

Responsibilities of the Head of Internal Audit

Abbas Hasan Kizilbash

Vienna, 5 June 2018

Internal Audit Training of Trainers

CFRR >>

**Centre for Financial
Reporting Reform**



WORLD BANK GROUP
Governance



Co-funded by



**European
Union**



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Agenda..

- ❑ Learnings from recent Internal Audit Failures
- ❑ IA recent surveys
- ❑ The IPPF and the role of the Head of Internal Audit
- ❑ Mini Case Study: Orotavia



Revisiting the definition..

» “**Independent, objective** assurance and consulting activity designed to **add value** and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes”.



Recent Surveys on the Internal Audit Profession

PwC State of the Internal Audit Profession

*Stakeholders reporting
Internal Audit contributes
significant value*



● 2016 stakeholders
● 2017 stakeholders

47% report Internal Audit is not seen by stakeholders as an advisor to the business or that their corporate culture does not support Internal Audit taking a more strategic role.

IIA: IA Global Outlook 2017

- 28% Heads of Internal Audit say they **rarely** take part in major organizational initiatives
- 31% are **never** invited to join a full board meeting
- Only 53% indicate their internal audit department understands how to audit culture



Carillion Collapse

- » Carillion collapse sparks break up call for Big four- BBC
- » Why didn't anyone working with Carillion say it was going to fail? The Independent
- » The cozy world of big auditing firms-The Gulf News
- » British MPs accuse auditors, regulators and Carillion directors for its demise-The Paypers

