 2000, Rijkman Groenink has been CEO of the ABN Amro bank, which has a history of approximately 150 years. He promised a better performance, cost reductions, and a shareholder value in the top five of its peer group. In 2004, this man was honoured with a Royal decoration and also ranked in a leading Dutch newspaper in the top five of the 200 most influential Dutchmen.

After seven thin years, however, ABN Amro bank is still underperforming in results as well as shareholder value. As a result, the bank is currently involved in a takeover battle after criticism of shareholders. Eventually, the bank will lose her independence and will probably be completely split up. Again, a respectable company will disappear due to failing management.

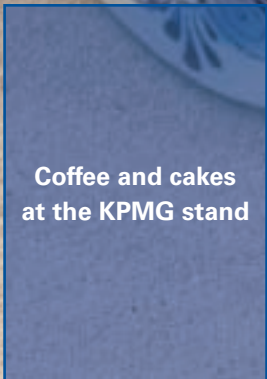
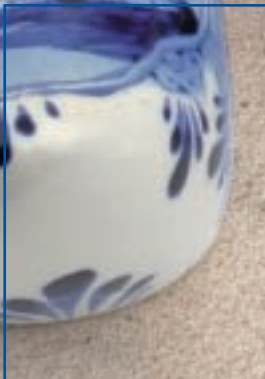
Rijkman Groenink will leave the bank with a pocket full of stock options, of which the value has increased only as a result of the takeover bids. This is his bonus for selling out one of the largest banks of the Netherlands. Despite all this, in May 2007, he was recommended as a member of the supervisory board of Royal Shell. So beware -- Royal is not what it seems to be!

\* Corporate Director Internal Audit at the Vion Food Group (vankuijk.bob@hetnet.nl)





© 2007 KPMG Holding N.V., a Dutch limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in the Netherlands.



KPMG is looking forward to seeing you at the IIA International Conference in Amsterdam (8-11 July).

Come and join us for Coffee and Cakes at our stand in the Exhibition Hall (standnumber 32/33) and take the opportunity to discuss your key business issues with our advisors.

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 144 countries and have more than 104,000 professionals working in member firms around the world.

AUDIT ■ TAX ■ ADVISORY



# Looking for a different angle on your business?

*Try our perspective*

With about 6000 people, Deloitte is the largest professional services firm in the Netherlands. But size isn't everything. What really counts, is our solid reputation among profit and non-profit organisations, when it comes to delivering accountancy, tax, consultancy and financial services. And, where necessary, we can draw on extensive expertise within the worldwide Deloitte network, helping you to stay ahead of the pack, leading the way in your market. Our professionals are just as ambitious as you are, and we are convinced that *It feels better working with Deloitte.*

[www.deloitte.nl](http://www.deloitte.nl)



# Deloitte.

Accountants • Tax Advisors • Consultants • Financial Advisors •