

A CRITICAL LOOK AT INTERNAL AUDIT PROCESSES

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Chairman



MALTA STOCK EXCHANGE

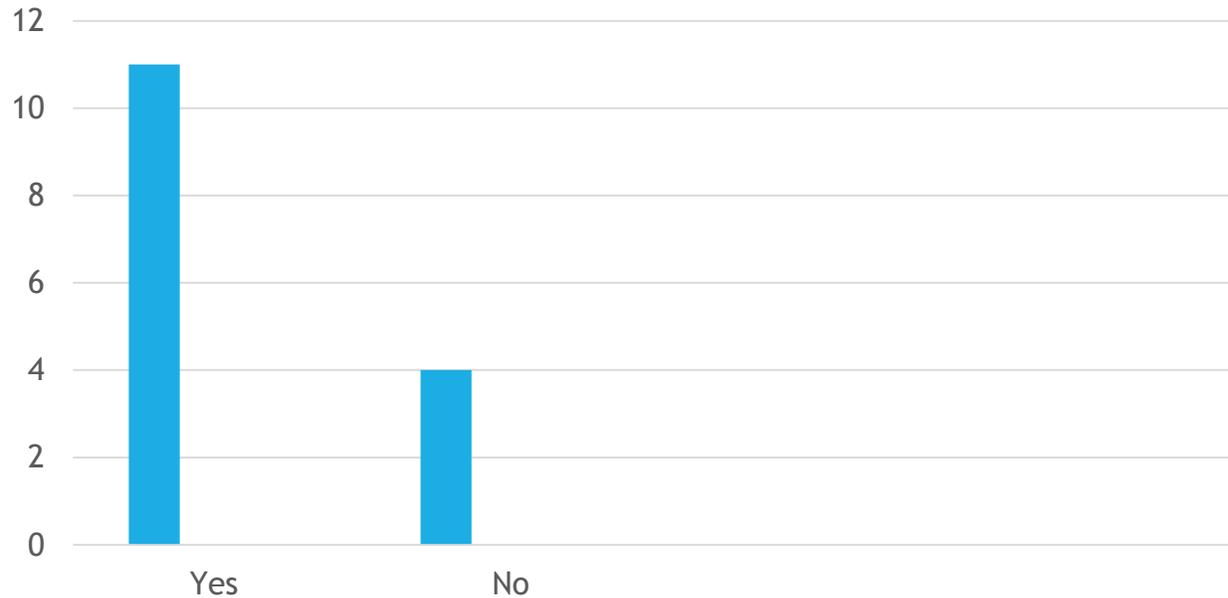
The Internal Audit Function Questionnaire

