
From OUT to IN to UP

How Flowserve Insourced the Internal Audit Function and is Building Best in Class Practices

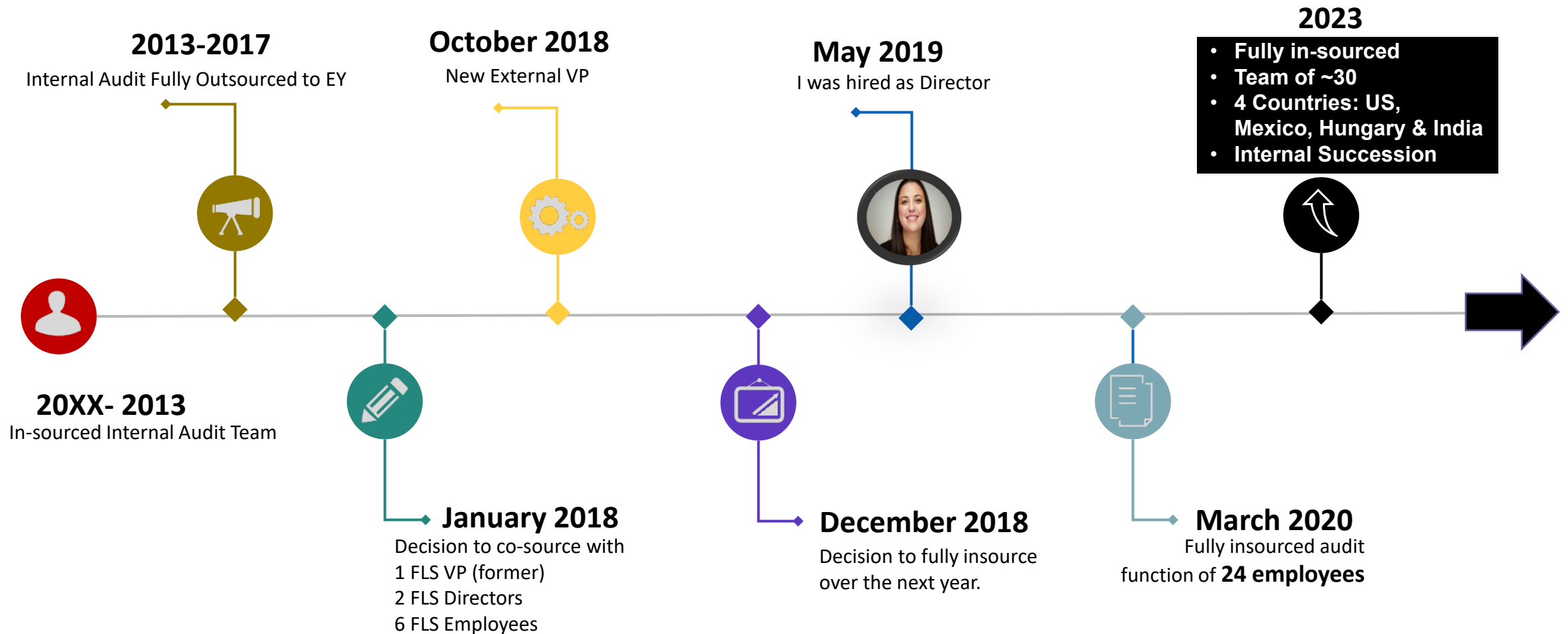
AGENDA

- *History of Internal Audit at Flowserve*
- *Decision to In-Source*
- *My background*
- *From Out to In*
- *From In to Up*
- *What worked...and what didn't*
- *What's Next*
- *Success Stories – Reporting & Technology*



