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The Role of Internal Audit in Today's Business Landscape.

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Objectives

- How should Internal Auditors position in today's environment?
- How to be a risk-intelligent Internal Auditor?
- How to manage an effective Internal Audit function?
- How to demonstrate Internal Audit's value to stakeholders?

Today's environment



Is Internal Audit addressing stakeholders' needs?

**Board/
Audit
Committee**

How are we managing business risks?
How are we assured they are being managed appropriately?
Are we dedicating enough resources to manage our risks?

CEO/COO

What unforeseen events might disrupt our strategy and prevent achievement of our goals?

CFO

What risks could materially impact our financial results?

**General
Counsel**

What could we do to further minimize our legal and regulatory liabilities and ensure compliance with laws and regulations?

Is Internal Audit addressing stakeholders' needs? (2)

General Managers	<p>How much risk am I allowed to take? What is our corporate risk appetite? What are my risk management responsibilities?</p>
Risk Managers	<p>How efficient is our current risk financing strategy? Does the current risk management strategy adequately capture the key risks?</p>
Regulators	<p>How comprehensively is the company addressing the interests of stakeholders?</p>
Rating Agencies	<p>How well does senior management understand risk? How great is management's risk awareness? What is their ability to manage risks as they emerge?</p>

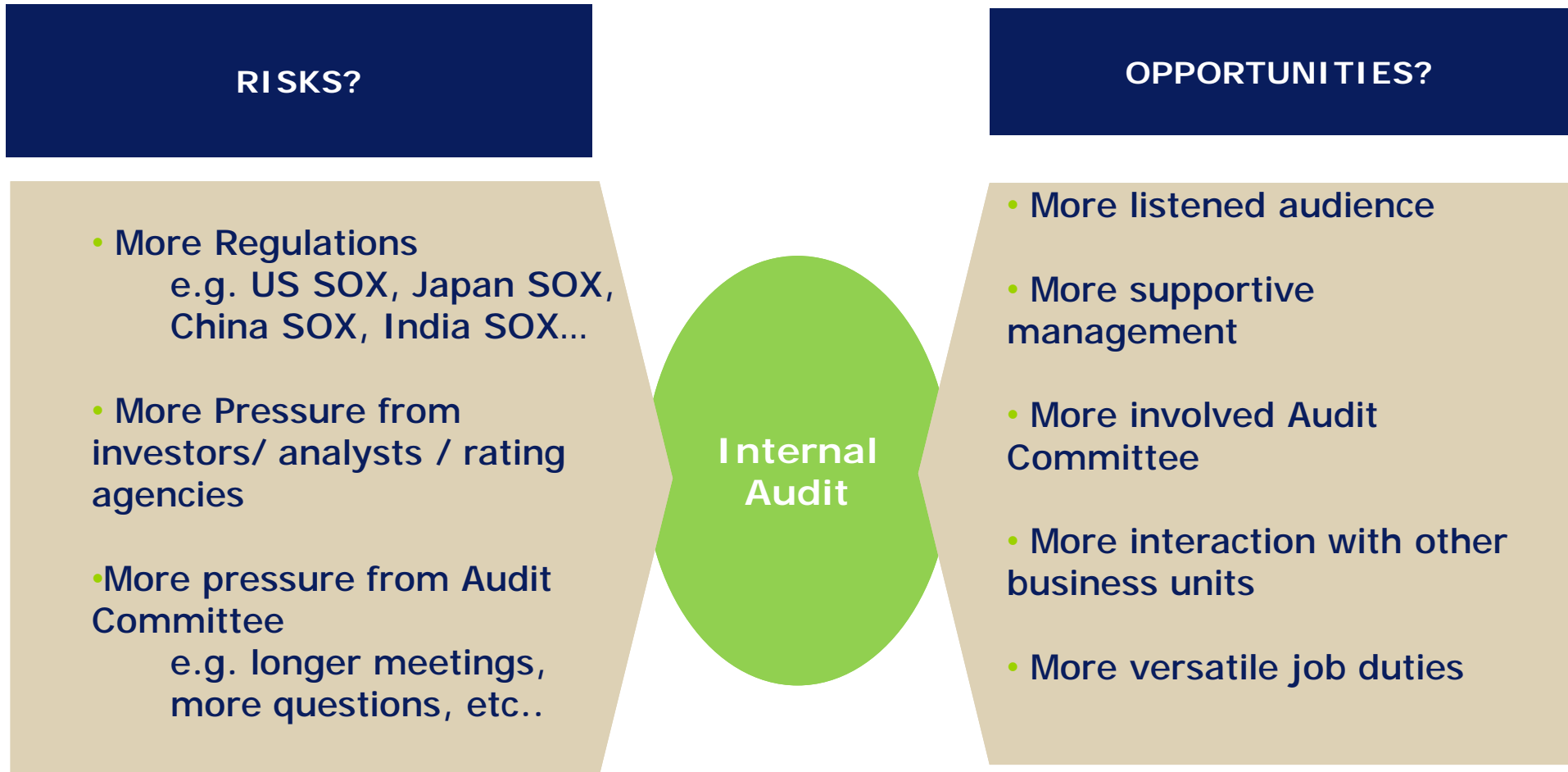
Moving beyond compliance

Definition of Internal Auditing

“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.”

Source: Institute of Internal Auditors "Defining Effectiveness"

Ever-increasing responsibilities of Internal Audit...



The audience has never been more OPEN to understand the value of Internal Auditing

