



UAE Internal Audit Association  
Affiliated to IIA Inc. USA

# 2010



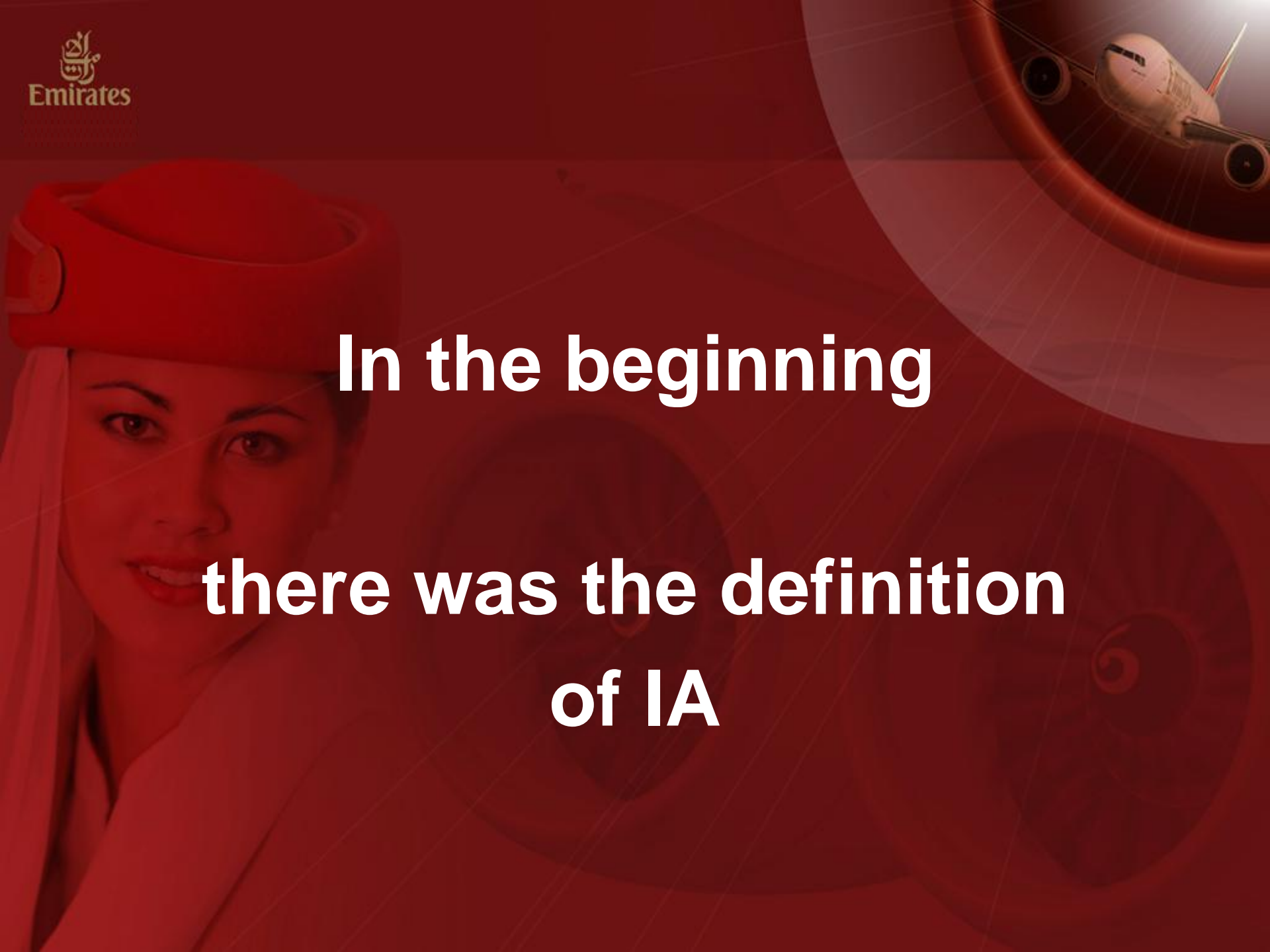
# & BEYOND

## 11th Annual Regional Gulf Audit Conference

Park Rotana Hotel, 11th - 13th April, 2010, Abu Dhabi, UAE.

