



How Internal Audit contributes to the Audit Committee on Risk Governance?

Track B



# **Internal Audit and Effectively Contributing to the Audit Committee**

*ECIIA Conference*

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Session B3 - 3:15 p.m.





# Presentation Approach

- Introductions
- Panel Discussion (10 mins. each)
  - Evolving Role of Audit Committees (Leen Paape)
  - Expectations of the Audit Committee for Internal Audit (Rod Winters)
  - Effective Communication Strategies (Patty Miller)
- Open Discussion and Sharing





## Reporting Status in the Organization (%)

Country	Reporting to a Manager	Reporting to Executive Mgt	Reporting to the Audit Committee
Italy	7,6	9,2	50,4
France	60.5	9.9	22.2
Germany	4.8	4.8	7.1
Netherlands	7.1	35.7	28.6
UK & Ireland	1.4	21.1	53.5
North America	.9	24.5	54.0



# Appointment of CAE (%)

Country	Chair Board	CEO	CFO	Audit Committee
Italy	62.8	49.6	6.2	27.1
France	50.6	70.6	30.9	38.3
Germany	55.8	55.8	37.2	4.7
Netherlands	25.0	78.6	32.1	53.6
UK & Ireland	12.9	52.9	64.3	75.7
North America	17.9	55.9	43.1	68.6





# Number of meetings with AC

Country	Number of meetings
Italy	5.7
France	3.6
Germany	2.3
Netherlands	3.0
UK & Ireland	4.0
North America	5.4





# Private meetings between CAE and AC

Country	%
Italy	60.3
France	41.5
Germany	22.2
Netherlands	43.5
UK & Ireland	76.1
North America	64.7





# Evolving Role

- Europe has one and two tier structures and is evolving towards one (and a half) tier structure
- Anglo Saxon world has a different background
- Audit Committees in Europe are rather new (except for the UK)
- Contact between CAE and AC is developing but needs improvement
  - Lack of understanding on the part of the AC
  - Lack of communication on the part of the CAE





# Audit Committee Expectations

- Traditional expectations
  - Regular assurance on financial controls, possibly compliance as well
  - “No surprises”
  - Reliable execution of audit plans
  - Demonstrate cost effectiveness of IA function
  - Tight coordination with external audit





# “New Normal” Expectations - Risk

- Provide agile risk intelligence
  - Continuous risk assessments, not annual; dynamic
  - Anticipates and quickly responds to emerging risks
  - Contemplates low probability, high significance vulnerabilities
  - Addresses risk across virtual enterprise, global dependencies
  - More assurance on strategic and business risks
    - Challenge management assumptions
  - ERM
    - Risk management processes aligned with risk assessments
  - Insights on health of management control systems, governance, risk management





# “New Normal” Expectations

- CAE with executive presence, strong communications
  - C suite peer
- Ongoing relationship versus periodic communication
  - Direct, frequent, and timely engagement
- Broader, more integrated business and IT competencies
- Involvement in developing audit plans, and changes due to changing conditions
- Focus audit effort on what is most important; agile
- Rigor on effective management resolution of audit issues
- Effective fraud/corruption prevention and detection program





# Leading “Expectation” Practices

- Recognize AC expectations will continue to evolve
  - Don’t get static; embrace change; be agile
- Effective relationship, communications model
  - Drive the rhythm; listen when they speak
- Be their inside source of insight on evolving business strengths and challenges
- Be their training and development source
  - Help them become great at asking the right questions, pursuing the right answers





# Communication Strategies

- Developing a relationship
- Frequency of and quality of communication
- Handling challenging issues





# Developing a Relationship

- Clear expectations; consistency with executive management expectations
  - Is internal audit viewed as having a role in governance and enterprise risk management?
- Linkage to reporting structure, performance goals, and to resourcing
- Audit Committee and Internal Audit Charters reflect expectations of both groups
- Periodic and timely feedback on performance and evolving expectations





# Frequency and Quality of Communication

- Truly open, trusting communication, or guarded?
  - Open to positive and constructive feedback – both directions
  - No fear of retribution
- Formal and informal meetings?
- Internal audit providing executive-level reporting?
  - Thoughtful distillation of information relevant to Audit Committee and executive management





# Handling Challenging Issues

Typical Challenges	Responses
<p>Audit committee or management stifle CAE who wants to tackle emerging issues – such as enterprise risk or governance</p>	<ul style="list-style-type: none"> <li>• Clarify expectations and goals</li> <li>• Pilot project to demonstrate capabilities</li> </ul>
<p>Significant control issues and nonresponsive management</p>	<ul style="list-style-type: none"> <li>• Ensure facts correct and implications clearly communicated</li> <li>• Invite management to AC to discuss</li> </ul>
<p>Audit committee expects delivery beyond skills/capacity of IA staff</p>	<ul style="list-style-type: none"> <li>• Set appropriate expectations                             <ul style="list-style-type: none"> <li>– Training required</li> <li>– External resources required</li> </ul> </li> </ul>
<p>Audit committee’s view of IA role differs from management’s view</p>	<ul style="list-style-type: none"> <li>• Assess Charter alignment</li> <li>• Discussion with AC Chair and CEO</li> <li>• Demonstrate value</li> </ul>





# Open Discussion





# Initial Questions

- Does your audit committee support internal audit involvement in risk management and governance?
- How have the expectations of your audit committee changed over the past year?
- How has the role of internal audit changed over the past year? Has the change been driven by the audit committee or by the CAE?
- How can CAEs meet the increasing expectations of audit committees?
- How can we enhance mutual understanding and expectations?

