

Value-Added Internal Audit: Myth or Reality?

Prague

4-5 November 2015

Jean-Pierre Garitte, CIA, CCSA, CISA, CFE, RFA

Past Chairman of the Board IIA

Past President ECIIA

Past President ACIIA



Definition of internal auditing

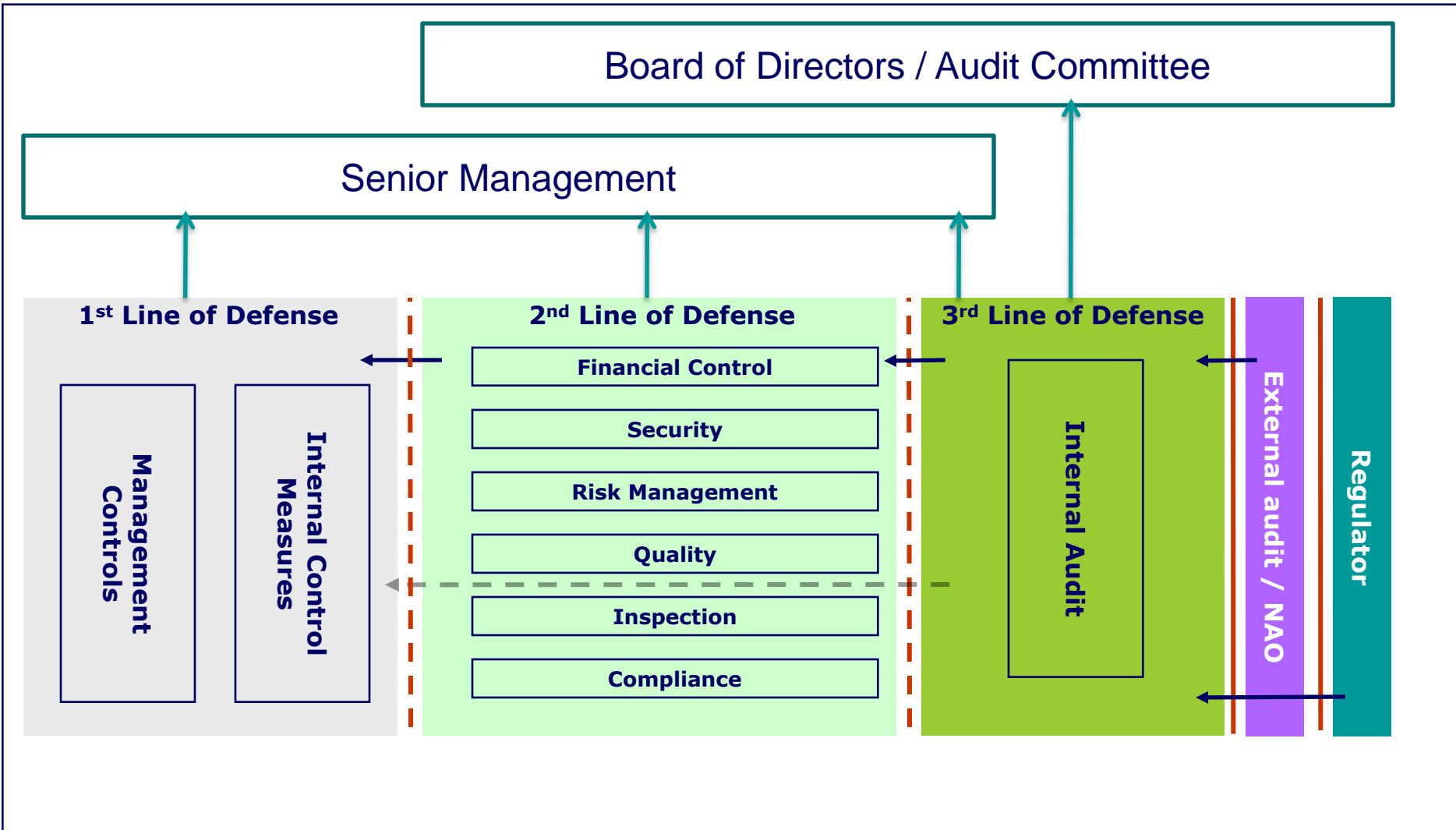
Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management,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

Mission of Internal Auditing

Expand the IPPF to include a mission statement to support the internal audit profession. The Mission of Internal Auditing as was exposed:

“To enhance and protect organizational value by providing stakeholders with risk-based, objective and reliable assurance, advice and insight.”

