I. The Cornerstones of Good Corporate Governance

Governance is defined as the “system by which organizations are directed & controlled”. The cornerstones of good governance are the following:

- Board of directors or Audit Committee
- Executive Management
- **Internal Auditors**
- External Auditors

II. Why establish an internal audit function

- Regulatory requirement
- **Support to the Audit Committee’s oversight role**
- Greater assurance for financial reporting
- Added value to the organization by helping improve operations, governance, risk management and control processes
- Increasing fraud incidents

III. What is internal auditing

- Mandatory Guidance
- Definition of Internal auditing
  - Purpose
  - Scope of work
  - Objectives of internal audits
  - Authority
  - Responsibility
  - Accountability
- Independence and objectivity
  - Organizational position
  - Reporting relationships – functional and administrative roles of the Audit Committee and the President/CEO
  - Direct access to the audit committee and board
  - Restrictions in performing operational responsibilities

IV. Role in governance, risk management and control processes

- Governance processes
- Risk management processes
- Internal Control processes

V. Roles in Supporting the Audit Committee’s Oversight Function

- Provide assurance and overall opinion on the adequacy and effectiveness of governance, risk management and control processes
- Provide the results of reviews and actions taken by management on financial reporting, compliance with laws, regulations, policies, procedures, safeguarding of assets and operational effectiveness and efficiency
- Perform projects, special studies, investigations, or other services in matters of interest or concern to the Audit Committee or Board that are outside the scope of the annual Audit Plan
- Report on significant risk exposures, control issues, including fraud risks, governance issues and other matters needed by the Audit Committee
- Select external auditors and evaluate their performance
• Educate the audit committee on best practices in governance, risk management, control and compliance
• Assist in the self-assessment of the audit committee
• Act as the secretary of the Audit Committee

VI. Establishing the Internal Audit Function
• Audit Committee and CEO to give their expectations or requirements from internal audit (the balancing act)
• Develop the Internal Audit Charter
  □ Ensure it contains the “mandatory” contents
  □ Ensure alignment with Audit Committee Charter
  □ Secure written approval
• Determine the “staffing requirement” of the internal audit activity
  □ Determine bases for staffing internal audit function
  □ Develop CAE job description and specifications first
  □ Roles and responsibilities
  □ Qualifications: knowledge, skills and experience
  □ Hire the Chief Audit Executive first
  □ Develop job descriptions and specifications of other positions
    o Deciding whether to build the internal audit function in-house, fully outsource or partially outsource, advantages & disadvantages of each option
    o Hire or outsource based on decision
• Develop a risk-based audit planning process or methodology:
  □ Risk assessment model/framework
  □ Consider inputs from senior management and the audit committee/board on risks that may prevent the organization from achieving its strategic objectives
  □ Coordinate with other assurance providers
  □ Staffing plan and financial budgeting process
  □ Review and approval process of the Audit Committee or board
  □ Monitoring and reporting process on achievement of the audit plan to the Audit Committee or Board

VII. Ensuring the Internal Audit Function Continues to be Effective
• Managing internal audit
• Concept of adding value
• Developing a competency framework and staff development plan
• Developing a Quality Assurance & Improvement Program
  □ Identify key performance metrics of internal audit
  □ Track, monitor and report results of QAIP to the Audit Committee or Board
• Develop internal audit manual or policies & procedures based on the IIA Standards & Code of Ethics
• Advocate or communicate the existence of internal audit function to the rest of the organization
• Reviewing performance of internal audit function

VIII. Summary and Conclusion

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