# MISSION AND TASK OF INTERNAL AUDIT

## RISK AND CONTROL GOVERNANCE

**SPEAKER:**

**DOTT. FABIO ACCARDI**

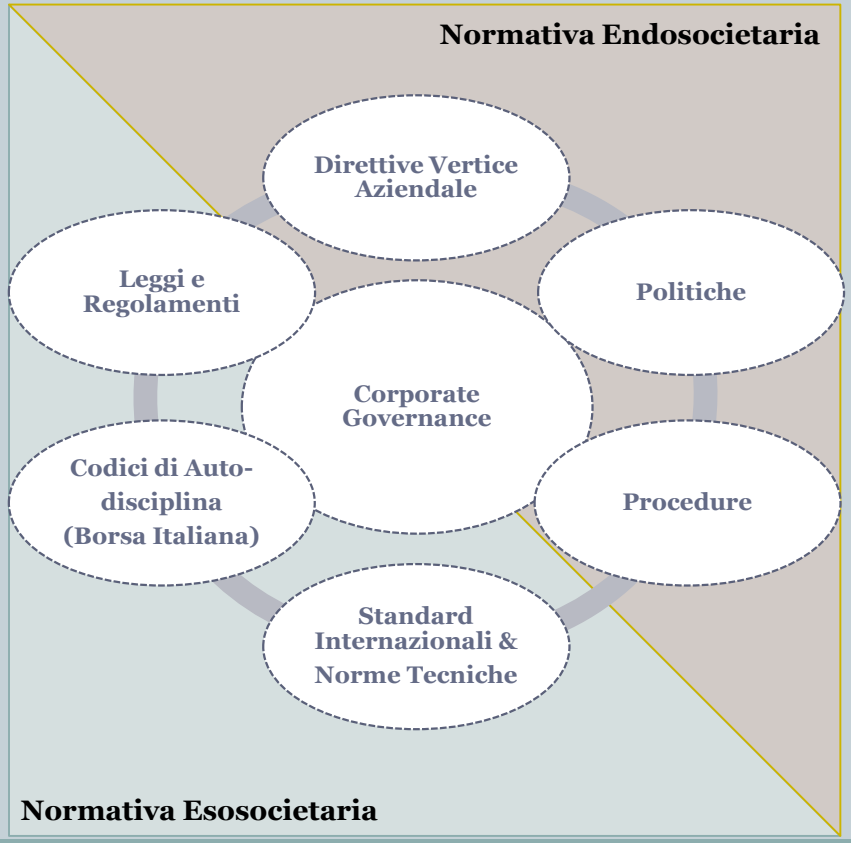
UNIVERSITA' degli STUDI di ROMA
TOR VERGATA

COURSE OF BUSINESS AUDITING
UNIVERSITY OF ROME TOR VERGATA

DECEMBER 2015

# Corporate Governance: Introduction

The “Corporate Governance” arises from the rules to ensure that business operations is carried out with efficiency and transparency, respecting the interests of the shareholders and stakeholders, based on the achievement of corporate objectives.

