Elegant simplicity

Natuzzi has been selling high quality Italian-designed furniture worldwide since 1959. In the last few years it has transformed its internal audit function to provide similarly streamlined support to the business, with the help of TeamMate+.

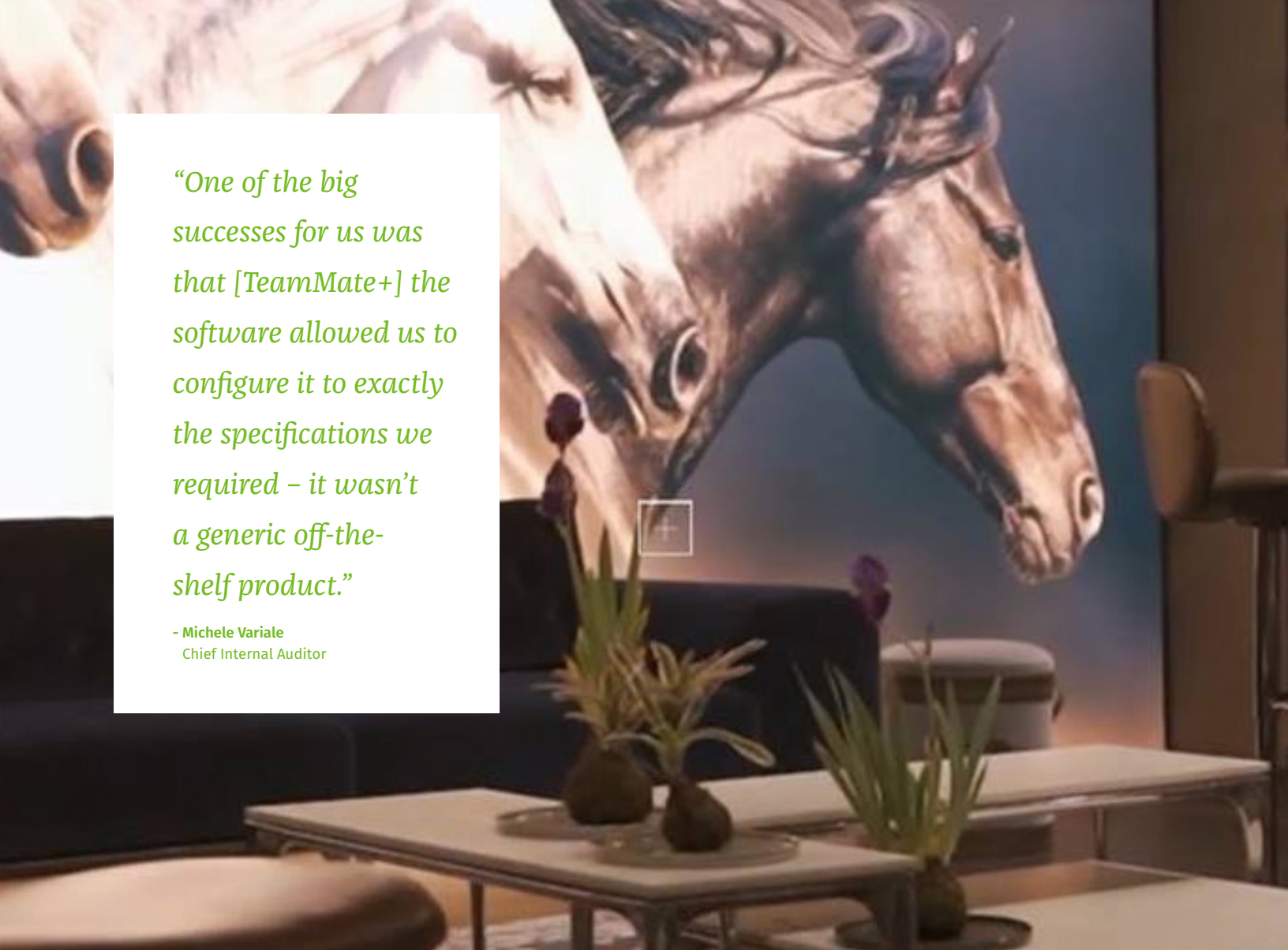Case Study:

Natuzzi

NATUZZI
ITALIA

When you buy an Italian sofa for your city apartment or cool coastal beach house, you look for sleek, modern, sophisticated design. When you recline on it to enjoy a glass of Barolo, you expect the comfort of high-quality fabrics, a robust frame and an ergonomic structure.

