

# Internal Audit: a value creation perspective

## An introduction to Business Auditing Course



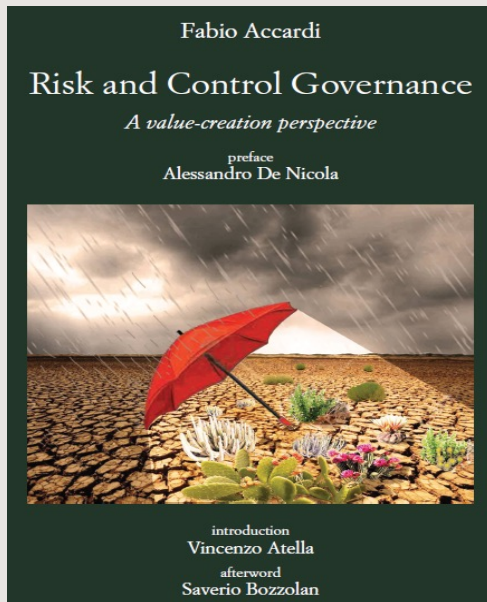
UNIVERSITA' degli STUDI di ROMA  
TOR VERGATA

COURSE OF BUSINESS AUDITING  
UNIVERSITY OF ROME TOR VERGATA

NOVEMBER 2022 – PROF FABIO ACCARDI

# Risk and Control Governance

## A value creation perspective



## Risk and Control Governance

## A value creation perspective

### Fundamentals

- Preliminary definitions of risk
- The Analytical Frameworks
- The IPPF
- Main International Laws and Regulations



### Experiences & Applications

- Internal Audit Activity
- Case Study on ERM
- Choosing the right Audit tool
- Case Study on IT Auditing, HS, Procurement



### What is Compliance

- Legal and Organizational Consideration

# Risk Culture and Compliance



This book deals with Internal Audit and Compliance, contributing to the widespread culture of risk, through:

- ❖ concrete reference to the experience gained in this field,
- ❖ the use of case studies.

This contribution is rooted in organizational practices and, thus, it does not offer mere theoretical speculations, which are usually found in basic research.

A contribution filtered through the lens of a group of practitioners under the supervision of Fabio Accardi, an experienced manager, who is also involved in several research and teaching programs in primary universities and professional associations.

*Series Editor's Preface, Luigi Maria Sicca (pag. 16)*

# Risk Management and Corporate Governance



Better  
Policies  
for  
Better  
Lives



An area of increasing importance for boards and which is closely related to corporate strategy is oversight of the company's risk management. Such risk management oversight will involve oversight of the accountabilities and responsibilities for managing risks, specifying the types and degree of risk that a company is willing to accept in pursuit of its goals, and how it will manage the risks it creates through its operations and relationships. **It is thus a crucial guideline for management that must manage risks to meet the company's desired risk profile**

**Principle VI.D.1**

# The Risk in Globalized Society



*[...] outsourcing, offshoring and just-in-time systems have all helped to create savings but they have also made businesses more vulnerable to disruption – increasing reliance on joint partnerships and franchises with extended supply chains and dependency on third parties have also led to some loss of control over reputations and destinies. **The dangers are exacerbated by growing resource constraints and escalating commodity prices – all too often commodities, particularly food and energy, are located in areas of political instability.** That insecurity is only made worse by climate change becoming more acute – and threaten to present more dangers than either terrorism or organized crime. **No business, small or large, can escape these pressures.***

# Regulatory Compliance



This increased background uncertainty and volatility are exacerbated by the significant structural changes that are occurring in the global world.

Within a constantly and rapidly changing world, people may find difficult to cope with this change, to organize new working schemes and to manage risk effectively. **The first step is to realize that change is constant and that risk management is a process, not a project.** Risk assessment needs to be performed continuously, and all strategies and tactics need to be adapted in response to changes in risk. As a reaction to this situation, since the early 2000s, several industries and public institutions have expanded their regulatory compliance rules to scrutinize companies' risk management plans, policies and procedures (Rouse, 2016)





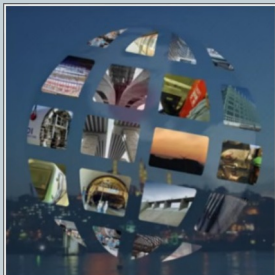
# The Global Risks Report



In a world where risks transcend borders and sectors, the motivations underlying the Global Risks report at its inception in 2005 – **to shed a light on global risks and help to create a shared understanding of the most pressing issues, the ways they interconnect and their potential impacts** – are more relevant than ever.

