

What the Audit Committee expects: how Internal Audit adds value

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- What does Audit Committee do?
- Regulators et al
- Internal audit and the Audit Committee
- How Internal Audit adds value

What does Audit Committee do?

- Oversees financial reporting
- Oversees the process relating to the company's financial risks and internal control
- Oversees the internal and external audit process

[Source: KPMG Audit Committee Institute, *Shaping the UK Audit Committee agenda*]

Which includes . . .

- Enterprise risk management
- Risk indicators
- Whistle-blowing
- Earnings management
- Fraud
- Financial reporting risks and transparency
- Complex corporate structures
- Regulation – financial or specialised industries
- Legal and compliance developments
- Financial personnel succession
- Non-financial risk
- Dominant entrepreneurs

?

A practical example: “Reviewing . . .

- Draft financial statements, interims, trading updates
- Appropriateness of accounting policies
- Impact of IAS
- Audit fee and non-audit fees
- External auditor’s plan
- Annual report on effectiveness of internal controls
- Post-acquisition reports
- Risks associated with major business programmes
- Internal audit TOR, work programme and quarterly reports

Other Audit Committee issues

- Relationship with the Board, shareholders, Risk Committee (and Risk Oversight Committee), executive management.
- Membership –
 - (Independent) Non-exec
 - Chairman
 - CEO
- External auditor
- Internal auditor

Regulators et al

- Higgs, Turnbull etc
- Combined Code
 - Membership
 - ‘significant recent and relevant financial experience’
 - Meetings
 - Effectiveness
- Sarbanes-Oxley

The role of internal audit - a Government view

Review and evaluate the policies, procedures and controls which

- Monitor achievement of the organisation's objectives
- Identify, assess and manage risks to objectives
- Ensure compliance with policies (including behavioural and ethical), procedures, laws and regulations
- Safeguard organisation's assets
- Ensure the integrity and reliability of information, accounts, data, internal and external reporting

NB Independence

Effective heads of internal audit

- Integrity: highest moral and ethical standards
- Challenge: at every level
- Tenacity: “stick to their guns”
- Independence: Strength of character

But

Scope: risk and control or whole governance framework?

Qualifications – beyond accountancy?

Cultural support needed

[IIA survey, reported *Internal Auditing & Business Risk*, Jan 2006]

The Audit Committee and Internal Audit

- Is Audit Committee clear about its own expectations of what it wants from internal audit?
- If those expectations are expanding, is internal audit meeting those changing expectations?
- Is internal audit's role being shaped by its capabilities rather than business need?
- Does the Audit Committee drive the assurance agenda?
- Can Audit Committee rely on a function it reports to, for instance, the CFO?
- Is the review of the effectiveness of internal audit truly independent?
- Is the Audit Committee chairman actively involved in the appointment of a new head of Internal Audit?

[inspired by: PwC, *In control: Views of Audit Committee Chairmen on the effectiveness of internal audit*]

How internal audit adds value to the Audit Committee

- By understanding
 - the responsibilities and operation of Audit Committee
 - the expectations of the Audit Committee and its Chairman
 - the organisation's business and risk environment
- By having the right skills mix (specialist areas and geography) and providing staff with adequate career progression, remuneration and motivation
- By reporting issues beyond the standard and agreed framework
- By reporting on higher-value rather than lower-value activities
- By generating confidence through frankness, candour, handling of difficult or contentious issues

Above all, and put simply

Bridge the expectations gap

Communicate, communicate, communicate

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