Three lines of defense model



Value of Internal Audit

The internal audit function should be able to tell :

- when the company is being poorly managed,
- where critical risks are not being identified or properly managed,
- when the business objectives are not likely to be met.

Value of Internal Audit

In addition, internal audit:

- could act as a training ground for future line managers, by exposing fast track members of the department to a variety of situations, activities and functions within the organization;
- could provide a “one stop shop” for best practice advice;
- could provide an independent, objective opinion as to the quality of the business controls;
- could stimulate risk awareness throughout the organization;

Value of Internal Audit

In addition, internal audit (continued):

- is a source of qualified, experienced talent that can aid management in business improvement programs;
- provides specialist professional independent opinions on a variety of situations, such as due diligence exercises;
- reports on fraudulent activity within the organisation, with a view to understanding how it happened and how to prevent it occurring again;
- ensures that the company-wide initiatives, such as a code of conduct, are being adhered to;
- makes Senior Management and the Board sleep well at night.

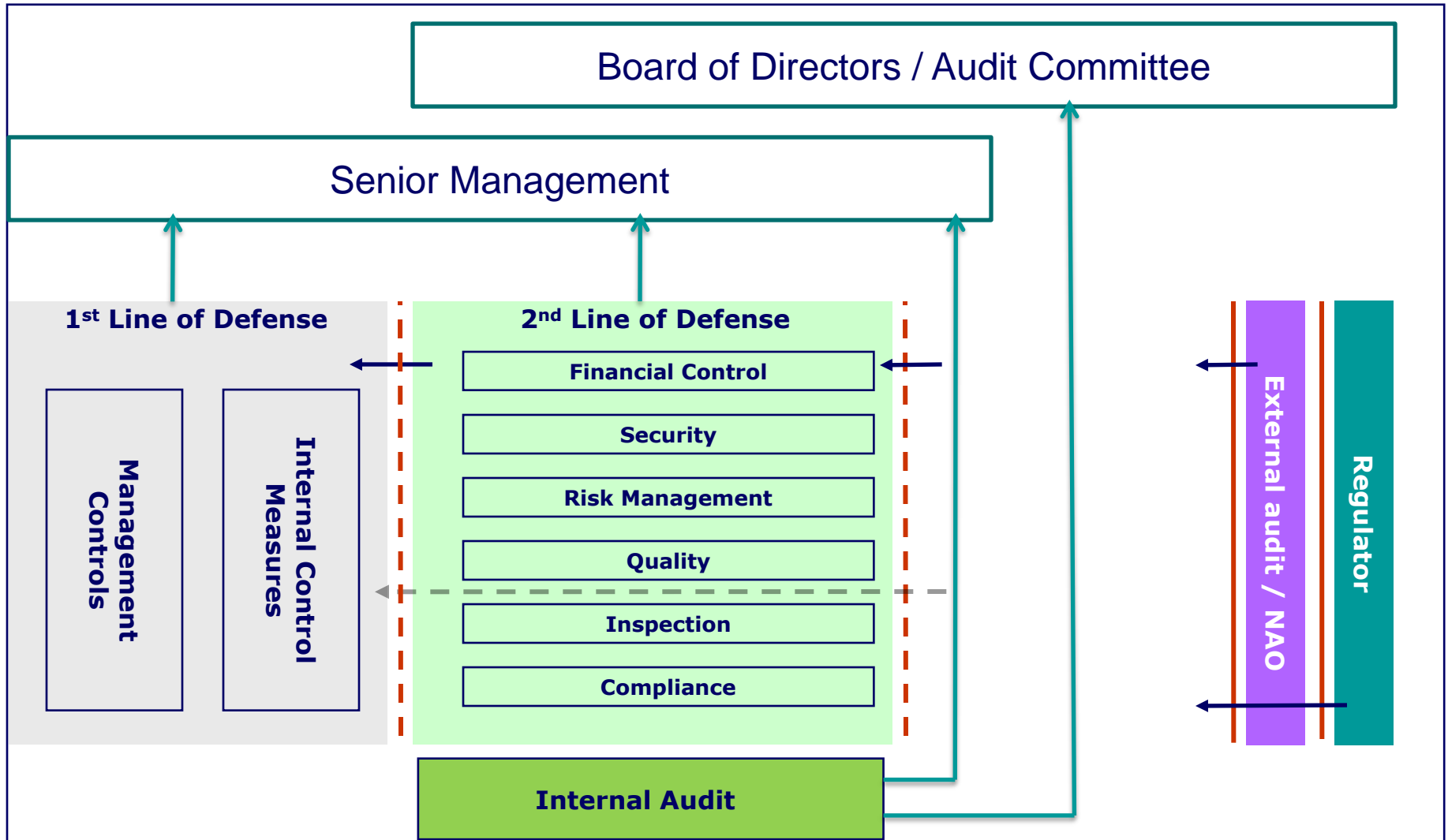
Internal audit in practice(1)

