

Roles of Internal Audit

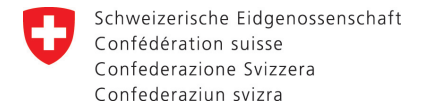
Abbas Hasan Kizilbash

Vienna, June 04, 2018

Internal Audit Training of Trainers



Co-funded by





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*



Why is this element so important..

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





Public Sector Governance

- » 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 organizations 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



What do the Standards Require...?

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





Standard 2110 – Internal Audit and Governance

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



Standard 2110 – Internal Audit and Governance

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

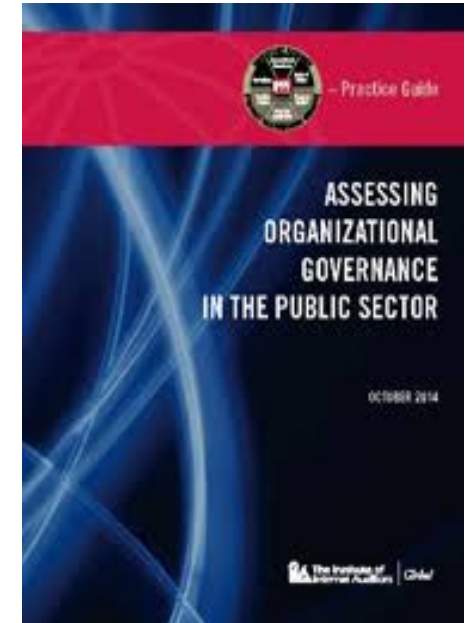
IA must assess whether the IT governance of the organization supports the organization's strategies and objectives.



Internal Audit and Governance

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

Challenges	Opportunities
Shifting focus from financial and compliance risks	<input type="checkbox"/> Align Internal Audit Plan with organizational objectives <input type="checkbox"/> Hire internal auditors with a diverse skill set
Understanding new laws and regulations	<input type="checkbox"/> Monitor new requirements and understand impact on internal audit priorities
Managing resources in an expanded risk universe	<input type="checkbox"/> Leverage the use of data analytics
Managing relationship with the Audit Committee	<input type="checkbox"/> Develop and nurture communication channels with Audit Committees



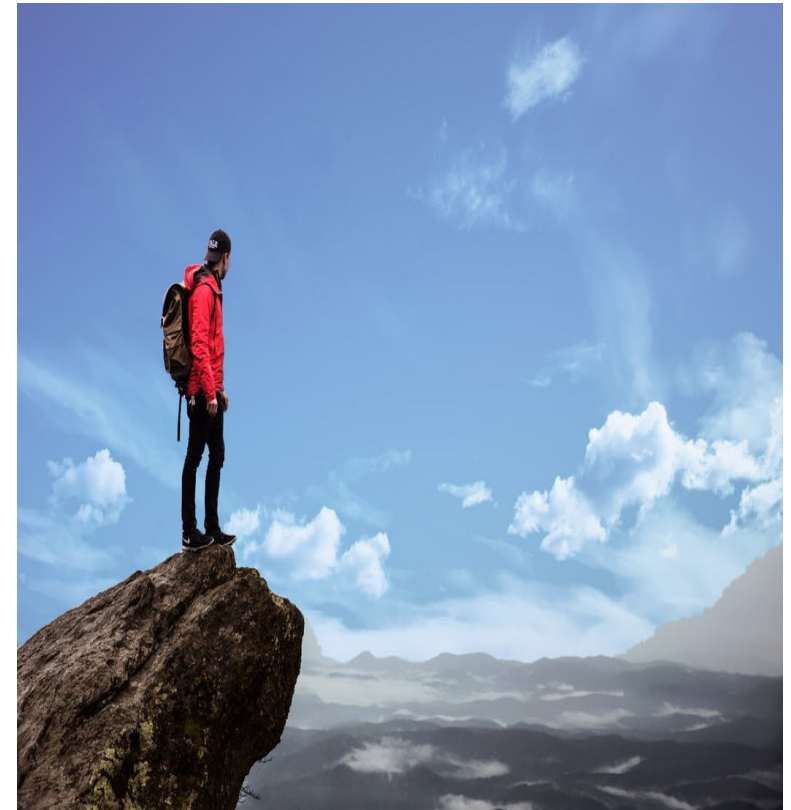
The role of Internal Audit with regard to Risk Management



Definition..

“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

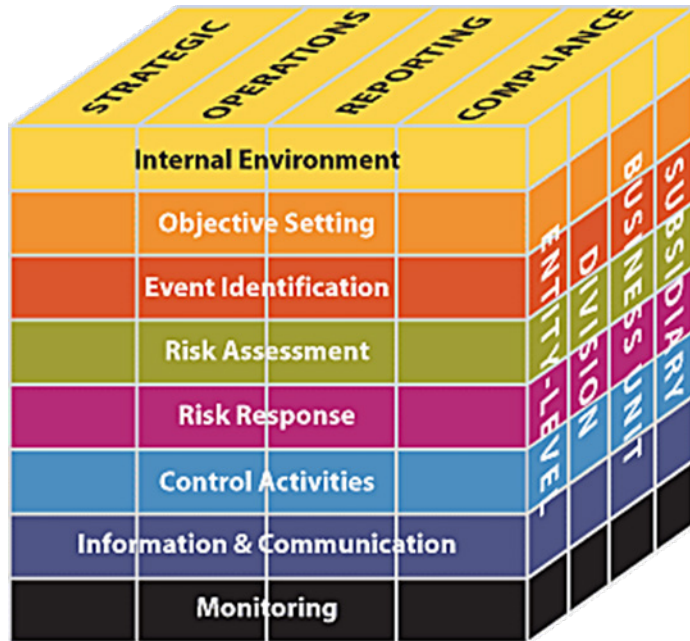
Global Risk Oversight Report*

- 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

Strategic: High level Goals

Operations: Effective and efficient use of resources

Reporting: Reliability of reporting

Compliance: Compliance with laws and regulations

* Recently updated

Standard 2120 – Internal Audit and Risk Management

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.

Standard 2120 – Internal Audit and Risk Management

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.



Implementation Standard 2120.A1 - Internal Audit and Risk Management

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

Standard 2120 – Internal Audit and Risk Management

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.



Standard 2120 – Internal Audit and Risk Management

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

Internal Audit Role in ERM - Exercise – Can or Can't?

Situation	Yes or No
1. Reviewing the management and reporting of key risks	Yes
2. Evaluating reporting of key risks	Yes
3. Setting risk appetite	No
4. Implementing risk responses on managements behalf	No
5. Giving assurance that risks are correctly evaluated	Yes
6. Imposing risk management processes	No
7. Taking decisions on risk responses	No



The role of Internal Audit with regard to Control



Standard 2130 – Internal Audit and Control

The internal audit activity must assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

Standard 2130 – Internal Audit and Control

Implementation Standard 2130.A1

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.



Standard 2130 – Internal Audit and Control

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!