### When the Going Gets Tough Where does the Internal Auditor Go?

Neeraj Kumar, Senior Vice-President Internal Audit,  
Emirates Group



**In the beginning  
there was the definition  
of IA**

# Definition of IA

**Internal auditing is an**

- 1. independent**
- 2. objective assurance**
- 3. and consulting activity**

**designed to**

- 4. add value and improve an organization's operations.**

**It helps an organization accomplish its objectives by bringing a**

- 5. systematic, disciplined approach to**
- 6. evaluate and improve**
- 7. the effectiveness of risk management, control, and governance processes.**

# Dissecting the IA definition

- Independent: NO: Reporting to CFO or even CEO, even administratively is NOT independence
- Add value: “measurable”?
- Improve an organization's operations: What measure of “improvement” ?
- Evaluate and improve the effectiveness of risk management, control, and governance processes: Experts on Risk Management and Governance? What qualifications?

# So, WHO AM I?

- Identity crisis.
- The Hotchpotch is labeled:
  - “internal auditor”.
- Could “do” just about ANYTHING, or NOTHING at all!

What makes the GOING “TOUGH” for me,  
when I have almost NO ACCOUNTABILITY?

**LACK OF IDENTITY !!!**

# Some Solutions

- If IA function required by law, then IIA's version of the Charter must be enforceable
- Analysing Corporate Risks must be emphasised
- Will automatically deliver the other "side" benefits of the IA function



When the GOING gets TOUGH

Let's GET GOING to establish  
the solution

And Deliver:

Enterprise-wide Risk Assurance  
& Consultancy Services

# SECOND ISSUE

## Skill Gap Analysis

$$R_i = \text{Lip}(L_i)$$

$$R_{total} = \sum_i \text{Lip}(L_i)$$

# Why Tough?

**Knowing WHAT to do**

**BUT**

**Not knowing HOW to do it**



# Solution

Get Going...

IIA to rise to the new expectation

Learn new Skills, DIY style

Follow Best Practice from other professions

# The Last Issue

- **CAE's Tussle**
- **Why the hesitation?**
- **Two sides to Danger from Within:  
The Officially Sanctioned threat  
The Fraud at the Top**

# Where Goes The Internal Auditor?

When the “SITUATION” gets  
red hot!!!

The Near Destruction Experience



# WHY IS THIS SITUATION RED HOT?

- Controls no longer work
- Larger than life Risk Appetite
- **Impact on the company**
- **Brink of failure**



# The Second Element

**How to KILL a Company**

**Who is BEST PLACED  
to stop the destruction?**

# WHO

is better placed to *detect*  
management fraud?

## IA BETTER PLACED?

Provided he has the

- Skill
- Access
- Independence

**And was not afraid....!**

# The Elephant...



# ...or The Cat

**meeeeaaaownn**

- The Persian Cat
- all purrrrr and fluffy,
- Not for catching the Fat Rats



# Into the Top Cat's Lair

**When the Bosses are at PLAY,**

**No one can have their SAY**

**When we report,**

**functionally or administratively**

**Our freedom is compromised,**

**effectively and completely**

**IA's toe will get stepped on,**

**SOX or no SOX**

# “Tough” is not “Simple”

- **Only a “sniff” available**
- **Further investigation required**
- **Could mean disclosure of suspicion.**
- **Boss is no fool**
- **We are not FREE**