If you happen to be an internal auditor, you might be interested to learn more about the streamlined and high-tech business processes that went into creating it.

Producing a chic sofa is one thing, but ridding any complex, multi-jurisdictional manufacturing and retailing business of its lumps and bumps is quite another.

When Michele Variale became chief internal auditor for Natuzzi Group in 2017, he knew that his team had to streamline its operations and sharpen its focus if it was to offer senior management what they needed to take the business forward.

Variale's experience in internal audit in highly regulated industries meant that he understood what mature

internal audit functions could do. He knew that Natuzzi's internal auditors could become true trusted advisers to management, but he needed to raise the status of the function and increase senior executive expectations.

"When you join a new company as chief internal auditor, you have a checklist of what you expect to see. I saw that we could improve the position of the function in the organisation, how we used our people and processes that could be enhanced," Variale says. "I knew that we could offer more."

In October 2017 the Natuzzi internal audit team was based in Italy, Romania, Brazil and China. Changes to the regulatory and competitive environment meant that the company was keen to invest in its internal audit function and enhance its capabilities, but it needed Variale to tell them what the function could achieve and what it needed to do to achieve it.

Natuzzi is proud of its reputation for cutting-edge R&D and of its sustainability credentials. It listed on the New York Stock Exchange in 1993 and has to meet all the regulatory requirements in the countries in which it operates. The retail sector

worldwide is facing significant challenges and constant technological developments, so the organisation is no stranger to change.

To meet current demands and prepare the team to meet the business's emerging needs, Variale centralised the internal audit function in Italy. He was determined to enhance the independence of the auditors and to boost the influence of their reports. To do this, he needed to improve the quality and consistency of data and audit processes.

The challenges

"In every global IA department, it is important to ensure consistency of testing, tracking and monitoring, the consistency and compatibility of data and the security of papers and documents," Variale explains. "In a regulated environment we are expected to test areas such as treasury, receivables, revenues and inventory controls in a consistent way across all our legal entities."

When it came to tracking and monitoring, "verifying that all the necessary testing had been done to the required standards was time-consuming, since I did not have an automated snapshot of which tests had been completed, and how, at any point in time," he says.

Regarding audit templates, he adds that he was keen to" enhance consistency in our templates because I wanted to ensure high standards of quality in our documentation of the audit work done in every corner of the globe."

Data security was also crucial. "I was nervous that someone in my team could lose a document or delete a folder," he says.

He told management: "Today, to be a chief internal auditor of a global organisation you require safe, consistent and transparent internal audit software." So this is what he looked for. He was already a keen advocate of Wolters Kluwer TeamMate software and decided that TeamMate+ would provide all the tools he needed, and also, importantly, offer scope to add more capabilities as his needs and those of the organisation evolved.

"I knew TeamMate+ could manage the complexity we have, but the game changer for me was that it was a simple, flexible and easy tool. This was essential," he explains.

Things moved rapidly. After deciding to use TeamMate+ in October 2018, Variale selected a group of "super users" who would get the initial training and support others through the implementation. They secured extra support from the IT team and the technical work began in January 2019. A month later, they conducted a two-day "deep dive" with the consultant who delivered the super user training. He ensured that all the super users fully understood how to configure the software themselves – another vital element for Variale.