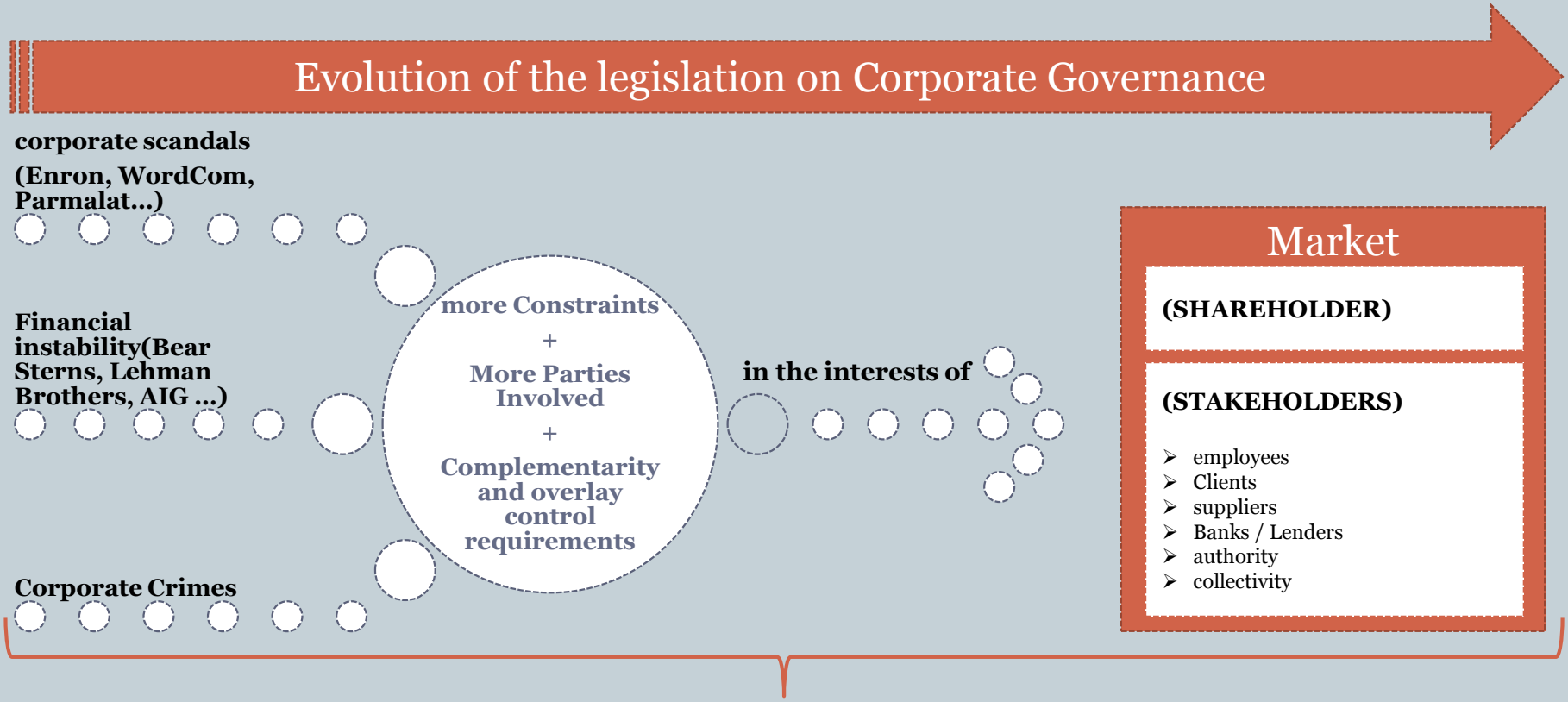



*Rules of which the company decides to adopt as part of their autonomy in order to ensure proper functioning of the organization, balance of power and information flows and to acquire reliability to the market*

*Rules imposed or suggested by the legislation outside the company, is that binding of soft law, in response to the requirements of internal control and risk management*

# Corporate Governance: Genesis

The rules of corporate governance are born as a response to the demands of effectiveness, efficiency, transparency and legality triggered by crises and corporate scandals and are a driving force for further development, reputation and value generated by better risk management and controls.

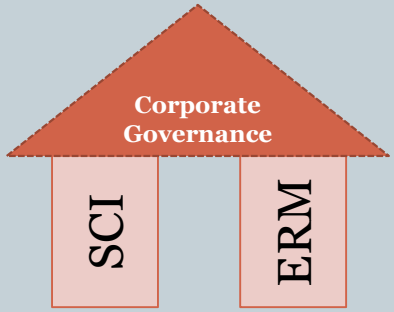


# Risk & Control Governance

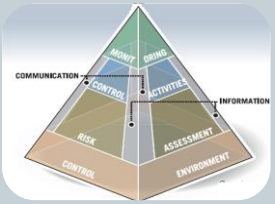
Effective corporate governance is based on the integration of the systems of risk management (ERM - Enterprise Risk Management) and internal control (SCI - Internal Control System).

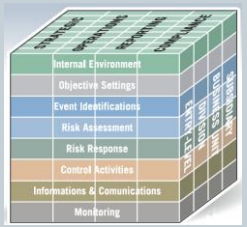

Corporate Governance is focused on government and strategic control of the company.

The Risk & Control Governance refers to the means available to the company management in order to implement the corporate governance and fulfill its responsibilities to properly manage the interests of shareholders and stakeholders. ERM and SCI are therefore operational tools and the pillars of corporate governance




The major framework used for the design and implementation of systems of internal control and risk management and the effectiveness and efficiency of the systems adopted by the company are, respectively, the The COSO Report I (SCI) and the COSO report II (ERM).

