**MINISTRY OF FINANCE**
**CORPORATE GOVERNANCE SYMPOSIUM**
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# AUDIT COMMITTEES AND THE INTERNAL AUDIT FUNCTION – KEY PILLARS OF CORPORATE GOVERNANCE


PRESENTER:

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1 **Organization for Economic Co-operation and Development (OECD) GUIDELINES ON CORPORATE GOVERNANCE OF SOEs**

## V. Transparency and Disclosure

***State-owned enterprises should observe high standards of transparency in accordance with the OECD Principles of Corporate Governance.***

**A.** The co-ordinating or ownership entity should develop consistent and aggregate reporting on state-owned enterprises and publish annually an aggregate report on SOEs.

**B.** SOEs should develop efficient internal audit procedures and establish an internal audit function that is monitored by and reports directly to the board and to the audit committee or the equivalent company organ.

**C.** SOEs, especially large ones, should be subject to an annual independent external audit based on international standards. The existence of specific state control procedures does not substitute for an independent external audit.

**D.** SOEs should be subject to the same high quality accounting and auditing standards as listed companies. Large or listed SOEs should disclose financial and non-financial information according to high quality internationally recognised standards.

**E.** SOEs should disclose material information on all matters described in the OECD Principles of Corporate Governance and in addition focus on areas of significant concern for the state as an owner and the general public. Examples of such information include:

1. A clear statement to the public of the company objectives and their fulfilment.
2. The ownership and voting structure of the company.
3. Any material risk factors and measures taken to manage such risks.
4. Any financial assistance, including guarantees, received from the state and commitments made on behalf of the SOE.
5. Any material transactions with related entities.

## 2. CORPORATE GOVERNANCE

- Common elements present in most definitions of Corporate Governance describe it as "**the <u>policies</u>, <u>processes</u>, and <u>structures</u> used by organizations to <u>direct and control</u> its activities, <u>achieve its objectives</u>, and <u>protect the interests of its diverse stakeholder groups</u> in a manner consistent with appropriate <u>ethical standards</u>**."
- **"Boards may delegate the day-to-day management of the company to the CEO and other senior management, but board members <u>retain responsibilities for oversight and monitoring of any delegated functions</u>."** *{Corporate Governance Handbook: Legal Standards And Board Practices}*
- ***BOARD AUDIT COMMITTEES AND THE INTERNAL AUDIT MUST ASSIST THE DIRECTORS IN THEIR OVERSIGHT AND MONITORING OF DELEGATED FUNCTIONS.***