"One of the big successes for us was that the software allowed us to configure it to exactly the specifications we required – it wasn't a generic off-the-shelf product," Variale says. "The biggest investment was the time we spent learning how to configure it, but this was time well spent. We're still fine-tuning what we want to see from the system and how it fits our reporting needs, so it was important that could configure it ourselves. It means we can adapt it as our users become more confident or new needs arise."

In April the team conducted its first whole audit using TeamMate+ and began migrating all open audits and action plans to the system. "It's like building a new car," Variale says. "This was the first time we could be sure that our car could hold all of us and take us where we needed to go."

The official launch date was in July, but by then Variale and his team were fully confident that the system was fit for purpose.
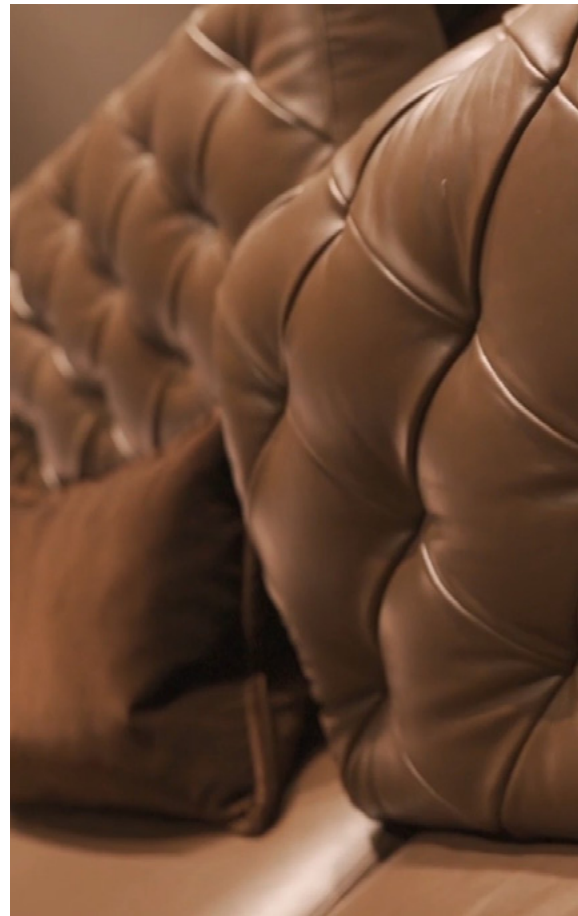
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**- Michele Variale**
  Chief Internal Auditor

Tips for success

So what does he see as the key drivers of success in this model transformation and implementation process? First, Variale says, they had defined a solid methodology before they chose their new software. "This was very helpful," he explains. "Every internal audit team that adopts international internal audit standards could use TeamMate+ without any modifications. TeamMate+ is based on a system logic following the path from risk assessment, audit plan and engagement planning, through risk identification, control design assessment and testing control effectiveness and ending with issues and action plans."

Second, they focused on the key outputs they required. "We worked back from the deliverables to identify what processes we needed and what the inputs to these processes should be and where these would be supplied from. We also looked at what information we needed to store. Rather than trying to use everything that TeamMate+ could do for us at once, we focused just on what we needed for these outputs and this worked for us," he says.

Third, Variale says he enjoyed huge support from the team and from their wider stakeholders. "The audit committee was crucial," he explains. "Our conversation with the board and the audit committee was made simple because we'd already started demonstrating to them what we could achieve. We showed them what we could do first and then told them what we needed to do even more. Once you build this trust and raise expectations, you can move ahead more easily."