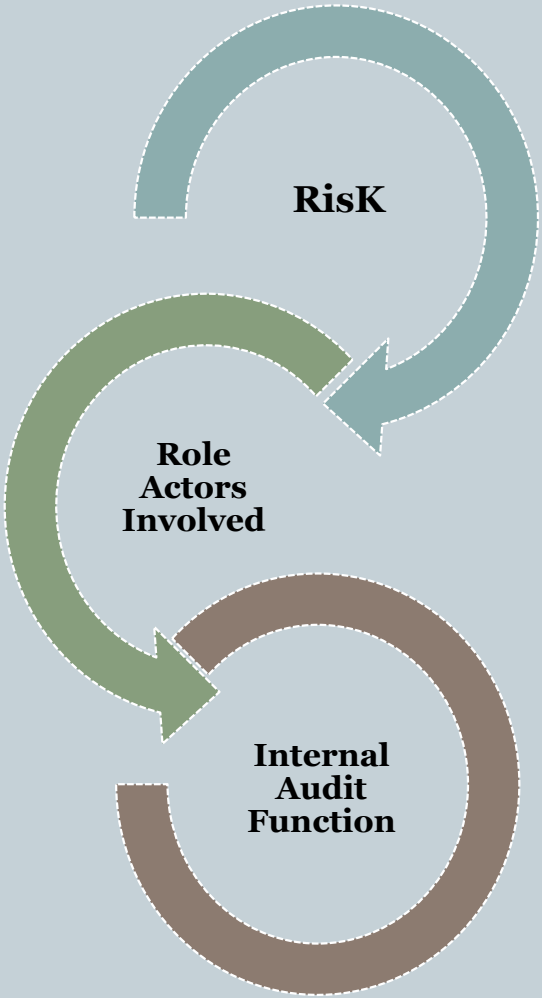


# The new edition of the Code of Conduct: focus on Internal Control and Risk Management System

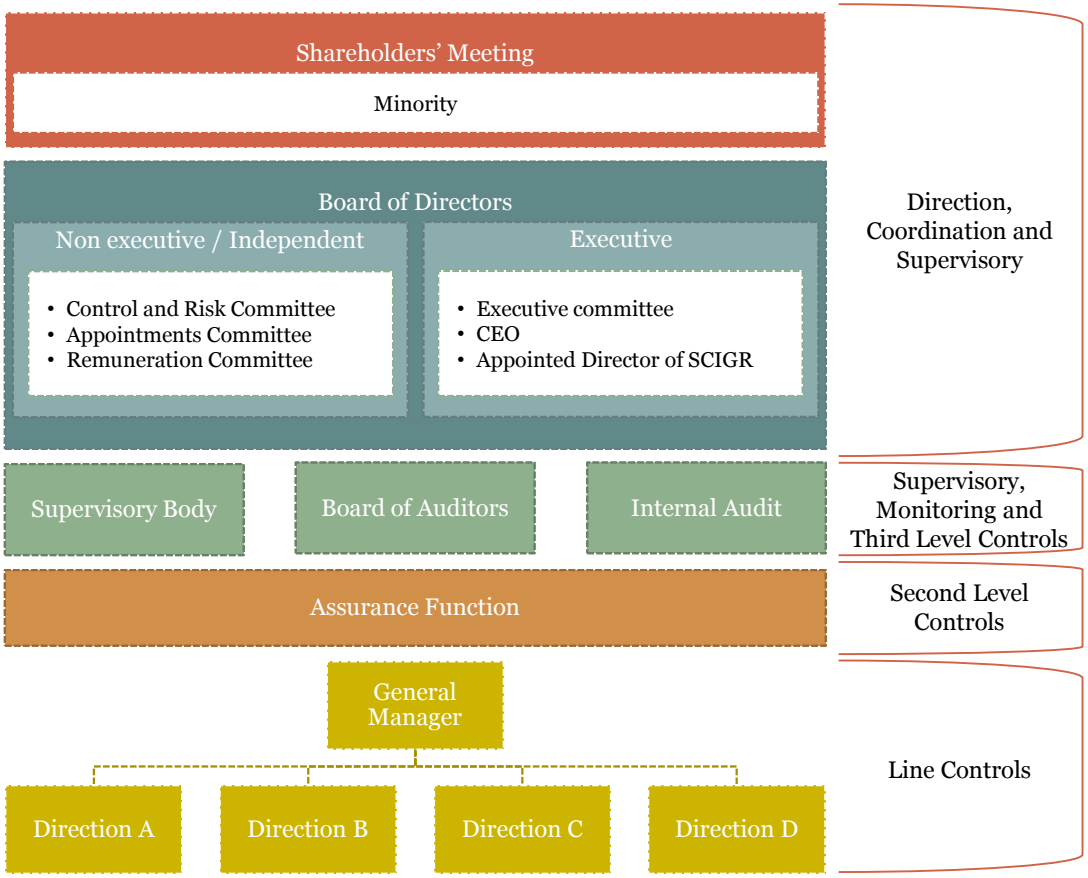
The formulation of recommendations on the Internal Control and Risk Management System (new Article 7) is based on the following principles:

| | |
|---|---|
| **Centrality of "risk" in the control system** | Renaming of the system in the internal control and risk management System |
| **Clear definition of roles and responsibilities of key actors in the SCI & ERM** | Balancing functions of policy and implementation on the one hand, and functions of supervision and control, on the other |
| **Reinforcement of the role of the Internal Audit** | Redefinition of the organizational positioning and with the strengthening of responsibility and operational tools |



# Overview:
# Corporate Governance System in a listed Italian Company

## Internal Control




*Adaptation by Internal Auditing (Dittmeier)*

## External Control

# Corporate Governance Model: the example of a listed company

**Shareholders' Meeting**

It approves the Financial Statements, appoints the Board of Directors, Board of auditors and Independent Auditors and also resolves upon amendments to the Company By-Laws

**Board of Directors**

It defines strategic policies and is responsible for managing the company

**Board of Statutory Auditors**

It supervises compliance with legislation and the Company's By-Laws and is responsible for controlling management

**Independent Auditors**

They are responsible for auditing company accounts

**Control and Risk Committee**

It helps the BoD to assess the suitability of the internal auditing system.
It also assesses the correct use of accounting standards.

**Remuneration Committee**

It is responsible for proposing the fees for directors with specific offices as well as incentive and salary schemes for top managers, supervising application of BoD decisions

**Related Parties Committee**

It voices opinions on the Company's interest regarding the performance of transactions with related parties, as per advantages and substantial correctness of the relative conditions

**Appointments Committee**

It expresses opinions on BoD size, composition and professional skills of the directors within the Board; Propose Directors in case of co-optation should there be necessary to substitute independent Directors

**Supervisory Body**

It checks that the Model231 functions correctly and is responsible for relative updates

**Executive Appointed to draft Corporate Accountants**

It is responsible for checking the actual application and suitability of accounting and administrative procedures

Source site www.astaldi.com

# Internal control and risk management system: the role by the main players

## Board of Directors

### Role

- shall provide strategic guidance and evaluation on the overall adequacy of the system, considering the risk profile of the company and the risk appetite defined by the same Board of Directors

### Main duties

- defines the guidelines of the internal control and risk management system, so that the main risks concerning the issuer and its subsidiaries are correctly identified and adequately measured, managed and monitored, determining, moreover, the level of compatibility of such risks with the management of the company in a manner consistent with its strategic objectives
- evaluates, at least on an annual basis, the adequacy of the internal control and risk management system taking into account the characteristics of the company and its risk profile, as well as its effectiveness;
- approves, at least on an annual basis, the plan drafted by the person in charge of internal audit, after hearing the Board of statutory auditors and the director in charge of the internal control system;
- describes, in the Corporate Governance Report, the main features of the internal control and risk management system and how the different subjects involved therein are coordinated, expressing the evaluation on its adequacy;
- after hearing the Board of statutory auditors, it assesses the findings reported by the external auditor in the suggestions letter, if any, and in the report on the main issues resulting from the auditing;
- appoints and revoke the person in charge of the internal audit function and ensure that such a person is provided with the adequate resources for the fulfilment of his/her responsibilities and define the relevant remuneration consistently with company's policies

Source: Corporate Governance code

# Internal control and risk management system: the role by the main players

## Control and Risk Committee

| | |
|---|---|
| Role | • proposing and consultative functions towards the BoD, regarding to the activities of supervisory the overall performance of the Company and shall meet at least once a three months |
| Composition | • corporate body established as internal structure of the Board of Directors, is made up of independent directors of non executive directors, the majority of which being independent ones; |
| Operations | • to perform its functions it makes use of Internal Audit Director, which ensures the flow of information by the other assurance functions |
| Main duties | • supports the BoD in the evaluation of the adequacy of the internal control and risk management system as well as its effectiveness;<br>• evaluates together with the person responsible for the preparation of the corporate financial documents, after hearing the external auditors and the Board of statutory auditors, the correct application of the accounting principles, as well as their consistency for the purpose of the preparation of the consolidated financial statements, in any;<br>• expresses opinions on specific aspects relating to the identification of the main risks for the company;<br>• reviews the periodic reports of the internal audit function concerning the assessment of the internal control and risk management system, as well as the other reports of the internal audit function that are particularly significant;<br>• monitors the independence, adequacy, efficiency and effectiveness of the internal audit function;<br>• requests the internal audit function to carry out reviews of specific operational areas, giving simultaneous notice to the chairman of the Board of statutory auditors;<br>• reports to the Board of Directors, at least every six months, on the occasion of the approval of the annual and half-year financial report, on the activity carried out, as well as on the adequacy of the internal control and risk management system; |

