

European

INTERNAL AUDIT BRIEFING

April 2009 · Issue 14

STABILITY | GROWTH | JOBS

Regulation and risk move centre stage

Is the G20's focus on stability right for the long term?

INSIDE: Understanding IT risks, new ECIIA advocacy committee, focus on skills, the Spanish meet the royals, professional practice in Bosnia, and much more



Advocacy corner by Roland De Meulder

ECIIA's advocacy initiatives are aimed at an increased acceptance and recognition of the internal auditing profession in Europe through selected public relations activities targeted at legislators, regulators and other interest groups at the European level.

Recently, an ECIIA advocacy committee was set up to advise the ECIIA management board on the implementation of its regional advocacy strategy. In addition, the ECIIA advocacy body serves as a regional liaison between the ECIIA member institutes and the Global IIA for advocacy events and opportunities at the national level.

The committee reports to the ECIIA management board. The ECIIA president, or his or her designee from the management board, is the official ECIIA spokesperson for all advocacy related issues. The committee comprises: Claude Cargou (ECIIA VP), Bernd Schartmann (ECIIA MB representative), Carolyn Dittmaier, Chantal Pierre, Hans-Juergen Buesselberg, Jean-Pierre Garitte, Richard Nelson, Sten Bjelke, Roland De Meulder (chair).

At its inaugural meeting in February this year, the ECIIA advocacy committee defined the following advocacy target categories, applicable at both the European and national level: directors, management, external auditors, government, parliament, regulators and supervisors, other auditing institutions and academics.

Before the summer, the committee plans to set up a European-wide advocacy data base (EADB), which will keep track of the status of planned advocacy initiatives at both the European and national level. In addition, it aims to identify local advocacy coordinators at the ECIIA member institutes as the contact for the ECIIA advocacy committee, so that each member of the committee is assigned 4 or 5 national institutes to liaise with. This will help the ECIIA to achieve a more coherent and effective advocacy strategy throughout Europe.

Send your advocacy success stories to arthur@sdw.co.uk

Click here for Key advocacy stakeholders

ECIIA Conference 2009



Global Assurance: Oversight and Insight to Risks and Opportunities

October 29-30, **Rome, Italy**



NIHILEST DIFFICILE VOLENTI

www.eciiaconference2009.com

To see the conference video [CLICK HERE](#)

Editorial

I was in London at a meeting of internal auditors on the first day of the G20 gathering of world leaders. They had come to London to solve the world's economic crisis. From the safety of our office, we could hear the roar of the crowds of protestors meeting outside the Bank of England. The heavy police cordon, the sound of helicopters overhead and the fact that they were being watched all over the globe, thanks to the world's ever-present media, did nothing to dampen their enthusiasm.

It probably spared them on. After all, it was a nice, sunny spring day. The Docklands where the official G20 summit was convened is some distance from the Bank of England. While the delegates would not have been able to hear the crowds from within the bastion of the conference centre, if they had stepped outside for a break the voices



Arthur Piper – Editor

would have been wafted down the Thames on the breeze.

The protestors – labelled anarchists by the media – were calling for an end to corporate greed – “an end to this sort of thing,” as one banner put it. Their voices were heard. Only time will tell whether the measures that the G20 have put in place means that they were also listened to.

If the protestors had something to say and were determined to say it, can the same be said of internal auditors during the recent economic turmoil?

As far as I can tell, the

question of the role of internal audit has been in the air, but it does not seem to have been significantly addressed. Did internal auditors at some of the world's biggest banks speak up? They have some of the largest internal audit departments in the world, after all. If they did, were they listened to? Did they feel that speaking up within the culture in which they found themselves would have been productive – or just suicidal?

Internal audit seems to be in need of its own anarchists at the moment: some serious, in-depth questioning – not to play the blame game, but to ensure that such a global financial crisis is averted in future. Internal auditors need to be asking the right questions now so that their voices are heard in the boardroom. That seems to me to be essential if internal audit is to remain relevant in the future – although anarchist haircuts should remain optional.