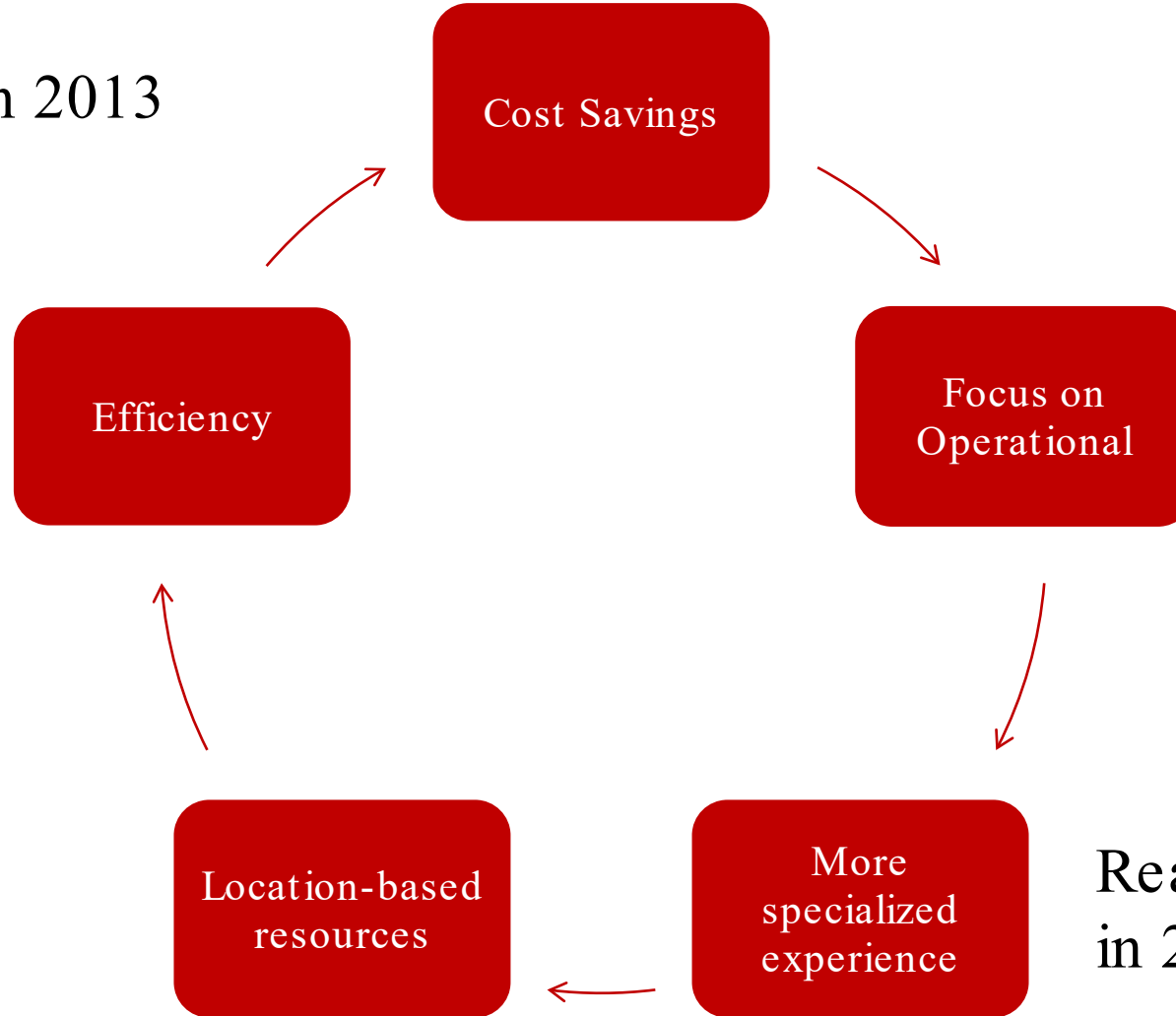
History of Internal Audit

Flowserve history began over 200 years ago, and today Flowserve employs more than 15,000 associates in over 300 locations around the world. Flowserve manufactures flow control solutions (pumps, valves & seals) for the world's toughest, most critical applications.



