



The Role of Internal Audit in Safeguarding Corporate Reputation

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FIAT GROUP OVERVIEW



(06/30/2006)

- Consolidated revenues € **26.2 B**
- Total Assets € **62.3 B**
- Employees **173,396**

Listed on the **NYSE** and the **Borsa Italiana** (Italian Stock Exchange)

- Number of Companies **654** (12/31/2005)

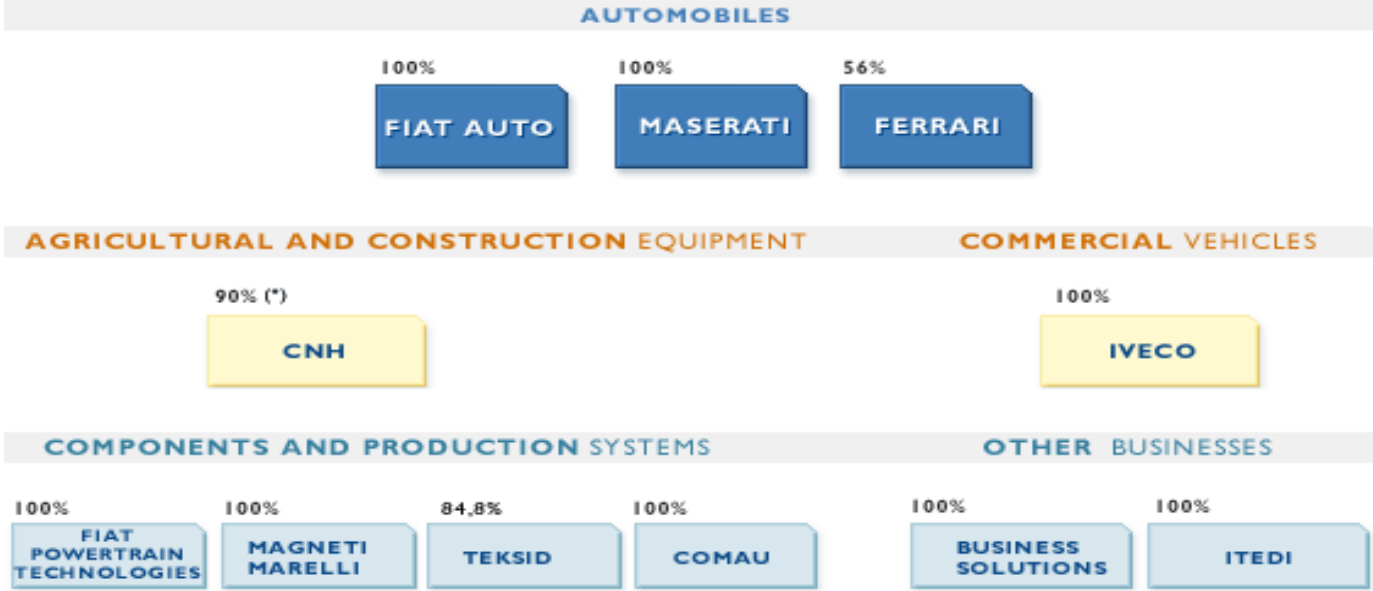
FIAT S.p.A.

• Sectors:

Cars, Ferrari, Maserati

Agricultural and construction equipment, Commercial vehicles

Fiat Powertrain Technologies, Components, Metal components, Means & production systems Services, Publishing



<http://www.fiatgroup.com>

Corporate Service activities:

Fiat Revi Scrl provides activities and services to support the accounting systems, the applications of Internal control systems and procedures and to verify their goodness.

WHAT DOES **INTERNAL** REALLY MEAN?



- He is considered to be one of the persons responsible for a good or (bad) Corporate Governance. Following a corporate scandal one is likely to hear the usual question, “**where were the internal auditors?**”
- The Internal Auditor **plays an important role** in safeguarding the corporate reputation for at least two kinds of reason:
 - ▶ He contributes to built the corporate reputation **inside** the company:
 - ☑ To be a point of reference for the Stakeholders;
 - ☑ To support the Board of Directors with the right information;
 - ☑ To support Management in implementing their responsibilities referred to risk management, control and governance processes using a systematic and disciplined approach.