Source: Corporate Governance code

# Internal control and risk management system: the role by the main players

## Director in charge of the internal control and risk management system

### Role

- establishing and maintaining an internal control and risk management system, adopting the strategic guidance of the Board

### Main Duties

- identify the main business risks, taking into account the characteristics of the activities carried out by the issuer and its subsidiaries, and submit them periodically to the review of the Board of Directors;
- implement the guidelines defined by the Board of Directors, taking care of the planning, realization and management of the internal control and risk system, constantly monitoring its adequacy and effectiveness;
- request to internal audit function to carry out reviews of specific operational areas and on the compliance of business operation with rules and internal procedures, giving simultaneous notice to the chairman of the Board of Directors, the chairman of control and risk committee and the chairman of the Board of statutory auditors;
- promptly report to the control and risk committee(or to the Board of Directors) issues and problems that resulted from his/her activity or of which he/she became aware in order for the committee (or the Board) to take the appropriate actions.

Source: Corporate Governance code

# Internal control and risk management system: the role by the main players

## Board of Statutory Auditors

### Role

- Within internal control and risk management systems, supervises the adequacy of internal control system;
- In accordance with the directions of CONSOB and Corporate Governance Code of Borsa Italiana S.p.A. supervises:
  - compliance with the law and bylaws
  - respect of the principles of correct administration
  - the adequacy of the Company's organizational, administrative and accounting structure

### Composition

- The Shareholders' Ordinary Meeting appoints the members of the Board of Auditors. The Board of Auditors is formed of three Standing Auditors and three Alternate Auditors, who hold office for a period of three fiscal years. Minority shareholders are entitled to appoint one Standing Auditor, who shall operate as Chairman of the Board of Auditors, and one Alternate Auditor.

### Main Duties

- Partecipates to the meetings of the BoD and Shareholders' Ordinary meetings;
- Convokes The Shareholders' Ordinary Meeting in the case of omission or unjustified delay on the part by the directors;
- Monitoring the adequacy of instructions given to subsidiaries and the adequacy of the internal control and Administrative Accounting System
- Assessing the findings reported by the external auditor in the suggestions letter, if any, and in the report on the main issues resulting from the auditing.
- Monitoring the independence of the external auditors and the effectiveness of the audit process

Source: Various

# Internal control and risk management system: the role by the main players

## Supervisory Body

### Role

- Is the body which, according to the law, is entrusted with supervising the effectivevess and efficiency of and the compliance with the Model, for the purpose of preventing offences from being committed.
- it operates in a steady and continuous way watching over the adequacy, the updating of and the compliance with the Model.

### Composition

- The Supervisory Body may be constituted of one sole member or by a plurality of members, which must meet the following requirements: autonomy and independence, professionalism and reputation, continuity of action;

### Main Duties

- Supervising the effectiveness and efficiency of the Model: adequacy in terms of suitability to prevent predicate offences from being committed;
- Supervising the compliance with the Model: actual application;
- The Supervisory Body is responsible for giving the Company's top management notice of the occurrence of conditions (originating both within or out of the Company) requiring to amend and/or supplement the Model;
- verifications on the compliance of management, operative, and accounting-administrative procedures with the principles of D.Lgs. 231.