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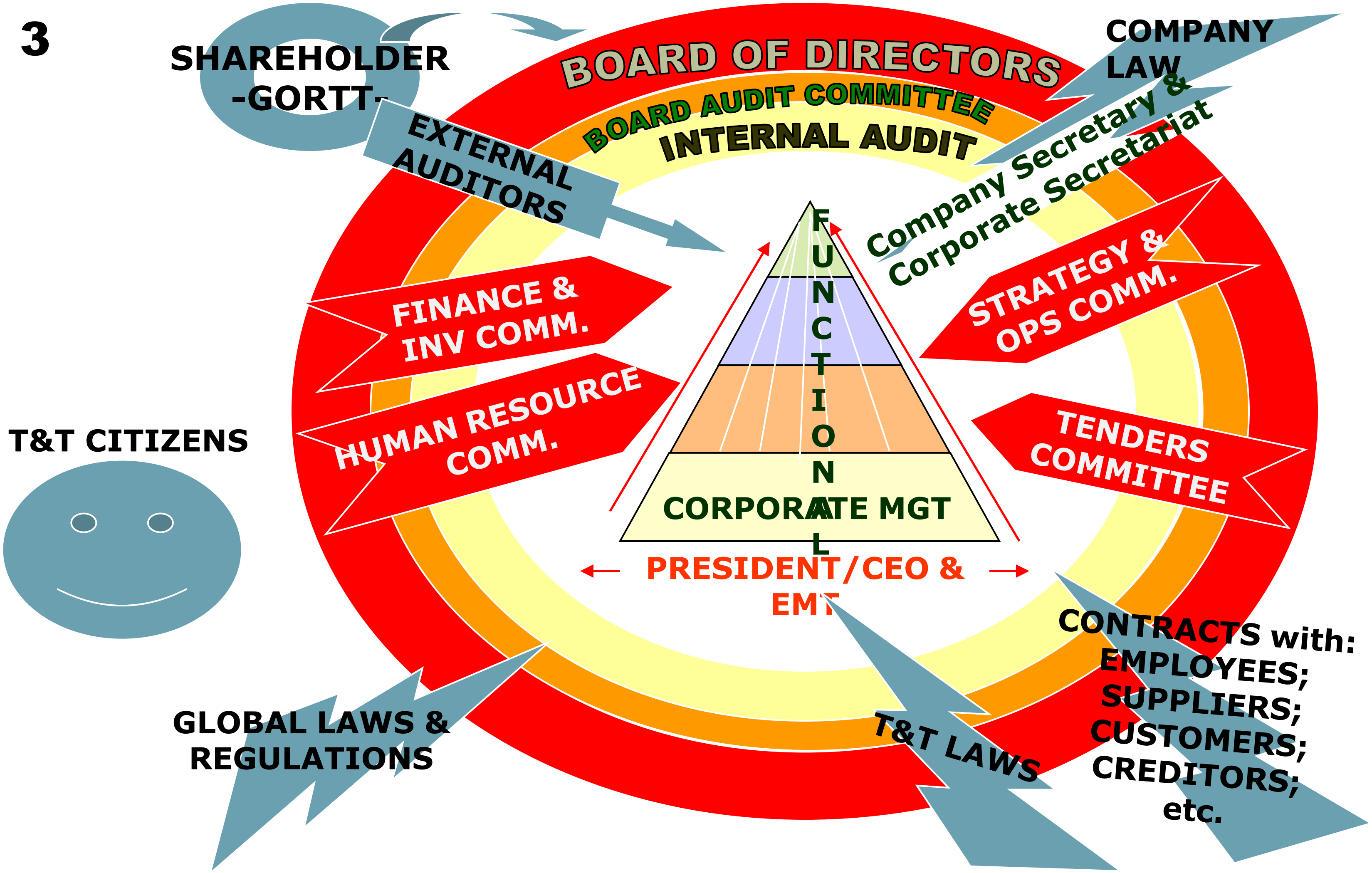

SHAREHOLDER
-GORTT-
BOARD OF DIRECTORS
COMPANY
LAW
BOARD AUDIT COMMITTEE
INTERNAL AUDIT
EXTERNAL
AUDITORS
Company Secretary &
Corporate Secretariat
FUNCTIONAL
FINANCE &
INV COMM.
STRATEGY &
OPS COMM.
HUMAN RESOURCE
COMM.
TENDERS
COMMITTEE
T&T CITIZENS
CORPORATE MGT
PRESIDENT/CEO &
EMT
CONTRACTS with:
EMPLOYEES;
SUPPLIERS;
CUSTOMERS;
CREDITORS;
etc.
GLOBAL LAWS &
REGULATIONS
T&T LAWS

## 4. ROLES & RESPONSIBILITIES

### BOARD AUDIT COMMITTEE

- **Organization's Survival & Going Concerns Issues**
- **Risk Management & Controls**
- **Corporate Governance – Board Policies & Governance Processes**
- **Financial Reporting**
- **Statutory Auditor; Internal Audit; Regulatory Examinations;**
- **Corporate Compliance &**
- **Corporate Integrity & Ethics**
- **Fraud & Irregularities**
- **Investigations**

### BOARD FINANCE & INVESTMENT COMMITTEE

- Financial Health , Liquidity & Cash Flow Projections;
- Financial Management
- Project Financing
- Investment Portfolios
- Accounting Standards; Costing & Pricing
- Budget Preparation & Controls

