



Who are the owners? And what about their expectations with regard to internal audit?



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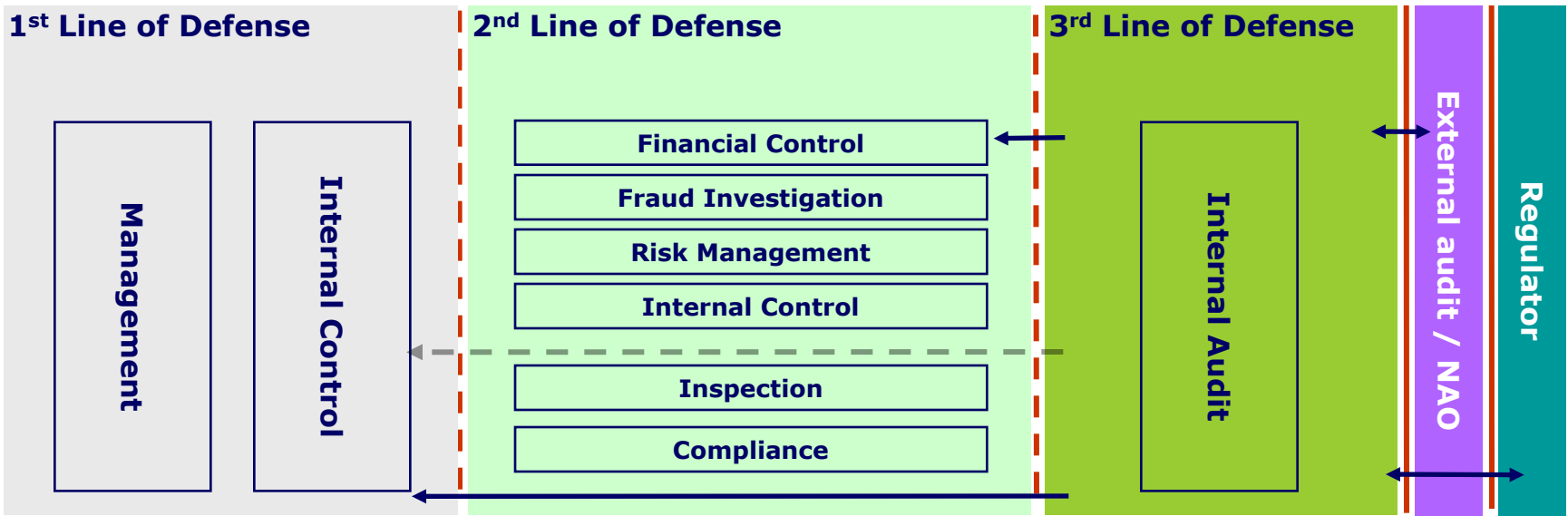
Who are the stakeholders of internal audit?

The activities of internal audit serve the needs and/or interests of numerous parties, including:

- **Audit committee**
- **Board of directors**
- **Executive management**
- **Line management**
- **Shareholders**
- **Analysts and shareholder rating services**
- **Regulators**
- **External auditors**
- **Employees**
- **Society**

Three lines of defense model

A Strategic Solution – Three Lines of Defense Model



Current state of the profession

- Different levels of maturity

- Compliance / financial / operational / technical
- Risk based vs. cyclical/rotational
- Auditing vs. consulting
- Broad or narrow focus -- controls, risk management and governance

- Different levels of acceptance

- Legislated / regulated
- Must have vs. optional / nice to have
- Critical function vs. necessary evil

Audit Committee: relationship with Internal Audit

What the Audit Committee wants from Internal Audit

- Independence
- Leadership and good management
- Skill to disagree constructively

Audit Committee: Relationship with Internal Audit

What the Audit Committee wants from Internal Audit (cont'd)

- Good risk assessment
- Thinking like line management
- Adds value to management
 - Gives the Audit Committee what it most needs: Recommendations get implemented
- Professionalism, excellence, objectivity

What the Audit Committee should do for Internal Audit

- Protect its independence



Questions for owners

- Should we have an Internal Audit function?
- What should our Internal Audit function do?
- What should be the mandate of the Internal Audit function?
- What is the relationship between Internal Audit and the Audit Committee?
- To whom does Internal Audit report administratively?
- How is the Internal Audit function staffed?
- How does Internal Audit get and maintain the expertise it needs to conduct its assignments?
- Are the activities of Internal Audit appropriately coordinated with those of the external auditors?
- How is the Internal Audit plan developed?
- What does the Internal Audit plan not cover?