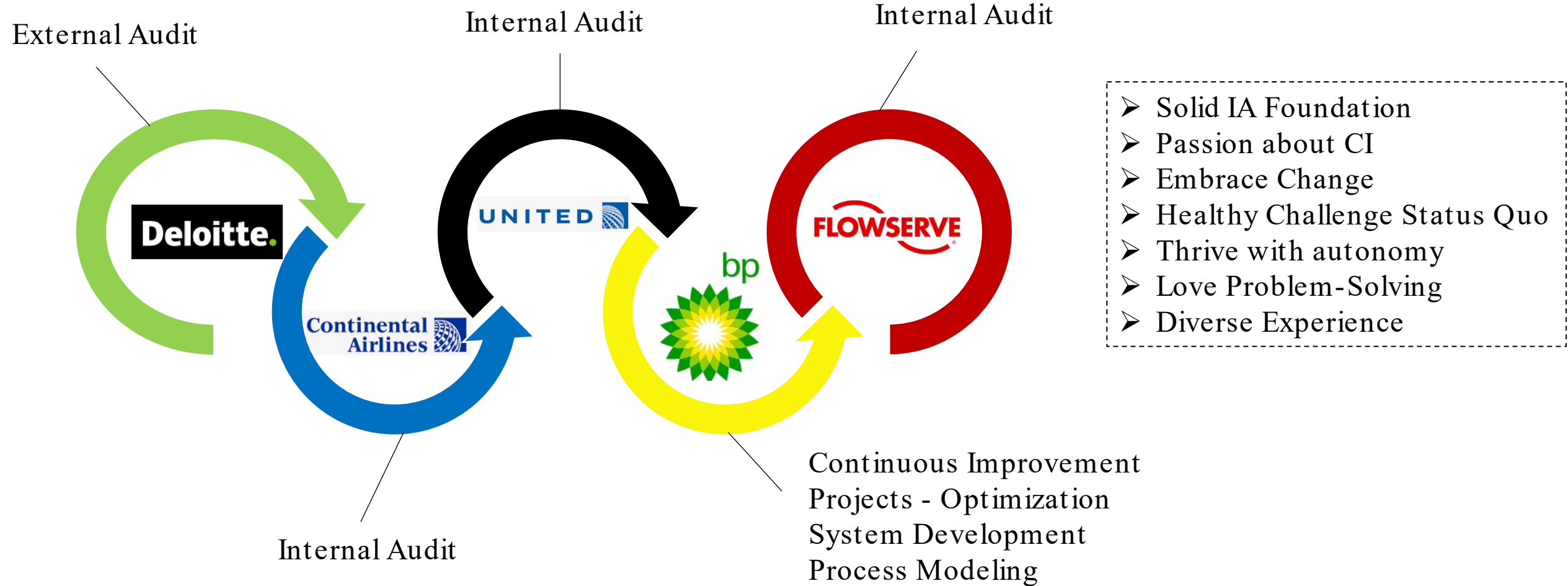
Sourcing Decision

Drive to Outsource in 2013



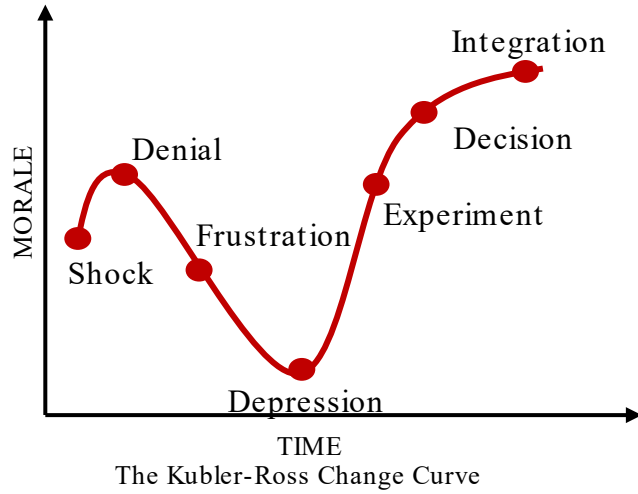
Reasons to Insource
in 2018

My Background



FROM OUT TO IN

Embrace the Change Curve



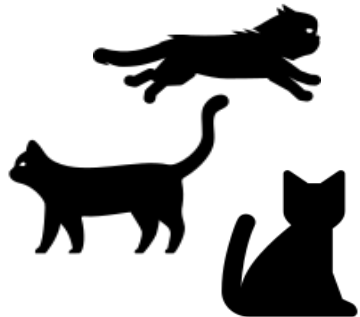
Get into the Details



Find the Fit



Herding Cats



Drive Consistency

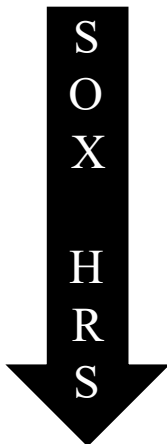


HR All Day



FROM IN TO UP

49% in 2020



37% in 2022

Maintain a lower budget than outsource after 5 years!