*Some preliminary definitions of risk: the global risks report, Fabio Accardi (pag. 41)*

# Consistency between Mission, Vision and Strategies, by analyzing:



The Strategic context and the Reference Sector

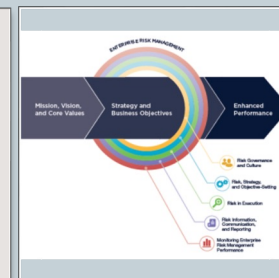


Focus on Infrastructures

The Framework used for Risk Management



ERM, according to a Risk-Based Approach



Framework used for the Internal Control System



Internal Control – Integrated Framework



# An integrated approach through:

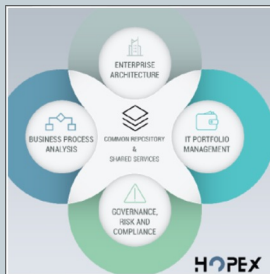
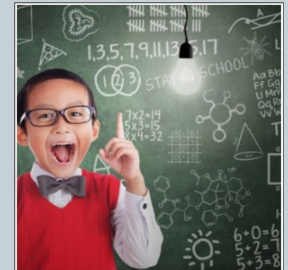


The analysis of national and international regulatory in scope

D.Lgs. 231/2001, L. 190/2012, Antibribery, FCPA, ISO 37001

Using Case Study and Pilot Projects

Experience in International Corruption, Subsidiaries, Public Services Companies



An holistic view of integrated and computerized management

AntiCorruption & Fraud Program in the GRC system

# Mission, vision, strategies: IA from a value-creation perspective



	IN THE PAST	NOW
ASSURANCE	<ul style="list-style-type: none"><li>❖ Centric processes</li><li>❖ Towards internal customers (Management and Management)</li><li>❖ Without clear links and information flows with other assurance functions</li></ul>	<ul style="list-style-type: none"><li>❖ Focused on the main risks</li><li>❖ To all the actors / stakeholders (internal and external stakeholders)</li><li>❖ Integrated with the other functions of assurance</li></ul>
ADVICE	<ul style="list-style-type: none"><li>❖ On individual aspects of the procedure / policy</li><li>❖ Assistance with administrative - accounting services</li><li>❖ Demand mainly from supervisory bodies</li></ul>	<ul style="list-style-type: none"><li>❖ The overall design of the system and adequacy</li><li>❖ Support of strategic (top risks) and directional (aspects of operational, financial and compliance)</li><li>❖ Request by the operational management and Top Management</li></ul>

# Case Study on ERM - Carlo Nicoletti



*The implementation of ERM provides the opportunity to identify the key risks that a company is exposed to, and the ability to manage these risks strategically to increase the likelihood that business objectives are achieved and shareholders' investments are safe*

## Past

The past several years have been financially challenging and the changes seen in the international economy have revealed the **weaknesses of Risk Management and Internal Control**

Systems to business operators. Risk governance models have been typically built around regulatory compliance requirements, and operate through a series of uncoordinated controls and systems, resulting **in a lack of functionality to the needs of performance-based analytical prediction and monitoring**

