



ECIIA
Conference 2006
Internal Audit - The Challenge

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ECIIA Helsinki Conference

Status of the Profession in Europe



The Challenges

- Rapid Change
- Greater Opportunities
- Challenge to Perform
- Potentially More Legislation
- More Direction from the EU
- An Opportunity to be Grasped

History

- The IIA, Inc. was founded in 1941 in New York City, USA
- First chapter outside of United States was formed in 1944 in Toronto, Canada
- First chapter outside North America was formed in 1948 in London, England

ECIIA

- Founded 1982
- Confederation of 31 countries
- Management Board from 8 countries
- No individual members only countries

The IIA Vision

The IIA will be the **global voice** of the internal audit profession:

Advocating its value, promoting best practices, and providing **exceptional service** to its members.

ECIIA Purpose

- To represent internal audit to European Union and any other European institutions of influence.
- To promote the profession within the wider geographic area of Europe and the Mediterranean basin.

ECIIA Vision for Internal Audit

- The IIA to be recognised as the primary body representing internal audit in Europe.
- For internal audit to be recognised as a vital component in an effective organisation.
- To have a consistent approach and understanding across Europe.
- The IIA standards and code of ethics become the accepted standard across Europe.
- Our members to be recognised as the experts in the field of internal auditing.
- To be the first port of call on internal audit matters.

The Five Pillars of Governance

- Shareholders
- The Board
- Executive management
- Statutory auditors
- Internal auditors

EU Actions

- The Winter Report
 - Corporate governance statement
 - Internal controls
 - Risk management systems
 - Public interest entities

EU Actions

- Listed companies
- AC to monitor effectiveness of: I/C, risk management systems and internal audit
- European Corporate Governance Forum
- Group of non governmental experts on corporate governance

EU Conclusions

- **No** European SOX 404
- **No** European wide risk management or internal control framework
- **No** European governance code

Internal Audit Role

- To review the corporate governance processes within the organisation to ensure ‘fit for purpose’
- To provide reasonable assurance about the adequacy and effectiveness of the risk management and control framework in place
- To provide assurance that the significant risks are being managed effectively
- To facilitate the strengthening and improvement of the corporate governance framework

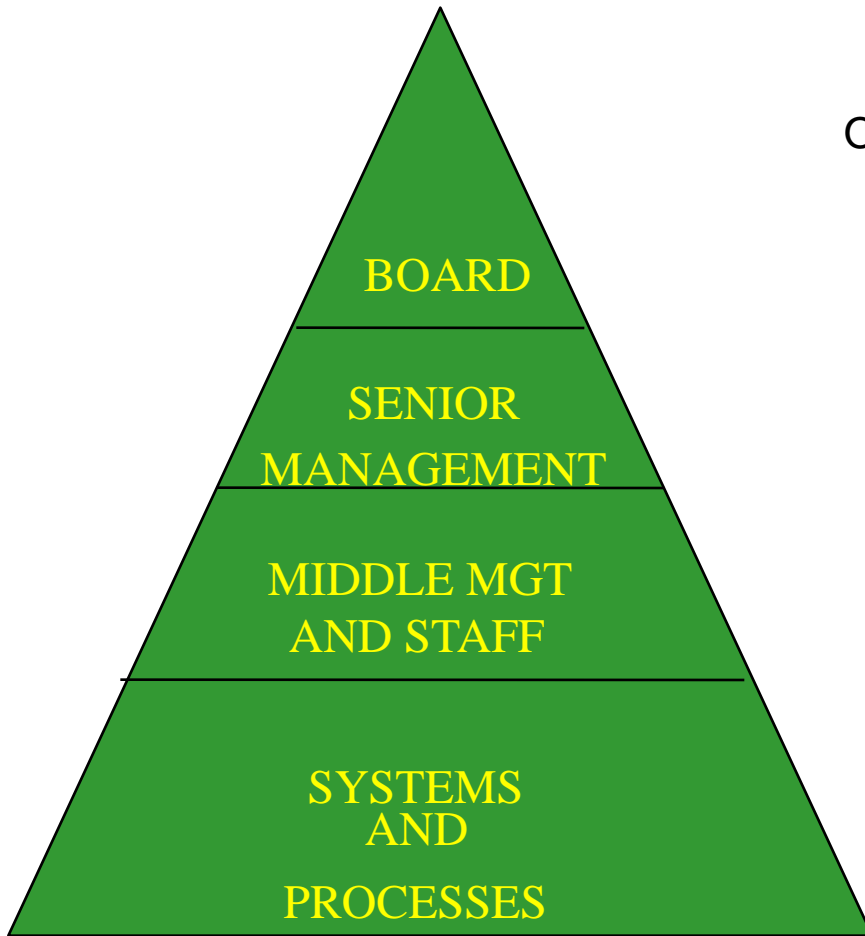
Principles of Good Governance

- Stakeholder input to the business.
- Relevant and reliable public reporting.
- Avoidance of excessive power at the top of the business.
- A balanced board composition.
- A strong, involved board of directors.
- A strong independent element on the board.
- Effective monitoring of management by the board.
- Competence and commitment.
- Risk assessment and control.
- A strong audit process (both internal and external).