### BOARD TENDERS COMMITTEE

- Procurement & Disposals
- Prequalification & Tenders
- Contract Administration
- Contractors Complaints Management
- Variations, Claims

## 5. ROLES & RESPONSIBILITIES

### BOARD STRATEGY & OPERATIONS COMMITTEE

- Strategic Planning
- Performance Management
- Asset Integrity
- Plant & Equipment Operation Targets
- Occupational Safety & Environment
- Quality
- Project Delivery

### BOARD HUMAN RESOURCE COMMITTEE

Human Capital

Performance Management

Corporate Social Responsibility

Occupational Health

Industrial Relations

### BOARD

- **Risks**
- **Strategic Objectives & Performance**
- **Structure**
- **Board Policies**
- **Senior Management Performance**
- **Directors and Board Performance**
- **Shareholder Relations**

## 6. MANAGEMENT'S RESPONSIBILITY

- **CONTROLLING & RISK MANAGEMENT ARE FUNCTIONS OF MANAGEMENT AND ARE INTEGRAL PARTS OF THE OVERALL PROCESS OF MANAGING OPERATIONS.**
- **CONTROL OBJECTIVES**:- Management is charged with the responsibility for establishing a network of processes with the objective of controlling the operations of the organization in a manner which provides REASONABLE ASSURANCE that:

1) The ORGANIZATION'S PLANS, PROGRAMS, GOALS, AND OBJECTIVES ARE ACHIEVED.
2) The ACTIONS OF EVERYONE are in compliance with the organization's policies, standards, plans and procedures, and all relevant laws and regulations.
3) DATA AND INFORMATION (for publication/usage either internally or externally} is ACCURATE, RELIABLE, AND TIMELY.
4) The ORGANIZATION'S RESOURCES (including its people, infrastructure, systems, data/information bases, and customer goodwill) ARE ADEQUATELY PROTECTED.
5) RESOURCES ARE ACQUIRED ECONOMICALLY AND EMPLOYED PROFITABLY;
6) QUALITY BUSINESS PROCESSES {including Customer Service} and Continuous Improvement are emphasized.

## 7. MANAGEMENT’S RESPONSIBILITY

**IT IS THE RESPONSIBILITY OF MANAGERS AT ALL LEVELS OF THE ORGANIZATION** to:

1) Identify and evaluate the exposures to loss which relate to their particular sphere of operations.
2) Identify all potential events that could affect Organization's ability to successfully implement its Strategies & achieve its Objectives.
3) Specify and establish policies, plans, and operating standards, procedures, systems, and other disciplines to be used to minimize, mitigate, and/or limit the risks associated with the exposures identified.
4) Establish practical controlling processes that require and encourage <u>EVERYONE</u> to carry out their duties and responsibilities in a manner that achieves the organization’s control objectives:
5) Maintain the effectiveness of the controlling processes they have established and foster continuous improvement to these processes.
1) Proactively manage possible negative outcomes and their impacts.

**MANAGEMENT OWNS THE RISKS & THE RISK MANAGEMENT PROCESS.**

## 8. INTERNAL AUDITING : 100% FOCUS ON RISK MANAGEMENT, CONTROL & GOVERNANCE

**"INTERNAL AUDITING IS AN INDEPENDENT, OBJECTIVE ASSURANCE AND CONSULTING ACTIVITY DESIGNED TO ADD VALUE AND IMPROVE AN ORGANIZATION'S OPERATIONS.**

**IT HELPS AN ORGANIZATION ACCOMPLISH ITS OBJECTIVES BY BRINGING A SYSTEMATIC, DISCIPLINED APPROACH TO EVALUATE AND IMPROVE THE EFFECTIVENESS OF RISK MANAGEMENT, CONTROL, AND GOVERNANCE PROCESSES."**