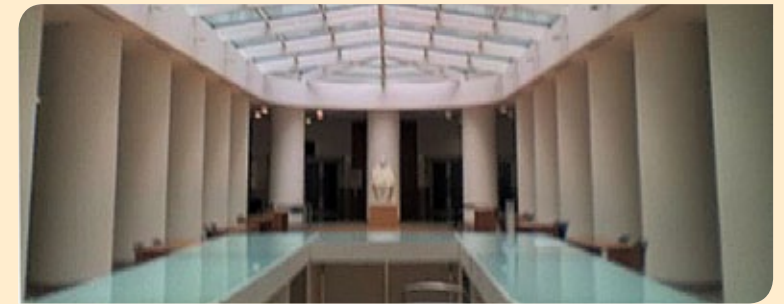
Focus on skills

The topic of how internal auditor's should develop their professional skills in order to align them with the reality of today's turbulent business environment is the main theme of the next IIA Italian chapter's conference. The event, *Internal auditing: focus on professional skills*, takes place 22 April 2009 at the University Luigi Bocconi in Milan, which is also partnering the conference.

Items on the agenda include two panel discussions, one on skills development from the chief audit executive's point of view and another from the

perspective of the academic committee on university-level training for the profession of internal auditing. The agenda also includes an executive search firm's viewpoint on audit manager's skills and career paths, and insights into the transformation of the role of audit. There is also a case study on audit management profiles and a clarification of some misconceptions of the roles of internal versus external audit.

Please contact Roberto Fargion for further details at fargion@aiiaweb.it



Bocconi University in Milan: hosting the event

Spanish Institute celebrates silver jubilee



His majesty King Juan Carlos meets members of the Spanish Institute

The Spanish Institute of Internal Auditors celebrated reaching its 25th anniversary on Wednesday, 7 January 2009. To commemorate achieving this milestone the President, Luis Aranaz, presented the values of internal auditing to his Majesty King Juan Carlos I at the Zarzuela palace.

The Spanish Institute was founded in 1983 thanks to the dedication of a small group of determined professionals. Thanks to those individuals 25

years later, Aranaz is happy to say with pride that the Spanish Institute now represents “over 2500 affiliated internal audit members” and is part of a network that unites 165,000 internal auditors worldwide.

Aranaz spoke to His Majesty about the profession of internal auditing and the importance of working under the IIA’s Standards. This has been a fantastic celebration for the Spanish Institute and a great acknowledgement of the progression of the profession.

Professional practice in Bosnia

IIA Bosnia and Herzegovina successfully organized the public promotion of two IIA books: *International professional practice framework, 2009* (IPPF) and *Handbook for internal auditors*. Over 80 participants attended the event, which was held in Sarajevo on 26 February 2009, including many internal auditors and managers from the government sector, public companies, banks and private businesses.

IIA Bosnia and Herzegovina

is one of the first countries in the world to have translated and issued IPPF version 2009. The *Handbook for internal auditors* is also the first book to be published in the region which is intended specifically for internal auditors.

Authors of the *Handbook* are Meliha Basic, Professor at the Faculty of Economics at the University of Sarajevo and Mrs Alma Malinovic, President of IIA Bosnia and Herzegovina. Speakers at this

event included Dr Kemal Kozaric, governor of the Central Bank of Bosnia and Herzegovina, and Dr Veljko Trivun, dean of the Faculty of Economics at the University of Sarajevo.

IIA Bosnia and Herzegovina is one of the most rapidly developing IIA chapters in Western Balkan Region. It has more than 300 members, who are committed to building the profession of internal audit in their country.

Helping the audit committee

In the global recession, it is crucial for internal audit to add value. That is the theme of a conference organised by IIA Belgium on 12 June 2009 in Brussels. The event, called *The internal audit day*, starts by looking at the expectation of the audit committee on internal audit.

“Meeting the audit

committee’s needs has always been the internal auditor’s primary role,” says Kelly Hogan, chair of the conference. “Now, meeting those expectations has become more challenging than ever.”

The conference aims to provide internal auditors with new ideas, approaches and techniques that help the audit committee understand exactly what their needs are and how they can be met by internal audit.

The conference also looks at how to rebrand internal audit, the importance of IT risks and sustainability. There will be a series of case studies.

Speakers include president of IIA Belgium C Quievreux, president of IIA –UK and Ireland Philip Ratcliffe and Hans Nieuwlands, CSO IIA Netherlands.