## NOW

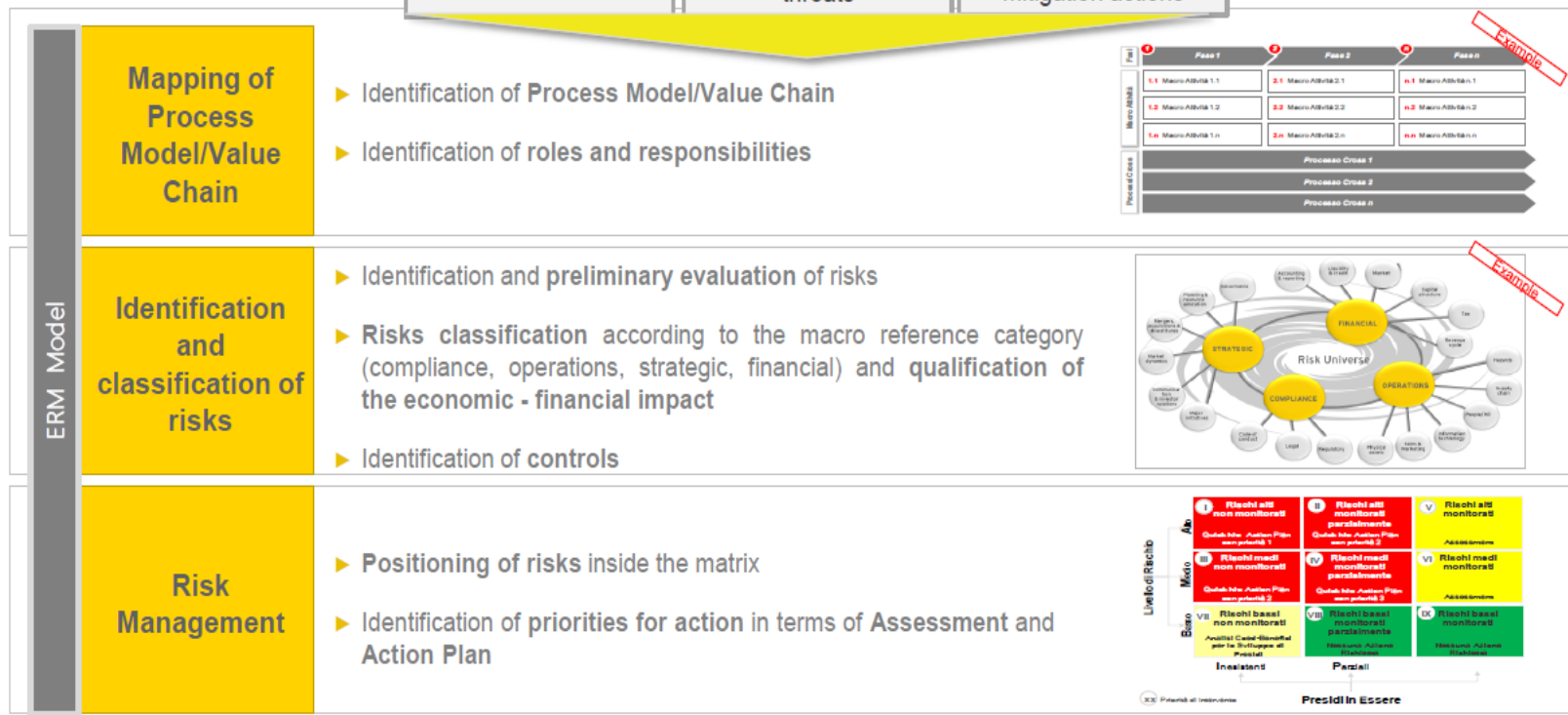
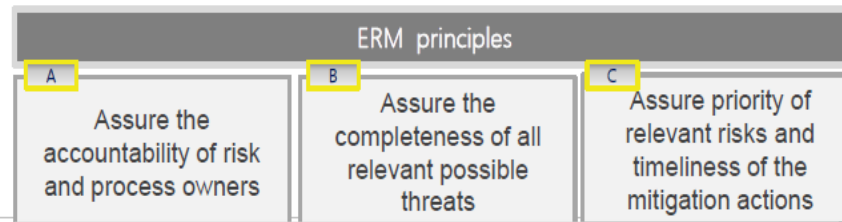
Current scenario has been **characterized by exogenous factors**, such as:

- Rapid fluctuations in demand;
  - Innovation pressure;
- Strong regulatory measures of Supervisory Authorities;
- Economic crisis and financial collapses of world-leading companies

The **focus on business, operations, performance planning and control** have become the core elements for a **structured approach** to implementing Enterprise Risk Management (ERM).