How should Internal Auditors position themselves?

Traditional Role

~ assurance

A focused view:

- Assess controls
- Ensure compliance
- Improve operations

"Find it"

Contemporary Role

~ assurance & advisory

A more expansive view:

- Provide assurance/comfort
- Involve in consulting work includes:
 - control design,
 - process improvements,
 - system conversions,
 - risk management, etc..
- Challenge the status quo – e.g. business continuity mgt

"Find it and Fix it"

Internal Audit Maturity Model

	Baseline	Mainstream	Leading
Reporting Lines	Controller	CFO/COO	Audit Committee Chair
Mandates & Objectives	Compliance (Financial & procedural)	Assurance on financial control & compliance	Business assurance
Technology	Automated workpapers Not much IT auditing	Limited data analysis GCC review	Real time monitoring Consulting to improve IT infrastructure
Fraud Prevention & Detection	Not much addressed	Reactive	Proactive
Risk Management	Operational	Operational & Financial	All enterprise risks

Risks and Enterprise Risk Management

Risks

- Many different examples of “risk” exist, with varying degrees of detail and precision.
- A correct definition should accommodate both the protection of existing assets and the enhancement of future growth opportunities.
 - *The potential for loss - or diminished opportunity for gain - caused by events that can adversely affect the achievement of a company’s objectives.*

Enterprise Risk Management (“ERM”)

- ERM is an enterprise-wide, proactive, consistent process driven by an organization's management to identify, understand and respond to a broad range of strategic, operational, compliance, and financial risks that threaten the achievement of its objectives.

Linking Internal Audit activity to Business Objectives



The role of Internal Audit in Enterprise Risk Management



The role of Internal Audit in Enterprise Risk Management (2)