- An effective function of Internal Audit must respect some premises:
 - ▶ The **Chief Audit Executive** should **report** to a level within the organization that allows the Internal Audit activity to fulfill its responsibilities.
 - ▶ The **purpose, authority, and responsibility** of the **Internal Audit activity** should be formally defined in a charter and approved by the board.
 - ▶ A **risk-based audit plan** to determine the priorities of Internal Audit activities integrated with management evaluation should be reviewed and approved by the Audit Committee.

WHAT DOES **INTERNAL** REALLY MEAN?



- ▶ Audit activities should be in **compliance** with **International Standards, Best Practices** and **local requirements**.
- ▶ Internal Auditing **skills** and **competencies** should be **consistent** with Internal Audit's **responsibilities**.
- ▶ A "**Quality assurance Program**" should be implemented in order to provide assurance to all stakeholders as to the quality of the activity and value added to improve the organization within the ambit of Corporate Governance.

- **Perform** assessments to provide assurance that governance structures and processes are properly designed and are operating effectively.
- **Provide** advice on potential improvements to the governance structure and processes.
- **Act** as catalysts for change.



- Perform specific activities related to Corporate Governance processes, in which Internal Audit could be involved in:
 - ▶ Auditing the design and implementation of the key elements of a sound Corporate Governance Program.
 - ▶ Supporting the Management in the Risk Management process and strategies and review the results.
 - ▶ Ethics Policies and Code of Conduct (appropriatenes, communication and acceptance).
 - ▶ Supporting Management in the Corporate Compliance Program definition.
 - ▶ Fraud prevention/detection.
 - ▶ The Sustainability process.

CORPORATE GOVERNANCE PROCESSES IN THE FIAT GROUP

- The **Internal Control System** is an **essential element** of the Corporate Governance System of Fiat S.p.A. and of its subsidiaries and **plays a key role** in identifying, minimizing and managing risks that are significant for the Fiat Group, contributing to the **safeguarding of stockholders' investments** and the **Company's assets**.
- The **responsibilities** on Internal Control System are allocated to:
 - ▶ Board of Directors
 - ▶ Audit Committee
 - ▶ Executive Directors
 - ▶ Internal Control Compliance Officer
 - ▶ Internal Audit Function
 - ▶ All employees

- The Fiat Group adopted and abides by the Corporate Governance Code of Italian listed companies, which is mentioned as a model in the regulations issued by Borsa Italiana (Italian Stock Exchange) on Corporate Governance.













Corporate Governance

- **Members of the Board of Directors, of the Board of Statutory Auditors, and of the Committees established by the Board of Directors** (14,9 Kb) 
- **Annual Report on Corporate Governance (March 2006)** (84,9 Kb) 