Source: Various

# Internal control and risk management system: the role by the main players

## Internal Audit Director

**Role**

- Check the functioning and adequacy of the overall internal control and risk management system through third-level controls that include the review of activities of other assurance functions

**Main Duties**

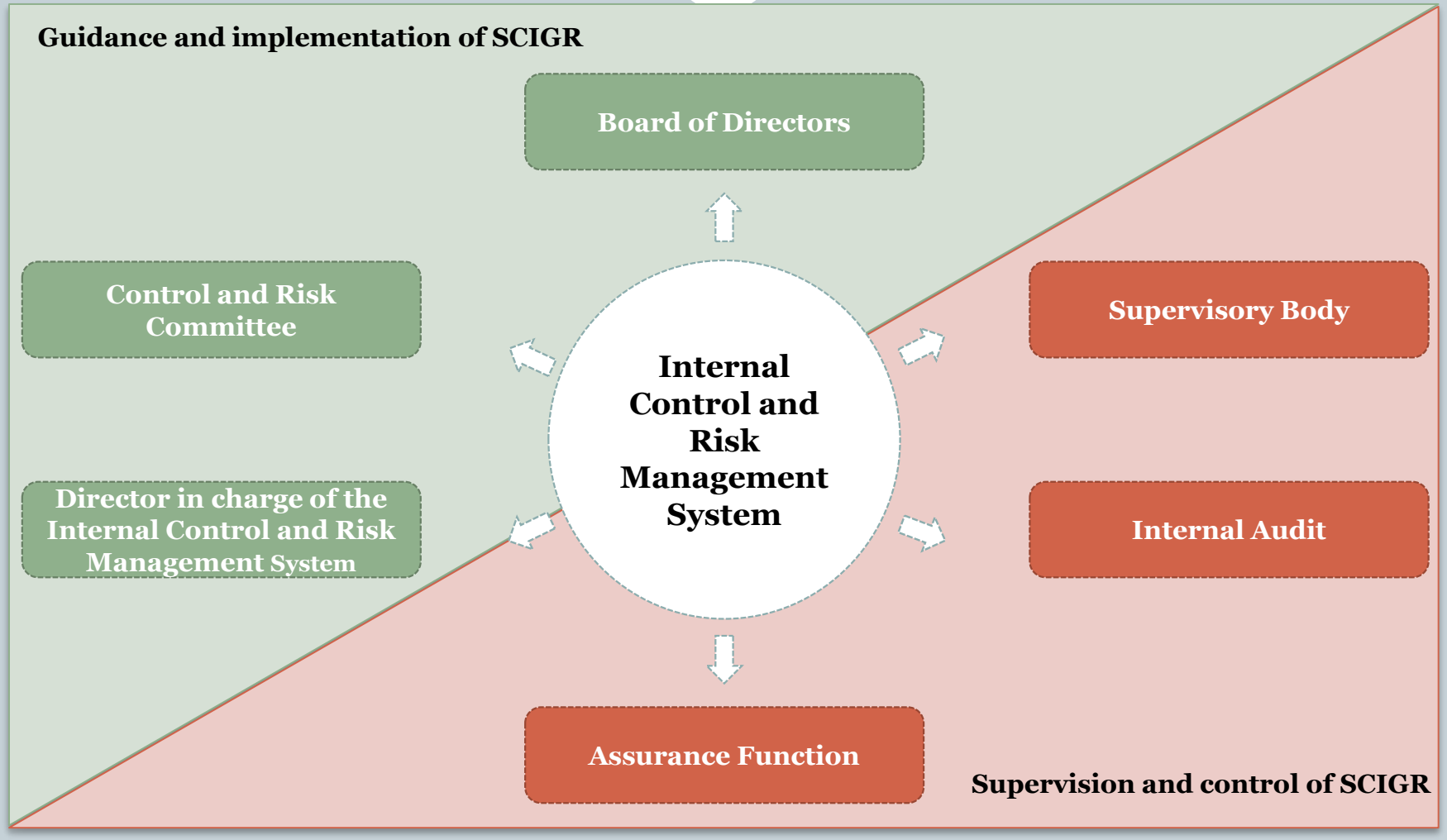
- verify, both on a continuous basis and in relation to special needs, in conformity with international professional standards, the adequacy and effective functioning of the internal control and risk management system, through an audit plan, to be approved by the Board of Directors. Such a plan shall be based on a structured analysis and ranking of the main risks;
- draft periodic reports containing adequate information on its own activity, and on the company's risk management process, as well as about the compliance with the management plans defined for risk mitigation. Such periodic reports contain an evaluation on the adequacy of the internal control and risk management system;
- verify, according to the audit plan, the reliability of information systems, including the accounting one.