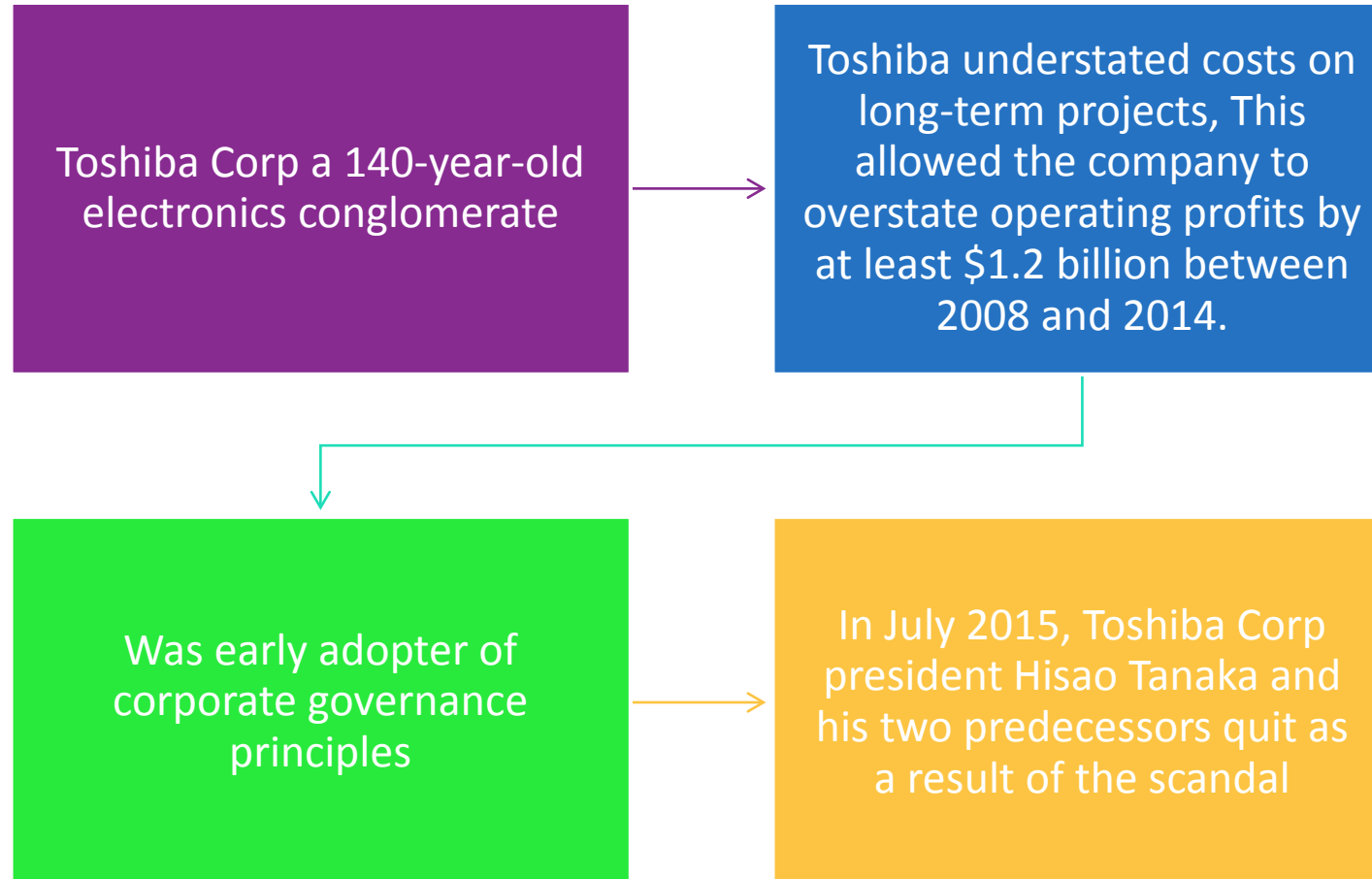


Role of Internal Audit- Carillion joint inquiry report

- » Deloitte were Carillion's internal auditors
- » Deloitte made many recommendations but only 15 / 309 recommendations between 2012-2016 were deemed of high importance.
- » Across 61 internal audit reports in 2015 and 2016, only a single report in 2016 found inadequate controls.
- » Deloitte were responsible for advising Carillion's board on risk management and financial controls.
- » Deloitte were either unable to identify effectively to the board the risks associated with business practices or too readily ignored them.