Questions for owners (continued)

- How are Internal Audit findings reported?
- How are corporate managers required to respond to Internal Audit findings and recommendations?
- What services does Internal Audit provide in connection with fraud?
- How do you assess the effectiveness of your Internal Audit function?
- Does Internal Audit have sufficient resources?
- Does the Internal Audit function get appropriate support from the CEO and senior management team?
- Are you satisfied that this organization has adequate internal controls over its major risks?
- Are there any other matters that you wish to bring to the Audit Committee's attention?
- Are there other ways in which Internal Audit and the Audit Committee could support each other?
- Are we (the Audit Committee) satisfied with our Internal Audit function?

What are other internal audit functions doing?

- Stay close to business and management: their concerns are your concerns.
- Be flexible, don't focus exclusively on the achievement of the annual plan.
- Focus on real risks, i.e. current business issues (extended enterprise, customers, tax).
- Review internal audit strategy with outside assistance.
- Reassess risks on a regular basis.
- Develop and maintain meaningful KPIs.
- Review 2nd lines of defense.
- Be involved in ERM.
- Look at downturn implications: fraud exposure, change in customer behaviour

The Pursuit of Quality

With so much riding on internal audit both from a regulatory and competitiveness standpoint, the optimal functioning of the function becomes a vital concern:

- Every stakeholder, but especially management and the audit committee, relies heavily on internal audit
- How can these parties be sure that the function is up to the task?

The answer comes in the form of quality assessments. An examination of the effectiveness and efficiency of the function.

Forward-thinking internal audit functions will utilize all of the following models



Continuous Quality Assurance



Self Assessments



External Quality Assessment

Maximizing the Internal Audit Function

Protect Assets in Place

- Risk-based rotational coverage
- Tangible assets
- Balance sheet orientation
- Exception reports
- Management develops solutions
- Control compliance
- General IT controls

Enhance Future Growth Opportunities

- Risk-based coverage
- Intangible assets
- Balanced report on performance
- Identify and share best practices
- Collaborative solution development
- Support and improve risk management, control, and governance

Shareholder
Value:
IA Function

Optimal
Balance

Protect / Enhance

Independent and Objective Assurance
with Value-Added Advice

Increasing the Emphasis on Enhancement

Risk-based coverage

- Broaden the view of risk to include processes and controls affecting both assets in place and future growth opportunities
- Increased management input to audit plan development for areas of greatest concern

Intangible assets

- Off-balance-sheet risks and controls, such as brand reputation and protection
- More emphasis on preventive controls
- Alignment with corporate strategies and initiatives

Balanced report on performance

- Balanced scorecard—what's working and what's not
- Broad organizational insights

Increasing the Emphasis on Enhancement

Identify and share best practices

- Risk management, control, and governance
- Internal and external benchmarking

Collaborative solution development

- Develop or acquire business advisory skills
- Early involvement

Support or improve risk management, control, and governance

- More systematic and disciplined approach
- Early-warning systems—key ratios
- Practical recommendations for improvement
- Continuous monitoring
- Follow up on recommendations for corrective action

Added Value of a Strategic Review

A ***Strategic Quality Assessment Review*** goes above and beyond what is required in a typical quality assessment review.

In addition to fulfilling the requirements of the IIA, it also focuses on whether the Internal Audit function is truly adding value to the organization.

The recommendations should align Internal Audit's activities with the strategic goals of the company and management.

The results should position the Internal Audit function to meet the challenges facing their organization.

Beyond What is Required

Is the Internal Audit poised for success and meeting the challenges of today's internal audit organization?

- Is Internal Audit strategy focused on the right things?
- Is Internal Audit doing things right?
- Is Internal Audit adding value?
- Does Internal Audit understand stakeholder needs and expectations, and are they meeting them?
- Does Internal Audit's practices reflect the best practices of the profession?
- Does Internal Audit have the right strategies for future success?
- Is Internal Audit helping to create the Risk Intelligent organization?

