



UAE Internal Audit Association Audit Festival - Banking Forum

Governance Process
Audit Role – CEO's expectations
December 12, 2011

AGENDA

- Traditional Audit vs. Modern Audit
- Governance Process
- Where do we fit? What is our role?
- Internal Audit challenges – Board & CEO's expectations - Commitment to Quality

Traditional Internal Auditing (old definition)

Internal auditing is an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed. The audit objective includes promoting effective control at reasonable cost.

Modern Internal Auditing (new definition)

Internal auditing is an 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.

Internal Audit Evolution

Before (reviewer)

- Policemen
- Compliance
- Transactional review
- Procedures control
- Departmental focus
- Cost Center

Today (auditor)

- Independent partner
- Risk/Impact
- Process evaluation
- Risk management
- Process/functional focus
- Value added

Authoritative Guidance



Corporate governance is...

- "the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation ... and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance", OECD April 1999.
- about promoting corporate fairness, transparency and accountability" J. Wolfensohn, president of the World Bank.

Governance Process

An organization uses various legal forms, structures, strategies, and procedures to ensure that it:

- ▶ Complies with society's legal and regulatory rules.
- ▶ Satisfies the generally accepted business norms, ethical precepts, and social expectations of society.
- ▶ Provides overall benefit to society and enhances the interests of the specific stakeholders in both the long- and short-term.
- ▶ Reports fully and truthfully to its owners, regulators, other stakeholders, and general public to ensure accountability for its decisions, actions, conduct, and performance.

Governance Process

Key factors

- * The Organization's "Culture"
- * Clarity on Roles & responsibilities
- * Internal Audit alignment with Board/
Audit Committee/CEO objectives

7 primary characteristics of good corporate governance:



Governance Process

(Clarity on roles & responsibilities)

- * Oversight: Board of Directors/Audit Committee
(and other Board Committees)
- * Stewardship: Senior/Executive Management
- * Performance: Ops./Support Mgmt. & Staff
- * Assurance: Internal Audit (and related monitoring functions)

Governance Process

(Alignment with Org./Board/AC/CEO objectives)

- * Strategic Plans and Initiatives
- * Technology Plans and Initiatives
- * Enterprise Risk Framework
- * Management Control Policy
- * Audit Committee Charter

Governance Process

(Alignment with Org./Board/AC/CEO objectives)

- * Building of the Audit Universe
- * Breakdown into logical auditable entities
- * Risk Identification and Evaluation
- * Risk-based Audit Plan (with management input)

Governance Process

(What is our role)

* Standard 2100 – Nature of Work

“The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.”

Governance Process

(What is our role)

* Standard 2110 – Governance

“The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization, and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management”

Governance Process

(What is our role)

* Standards 2110.A1 & A2

“The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs and activities.”

“ The internal audit activity must assess whether the information technology governance of the organization supports the organization’s strategies and objectives.”

Internal Audit Challenges

- * Add value
- * Improve the organization's operations
- * Apply a systematic, disciplined approach
- * Evaluate and improve the effectiveness of risk management, control and governance process
- * Commitment to Quality

Internal Audit Challenges

and Commitment to Quality means:

- meeting IA stakeholder expectations in terms of process, output and types of services provided
- introducing an effective IA Quality Assurance and Improvement Program (QAIP)