Grow team from 24 to 30 heads



- Internal Promotions
- Graduate Hiring
- Specialists



Implemented an Audit Tool for both SOX & Audit

2 internal transfers out



2 internal transfers in

Wordy Compliance Reports



Process-Driven Graphics

Started a Summer Internship Program



WHAT WORKED...and WHAT DIDN'T



- ❖ Supportive CFO and Audit Committee
- ❖ Patience when hiring
- ❖ Provide development opportunities within the department
- ❖ Stay close to market & changes
- ❖ Flexible/dynamic org
- ❖ IA Branding throughout the business
- ❖ Growing the knowledge internally
- ❖ Performance-based promotions
- ❖ Hire in multiple locations
- ❖ Document EVERYTHING!
- ❖ Integrated/cross-utilized team
- ❖ Try new things and “Fail Fast”
- ❖ Transparent and open communication



WHAT'S NEXT?

Internal Audit Charter – Purpose & Mission



The purpose of **Internal Audit** Department is to provide independent, objective assurance and **consulting services** designed to add value and improve operations. The mission of internal audit is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. **Internal Audit** helps the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.



Internal Audit Maturity

- ✓ More business partnering projects
- ✓ Review and adjust for the new IIA standards in 2023
- ✓ Update Policies & Procedures documentation
- ✓ Peer Review 2024/2025
- ✓ Keep updated on latest technology & testing approaches
- ✓ Continue to drive efficiency & improvement mindset within IA and throughout organization
- ✓ Continue to redesign Roles & Responsibilities – provide new opportunities for team
- ✓ Keep growing our use of data and analytics



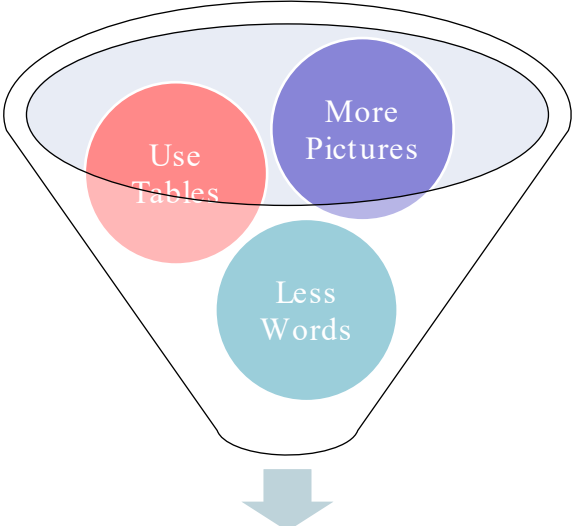
Advisory on projects to improve or automate manual processes to:

- ⇒ improve control environment
- ⇒ reduce risk
- ⇒ process optimization
- ⇒ simplification
- ⇒ drive cost-savings



REPORT TRANSFORMATION

Observation	Recommendation and Agreed Management Action
<p>Observation</p> <p>Resource constraints within the engineering department and compressed R&D timelines have resulted in challenges to complete approved projects.</p> <p>Project engineers and the R&D team members of multiple systems. As noted the following:</p> <ul style="list-style-type: none">Engineering department often is not fully staffed with qualified team members to R&D projects.The project environment were a number of critical success factors for achievement of delivery of engineering projects. <p>As there is a mix of dedicated R&D resources within the engineering department project work is often delayed or it could be delayed with project work that is related to other business operations. High demands on these team members have often led to multiple time zones.</p> <p>At some systems, a limited data set is available, if engineering progress is not visible then data is not available to engineers. A typical engineering team of the given system engineers are working in parallel and these observations were not aware of a clear path to take the system to go.</p> <p>Additionally, the R&D team often does not always align with the overall strategy. However, the time management for system not a typical project but a series of smaller projects with management's flexibility and budget approval process. The number of projects is generally used to track progress, however, a clear period of time is not only can the R&D team, resulting in a significant amount of project work being completed during times when project is in a pause.</p> <p>There is a need to ensure that project delivery may have partners. Additionally, there are several in a given complex project however the high quality partners are not always available to work with. It is recommended that the R&D team and its work should be shared with other teams.</p> <p>Risk Medium</p> <ul style="list-style-type: none">When a technical project is in a pause, it may not R&D team's management may be unable to fully execute the project in the future. The R&D team may be unable to track the project work, such as project delivery and quality. This may result in project delays.	<p>Recommendation</p> <p>The team will ensure that R&D resources are managed effectively. Consider alternative methods to ensure a complete approved projects. Where there is a significant quality issue, a R&D dedicated R&D team management should make sure the work of engineering project is managed. Given the size of the team and workload production schedule.</p> <p>Where engineering and R&D resources are dependent of a low key solution, appropriate resources should be provided. Make sure the R&D team can deliver on time.</p> <p>Management Action plan</p> <p>1. Prepare and deliver an R&D resource plan to project, which will include the R&D resources that are available.</p> <p>Owner: Project Manager</p> <p>Due Date: 15/01/2024</p> <p>Revised Date: 15/01/2024</p> <p>2. Review project delivery progress for the R&D resource management & capacity planning processes and suggest a review schedule.</p> <p>Owner: Project Manager</p> <p>Due Date: 15/01/2024</p> <p>Revised Date: 15/01/2024</p> <p>3. Review project delivery progress for the R&D resource management & capacity planning processes with the R&D team.</p> <p>Owner: Project Manager</p> <p>Due Date: 15/01/2024</p> <p>Revised Date: 15/01/2024</p> <p>4. Review project delivery progress for the R&D resource management & capacity planning processes with the R&D team.</p> <p>Owner: Project Manager</p> <p>Due Date: 15/01/2024</p> <p>Revised Date: 15/01/2024</p>