# Is THIS the only Solution?



# Other Choices

**Whistle blower?**

**Go BEYOND...**

**the AUDIT COMMITTEE?**

**No where else to go!**

# The World Beyond the Audit Committee

**Dark as night...**

**Nothing in sight**





# The Top Cat

## Dances in Delight

# The Culprit knows...

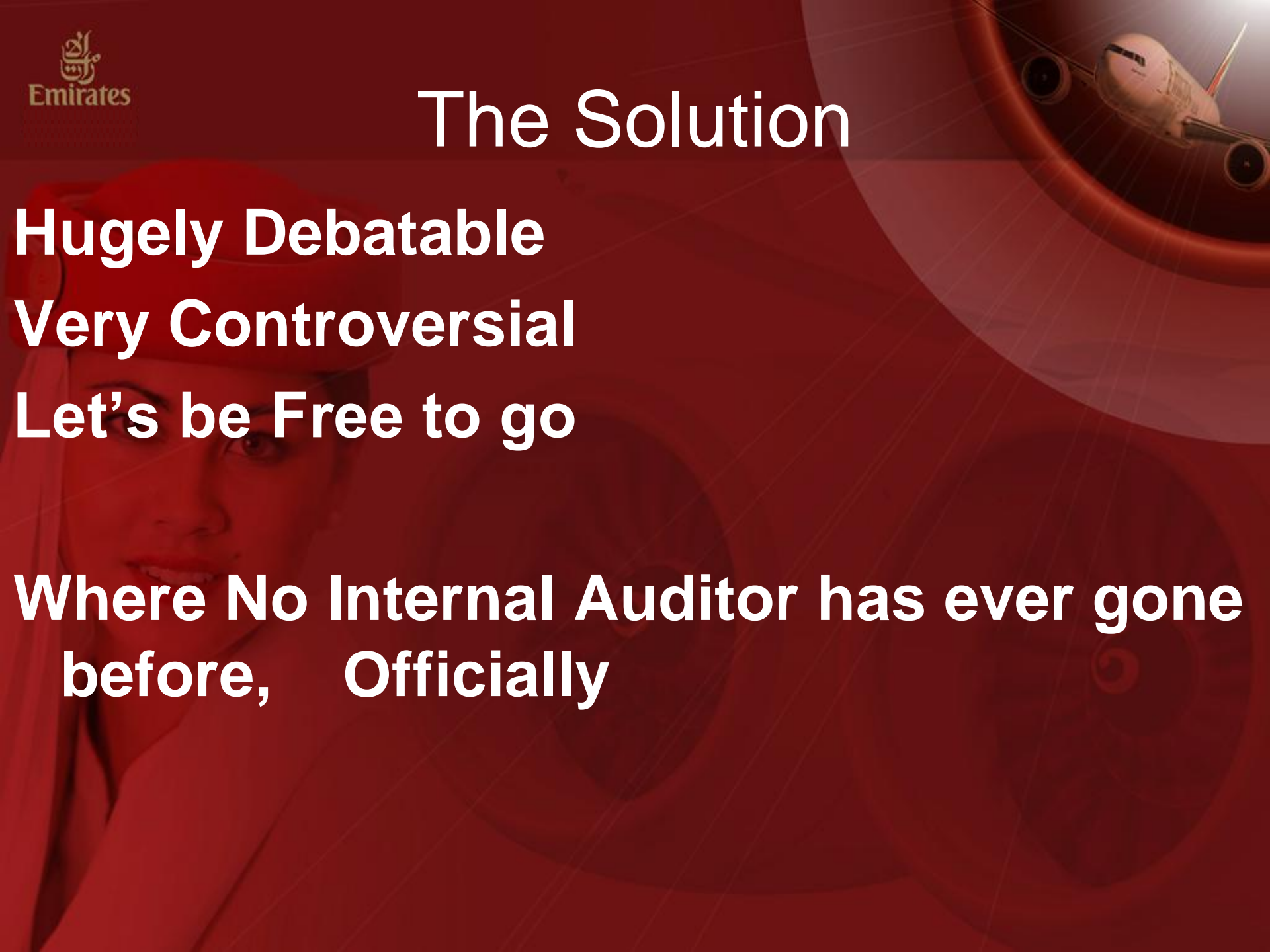
- The Culprit is FAR BETTER placed.
- Most CAEs will choose to ... rely on:  
“We know about this...”

“Don’t worry, this is:  
approved/discussed/agreed/decided/being  
looked into/too confidential etc...”

# The Solution

**Hugely Debatable**  
**Very Controversial**  
**Let's be Free to go**

**Where No Internal Auditor has ever gone  
before, Officially**



# ONE SOLUTION

- **Direct Access to The Statutory Authority that deals with Compliance & Financial Reporting Regulations in the country.**
- **Access to be USED ONLY when “serious fraud or extreme RISK taking” is suspected and “investing public’s” interest is involved.**
- **In the US it is the SEC (Securities & Exchange Commission). In the UAE a similar body exists.**

# Three “tough” issues

- **WHO ARE WE?**
- **DO WE HAVE THE SKILLS TO DO WHAT WE SAY WE SHOULD DO?**
- **HOW CAN WE BE TRULY INDEPENDENT?**

# FINALLY, GET GOING...

**Support of IIA**

**SEC type support**

**Commitment from a supportive and independent Audit Committee**

**Desire to Learn New tricks**

**... and we would have DONE IT!**



THANKS

Emirates



# WHY NOT FREE?

## Reporting Lines:

- Functionally and “administratively”?
- The Board?
- Audit Committee?

# WHO ARE WE?

**BEYOND 2010...!!!**

**INDEPENDENT EVALUATORS  
OF  
CORPORATE RISK**

# Risks & their impact on business

- Professional skills in identifying Risks,
- Frequency and Impact,
- Inherent and residual compositions
- Comment on the company's appetite for Risk
- Comment on adequacy of risk management
- Comment on risks that have materialized, their impact, and likelihood of further damage.
- Test the Risk parameters, their resilience to risk management measures in place.
- Continuous Risk Evaluation (Auditing?).