The conference programme and booking details can be found: <http://bit.ly/Qjazo>

Facing the challenge

Global IIA has made some tough decisions this year, but its strategic plan is still on track

Global IIA's strategic plan for 2008-13 sets some tough targets for the profession and its membership. The four "preferred future milestones" set out in its 21-page strategic plan are to ensure that internal auditing is universally recognised as a profession; that the principles of the profession are well-defined and available to all worldwide; that members meet their professional obligations; and for the body itself to be the preferred global provider of research and knowledge on internal audit.

While that would have been a tall order in good times, in the current economic climate it has become even more stretching – not least because the institute has been financially affected by the global slowdown.

"Like the rest of the world,

the IIA is suffering a serious financial challenge during this downturn," says Gerry Cox, an IIA board director. He says that with many organisations cutting back on training for their internal audit departments and getting their staff certified

"We now have an organisation that is fit to deal with the challenges it faces, is much leaner and more in line with what our future income allows"

as CIAs, the institute's income has been significantly reduced over the past year.

In one area, at least, it has also been unlucky. The IIA has recently introduced a new computer-based testing



Gerry Cox

initiative for its CIA certification programme. Under the scheme, prospective candidates can take

their exams online whenever they want and get an immediate answer as to whether they have passed or not. While Cox says that the institute was expecting certifications to go down in the short term because of some

initial resistance to the scheme, the economic crash has made it much worse. Certifications have halved from what they were a about year ago.

As membership of the IIA in the US has grown to over 80,000 people over the last five years, so have the full-time staff that the body employs to service their needs. Cox says that during the same period, the IIA's staff has grown from 100 people to over 170. Cox describes that number as "unsustainable" in the current economic climate and the body has recently shed about 50 staff – largely voluntarily.

"It's been difficult," he says, "but we now have an organisation that is fit to deal with the challenges it faces, is much leaner and is more in line with what our future income allows."

Cox believes that the IIA's

business model may need to be refocused further because it is too reliant on such optional member benefits as training and ongoing education. While such benefits are greatly appreciated by members, the IIA needs to make sure that as much of its core activity as possible is covered by membership fees. Currently membership fees are \$120 a year, which Cox describes as "very cheap" compared to other professional subscription fees.

"In my view, that is out of step with other professions and we will have to realign our financial model," he says. "We need between 60%-70% of income to come from membership fees in the future so that fluctuations in the economy are not going to affect the bedrock of the IIA."

On the other hand, Cox is confident that the quick action that the IIA has taken has ensured that the body's current plans will be achieved. "None of the IIA's major projects are affected by the changes we've had to make," he says. "Strategically, it's business as usual."

Mixing it up

Internal auditors come together with academics across Europe on 15 April 2009 for a three-day event in London. The event, which is hosted by the CASS Business School in London, starts with a PhD workshop. Academics are joined on that day by Eyvaz Eyvazov of the Azerbaijan State Oil Company, who is talking about the effect of globalisation on the sector from an internal audit perspective.

The keynote speaker for the opening day of the main conference on 16 April is Carolyn Dittmeier, president of IIA Italy. She says: "The conference is a mix of business and academic interests, which is a good thing." Her paper, "An integrated approach to the internal audit control system," presents a methodology on evaluating the design and operational effectiveness of internal control on a comprehensive basis. Other speakers include the ECIIA president Elisabeth Styf.

Topics covered include financial risk management, regulation, IT, risk appetite and corporate governance. The conference has



CASS Business School London

been organised by Cass Business School in London, the Business University Nyenrode and Erasmus University, the University of Pisa, and the Catholique University of Louvain in Belgium. The conference is supported by the Institutes of Internal Auditors from the UK and Ireland, Italy, Germany, Netherlands and the ECIIA.

For more information about the event, visit <http://bit.ly/pluXI>

To register, go to <http://www.cass.city.ac.uk/crcg/events/papers/Registration.Form.pdf>

Rising pressure on directors

The European Union's 8th Directive on company law was the topic of a recent round table discussion organised by the European business lobby group EcoDa, on 18 March in Brussels. The objective of the round table was to address the level of preparation needed by directors and current levels of understanding among them in relation to new regulatory initiatives (mainly article 41 of the 8th Directive). The round table also addressed the impact of the current economic crisis for audit committees.

Timothy Copnell, a partner at the consultant KPMG, presented the background and current status of the 8th Directive. The 8th Directive has not been translated in national laws in some countries yet and, where it has, some differences exist. For example, the Directive states, "at least one member of the audit committee shall be independent and



shall have competence in accounting and/or audit." But Copnell pointed out that neither the word "independent," nor "competence" has been defined in UK law.