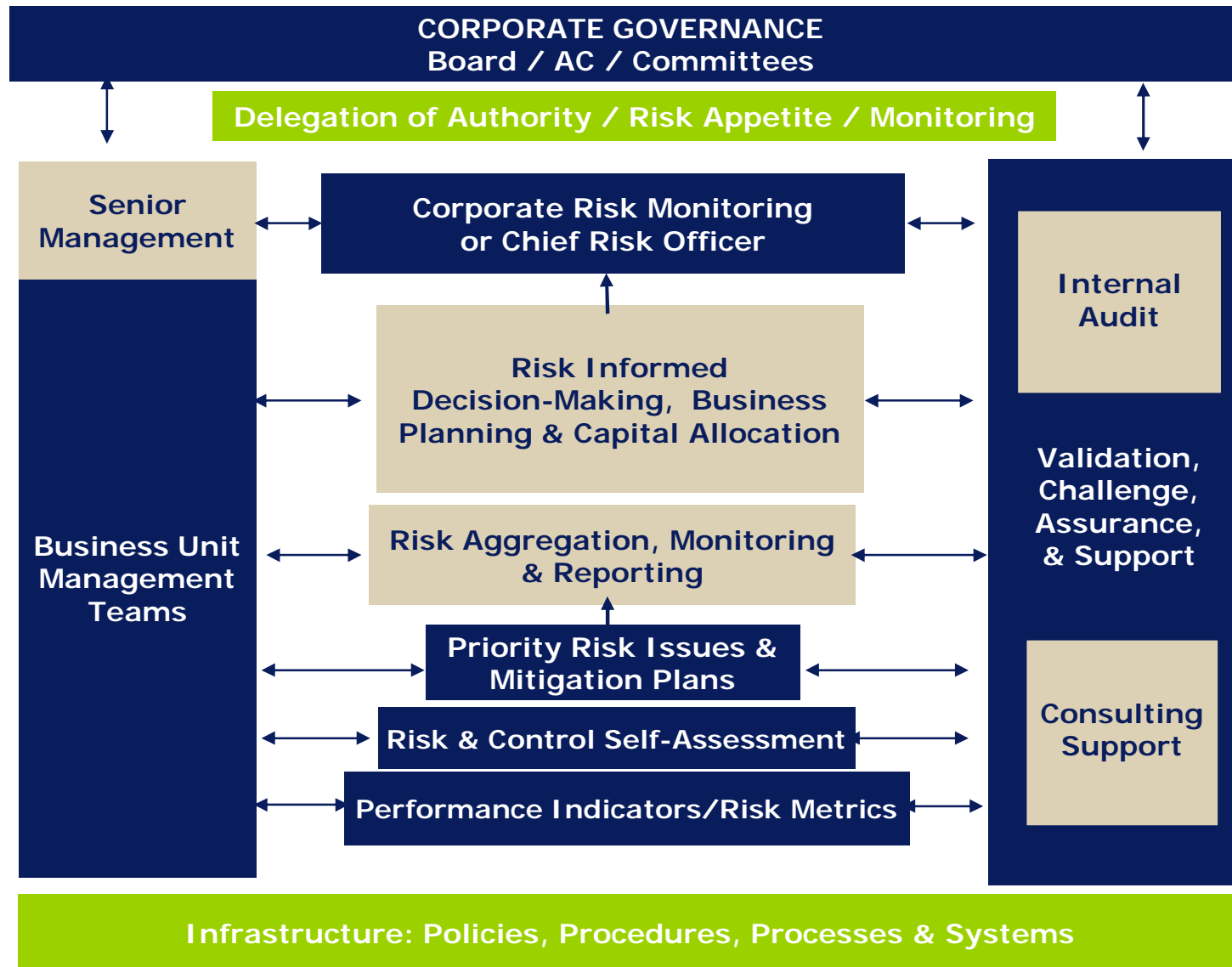
Roles IA can undertake

- Facilitating identification and evaluation of risks
- Coaching management in responding to risks
- Coordinating ERM activities
- Consolidating the reporting on risks
- Maintaining and developing the ERM framework
- Championing establishment of ERM
- Develop risk management strategy for Board approval