# AND ALSO ADD VALUE

- Improving Processes & Controls
- Direct business's attention to more rewarding, less risk prone activities
- Identify wasteful non productive effort
- Improve Corporate Governance
- Trading Partners would have greater confidence

## NOT THE PRIMARY FOCUS

just an off-shoot, subsidiary advantage,

# DO WE HAVE THE SKILLS?

- No MANDATORY professional qualification to be an internal Auditor.
- International/Large corporations DESERVE qualified CAEs.
- Should NOT be discretionary
- Specialist skills in the RISK EVALUATION field?
- Taught in institutions of higher learning ?

**MOST OF US DON'T HAVE THE  
PROFESSIONAL RISK RELATED SKILL**

# ARE WE TRULY INDEPENDENT?

# NO



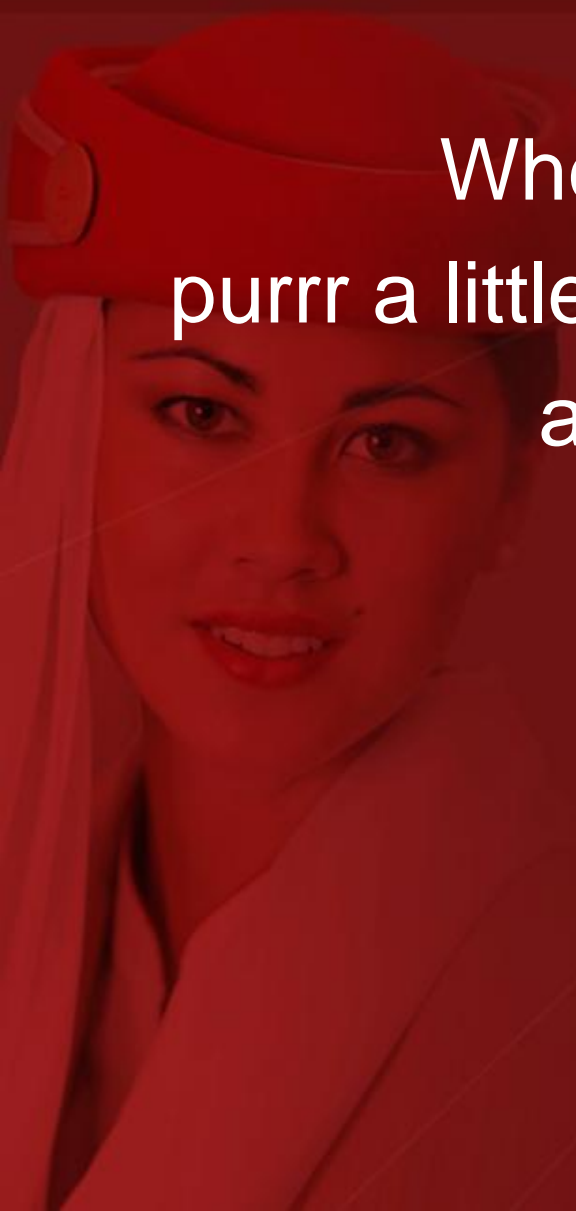
# PET of the TOP CAT!

- **Ordinarily, WE ARE**
- We do more than just have a decorative presence.
- We have been doing our job quite effectively for many years
- We are recognized by many Authorities as “an essential part of Internal Control”
- **All is wonderful under ORDINARY situations!**
- **But WHEN THE GOING GETS TOUGH,**
- At present at least, **WE CANNOT “REALLY” GET GOING**

# Or Else?

When the going gets tough,  
purrr a little, lap up your milk, stretch a bit,  
and remain the Boss's  
Persian Cat,

Thank You



# Definition of IA (slide option 2)

- Internal auditing is an **independent (1)**, **objective assurance (2)** and **consulting (3)** activity designed to **add value (4)** and **improve** an organization's operations. It helps an organization accomplish its objectives by bringing a **systematic, disciplined** approach to **evaluate and improve (5)** the effectiveness of **risk management, control, and governance processes (6)**.

# WHERE WERE THE INTERNAL AUDITORS?

- IN EACH OF THESE LOCAL, REGIONAL, OR INTERNATIONAL COMPANIES?
- There is a completely different subject for debate on who is BEST placed to detect FRAUD. Serious Fraud?
- Is it the External Auditor or the Internal Auditor?
- We expect an External Auditor to walk into a company he does not know, hang around for a couple of weeks or even couple of months and find Fraud, when the Internal Auditor knows the company inside out, knows the people, knows the loopholes and is there PERMANENTLY?