LISTED & ADMITTED COMPANIES
INTERNAL AUDIT FUNCTION
QUESTIONNAIRE

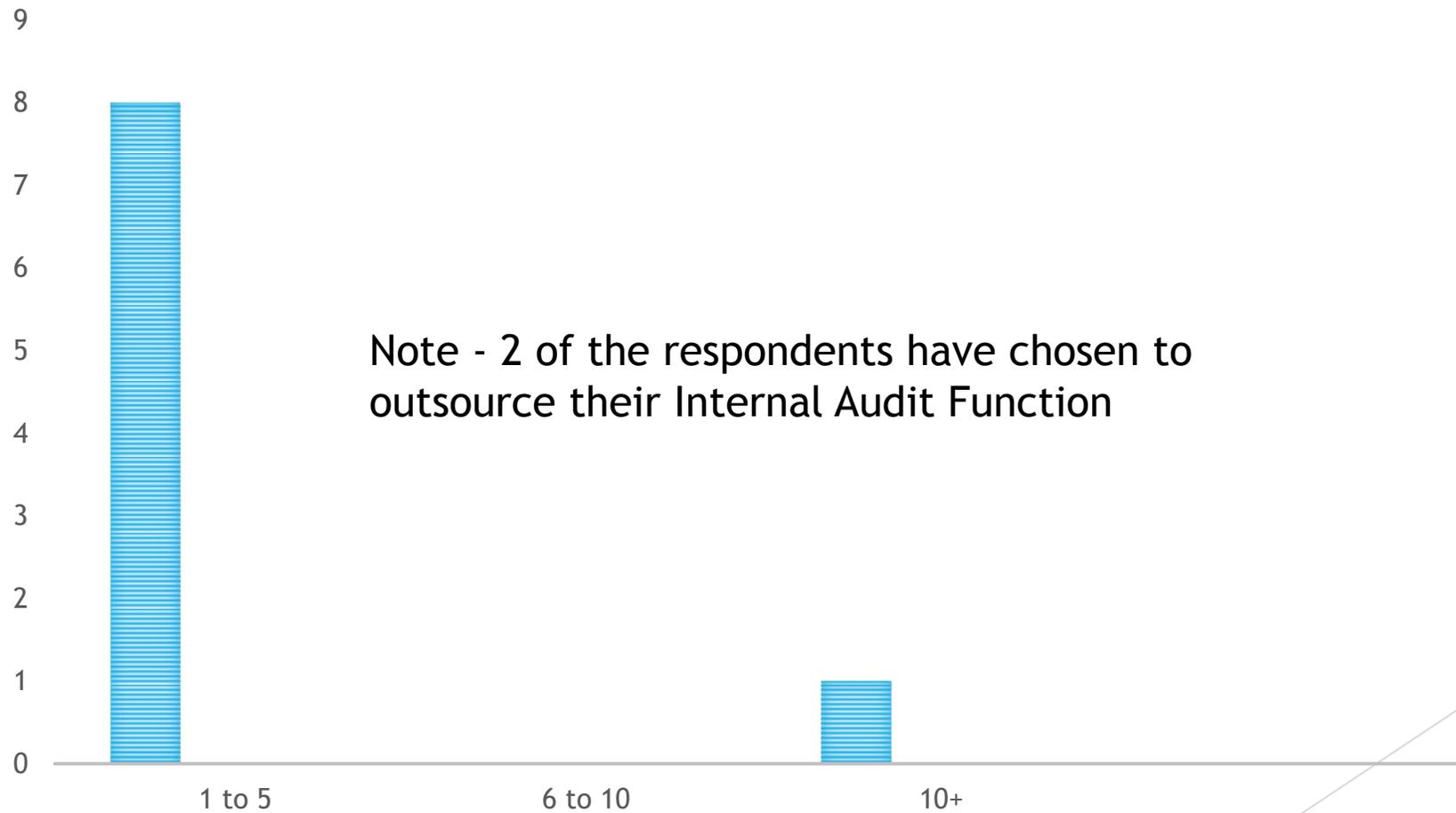
- 15 companies listed or admitted to the Regulated Main Market or the Prospects MTF participated.

Respondents that have an Internal Audit function

- ▶ 11 respondents have an Internal Audit Function in place
- ▶ 2 of the respondents have chosen to outsource their Internal Audit Function
- ▶ 2 respondents carry out the Internal Audit function at the group or parent undertaking level