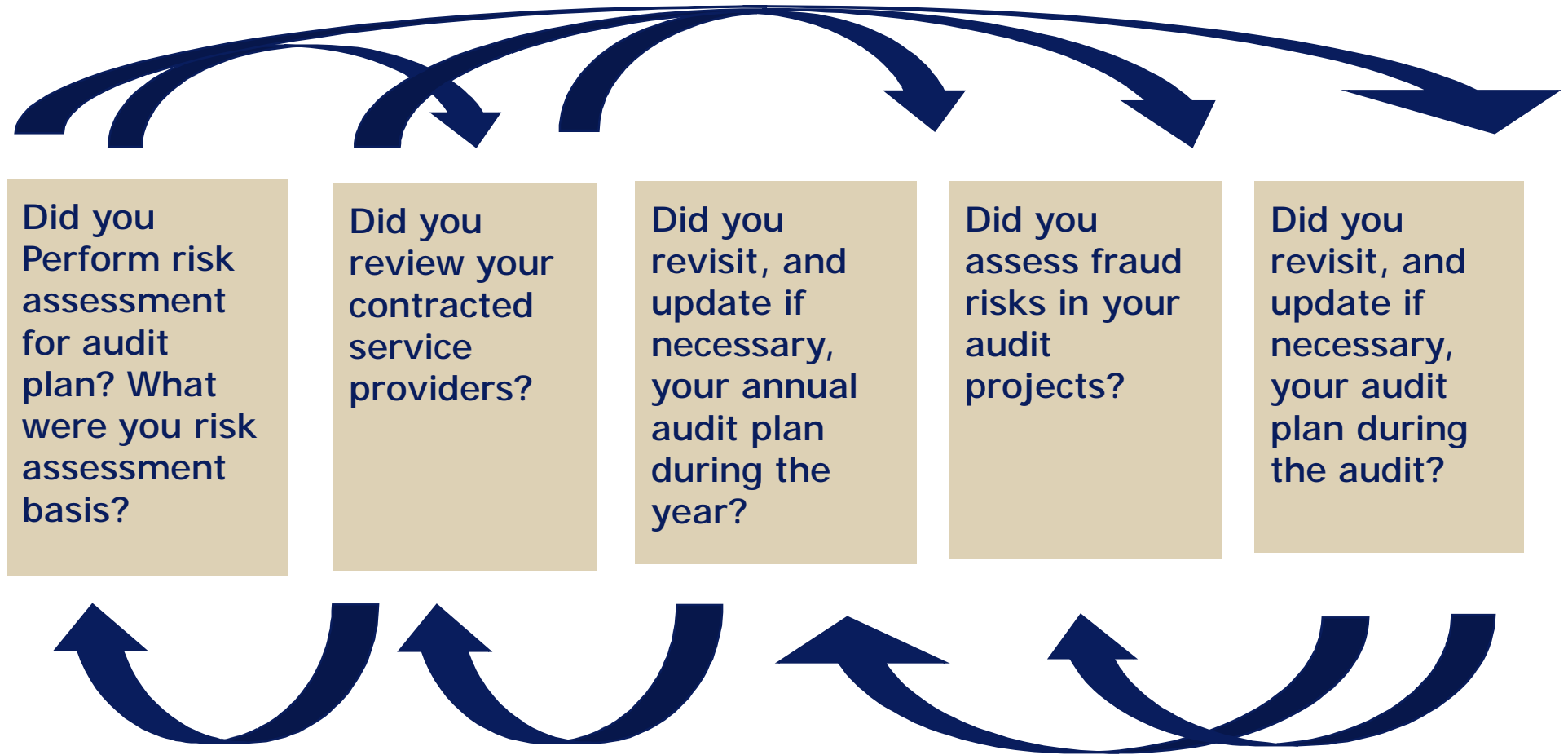
Roles IA should NOT undertake

- Setting the risk appetite
- Imposing risk management processes
- Management assurance on risks
- Taking decisions on risk responses
- Implementing risk responses on management's behalf
- Accountability for risk management

