Roles of Internal Audit

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Internal Audit Training of Trainers
The role of Internal Audit with regard to Governance
What is Governance..?

“The combination of processes and structures implemented by the board to inform, direct, manage, and monitor the activities of the organization toward the achievement of its objectives”. IIA

“the system by which companies are directed and controlled”. Cadbury Committee

“Corporate governance involves a set of relationships between a company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.” OECD
Inadequate warning signs to board and top management

Serious shortfalls in corporate governance related to the role of individuals, decision-making processes in general and the understanding and interpretation of risks

Failure of Assurance functions
» No single governance *model* for PS

» Certain governance *principles* are common across the PS
  » the policies, processes and structures used to
    » direct and control an organization's activities,
    » achieve its objectives and
    » protect the interests of its stakeholders in an ethical manner

*IIA Supplemental Guidance: Role of Auditing in Public Sector Governance*
The internal audit activity must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

Standard 2100 Nature of Internal Audit Work
What are governance processes?

- Making strategic and operational decisions.
- Overseeing risk management and control.
- Promoting appropriate ethics and values
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of the board, external and internal auditors, other assurance providers, and management.

IA must assess and make appropriate recommendations to improve the organization’s governance processes.
Implementation Standard 2110.A1

IA must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.

Implementation Standard 2110.A2

IA must assess whether the IT governance of the organization supports the organization’s strategies and objectives.
Provides guidance, including evidence to consider while executing a governance assurance engagement, including key processes such as:

- Board and Audit Committee
- Strategy Process
- ERM
- Ethics
- Compliance
- Accountability
- IT Governance

Source: IIA
## Governance

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Opportunities</th>
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<tbody>
<tr>
<td>Shifting focus from financial and compliance risks</td>
<td>❑ Align Internal Audit Plan with organizational objectives</td>
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<td></td>
<td>❑ Hire internal auditors with a diverse skill set</td>
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<td>Understanding new laws and regulations</td>
<td>❑ Monitor new requirements and understand impact on internal audit priorities</td>
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<td>Managing resources in an expanded risk universe</td>
<td>❑ Leverage the use of data analytics</td>
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<td>Managing relationship with the Audit Committee</td>
<td>❑ Develop and nurture communication channels with Audit Committees</td>
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The role of Internal Audit with regard to Risk Management
“Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives”.

Committee of Sponsoring Organizations of the Treadway Commission ("COSO")
Key Benefits of ERM..

- Greater likelihood of achieving business objectives
- Consolidated reporting of disparate risks at board level
- Improved understanding of the key risks and their wider implications
- Greater management focus on the issues that really matter
- Fewer surprises or crises
- More focus internally on doing the right things in the right way
- Increased likelihood of change initiatives being achieved
Global Risk Oversight Report*

- Organizations perceive an increasingly complex risk environment.
- RM practices appear to be relatively immature
- Organizations struggle to integrate their RM processes with strategic planning
- Appears to be a lack of detailed risk oversight infrastructure in most organizations
- BOD is placing pressure on management to strengthen risk oversight.

*ERM Initiative North Carolina University, AICPA, CGMA
The COSO Model*

- Entity objectives in four domains
- Considers activities along all levels of an organization
- Encourages a portfolio view of risk

* Recently updated

Strategic: High level Goals  
Operations: Effective and efficient use of resources  
Reporting: Reliability of reporting  
Compliance: Compliance with laws and regulations
IA must evaluate the effectiveness and contribute to the improvement of RM processes.

**Interpretation:**
Determining whether RM processes are effective is a judgment resulting from the IA assessment whether:

- Organizational objectives support and **align** with the organization’s mission.
- Significant risks are **identified** and assessed.
- Appropriate risk responses are selected that align risks with the organization’s risk **appetite**
- Relevant risk information is captured and **communicated** in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.
Interpretation (continued):

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organization’s risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

IA must evaluate risk exposures relating to the organization’s governance, operations, and information systems regarding:

- Safeguarding of assets
- Effectiveness and efficiency of operations and programs
- Reliability and integrity of financial and operational information
- Compliance with laws, regulations, policies, procedures, and contracts
- Achievement of the organization’s strategic objectives
Implementation Standard 2120.C1

During consulting engagements, internal auditors must address risk consistent with the engagement’s objectives and be alert to the existence of other significant risks.

Implementation Standard 2120.C3

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.
The IA Function has been asked to participate in a business process reengineering engagement. The audit team can participate in all of the following except:

a. Recommend areas for improvement
b. Prepare control flow charts for the new systems
c. Determine whether the process has senior manager buy in and support
d. Implement the newly designed processes
<table>
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<tr>
<th>Situation</th>
<th>Yes or No</th>
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<tbody>
<tr>
<td>1. Reviewing the management and reporting of key risks</td>
<td>Yes</td>
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<td>2. Evaluating reporting of key risks</td>
<td>Yes</td>
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<td>3. Setting risk appetite</td>
<td>No</td>
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<td>4. Implementing risk responses on managements behalf</td>
<td>No</td>
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<tr>
<td>5. Giving assurance that risks are correctly evaluated</td>
<td>Yes</td>
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<td>6. Imposing risk management processes</td>
<td>No</td>
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<td>7. Taking decisions on risk responses</td>
<td>No</td>
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The role of Internal Audit with regard to Control
The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.
The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organization’s governance, operations, and information systems regarding the:

- Achievement of the organization’s strategic objectives.
- Reliability and integrity of financial and operational information.
- Effectiveness and efficiency of operations and programs.
- Safeguarding of assets.
- Compliance with laws, regulations, policies, procedures, and contracts.
Implementation Standard 2130.C1

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organization’s control processes.
Thank you!