**MISSION OF INTERNAL AUDIT**

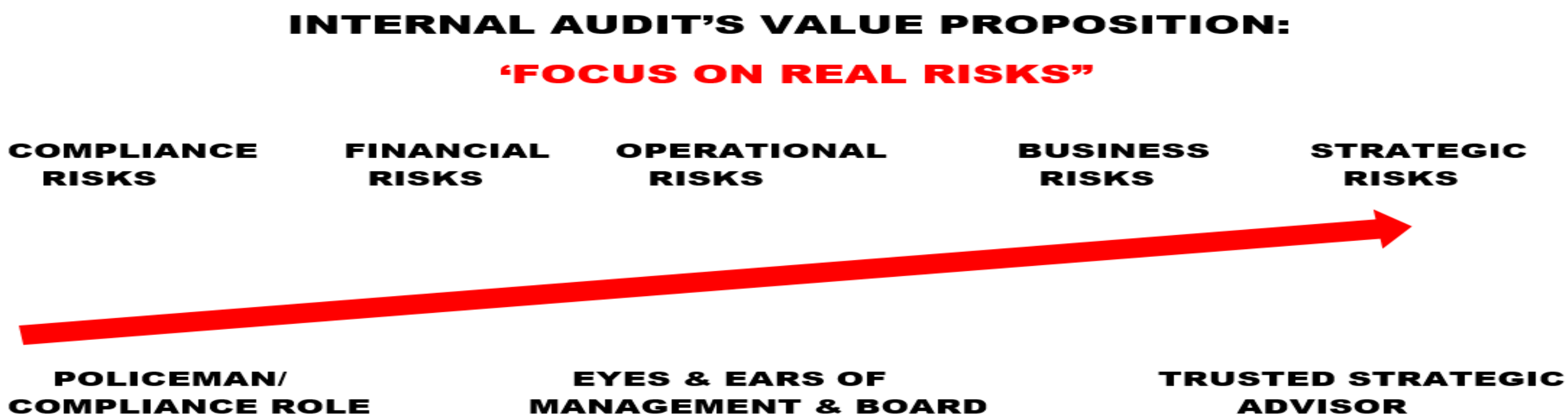
**"TO ENHANCE AND PROTECT ORGANIZATIONAL VALUE BY PROVIDING RISK-BASED AND OBJECTIVE ASSURANCE, ADVICE, AND INSIGHT."**

*{Institute of Internal Auditors Global}*

# 9. NATURE OF WORK

**The internal audit activity must evaluate and contribute to <u>the improvement of the organization's governance, risk management, and control processes</u> using a systematic, disciplined, and risk-based approach.**

**Internal audit credibility and value are enhanced when auditors are <u>proactive</u> and their evaluations offer <u>new insights</u> and <u>consider future impact</u>.**



## 10. INTERNAL AUDIT'S ORGANIZATIONAL INDEPENDENCE {IIA STDS}

- The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The CAE must confirm to the board, at least annually, the organizational independence of the internal audit activity.

  **Interpretation:** *Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the Board:*

  - Approving the internal audit charter.
  - *Approving the risk-based internal audit plan.*
  - Approving the internal audit budget and resource plan.
  - *Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.*
  - *Approving decisions regarding the appointment and removal of the chief audit executive.*
  - Approving the remuneration of the chief audit executive.
  - *Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.*

- The internal audit activity must be free from interference in determining the scope of internal auditing, performing work, and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.
- **DIRECT INTERACTION WITH THE BOARD -** The chief audit executive must communicate and interact directly with the Board.

## 11. AUDITORS' RESPONSIBILITY

1) Internal Auditors must have
   - **SUFFICIENT KNOWLEDGE TO EVALUATE THE RISK OF FRAUD** and the manner in which it is managed by the organization, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.
   - **SUFFICIENT KNOWLEDGE OF KEY INFORMATION TECHNOLOGY RISKS AND CONTROLS** and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.
2) Internal auditors must **BE ALERT TO THE SIGNIFICANT RISKS THAT MIGHT AFFECT OBJECTIVES, OPERATIONS, OR RESOURCES**. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.
3) Chief Audit Executive must establish **RISK-BASED PLANS** to determine the priorities of the internal audit activity, consistent with the organization's goals.
4) Internal Audit Plans must be based on a **DOCUMENTED RISK ASSESSMENT, UNDERTAKEN AT LEAST ANNUALLY**.
   - The input of Senior Management and the Board must be considered in this process.
   - Plan must cover the Audit Universe, prioritize High-Risk Auditable Units, and Strategic Priorities should also be identified.