Dr Roger Barker, a member of the Institute of Directors in the UK, spoke about the lessons learned by UK businesses on incorporating effective audit committees into organisations. Besides the 8th Directive, the UK has the Smith Guidance, which is widely in used in UK to integrate audit committees into the corporate

governance structure.

Barker said that in the past the main duty of audit committee was to have a good relationship with the auditor. Now the range of responsibilities has increased. Reassurance on all types of business risks is wanted, but difficult to obtain. As a result, there is an increased need for competence among audit committee members.

"Besides the formal elements of the law, courage to challenge management is a key element of behaviour," said Claude Cragou, the ECIIA's vice president. Patrick Zurstrassen, a member of the board of EcoDa was also present. He said it was clear that the expectation on the audit committee by the public will rise, which will put increased emphasis on the behaviour of non-executive directors in the audit committee to "stop the greed".

Regulation and risk move centre stage



The G20 initiatives have given internal auditors a once in a lifetime chance to make a difference. Arthur Piper reports

Months of wrangling between world leaders over how to deal with the credit crunch produced a nine page document that pledges a clampdown on economic excesses and more money to bail out stricken economies. The centrepiece of the announcement was an injection of an additional

it has been increased ten-fold. Each country has a share of a shadow IMF currency, which it can turn into real money if it needs to. Rich countries can opt to donate some of their own allowance to poorer countries.

This effectively means that each country can print money into its economy – just as the UK

“Are we really sure that we want to establish as new regulatory framework that has a key objective of achieving just financial stability”

\$250bn into the International Monetary Fund (IMF), which will take its funding up to \$750bn.

The IMF will also increase the amount each country has in so-called Special Drawing Rights by \$250bn. While the SDR scheme was already in operation,

did in March when it committed \$75bn into the British economy in the form of “quantitative easing”. The summit did not agree a new global fiscal stimulus, as was widely anticipated.

The communiqué said that poor regulation had been a cause »

» of the current crisis and it agreed on some concrete action. “We each agree to ensure our domestic regulatory systems are strong,” said the document. “But we also agree to establish the much greater consistency and systematic cooperation between countries, and the framework of internationally agreed high standards, that a global financial system requires.”

Impact

Within this initiative, a move likely to impact on internal audit is the re-branding of the Financial Stability Forum (FSF), which is an international group of regulators. In future, it will be known as the Financial Stability Board and it will monitor whether banks and financial institutions are taking excessive risks – although it will rely on national regulators to take direct action on its observations.

Regulators and commentators have been calling for tougher regulation since the credit crunch turned into a global recession. While the G20 summit was in sitting the inaugural conference of the International Centre for Financial Regulation, a new research



FSA's David Strachan

institute, was also taking place.

Speaking there, David Strachan, director of financial stability at the UK's City watchdog the Financial Services Authority, said that there should now be a pan-regulatory body – a move that the FSA had previously opposed: “It may be a surprise [to hear me say that], but it highlights the extent to which the landscape has changed.”

What the conference highlighted, however, was that

the G20 summit and its overhaul of the global regulatory system is designed to make sure that financial regulation is directed towards achieving financial stability.

But Carlo Comporte, secretary general of the committee of European Securities Regulators, an official EU committee, said: “Are we really sure that we want to establish a new regulatory framework that has a key objective of achieving just financial stability. Is this sensible in the long run? We cannot make laws just for extraordinary times.”

Bonuses

One area that is set to cause controversy is the unprecedented crackdown on pay and bonuses. The communiqué says that it will “endorse and implement the FSF's tough new principles on pay and compensation and to support sustainable compensation schemes and the corporate social responsibility of all firms”.

The FSF in its document *Principles for sound compensation practices*, which was published to coincide with the G20 communiqué, explicitly said that compensation and risk

management have been too often considered separately: “This must change,” it said.

It proposes to make compensation based on a risk assessment of what staff are doing. If traders and executives are looking to receive cash bonuses

independent of the business areas they oversee and commensurate with their key role in the firm.”

It continues: “Effective independence and appropriate authority of such staff are necessary to preserve the integrity of financial and risk

“While the ink is still wet on these documents, internal auditors should bring themselves up to speed with the details”

for making risky decisions – they will be disappointed. The FSF says that they will have to settle for share option schemes instead.