**Aligning Risk  
with Strategy and Performance**

# Case Study on ERM - Carlo Nicoletti



# Case Study on IT Auditing - Alessandro Salibra Bove



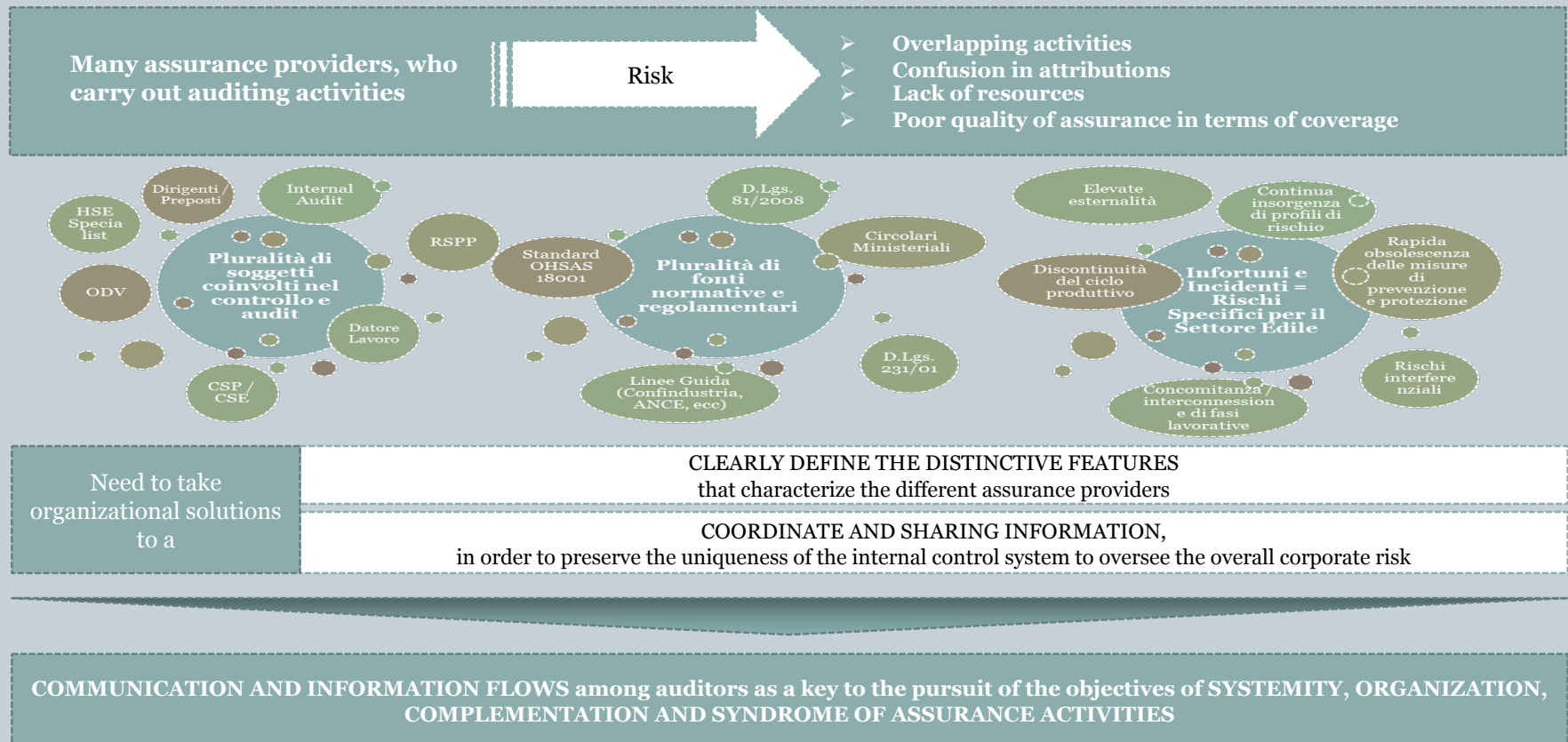
*Companies' information systems have become, in all areas, a strategic 'production factor' and a major factor in creating value.*

*In this context, IT risk governance requires the identification, representation, and assessment of risk factors, going beyond merely technical aspects and considering the full scope of strategic impacts arising from the occurrence of such risks.*



# Internal Auditing and HS Management System: The lessons provided by the construction sector – Fabio Accardi and Roberto Rosato

*Labor Health & Safety (HS) management is an area of priority concerns for all businesses. Indeed, it is particularly significant for entities operating within the construction sector, especially for those involved in building major infrastructures and playing the key role of General Contractor.*





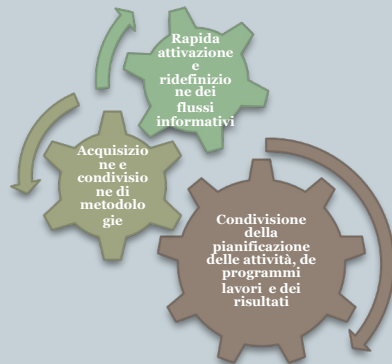
# Internal Auditing and HS Management System: The lessons provided by the construction sector – Fabio Accardi and Roberto Rosato