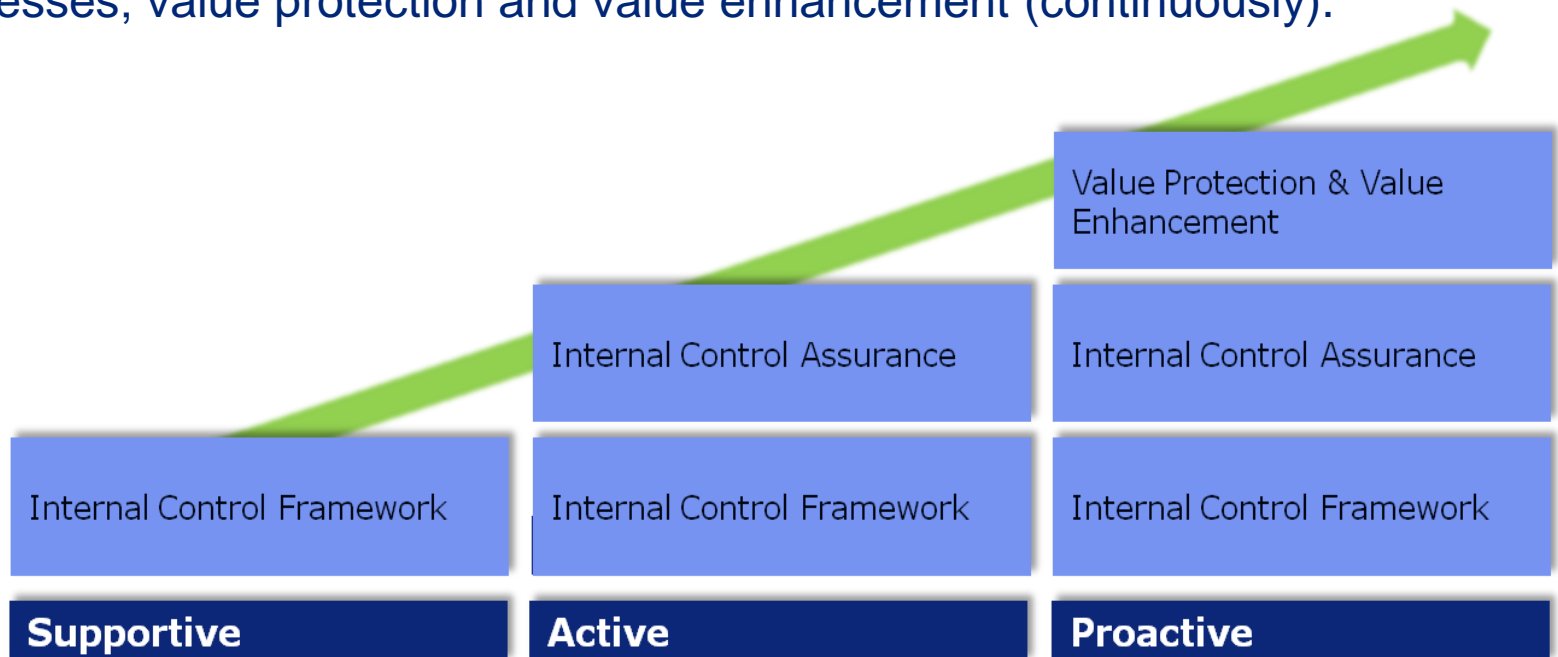
Where are You?

	Historic Internal Audit	Mainstream Internal Audit	Cutting Edge Audit
Focus	Audit entities based on rotational plan	Prioritize audit entities based on risk	Focus on strategic, business and process risk
Perspective	Historic	Historic	Future
Style	Corporate police	Father knows best	Consultant & advisor
Mandate	Compliance to policies & procedures	Assurance on financial control, compliance	Business assurance
Risk Focus	Financial	Financial plus	Enterprise risks
Toolkit	Compliance work programs	Audit work programs for key processes / controls	Risk frameworks, self-assessments
Technology	None	Automated workpapers	Automated testing & continuous monitoring
Results	Small 'findings'	Assurance; key audit entities	Proactive risk management and dynamic reporting

View on Internal Audit: Maturity model

Internal Audit should:

- Support the business in establishing and maintaining the Internal Control Framework (short term)
- Provide assurance on the Internal Control Framework to Board of Directors and Audit Committee (medium & longer term)
- Generate opportunities to further improve efficiency and effectiveness of processes; value protection and value enhancement (continuously).



Raising Expectations

As you move across the Internal Audit maturity model

- Stakeholder expectations increase dramatically
- Consequences of quality failures increase
 - Risk – Reward
- Skills required to execute go up
 - All levels of the Internal Audit group, not just the CAE
- Easier to demonstrate Internal Audit ROI

Do Governance Codes consider Internal Audit as a Key Player?

The answer is definitely **NO**

The internal audit profession claims to be, but actually we are **not**.

How can the National IIA improve the Governance Processes?

- Activate / reactivate / reprioritize advocacy efforts.
- Influence / lobby regulators:
 - Specific industry sectors (finance)
 - Public sector
 - Stock exchange authorities
 - Corporate governance codes 'owners'
 - Technical committees of parliamentary bodies

How can the National IIA improve the Governance Processes?

- Not merely asking for presence or existence of internal audit.
- Role of internal audit in corporate governance arena.
- Relationship with other key players in corporate governance.
- Professional criteria for internal audit: standards, qualifications.

Just a few initiatives

- May make our voice really be heard.
- May facilitate our seat at the “governance” table.



- May allow us to become trusted and valued by our stakeholders.
- Will make us deserve the “C” in CAE!



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