Number of Employees working within the Internal Audit Function

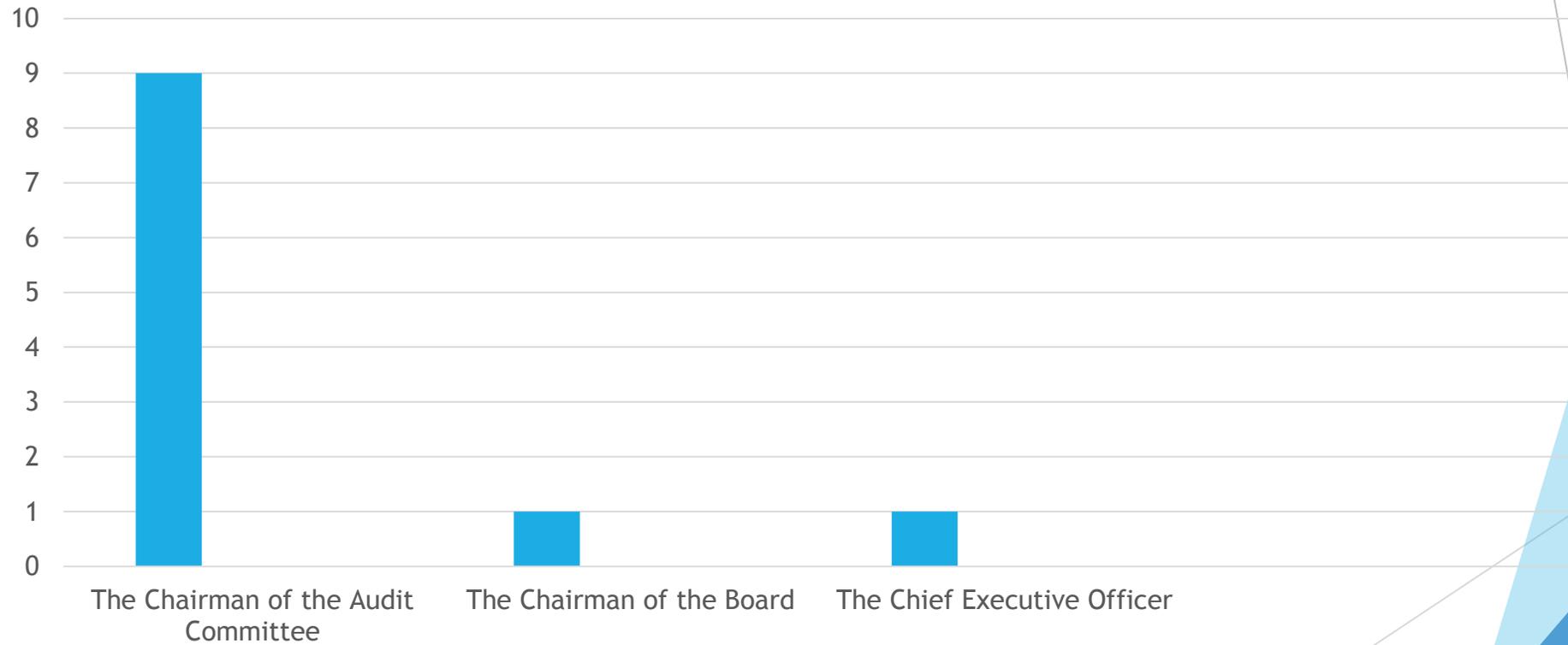


Note - 2 of the respondents have chosen to outsource their Internal Audit Function

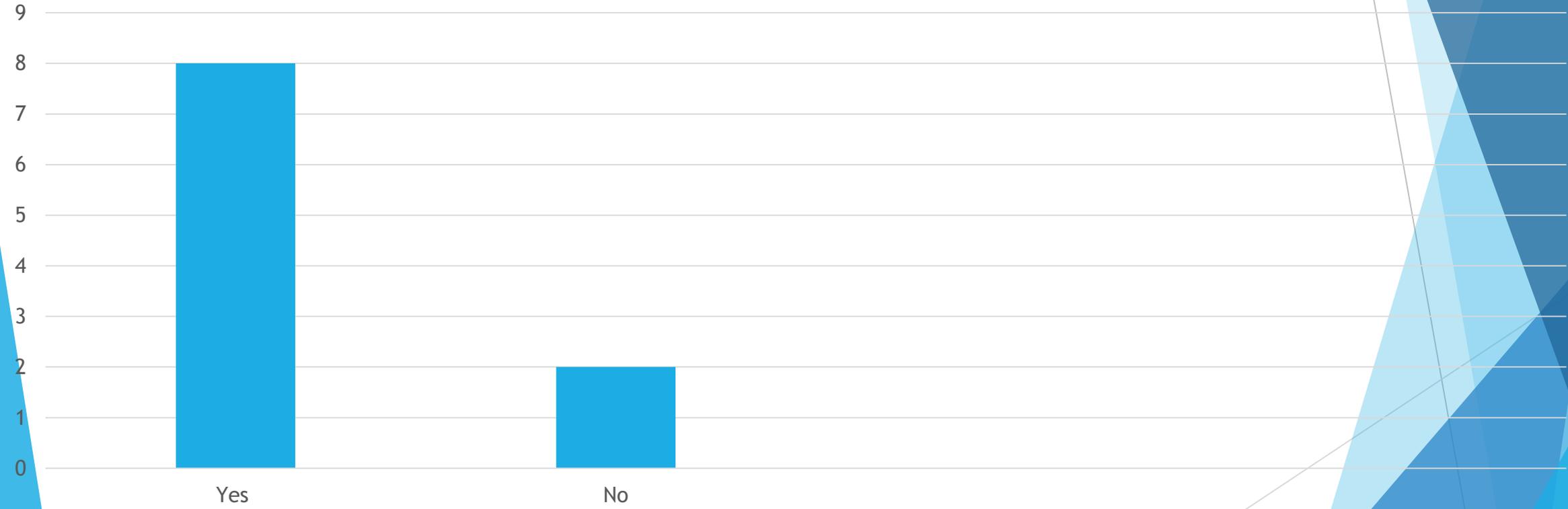
Core competencies and/or qualifications sought by companies when recruiting employees to work within the Internal Audit function