**Compiti ricorrenti in ambito 231**

- Verifies the proper implementation of the organizational model, based on the guidelines issued by the SB;
- Accesses, on behalf of the Body, in any business document;
- Manages the flow of information (structured and unstructured) to the Supervisory Board;
- Receives reports of suspected violations of the Ethic Code and/or Model and transmits all this information to SB;
- Coordinates training of staff in the administrative liability of legal persons;
- Supports the SB in the update of the Organizational Model

Source: Corporate Governance code

# Internal Control and Risk Management System: balancing roles and reporting lines



# The Internal Audit according to the Code of Conduct

## Redefinition of the Internal Audit

| | | |
|---|---|---|
| **Positioning** | **Reporting directly to the Board of Directors** | The Board appoints and dismisses the RIA, endows the resources of the internal audit function, establishes the remuneration of the RIA and approves the audit plan. |
| **main requirement** | **Independence** | The RE is not responsible for any operational area and reports to the Board of Directors |
| **Duties** | **Verify operation and suitability of**<br>➢ **internal control systems**<br>➢ **risk management systems** | The Internal Audit Department performs control activities of third level in compliance with international standards (The IIA): coordinates the flow of information from other assurance functions and reviews the work |
| **Instruments** | **Audit Plan based on the prioritization of risks** | The audit plan, approved by the board of directors, must be based on a structured analysis and ranking of the main risks and should include checks on the reliability of information systems including accounting systems |

# Centrality of risk in internal auditing

**The objective of the internal audit activity is**

**provide management**

**an independent and objective assurance that**

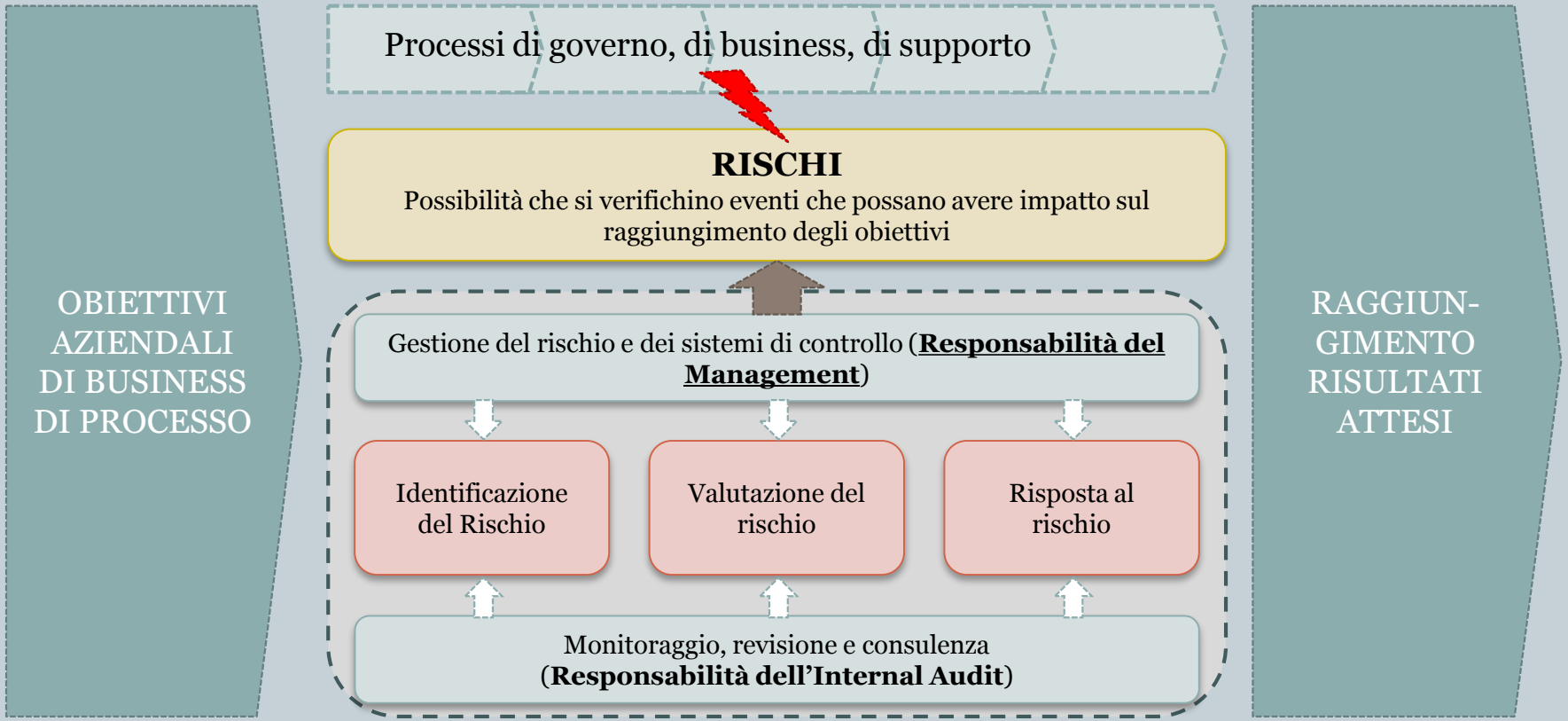
**The main risks are managed properly**

- The level of residual risk is contained within the limits of acceptability in accordance with the risk appetite defined by management
- There is reasonable assurance of the achievement of objectives