Italian Corporate Governance Requirement

Annexes to the Annual Report on Corporate Governance

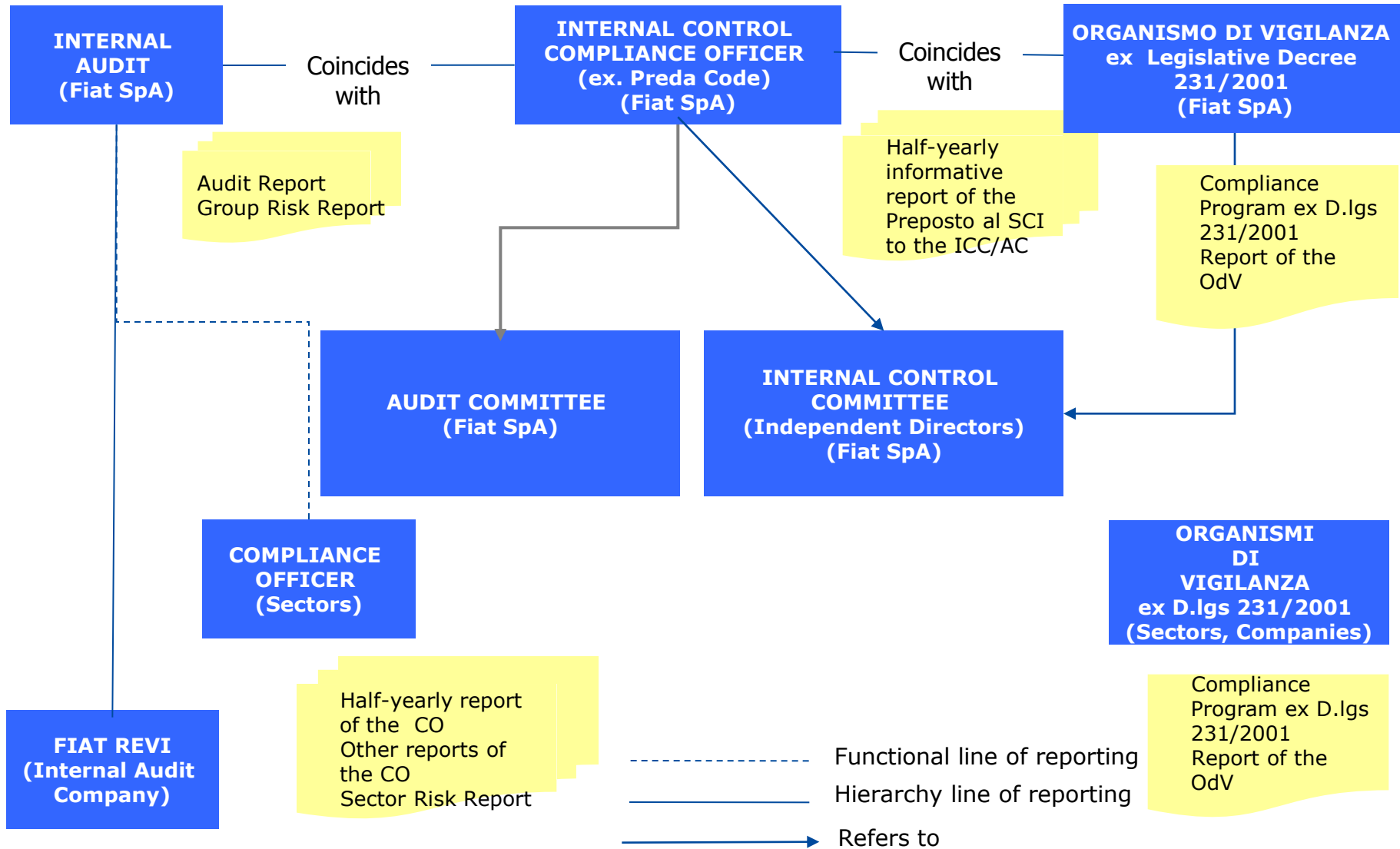
- **1 - Fiat Group Code of Conduct** (72,1 Kb) 
- **2 - Excerpt from the Compliance Program pursuant to Legislative Decree no. 231/2001** (115,8 Kb) 
- **3 - Guidelines for the Internal Control System** (39,8 Kb) 
- **4 - Procedure for the Engagement of Auditing Firms** (41,7 Kb) 
- **5 - Whistleblowings Management** (64,2 Kb) 
- **6 - Charter of the Internal Control Committee** (29,7 Kb) 
- **7 - Charter of the Nominating and Compensation Committee** (28,6 Kb) 
- **8 - Guidelines for Significant Transactions and Transactions with Related Parties** (40,9 Kb) 
- **9 - Internal Dealing Regulation (in force until March 31, 2006)** (37,6 Kb) 
- **10 - Fiat S.p.A. Articles of Association** (51,9 Kb) 
- **11 - Regulations for Stockholders Meetings** (34,0 Kb) 
- **List of Relevant Persons (Internal Dealing)** (18,8 Kb) 



Italian law further to OCSE Convention on combating bribery of foreign public officials in international business transactions

<http://www.fiatgroup.com>

FIAT GROUP – INTERNAL CONTROL SYSTEM



- In regard to the Corporate Governance Process, **Fiat Internal Audit** is involved in the following **activities**:
 - ▶ Design and implementation of key elements of Corporate Governance Process.
 - ▶ Enterprise Risk Management (ERM).
 - ▶ Ethics Policies (Code of Conduct).
 - ▶ **Corporate Compliance Program:**
 - ☑ Whistleblowing.
 - ☑ Sarbanes Oxley Act.
 - ☑ The Legislative Decree no. 231/2001.
 - ☑ Anti Fraud Program.
 - ▶ Sustainability Report.

- More awareness by management about the responsibility of the internal control system, governance processes and risk management....

- ... new Internal Audit role (changing mindsets and skills).

- and future developments as to the role of the function within the ambit of the Corporate Governance processes:
 - ▶ Board structure, objectives and dynamics.
 - ▶ Board committee functions.
 - ▶ Management evaluation and compensation.
 - ▶ Recruitment processes for senior management and board members.