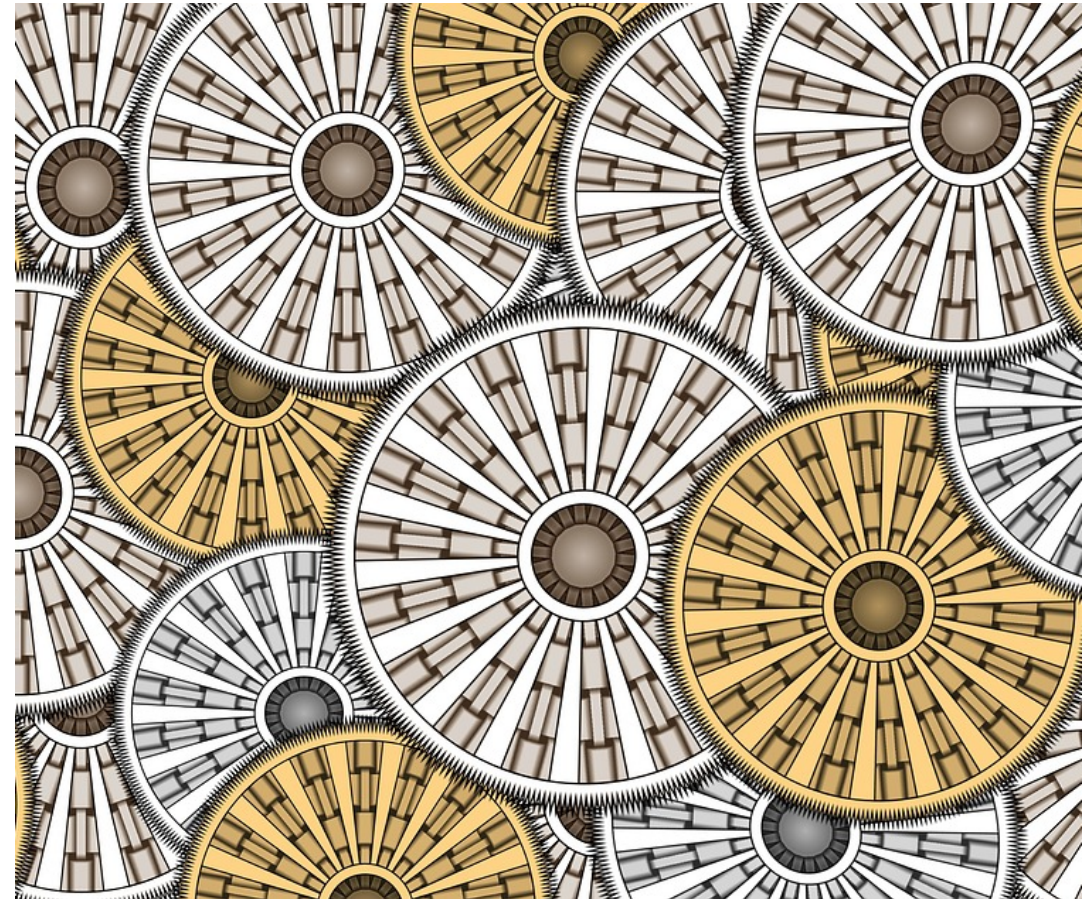


Toshiba Scandal



Toshiba: independent investigation committee report

- » Toshiba's IA function adopted a rotational staffing model.
- » Focus on consulting engagements
- » Toshiba created an audit committee and appointed independent board members to it, but the internal audit department reported to the company's president - with no routine access to the board of directors.
- » Independent Audit Committee members lacked finance and accounting experience
- » Culture - Aversion to questioning authority





Standard 1110

Independence





Independence

The CAE must report to a level within the organization that allows IA activity to fulfill its responsibilities.

Interpretation: Organizational independence is effectively achieved when the chief audit executive reports functionally to the BOARD.

Examples of functional reporting to the board involve the board approving which 3 major documents? Which 2 major decisions regarding the CAE?

- » Charter
- » Risk based Internal Audit Plan
- » IA Budget and Resource Plan
- » Appointment and removal of the chief audit executive.
- » Remuneration of the chief audit executive.



Standard 2000

**Managing the Internal Audit
Activity**



Standard 2000 – Managing the Internal Audit Activity

CAE must effectively manage the IA activity to ensure it **adds value** to the organization.

Interpretation:

The internal audit activity is effectively managed when:

- ☐ It achieves the purpose and responsibility included in the Charter.
- ☐ It conforms with the Standards.
- ☐ Its individual members conform with the Code of Ethics and the Standards.
- ☐ It considers trends and emerging issues that could impact the organization.

The internal audit activity adds value to the organization and its stakeholders when it:

- » considers strategies, objectives, and risks;
- » strives to offer ways to enhance governance, Risk management and control processes; and
- » objectively provides relevant assurance.



Standard 2000 – Managing the Internal Audit Activity

The Standards pay specific attention to the following responsibilities of the Head of IA:

- » Audit planning
- » Communication and approval of the audit plan
- » Management of audit resources
- » Development of audit policies and procedures
- » Coordination with other assurance providers and reliance on their work
- » Reporting to Senior Management and the Board about internal audit activities
- » Dealing with external service providers of internal audit services





Standard 2010

Planning



Standard 2010 – Planning

The CAE must establish a **risk-based** plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

How to develop a risk based plan?

- » the CAE consults with Senior management and the Board
- » to obtain an understanding of the organization's strategies, key business objectives, associated risks, and Risk management processes.
- » The CAE must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

Standard 2010 – Planning

Implementation Standard 2010.A1 – What does ‘risk based’ mean?

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

Standard 2010 – Planning

Implementation Standard 2010.C1

The CAE should consider accepting proposed **consulting** engagements based on engagements potential for which three considerations?

- » to improve management of risks
- » add value
- » improve the organization's operations.

Accepted engagements must be included in the plan





Standard 2030

Resource Management



Standard 2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Interpretation:

- » Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the plan.
- » Sufficient refers to the quantity of resources needed to accomplish the plan.
- » Resources are effectively deployed when they are used in a way that optimizes the achievement of the approved plan.



Standard 2040

Policies and Procedures



Standard 2040 – Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

Interpretation:

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.





Mini Case Study



Thank you!