The board members and management team given the job of looking at remuneration policy will be expected to have expertise in risk management. In a passage that could have been written with internal auditors in mind, the FSF said: “Staff engaged in financial and risk control must be independent, have appropriate authority, and be compensated in a manner that is

management's influence on incentive compensation.”

While the ink is still wet on these documents, internal auditors should bring themselves up to speed with the details. Together, they represent a once in a generation opportunity for internal audit to show its worth.

www.londonsummit.gov.uk/resources/en/PDF/final-communicue <http://www.fsforum.org>

Additional reporting: Neil Baker

Understanding IT risks

General internal auditors need a better understanding of IT risks. Guidance from the IIA can help

How much does a general internal auditor need to know about information systems? Given that there are well established specialist qualifications for people working in this part of the profession, the answer might be: not a lot.

But that would be misguided, says ECIIA vice president Claude Cargou. All internal auditors, even those who think of themselves as generalists, need to understand the risk and control issues affecting the information systems used in their organisations, he argues.

“If you do not understand information systems, there is no way you can perform your job in the right way,” says Cargou. “All significant business processes are based on information systems. I’m not saying that we do not need IT specialists, but general auditors should have a better understanding of IT.”

Research confirms Cargou’s view. A survey published last year by the IIA – UK and Ireland found that keeping abreast of the pace of IT change, coupled with increased IT dependency, is a significant challenge for 87% of the companies surveyed. »



» The survey also found that only a third of internal audit heads felt their board of directors understood the IT risks they faced. As a consequence, boards may have an incomplete picture of the IT risks faced by the organisation. Not surprisingly, the study concluded that boards want more assurance on the management of IT risks. Heads of audit wanted to provide this assurance, but over a third of senior managers felt their internal audit departments lacked the necessary skills.

Likewise, IT skills are the top area where internal audit

greatest need to improve their expertise,” the firm concluded.

“Given the constantly changing nature of IT and the specialised expertise required to audit these processes, it is imperative for internal auditors to acquire and keep current with IT audit skills,” said Bob Hirth, managing director and head of Protiviti’s global internal audit practice.

Guidance

The IIA has a wealth of guidance for general internal auditors who want to improve their knowledge of IT risks and controls. Its

“It is imperative for internal auditors to acquire and keep current with IT audit skills”

professionals need to improve, according to a study by consultants Protiviti. IT auditing is the area of audit process knowledge where internal auditors have “the lowest level of competency and the

primary source of help is the series of Global Technology Audit Guides, or GTAGs. These are detailed handbooks that each deal with a specific technology topic (see box). The IIA has published 12 GTAGs to date.

IIA technology guides

The IIA has published 12 Global Technology Audit Guides to date and has more on the way:

- 1 Information Technology Controls
- 2 Change and Patch Management Controls: Critical for Organizational Success
- 3 Continuous Auditing: Implications for Assurance, Monitoring, and Risk Assessment
- 4 Management of IT Auditing
- 5 Managing and Auditing Privacy Risks
- 6 Managing and Auditing IT Vulnerabilities
- 7 Information Technology Outsourcing
- 8 Auditing Application Controls
- 9 Identity and Access Management
- 10 Business Continuity Management
- 11 Developing the IT Audit Plan
- 12 Auditing IT Projects

Its most recent one, which deals with auditing IT projects, was released in March.

Each guide runs to 20-30 pages and covers, in plain business language, what the head of audit and his or her team needs to know about the subject. They include a brief, non-technical description of the technology involved and how

to discuss the technology area with an audit committee, senior executives and the external auditor. With each topic covered, there is a discussion of the issues to be addressed, trouble signs, positive indicators, and so on.

The first GTAG, for example, focuses on Information Technology Controls. It covers technology issues and related »

» audit concerns, as well as issues surrounding management, security, control, assurance, and risk management. It provides guidance on the potential IT impact on the organisation's control and audit practices and outlines some approaches to security, control, auditing, and assurance. It also includes discussions with senior executives

downloaded by members. It also clarifies their status within the IIA's broader framework of guidance.

The new framework draws a much clearer line between Mandatory Guidance, which IIA members are required to follow, and Strongly Recommended guidance, which describes practices for effective implementation of the IIA's

“I'd advise all internal auditors to invest some time in reading the GTAG guides”

and management. The guide draws out the key elements for audit reviews, assessments, and assurance and wraps everything up in an executive summary that addresses the concerns of governance and top-level executives.