## 12. AUDITOR’S RESPONSIBILITY

5) Internal Auditors must

a) **EVALUATE RISK EXPOSURES RELATING TO THE ORGANIZATION’S GOVERNANCE, OPERATIONS, AND INFORMATION SYSTEMS REGARDING THE:**

- **RELIABILITY AND INTEGRITY OF FINANCIAL AND OPERATIONAL INFORMATION.**
- **EFFECTIVENESS AND EFFICIENCY OF OPERATIONS.**
- **SAFEGUARDING OF ASSETS; AND**
- **COMPLIANCE WITH LAWS, REGULATIONS, AND CONTRACTS.**

b) **EVALUATE THE POTENTIAL FOR THE OCCURRENCE OF FRAUD AND HOW THE ORGANIZATION MANAGES FRAUD RISK**.

## 13. AUDITOR’S RESPONSIBILITY

6) In planning the Audit Engagement, internal auditors must consider:

   a) The **OBJECTIVES OF THE ACTIVITY** being reviewed and the means by which the activity controls its performance;

   b) The **SIGNIFICANT RISKS** to the activity, its objectives, resources, and operations and the means by which the potential impact of risk is kept to an acceptable level;

   c) The **PROBABILITY OF SIGNIFICANT ERRORS, FRAUD, NONCOMPLIANCE, AND OTHER EXPOSURES** when developing the engagement objectives.

   d) The **ADEQUACY AND EFFECTIVENESS OF THE ACTIVITY’S GOVERNANCE, RISK MANAGEMENT, AND CONTROL PROCESSES** compared to a relevant framework or model; and

   e) The **OPPORTUNITIES FOR MAKING SIGNIFICANT IMPROVEMENTS** to the activity’s governance, risk management, and control processes.

## 14. AUDITOR’S RESPONSIBILITY

7) The internal audit activity must assess and make appropriate recommendations to improve the organization’s governance processes for:

- Making strategic and operational decisions.
- Overseeing risk management and control.
- Promoting appropriate ethics and values within the organization.
- Ensuring effective organizational performance management and accountability.
- Communicating risk and control information to appropriate areas of the organization.
- Coordinating the activities of, and communicating information among, the board, external and internal auditors, other assurance providers, and management.

## 15. ASSISTING THE BOARD IN MANAGING ITS GOVERNANCE RISKS & CORPORATE COMPLIANCE

### EXAMPLES OF GOVERNANCE RISKS

- Directors Breach of Fiduciary Duties
- Misdirection of Organization
- Reckless Risk Taking
- Uncontrolled Organization
- Financial Distress
- Mis-procurement
- Unethical Corporate Culture
- Non Compliant Organization

### KEY BOARD POLICIES

- TOR'S AND AGENDAS FOR BOARD & BOARD COMMITTEES
- PERFORMANCE MANAGEMENT POLICY
- ENTERPRISE RISK MANAGEMENT POLICY
- CONTROL POLICY
- PROCUREMENT & DISPOSAL POLICY
- CONFLICT OF INTEREST POLICY
- CODE OF ETHICS & CONDUCT
- ANTI-FRAUD POLICY
- DELEGATION OF AUTHORITY (FINANCIAL AND NON-FINANCIAL)

## 16. SUMMARY

“All Public Sector Audit activities require:

- Organizational Independence
- A formal mandate (Charter)
- Unrestricted Access
- Sufficient Funding
- Competent leadership
- Objective staff
- Competent staff
- Stakeholder support
- Professional Standards”

*{The Institute of Internal Auditors – Supplemental Guidance: Public Sector Definition and the Role of Auditing in Public Sector Governance}*

# QUESTIONS

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# ANSWERS


THANK YOU