PA 2110-1: Governance: Definition

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.
- Coordinating the activities of — and communicating information among — the board, external and internal auditors, and management.

1. The role of internal auditing as noted in the Definition of Internal Auditing includes the responsibility to evaluate and improve governance processes as part of the assurance function.

2. The term governance has a range of definitions depending on a variety of environmental, structural, and cultural circumstances, as well as legal frameworks. The International Standards for the Professional Practice of Internal Auditing (Standards) define governance as: “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.” The chief audit executive (CAE) may use a different definition for audit purposes when the organization has adopted a different governance framework or model.

3. Globally, there are a variety of governance models that have been published by other organizations and legal and regulatory bodies. For example, the Organisation for Economic Co-operation and Development (OECD) defines governance as: “...a set of relationships between a company’s management, its board, its shareholders, and other stakeholders. Corporate governance provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined.” The Australian Securities Exchange Corporate Governance Council defines governance as: “...the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized.” In most instances, there is an indication that governance is a process or system and is not static. What distinguishes the approach in the Standards is the specific emphasis on the board and its governance activities.

4. The frameworks and requirements for governance vary according to organization type and regulatory jurisdictions. Examples include publicly traded companies, not-for-profit organizations, associations, government or quasi-government entities, academic institutions, private companies, commissions, and stock exchanges.

5. How an organization designs and practices the principles of effective governance also vary depending on the size, complexity, and life cycle maturity of the organization, its stakeholder structure, legal and cultural requirements, etc.

6. As a consequence of the variation in the design and structure of governance, the CAE should work with the board and the executive management team, as appropriate, to determine how governance should be defined for audit purposes.

7. Internal auditing is integral to the organization’s governance framework. Their unique position within the organization enables internal auditors to observe and formally assess the governance structure, its design, and its operational effectiveness while remaining independent.

8. The relationship among governance, risk management, and internal control should be considered. This item is addressed in Practice Advisory 2110-2. Practice Advisory 2110-3 discusses assessing governance.

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