Enterprise-Wide Risk Management

A structured, consistent and continuous process across the organisation for identifying, assessing, deciding on responses and reporting on opportunities and threats that affect the achievement of its objectives.

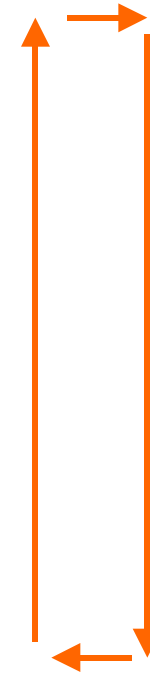
ERM Process



STEP 1
OBJECTIVES
&
TARGETS



STEP 2



THREAT
IDENTIFICATION
& MITIGATION

STEP 3



ASSURANCE

Assurance on Risk Management

- Strategy and objectives setting
- Risk identification and analysis
- Adequacy of response to risk including cost effectiveness
- Accuracy of monitoring
- Response to issues shown up by monitoring
- Response to critical incidents and near misses

ERM and Internal Audit -The Safeguards

- ***Management is responsible for risk management.***
- **Internal audit should not:**
 - Undermine management accountability
 - Manage risks on managements behalf
 - Make risk management decisions
 - Give assurance on any part of the risk management framework for which they have responsibility.

Internal Audit's Role in ERM

Legitimate internal audit roles with safeguards

Maintaining & developing the ERM framework

Central co-ordinating point for ERM

Consolidated reporting on risks

Championing establishment of ERM

Developing risk management strategy for board approval

Giving advice on managing risks

Setting risk appetite

Facilitating risk responses

Imposing risk management processes

Reviewing the management of key risks

Management assurance on risks

Evaluating risk management reporting

Taking decisions on risk responses

Giving assurance that risks assessed appropriately

Implementing risk responses

Giving assurance on risk management processes

Accountability for risk management

Roles internal audit should not undertake

Core risk-based internal audit roles



Advantages of a Risk Based Approach

- Enables an annual opinion
- Focuses audit on the big issues
- Gives the Board control over audit
- Responsive to changing events
- More interesting and challenging work

How Internal Audit Can Help

- Educate the board
- Review the risk management process
- Audit the key risks
- Establish communications with directors
- Review the operation of the board
- Be a centre of excellence
- Assess how companies deal with the unexpected

Overview of IA Requirements

- Competent professionals
- Independence of internal audit
- Properly resourced
- Covers all type of risks
- No limit to the scope of work
- Encourage EU to require firms to have effective internal audit as one of the key components of good governance

Traditional Internal Auditors Attributes:

- Analytical skills
- Financial expertise
- Internal control expertise
- Writing skills
- Logical thinking
- Fraud detection skills

Benchmarking: What Should be the Role of the Internal Auditor?

- Checker 44.6%
- Advisor 57.0%
- Consultant 45.6%
- Management sparring partner 34.7%
- Other 32.1%

Source: Global Audit Information Network Flash Survey – June 2003



Future Influences on IA

- Corporate Governance
- Information & communications technology
- E - commerce
- Relationship with the Board
- Increased demand for IA
- Business risks

Future Influences on IA

- Working with other risk management professionals
- Demand for independent assessment of IA
- Need to improve understanding about IA
- Facilitation expertise
- Globalisation of business and job market

Critical Characteristics of the 21st Century Internal Auditor

- Risk-based orientation
- Global perspective
- Governance expertise
- Technologically adept
- Business acumen
- Creative Thinking and Problem Solving
- Strong ethical compass
- Facilitation/Communication and Coaching skills
- Leadership

Best Practices

- Apply the IIA Code of Ethics
- Have an Audit Charter
- Internal audit to have direct reporting line to the Chief Executive and the Board
- Internal audit key objective to support the Board by providing assurance about the risk management systems
- Audit Committee to ensure internal audit is adequately resourced and staffed.

Best Practices

- To have a quality assurance process for internal audit.
- To use a business risk based internal audit approach.
- To promote internal controls that mitigate risks across the organisation
- To cooperate with other assurance providers

The Opportunities

- The future is bright
- Be proactive
- Be a leader
- Seek to become a trusted advisor to your Board
- Aim to surprise and delight
- The opportunity is there for the taking



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