- Analytical/critical thinking and communication skills
- Knowledge and understanding of all processes and procedures acquired through internal working experience
- Background in the companies' respective areas of operation and practical experience in the management of such operations
- Practical experience in an Audit environment
- Well versed in statutory and regulatory policies
- Ready to keep abreast of best practices by attending regular events of the Malta Forum for International Auditors.
- Academic qualifications:
 - Accountancy, Internal Audit and IT related qualifications.
 - Degrees related to Banking, Management, Business Administration and Economics.
- Proficiency in querying and reporting tools such as SQL, ACL, Access, Excel, Visual Basic etc.

Reporting lines of the Head of the Internal Audit

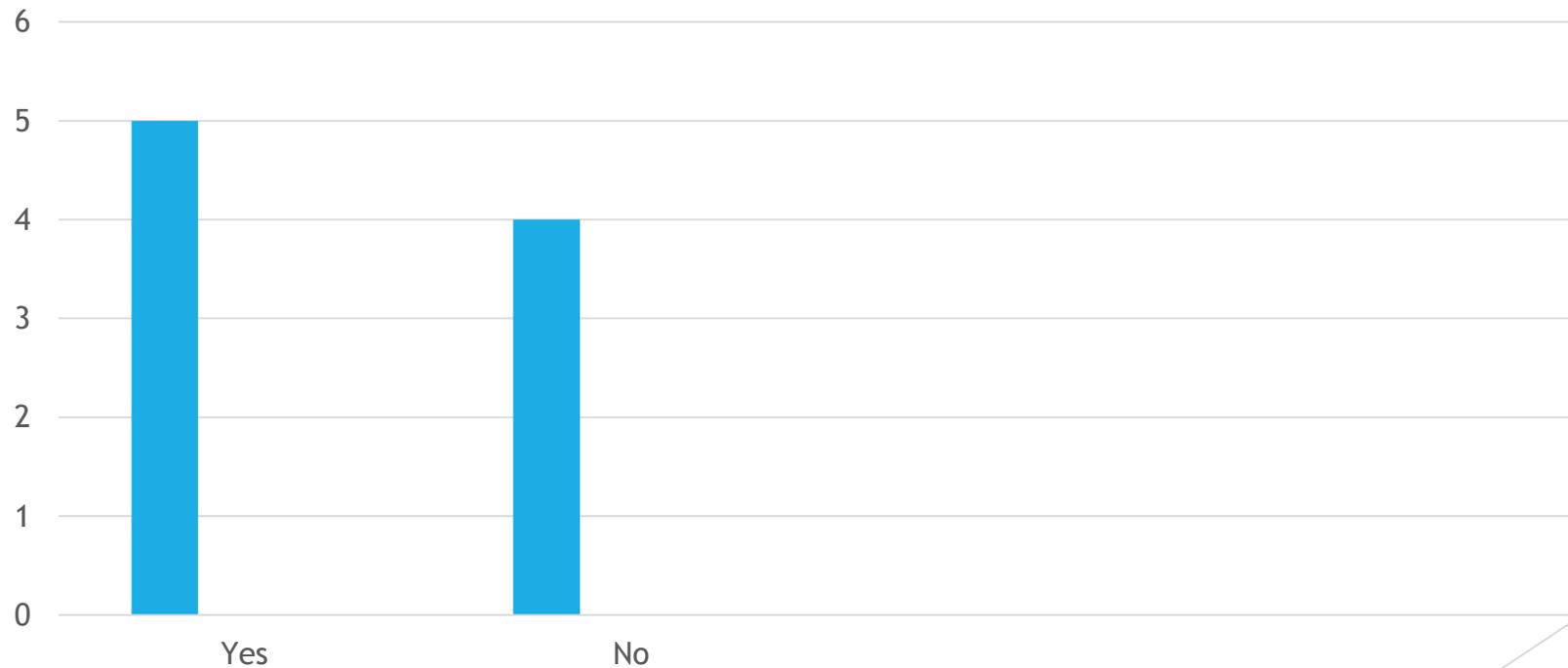


Organizations that have an Internal Audit Charter