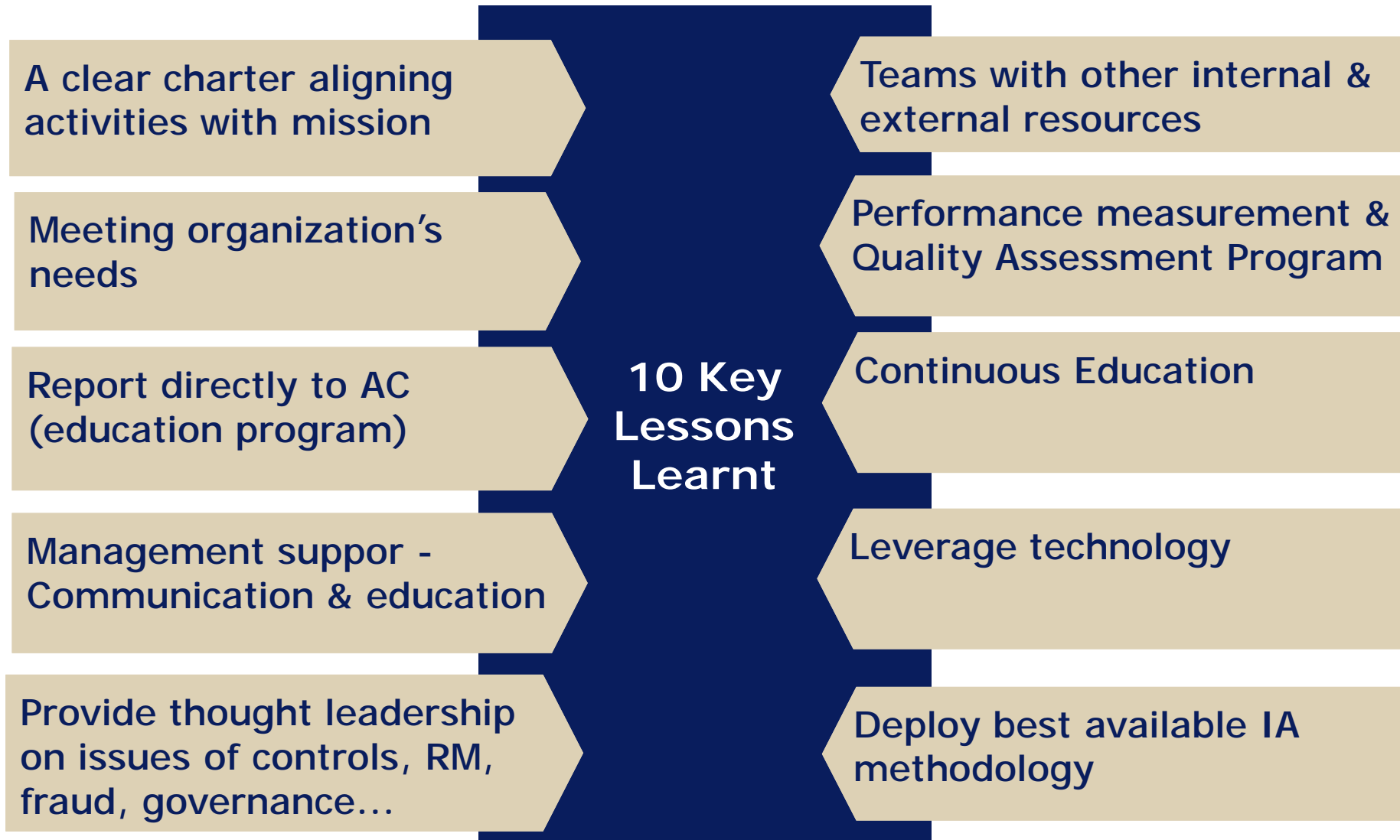
A Blue Print of the Risk Intelligent Organization



Risk-based approach in real life Internal Audit Activity



How to manage an effective Internal Audit Function?



Performance measurement of Internal Audit

- Assess audit activity against audit plan
- Percentage of recommendations implemented
- Report lapsed time
- Cost-saving opportunities and actual cost recoveries
- Client/Auditee/Stakeholder survey
- Informal management and audit committee feedback
- Staff training and certifications
- Internal audit staff turnover
- Number and frequency of management requests for assistance
- Result of external quality assessment review

Some key messages

- Expanded role of Internal Auditing
- Get buy-in from management and Audit Committee
 - Education program may help
 - Demonstrate the values to management (earn you credits)
- Manage your headcount
 - guest auditor program and external consultants
- Take a new look on risks...
 - Have you looked at your contractors?
- Have a robust performance measurement program
 - Perform quality assessment review



Further Information

Questions Re Successful Implementation of IIA Standards*	Ref
What are you doing to align and build strong relationships with key stakeholders (audit committee and management)?	1000 1100
What are you doing to develop and attract the right resources that link to the significant business risk?	1200
What are you doing to ensure you have a proactive quality assessment and improvement program?	1300 2200 2300
What are you doing to ensure you understand what value means to your key stakeholders and to bring that value through your work (focus, plan, measure, and report)?	1300
How does your internal audit function stay knowledgeable regarding the company's key strategic initiatives and related risks?	2200

**IIA Standards - International Standards for the Professional Practice of Internal Auditing*

Further Information (2)

Questions Re Successful Implementation of IIA Standards	Ref
How are you assessing your company's risk management and governance processes?	2100
How are you embracing and leveraging technology and innovation in your internal audit process to bring leading practices to the table, and improve the effectiveness and efficiency of your function?	2200 2300
How do you timely communicate and educate your key stakeholders about critical business risk?	2000 2400
How does your follow up process and related reporting to key stakeholders ensure that issues have adequate management responses and are addressed timely?	2500
Do you have the ability to directly speak out and communicate to key stakeholders issues representing unacceptable risk or inappropriate actions?	2600

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