

# **MFIA**

**Malta Forum for Internal Auditors**

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## **Annual Conference**

### **The Internal Auditor – value added to both the Audit Committee and Management**

**7 November 2012**

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Past Chairman of the Board IIA

Past President ECIIA

## Organizations have been accepting significant risk

- Huge and sudden losses
- Uncertain and unpredictable
- Irrational
- High speed
- Complex and inter-connected



With issues of competence, independence, and objectivity at the fore, many business professionals are realizing that structure and reporting lines play a critical role in effectiveness.

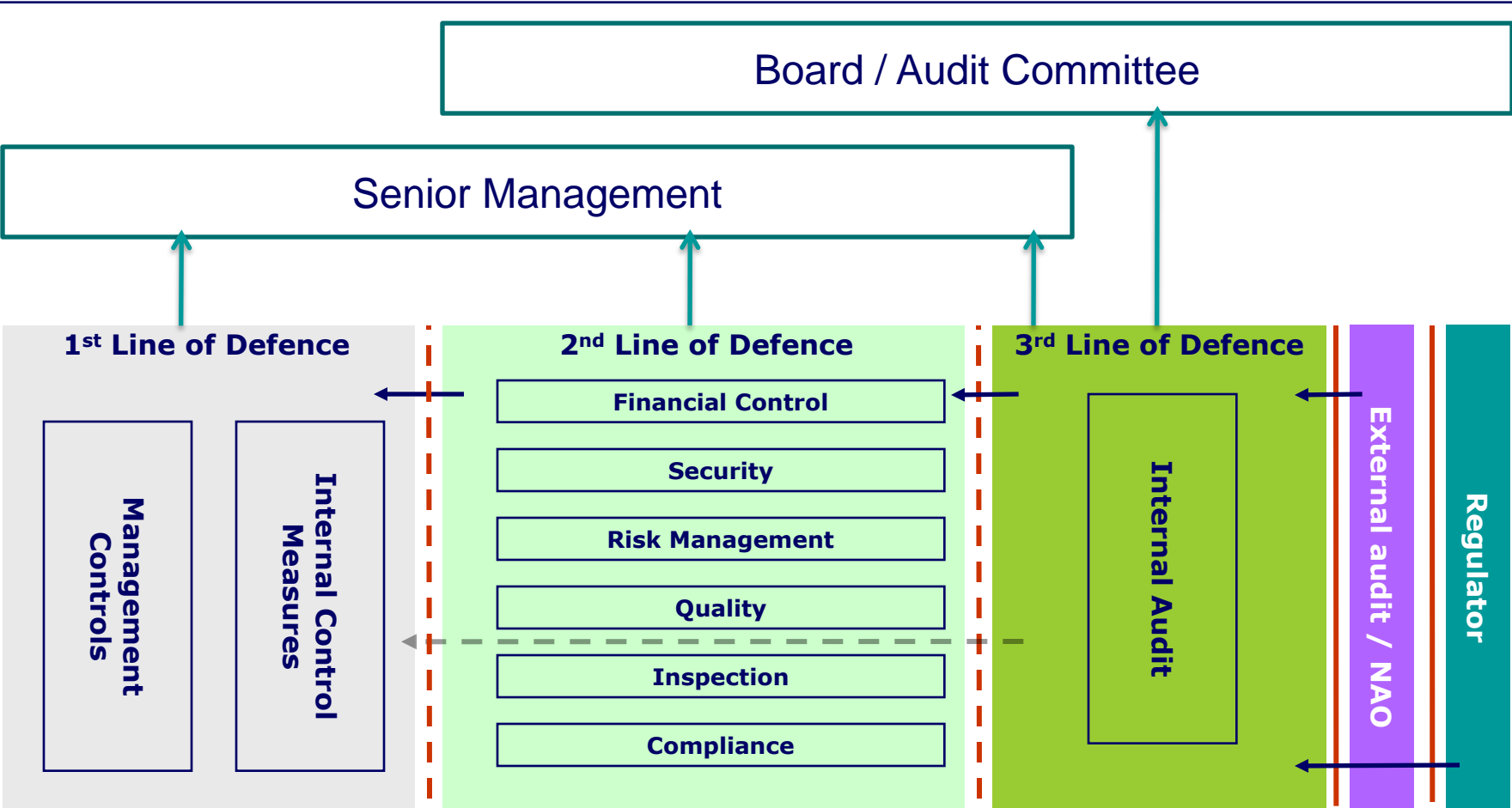
Complicating the structural issue is the fact that the activities of internal audit serve the needs and/or interests of numerous parties, including:

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

Although the advantages of reporting to the audit committee are clear-cut, one factor mars what might otherwise be an optimal reporting structure:

**The audit committee lacks a day-to-day presence in the organization, and therefore, may be somewhat out of touch with the culture, issues, and personalities, as well as the ability to handle required human resource activities.**

# Three lines of defence model



- Monitor financial reporting process.
- Monitor effectiveness of internal control, internal audit (where applicable) and risk management.
- Monitor statutory audit of annual and consolidated accounts.
- Review and monitor independence of statutory auditor and audit firm, in particular with regard to provision of additional services.

- Governance failures around the globe
- Risk management efforts ineffective
- Stakeholder confidence shaken
- Legislative / regulatory response anticipated
- Executives' bonuses questioned



- Opportunity for internal audit profession to demonstrate leadership in **risk management, control and governance**

- **Illustrative risks:**
  - Increased incentives for financial fraud
  - Disgruntled ex-employees who sabotage, pilfer assets
  - Short term cost-cutting with destructive operational or control implications
  - Reliance on a third party supplier, distributor, or joint venture partner with financial difficulties; what contingency plan is in place
  - Customer dissatisfaction; over-valued receivables
  - Potential liquidity issue due to the tightening of credit
  - Loss of reputation

## **Internal Audit Role**

*Help management identify risks, design risk management strategies, assess and monitor effectiveness of applicable controls*



- Diminished stature of Internal Audit in surfacing and addressing emerging risks
- Significantly reduced credibility as a trusted governance partner (oversight body vs. management partner)
- Diminished value of internal audit activities
  - Seen as being inflexible and non-responsive to emerging risk
  - Internal competition
- “Where were the internal auditors?”

- **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

# What do Internal Auditors currently do?

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- Test financial controls 
- Audit compliance 
- Look at operational opportunities  
- Audit risk management framework  
- Perform management audits 
- Audit governance process 

# 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

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## Are each of us ....

- Hiring the **best and brightest**
  - and providing a learning and career pathway
- Seeking to understand **stakeholder** expectations and evaluating effectiveness in meeting those expectations
- Developing and demonstrating **strong communication skills** to effectively convey findings and recommendations
- Embracing and executing a **risk-based approach** with a balanced plan
- Providing **leadership** on issues of corporate governance, fraud, risk management, internal control and financial reporting
- Willing to **challenge status quo**, and operating as change agents

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