Having explained to the board and audit committee how the software could make audit findings more robust and meaningful, Variale now hopes to automate much of his routine reporting to the management via dashboards that highlight significant issues for particular recipients as frequently as they require them. The fact that users can drill down into these to see the source of information and other data should also cut down the time he currently spends answering questions from senior management.
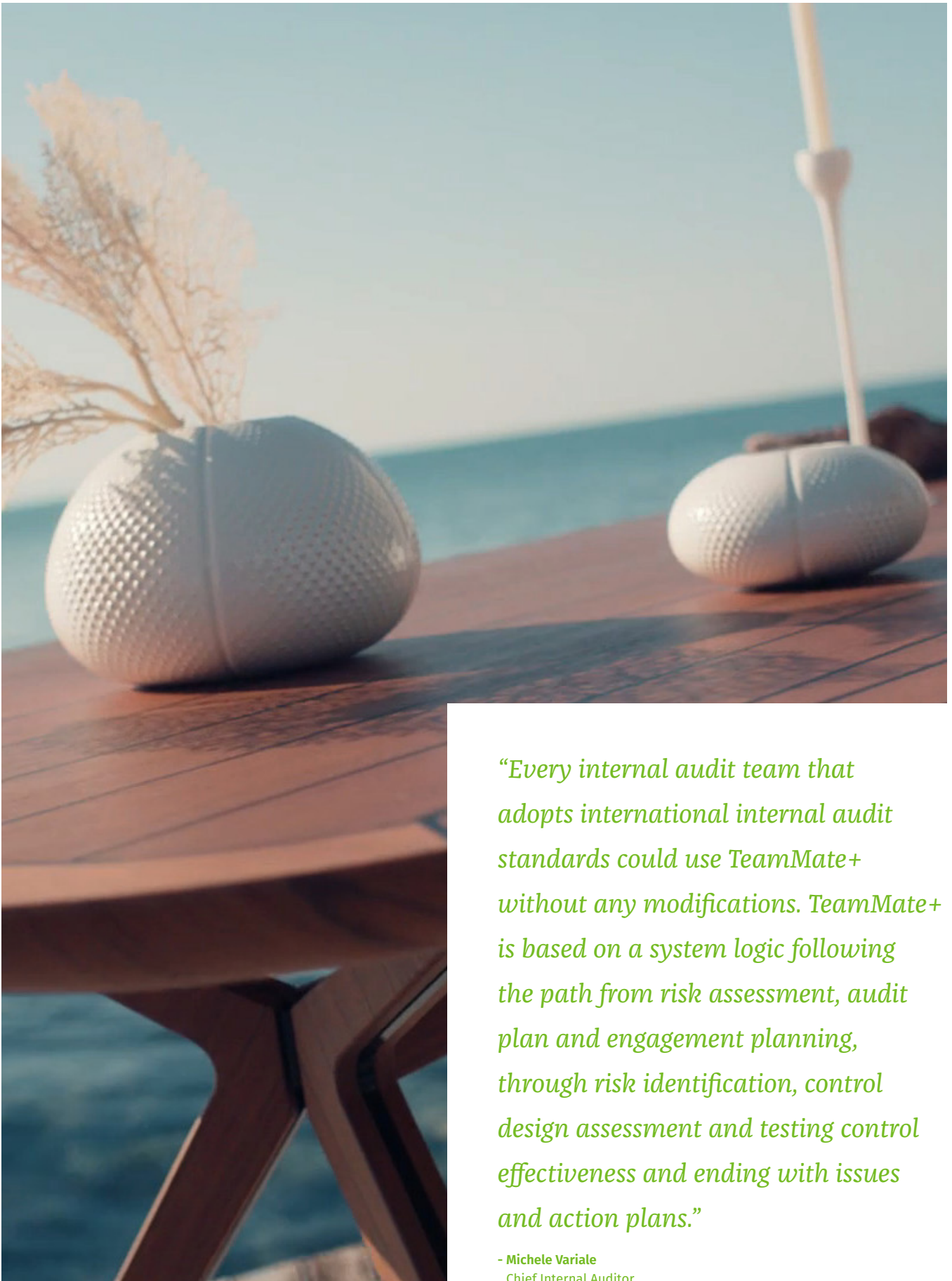
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The system has made life more efficient for the audit team, by providing each member with a clear list of their next priorities for each project and audit each morning. "We've already increased efficiency by 10 per cent from quarter two to quarter three 2019," Variale says.