*The controls organization and the audits on the prevention system in order to search a methodological approach to the integration of the MOG 231 and the SGSSL certificate*

1

Identification of contact points / common objectives between MOG231 and SGSSL



The identity of the programmatic objectives allows advantageous opportunities for integration

2

Identifying the objectives in order to demarcate the various audit activities that insist on SGSL

Audit HSE

## Finalità ultima:

Miglioramento continuo delle prestazioni aziendali HSE

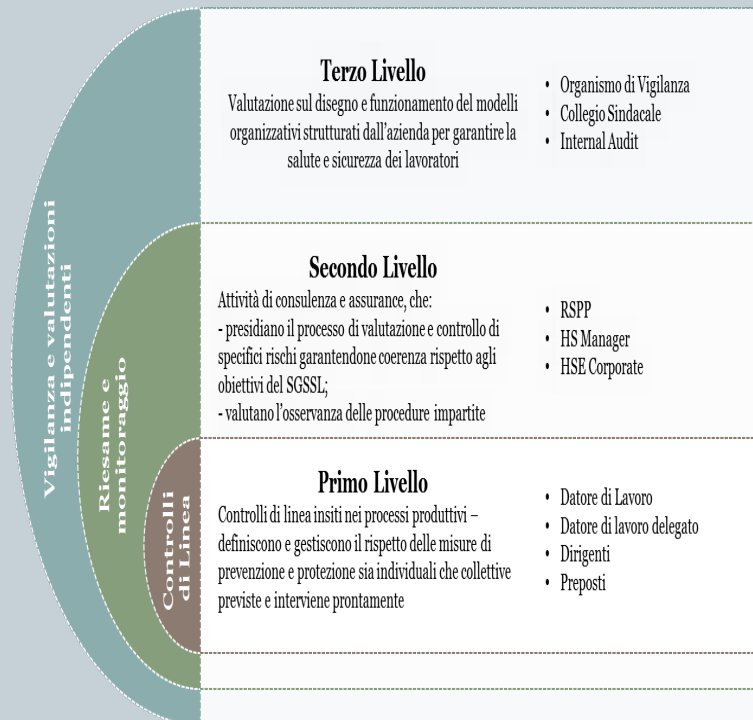
Focus su rischi insiti nel ciclo produttivo

## Finalità ultima:

Minimizzazione del rischio di condotte che configurino violazioni

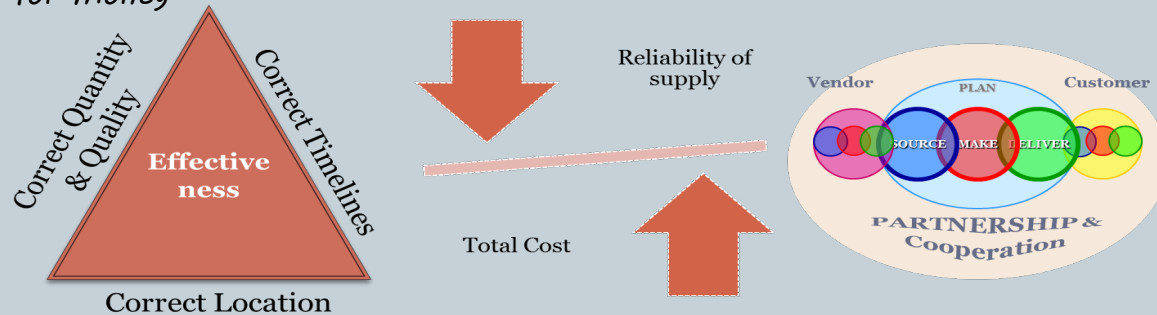
Focus su diligenza organizzativa dei soggetti responsabili di attuare ai vari livelli le misure in materia di salute e

Audit 231



# Case Study on Procurement Audit – Roberto Rosato

*Procurement is the Process to obtain, through Contractual Agreement, Timely and Correct Delivery of Goods and Services at Best Value for Money.*



*Procurement activities have always been considered very carefully by IA. Indeed, 100% of the annual audit plans for private and public companies routinely include engagements with purchase-to-pay activities within the scope because many of the risks and opportunities the company should deal with come from this area*



## Organization's strategy

- On average, 60% of total costs of an organization depends directly on procurement activities, which consequently affect the company's outcomes profoundly

## Risk and Control Management

- Procurement by third parties of goods (e.g., supplies) and services (e.g., works, rentals, advisories, etc.) represents, regardless of the business sector, a critical success process, where multiple and heterogeneous risks intertwine and interrelate (i.e., strategic, operational, reporting, compliance, etc.)