- Internal audit does not always provide assurance.
- Internal audit does not always provide value-added consulting services.
- Internal audit does not often evaluate the governance processes.
- Internal audit does not often evaluate the risk management processes.

Internal audit in practice (2)

- Internal audit operates as a second line of defense.
- Internal audit acts and is perceived as a compliance function.
- Internal audit inspects branches, stores.

Three lines of defense model



Perception by stakeholders

- No added value.
- No business partner.
- No alignment with company strategy.
- Fear factor: from errors to punishment.
- No managerial talent.
- No meaningful KPIs.
- Not focused on the proper risks.

Conditions of audit committees

- No proper monitoring of risk management, internal control and internal audit.
- Not always properly staffed.
- Not well prepared.
- No support when needed.
- No voice at the Board.

Conditions of companies

- No risk and control culture.
- No risk ownership.
- No accountability.
- Control is not my business.
- Cost cutting affects control tasks.

Core principles for the Professional Practice of Internal Auditing

1. Demonstrates uncompromised integrity.
2. Displays objectivity in mindset and approach.
3. Demonstrates commitment to competence.
- ? 4. Is appropriately positioned within the organization with sufficient organizational authority.
- ? 5. Aligns strategically with the aims and goals of the enterprise.
- ? 6. Has adequate resources to effectively address significant risks.
7. Demonstrates quality and continuous improvement.
8. Achieves efficiency and effectiveness in delivery.
9. Communicates effectively.
- ? 10. Provides reliable assurance to those charged with governance.
- ? 11. Is insightful, proactive, and future-focused.
12. Promotes positive change.

Value-Added Internal Audit : Myth or Reality?



What to do to change myth into reality?

- At macro-level: the Institute of Internal Auditors (IIA Inc., ECIIA, ČIIA)
- At micro-level: every Chief Audit Executive

Efforts by the CAE (1)

- Internal audit should be an agent for change:
 - Change the risk and control culture of your organization.
 - Coordinate risk management activities.
 - Develop an assurance map for your organization.

Efforts by the CAE (2)

- Focus on the areas that need to be audited, not what is easy to audit.
- Provide assurance on major risks.
- Audit the second lines of defense and, if OK, rely on the results of their work.
- Do not duplicate second line of defense activities.

Efforts by the CAE (3)

- Develop a comprehensive audit universe.
- Assess the risks on a periodical basis.
- Do not adhere to your audit plan in a rigid way.
- Develop metrics that are relevant for your stakeholders.

Efforts by the CAE (4)

- Write reports with impact.
- Do not focus on problems, but offer solutions.
- Solutions should not be academic but rather pragmatic.
- Listen to your stakeholders.

Value-Added Internal Audit: Myth or Reality?

Prague

4-5 November 2015

Jean-Pierre Garitte, CIA, CCSA, CISA, CFE, RFA

Past Chairman of the Board IIA

Past President ECIIA

Past President ACIIA