**Risk Management and Internal Audit Systems operate effectively**

- Risk management and internal control system effectively implemented within the analyzed process are in line with the framework of reference adopted by the company (eg. ERM, COSO Report, Model 231)

# Connection to the objectives of the organization in the internal auditing



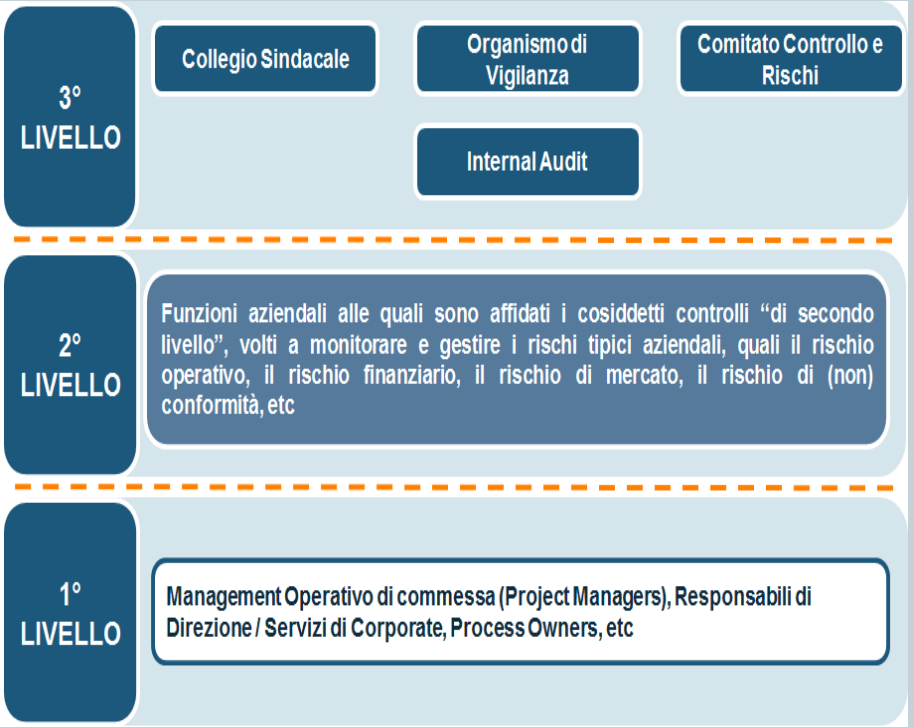
# Coordination with other functions of assurance: introduction to integrated compliance

Compared to its main actors and the government which is responsible for monitoring the system of corporate controls, the revision of the Code of Conduct recognizes to the internal audit function a

**CENTRAL LOCATION**

- **CONTROL OF THIRD LEVEL –**

In this regard, the code shows that - beyond the manner in which each issuer intends to implement the management and monitoring of risks (creation of a centralized function or attribution to individual Manager dedicated to this exclusive) - **the second level functions will be reviewed by the general Internal Audit function, in order to ensure the effectiveness and efficiency of controls in individual business units and, therefore, to ensure the adequacy of the system as a whole**



# Evolution of Internal Auditing

| | IN THE PAST | NOW |
|---|---|---|
| **ASSURANCE** | ❖ Centric processes<br>❖ Towards internal customers (Management and Management)<br>❖ Without clear links and information flows with other assurance functions | ❖ Focused on the main risks<br>❖ To all the actors / stakeholders (internal and external stakeholders)<br>❖ Integrated with the other functions of assurance |
| **ADVICE** | ❖ On individual aspects of the procedure / policy<br>❖ Assistance with administrative - accounting services<br>❖ Demand mainly from supervisory bodies | ❖ The overall design of the system and adequacy<br>❖ Support of strategic (top risks) and directional (aspects of operational, financial and compliance)<br>❖ Request by the operational management and ongoing part of European Works |