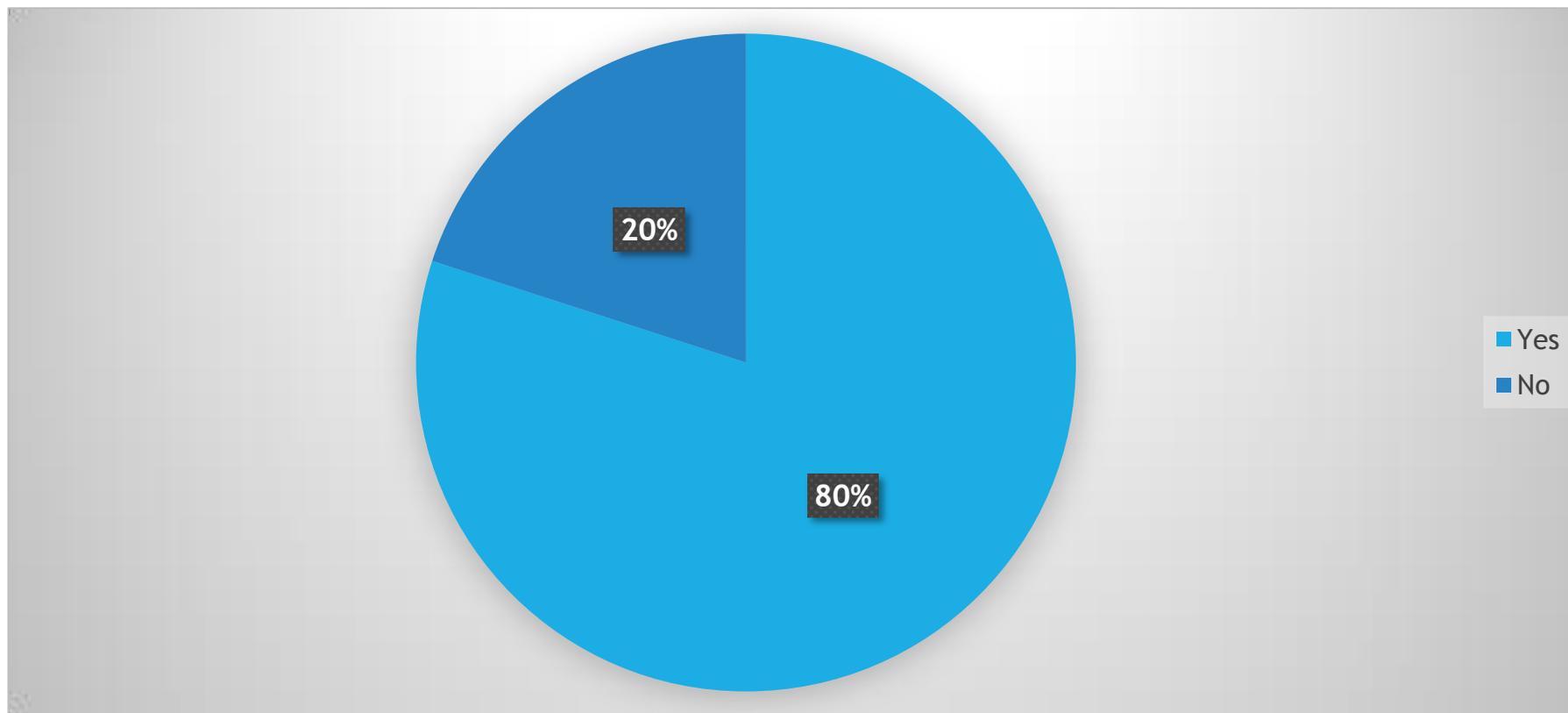


The Internal Audit Plan

- ▶ The Internal Audit Plan is drawn up on an Annual basis by five of the respondents
- ▶ All respondents who have an Internal Audit Plan in place present it to the Audit Committee for approval



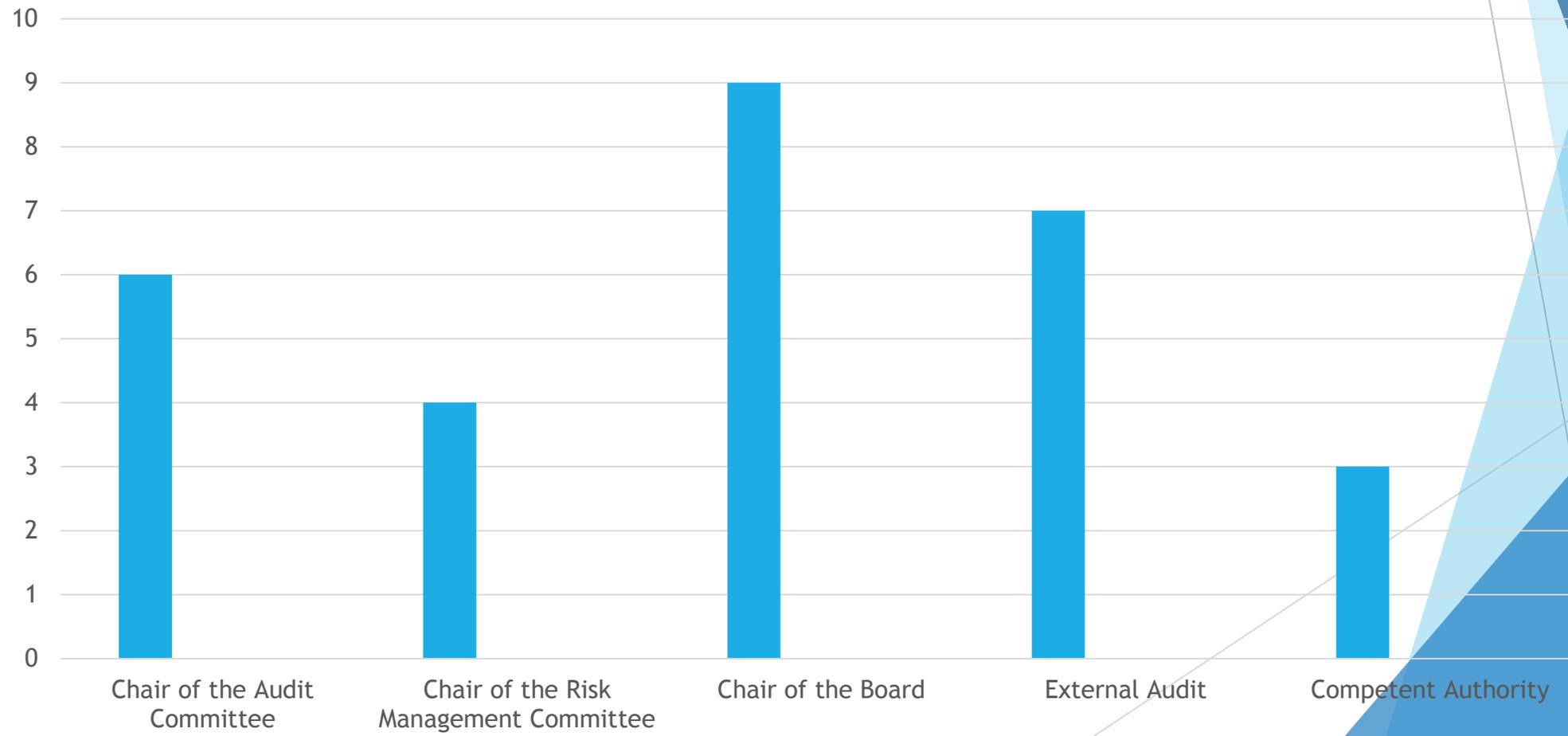
80% of respondents have confirmed that the Internal Audit Plan is updated throughout the year based on the information flowing from the Risk Management office