In addition, they have reduced the time they spend documenting audit work by recording audit findings and test results straight to digital working papers and attaching relevant documentation. In addition, they have reduced the time they spend documenting audit work by recording audit findings and test results straight to digital working papers and attaching relevant documentation.

Working this way is not only desirable, but essential, Variale says, if internal audit functions are to add value in future. "Traditionally, internal audit has defined value as protection – keeping the organisation safe," he says. "But in the next decade I believe boards will have a different perspective on value. They will take it for granted that internal audit will protect the business. A valuable internal audit function will be one that is a strategic adviser that can see risks and inform decision-making."

To achieve strategic adviser status, he explains, he needs staff who want to grow and to learn, and who are open to working with data analytics and big data. He also needs the right tools to enable them to reach their full potential. "I see TeamMate Analytics as a tool that can support our plans for this," he says.

"Intelligent use of data analytics and big data is the future of our profession," he says simply. "Data analytics can now provide assurance on the vast majority of transactional-level controls. In the future, we need to look beyond this to integrated assurance. We need to provide assurance on all our risks together. Integrating with the rest of the business to ensure we deal with risk consistently is critical to this. If the board asks me about liquidity risk, I need to know that all the risks to liquidity have been taken into account and offer assurance on each of these."

If internal audit does not evolve, the function will cease to be relevant he adds. "Now I am thinking about continuous auditing and continuous risk monitoring and looking at how TeamMate+ can support our evolution," he says. "As the role of internal audit evolves, so too does the relationship with our system provider. I talk to Tonio Di Domenico at Wolters Kluwer about what I need to do, not about the product – that comes later. I need him to be a partner helping me to understand how I can realise my vision."

So, as the internal audit process behind Natuzzi's elegant sofas becomes ever more complex, Variale is committed to providing assurance that is as adaptable and reliable as any piece of well-made furniture. Natuzzi's internal audit team is positioning itself to offer comfort and support for a busy board.
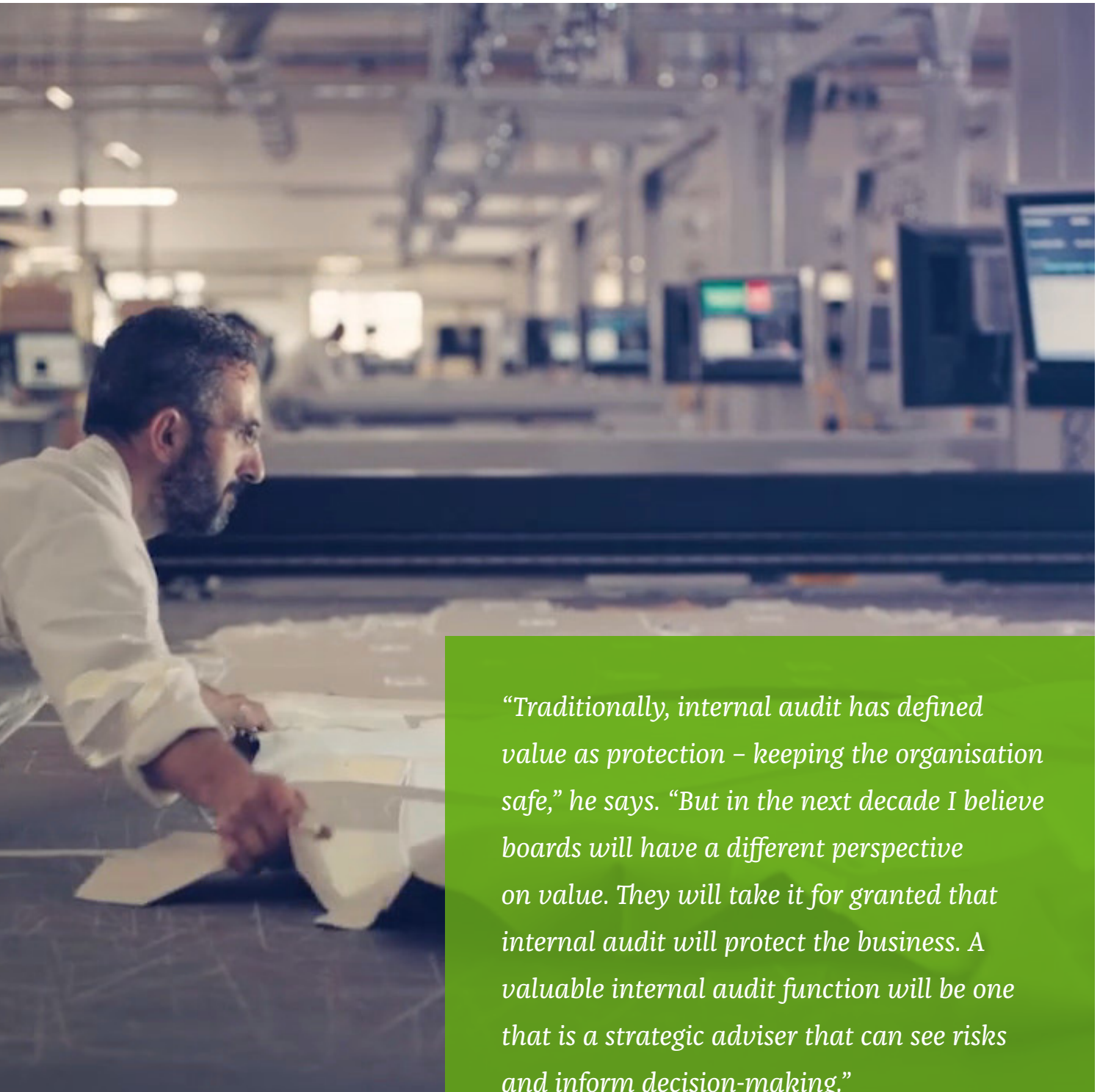
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Natuzzi in a nutshell