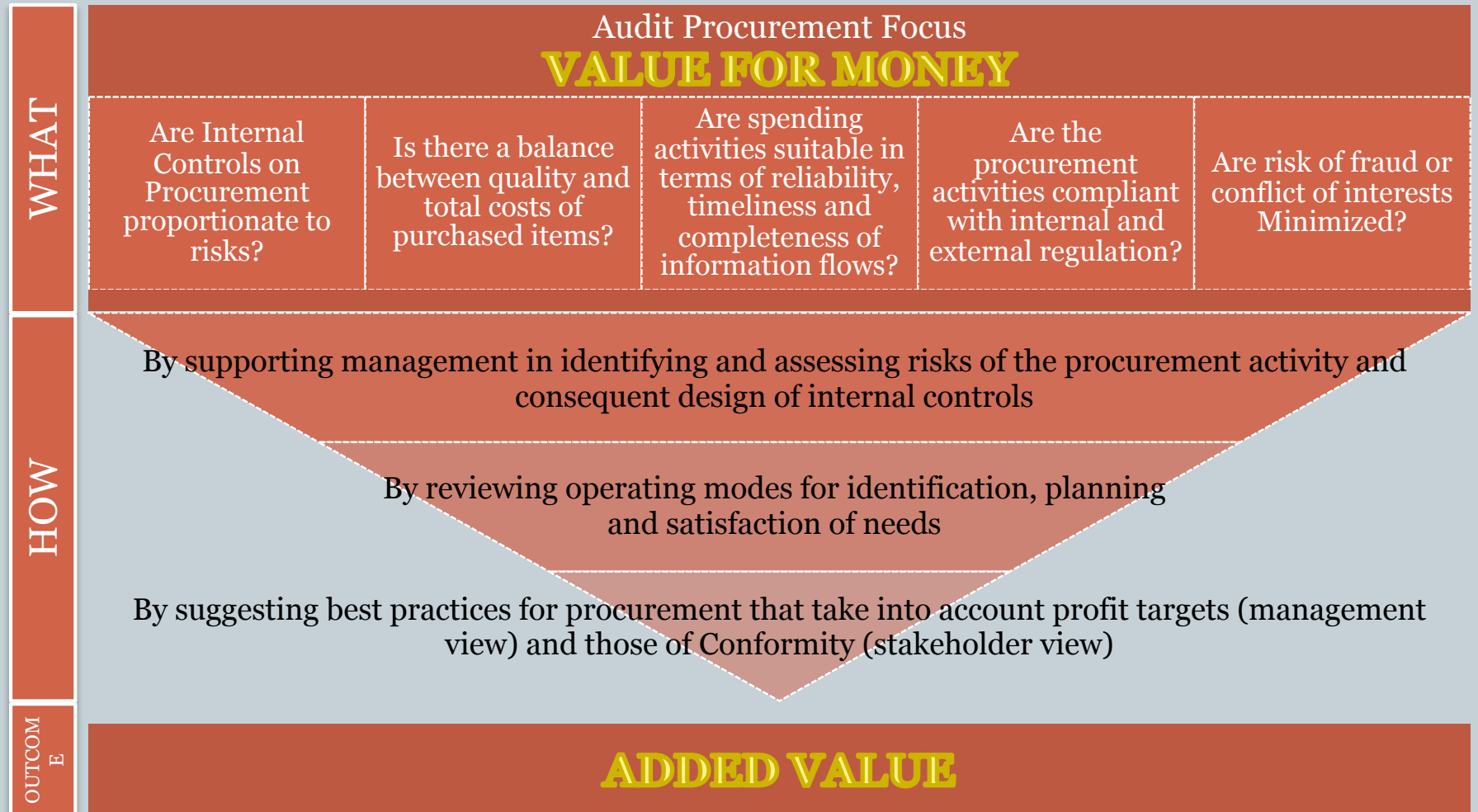
## Fraud Management

- Almost 80% of the most common fraud schemes involves at least one phase or function of the procurement process

## Compliance

- Almost all of the major binding legislations have direct impact on procurement governance and organization.