From January 2009, the GTAG series became a member benefit within the IIA's revised International Professional Practices Framework. This means that access to the guides is now restricted – they can only be

standards and its code of ethics. The GTAG papers fall within the strongly recommended category.

The revised framework should make it easier for members to understand the standards and guidance that the IIA offers, and to see how individual elements – such as the GTAG guides – fit together, says Heriot Prentice, the IIA's director of standards and guidance.

When it revised the professional practices framework the IIA improved the way that

its contents, including the GTAG guides, is made available online. “You can navigate with fewer clicks, and you can search only the IPPF and its contents, rather than the total IIA website,” Prentice says. “This is a dramatic improvement.”

The GTAG guides, and everything else in the IPPF, are available for download in English, French, and Spanish versions. Three formats are available: HTML, PDF, and Microsoft Word. “That should make it far easier to use,” Prentice says.

With the IT challenges that organisations face changing all the time, the IIA already has plans to publish more GTAG guides this year and next. Those in the pipeline include *Fraud Detection in an Automated World*, *Entity Level IT Controls* and *User Developed Applications Security Management*.

“I'd advise all internal auditors to invest some time in reading the GTAG guides,” says Claude Cargou. “Start with number one, it will give you the foundation of what you need to understand.”

More information: All of the IIA's 12 Global Technology

Audit Guides can be downloaded from: <http://bit.ly/j2EZZ>

They are available in English, French and Spanish.

The IIA – UK and Ireland's report on IT assurance and audit skills – *IT Risks – Closing the Gap* – is available from: <http://bit.ly/N1D5u>



Our mission

- » To be the consolidated voice for the profession of internal auditing in a widely defined Europe by dealing with the European Union, its Parliament and Commission and any other European or global institutions of influence.
- » To represent and develop the internal auditing profession throughout the wider geographic area of Europe and the Mediterranean basin.
- » To represent the European internal auditing profession on the global stage in tandem – and in consultation – with IIA Inc.
- » To promote the profession in economically emerging countries, as appropriate, within the wider geographic area of Europe and the Mediterranean basin.

IIA Austria	www.internerevision.at	IIA Luxembourg	www.theiia.org/chapters
IIA Azerbaijan	www.audit.gov.az	IIA Morocco	www.theiia.org/chapters
IIA Belgium	www.iiabel.be	IIA Netherlands	www.ia.nl
IIA Bulgaria	www.iiabg.org	IIA Norway	www.nirf.org
IIA Croatia	www.hiir.hr	IIA Poland	www.ia.org.pl
IIA Cyprus	www.iiacyprus.org.cy	IIA Portugal	www.ipai.pt
IIA Czech	www.interniaudit.cz	IIA Romania	www.aair.ro
IIA Denmark	www.ia.dk	IIA Slovakia	www.theiia.org/chapters
IIA Estonia	www.theia.org/chapters	IIA Spain	www.iai.es
IIA Finland	www.theia.fi	IIA Sweden	www.internrevisorerna.se
IIA France	www.ifaci.com	IIA Switzerland	www.svir.ch
IIA Germany	www.iir-ev.de	IIA Tunisia	www.iiatunisia.org.tn
IIA Greece	www.theia.org/chapters	IIA Turkey	www.tide.org.tr
IIA Hungary	www.ia.hu	IIA UK & Ireland	www.ia.org.uk
IIA Iceland	www.fie.is		
IIA Israel	www.ia.org.il		
IIA Italy	www.aiiaweb.it		
IIA Lithuania	www.theia.org/chapters		

Director of the publication

Mauro Di Gennaro

Editorial committee

Phil Tarling

Editor

Arthur Piper
arthur@sdw.co.uk
Direct 0115 958 2024

Produced by

Smith de Wint for the ECIIA

Smith de Wint
95 Harlaxton Drive
Lenton, Nottingham
NG7 1JD
editorial@sdw.co.uk

Views and opinions presented in this newsletter are the writers and do not necessarily represent the official positions of ECIIA.



European Confederation of
Institutes of Internal Auditing
Koningsstraat 109-111 Bus 5
BE – 1000 Brussels, Belgium.
www.eciia.org