Italy's largest furniture designer, manufacturer and retailer.

Turnover: €428.5 million (as of 31 December 2018).

Natuzzi furniture is exported to 123 countries in five continents.

Listed on the New York Stock Exchange since 13 May 1993.

Employees: 4,853 (as of 31 December 2018).

Factories in Italy, China, Brazil and Romania.

Founded in 1959 by Pasquale Natuzzi, who remains its current Chairman and CEO.

The group controls over 92% of its raw materials and semi-finished products.

4 key brands/product divisions: Natuzzi Italia; Natuzzi Editions; Private Label (ie, sold under the brand names of major retailers); Divani&Divani

"I joined this team in July and every day TeamMate+ allows me to look at my tasks and see what tests still have to be performed. This helps me to make fewer mistakes and means I can focus on priorities. It means I can spend my time being an auditor, not an administrator."

- Anna Paola Parente
Global Internal Audit Trainee

Find out more

Learn more about Natuzzi at **natuzzi.com/why-natuzzi.html**

Learn more about how Wolters Kluwer TeamMate is helping its customers at **www.TeamMateSolutions.com/CustomerSpotlight**

About Wolters Kluwer

Wolters Kluwer (WKL) is a global leader in professional information, software solutions, and services for the healthcare; tax and accounting; governance, risk and compliance; and legal and regulatory sectors. We help our customers make critical decisions every day by providing expert solutions that combine deep domain knowledge with advanced technology and services.

Wolters Kluwer reported 2018 annual revenues of €4.3 billion. The group serves customers in over 180 countries, maintains operations in over 40 countries, and employs approximately 19,000 people worldwide. The company is headquartered in Alphen aan den Rijn, the Netherlands.

Wolters Kluwer shares are listed on Euronext Amsterdam (WKL) and are included in the AEX and Euronext 100 indices. Wolters Kluwer has a sponsored Level 1 American Depositary Receipt (ADR) program. The ADRs are traded on the over-the-counter market in the U.S. (WTKWY).

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When you have to be right