# Courageous Internal Auditor?

- To risk his job, his well-being on the off-chance that the Committee will understand and act on his suspicions?
- Will the CAE in this TOUGH situation choose to live another day
- BY becoming the Persian Cat? (DOING NOTHING? Perhaps he could justify the Ethical dilemma by arguing to himself that after all he does NOT have full evidence, after all it is just a hunch, and may not be provable etc etc. The human mind is quite ingenious in sorting out such Ethical dilemmas!!!)

# “WE STAND BY EACH OTHER”

- Have you not heard of this theme before?
- Are they likely to take a stand against one of their own, especially when the IA has insufficient basis for suspicion?
- And needs the authority to proceed WHERE MORE EVIDENCE IS REQUIRED?
- And then he goes back to his boss for administrative reporting?
- This must be a cruel joke unless ours is a perfect mechanical world where human emotions are not involved!

# Involvement of CEOs/CFOs etc?

- But why have I latched on to this.
- Quite simply, **fraud committed by senior most levels of management can CRIPPLE if not KILL the company.**
- Fraud committed by other junior members of the team can not do THAT kind of damage.
- You have all read the news papers over the last 3 years. Seen CNN. There is nothing more that I could add.

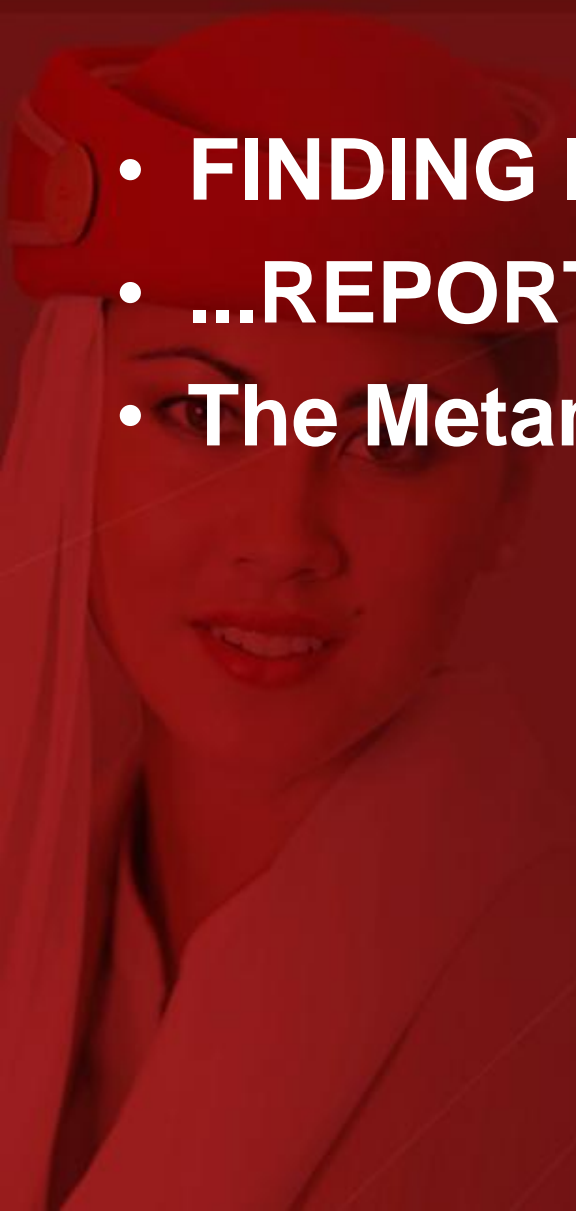
# Dissecting the IA definition

**Consulting:** Not “qualified” as consultants in any SPECIFIC field. NOT hired as consultants.

- NOT necessarily EXPERT advice.
- Common (business) sense.
- Common Sense & “Experience” - our best qualification?

# The WORST part is not ...

- FINDING IT.
- ...REPORTING IT.
- The Metamorphosis



# Why the Metamorphoses?

- We **ARE** the RBT: We **HAVE** the Teeth and the Claws
- Used when the Going is ***simple!***
- We report these findings freely to the Board, Audit Committee!!!
- Job SAFE, CEO happy!

# Metamorphoses of the Internal Auditor

He turns

From

**The Royal Bengal  
Tiger** (when  
necessary)

Into



# The Audit Committee

- **Composition?**
- **Skill?**
- **Interdependence with the Board**
- **Politics?**
- **Investigate a senior member of the Board?**

**The Last Stand of the  
Courageous Internal Auditor?**