No More Boring Reports

- Remove Report Rating
- Created infographic Executive Summary
- Always include end-to-end Process Flow
- Well Received by Senior Leadership & Auditees



REPORT TIPS & TRICKS

Use Tables with summary info

Overarching Observations	% Error	Site 1	Site 2	Site 3	Site 4	Site 5	Function 1
Approvals Not Obtained	50%		●		●		●
Data not entered timely	16%		●				
Improper Classification	33%		●	●			

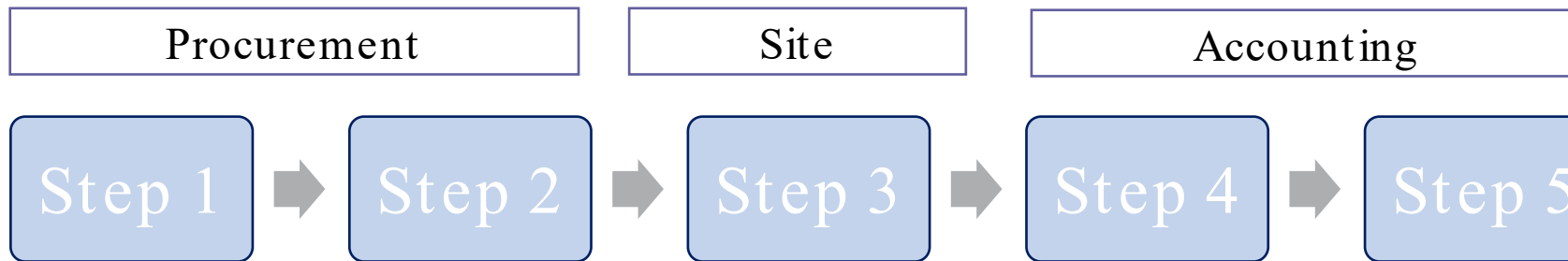
Icon Font Cheat Sheet

- Webdings (● – “n” is my favorite)
- Wingdings
- Wingdings 2
- Wingdings 3



Flaticon.com

Know the end-to-end process you are auditing and then show everyone else!



Approvals not obtained
Data Not entered Timely
Lack of defined roles

Amount not properly recorded
Support not maintained










Use SmartArt

TECHNOLOGY

Problem Statement

Perform data review across disparate datasets and formats in a repeatable & consistent way.

 Data Ladder About DataMatch Enterprise ("DME")  ~\$10K

 High Match Accuracy  Real-Time Processing  User Friendly Interface  Data Cleansing  Repeatable Processing

A **data cleansing application** specifically designed to resolve data quality issues by:
Identifying phonetic | fuzzy | mis-keyed | abbreviated variations **that can be used for**
scalable configuration | de-duplication | mapping | enrichment | extraction | data standardization

Creating a **Single Source of Truth** to *maximize the impact of your data across Flowserve*

2022 Realized Savings:

 Data Validation Review
60 hours → **6 hours**

2022 IA Savings
500 hrs




10 Terminations Dashboards



Estimated 2023 IA Testing Hours Savings

Data Migrations
480 hrs



User Access & Term Controls
540 hrs



Potential Business Uses:
Reduce manual review/errors || Increase efficiency || Assist Data Conversion