# Case Study on Procurement Audit – Roberto Rosato



# Russell and Bedford International

## Business World Magazine, March 2017

Business World



### About the author

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Fabio Accardi is Head of the Internal Audit Department and Ethics Officer at Astaldi S.p.A., a leading international construction group, specialising in large and technologically complex infrastructure. Astaldi has been listed on the Milan Stock Exchange since 2002.

Fabio has a degree in Economics from Naples University and an MBA from SDA Bocconi School of Management, Milan. He is a registered Italian CPA, registered auditor and associate and member of the teaching staff of the Italian Association of Internal Auditors. He is also a visiting professor on the Business Administration course at the University of Rome Tor Vergata and lecturer and member of scientific committee of the Executive Program in Compliance Management held at LUSS Business School, Rome.

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## Taking a strategic approach to risk management

When we think of risk we usually think of danger and the chance of something bad happening. This then gives you two things to consider: the likelihood of it happening and the potential damage it may cause.

Nevertheless, most successful business people understand that taking risks is essential. They also understand the premise that risk and return work in tandem: the higher the return you're looking for, the more risk you need to take.

### Risk management and its role in corporate governance

The way we've just defined risk is relevant to the way we examine it in a strategic context and how we deal with it from a governance point of view. In particular, once you've defined your corporate mission, strategies and objectives, you must identify the risks that threaten these aims and then decide the steps you'll take to mitigate those risks. Indeed, when you define your business strategies you must actively consider your appetite for risk and how much risk you are prepared to tolerate. After all, there is no point setting a business strategy or objective if you are unwilling to tolerate the risk you need to take to achieve it.

To develop the right risk management and control processes it is useful for all stakeholders to discuss the issues and reflect on the main factors that will determine your approach to risk management. In this sense, it is important to consider modern environmental factors that now significantly affect any approach to risk management.

These include:

- Technology
- IT and fraud related risk
- Environmental changes and natural disasters
- International politics
- Interest rates and foreign exchange fluctuations
- Inconsistent energy supplies
- Uncertain employment markets
- Business failures.

These risk factors have led companies to manage risk in a more systematic and interdisciplinary way using complementary and alternative solutions to the traditional ones, which merely transferred risk to the insurance sector using insurance policies.



# Russell and Bedford International

## Business World Magazine, March 2017



### An evolving international regulatory framework

Evolving international regulation may see new corporate governance rules aimed at improving the transparency of performance indicators and related risk factors.

The perception of the international political and financial community supports this view. In its 2015 Global Risks Report, the World Economic Forum (WEF) stated:

*"...in a world where risks transcend borders and sectors, the motivations underlying the Global Risks report at its inception in 2005 – to shed a light on global risks and help to create a shared understanding of the most pressing issues, the ways they interconnect and their potential impacts – are more relevant than ever."*

### Environmental and political risks dominate

Perhaps unsurprisingly, given the global financial crisis, economic risk was at the forefront between 2007 and 2014. In 2015, economic risk took a back seat in favour of:

- Potential water shortages
- Global spread of infectious disease
- Weapons of mass destruction
- Regional conflicts and wars
- Failure to deal with climate change.

### Managing risk in a global context

These issues are sufficiently important to make assessing risk in a global context extremely relevant to risk and control governance. An external environment characterised more and more by an increasing level of complexity results in a progressive broadening of perspective among those responsible for internal controls. This means you must focus on your company's long-term goals and the strategies you intend to follow by answering these two questions:

1. Does your business have the necessary resources to pursue its goals?
2. Does your organisational structure contain the resources you need to follow your chosen strategies?

Put differently, modern-day risk management requires your business processes to consistently respond to, and work towards, your long-term business goals.

In conclusion, those who have to deal with managing risk and internal controls must broaden their perspective: as well as understanding individual processes they must also develop a deep understanding of their business's policy and strategy.

This article is based on the first chapter of the book *Risk and Control Governance – a Value Creation Perspective* by Fabio Accardi, part of the *puntOrg* book series (general editor Luigi Maria Sicca).



### About the co-author

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...modern-day risk management requires your business processes to consistently respond to, and work towards, your long-term business goals.



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GOVERNO E CONTROLLO DEI RISCHI

# Governo e controllo dei rischi

Manuale per scelte consapevoli e sostenibili.  
Metodologia, casi ed esemplificazioni

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