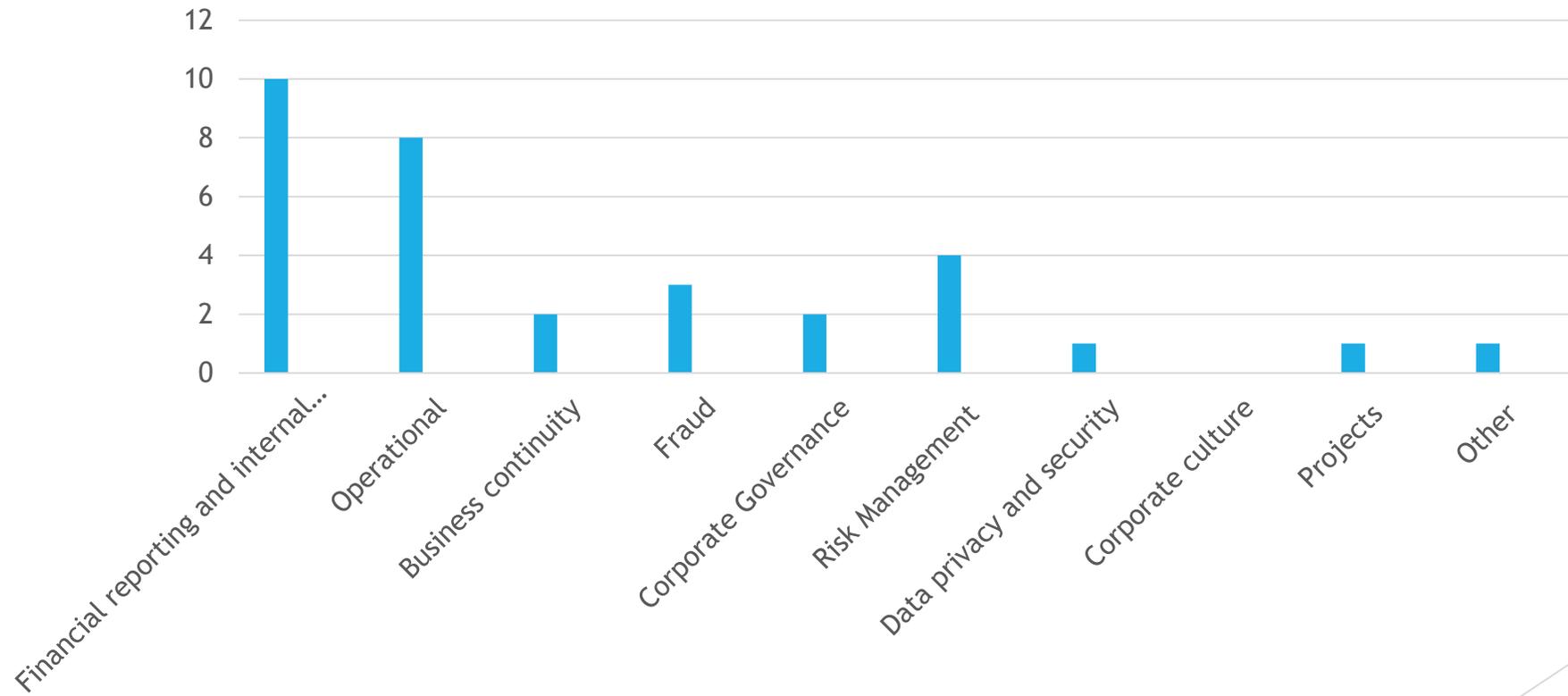
Communicating the findings of the audits carried out



- Respondents confirmed that they had unrestricted access to all activities across the organisation and also indicated that the Head of Internal Audit could meet with the following without management being present to discuss any issues as deemed necessary.



Top 3 areas of risk focused upon



The Malta Stock Exchange experience ...

Our concerns and experiences:

- Complacency
- Boredom on enthusiastic
- Focusing on the same areas (IT) - maybe ignoring others (Finance)
- Team worked together within internally audit for many years
- Low turnover, staff have worked together for decades, long standing friendships may have an influence on audits
- Too many full-time resources utilized in this space
- Not everything was caught
- Wrong culture

Composition of the Internal Audit Working Committee

- ▶ Not an individual but a committee
- ▶ Appointed by the Board in terms of Bye-Law 2.01.46
- ▶ Chaired by the General Manager
- ▶ Composed of five executives from different section within the Exchange
- ▶ Executives must have an extensive knowledge and experience of the Exchange's operations

Conduct of meetings

- ▶ The quorum of any meeting shall be three Members.
- ▶ One of the members present must be the Chairman.
- ▶ The flow of information and proceedings of the information follow a pre-defined process.
- ▶ The Committee shall meet at least once a week for a two-hour period.
- ▶ Formal minutes of the meeting are taken and subsequently circulated to Committee members.

Reporting

- ▶ The Chairman of the Committee reports to the Audit Committee and if need be the Board.
- ▶ On an annual basis the Committee shall prepare a report for the Board including the number of Committee meetings held and a summary of the matters considered during the year.

The Internal Audit Plan

- ▶ A checklist approach is utilized. Every month a minimum number of processes must be analyzed, some in random fashion. Hundreds of processes must be checked and confirmed over the course of the year.
- ▶ Intellectual curiosity is encouraged
- ▶ Audit non-conformities are checked regularly
- ▶ Audit committee viewed as partners in improvement not police, judge and jury.
- ▶ Process is revised and changed and serves as a model of excellence with the organization
- ▶ An Internal Audit Plan consisting of a list of processes, policies or any other areas which are to be audited is drawn up and agreed to by the Committee.
- ▶ The Internal Audit Plan is then forwarded to the Chairman of the Board and the Chairman of the Audit Committee for their input and approval.

Proceedings

- ▶ At each meeting, the Committee identifies the area which is to be audited and which documents are required.
- ▶ The respective Head of Office is requested to forward these documents by a given date.
- ▶ The documents are circulated to Committee Members for familiarisation and analysis prior to the meeting.
- ▶ During the meeting a checklist approach to review the information collectively is taken.
- ▶ If clarifications are required, the respective Head of Office is requested to join the meeting.
- ▶ Any findings are communicated to the Head of Office and the Chief Executive Officer and are copied to the Chairman of the Board and the Chairman of the Audit Committee.
- ▶ To ensure independence from the operations of the MSE, if a process being audited falls within the remit of a Committee Member, he/she will not be involved in drawing up the conclusions of that particular audit.

Goals

- ▶ To identify problems and potential problems before they blossom into serious threats
- ▶ Non-conformities will be handled through corrective actions
- ▶ Fix problems not the blame
- ▶ We focus on improving processes and procedures - not taking disciplinary action.

THANK YOU



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