RICHARD ARTHURS AND DORON TELEM

Meeting Risk Governance Expectations

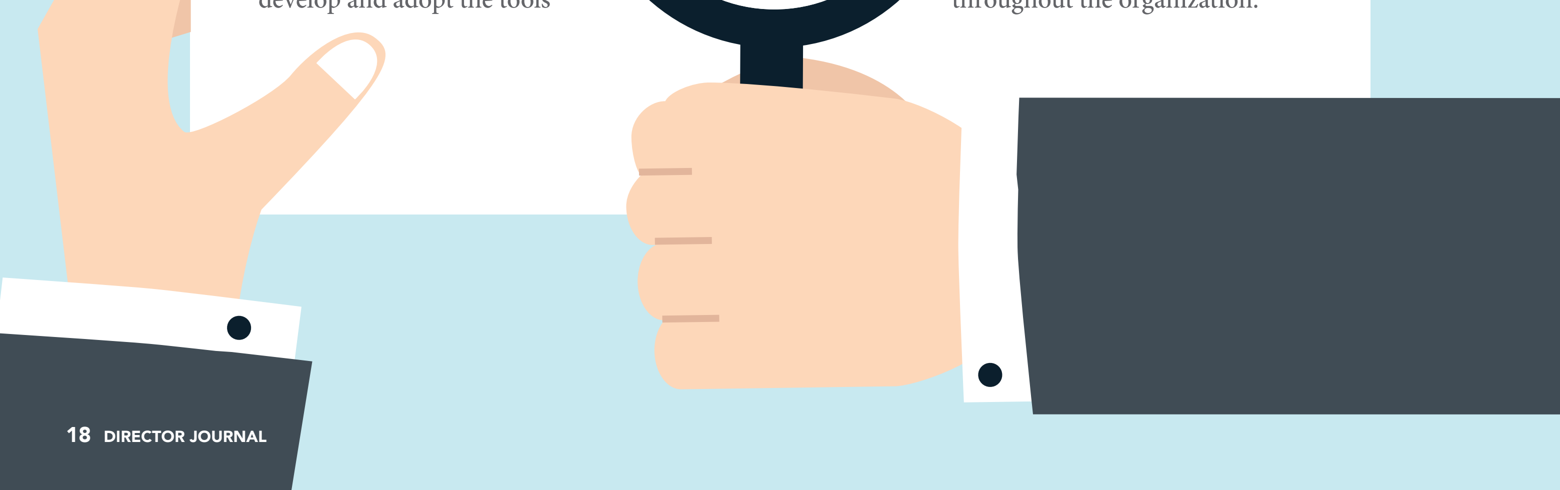
How internal audit can help audit committees tackle risk

The role of the audit committee (AC) is without question expanding, particularly in the area of risk. From cyber threats — such as hacking and cyber terrorism — to issues as diverse as privacy, disaster recovery and regulatory compliance, risk is occupying a growing amount of the AC's time. One way ACs can become more efficient and effective in addressing risk is to better leverage the support and expertise of their internal auditors.

While the internal audit (IA) role in financial reporting and assurance remains critical, the expectation that IA will help the AC assess risk within the business is increasing. That growth is not confined to simply improving the way the two groups interact directly. High-performing ACs want IAs to engage more fully, and apply their knowledge more effectively, in different areas of the organization.

To that end, ACs first need to better define the roles and responsibilities of IA and the various other bodies involved in oversight. It's important to then obtain a commitment from IA to develop and adopt the tools and methods necessary to understand and address the full spectrum of enterprise risk. For example, IA should be building a map of the enterprise-wide control structure. It can use various tools to categorize internal controls across the organization, which will facilitate a better approach to scoping IA projects and improve its capability to perform audits. IA functions today are rapidly incorporating the use of data and analytics tools — such as Alteryx, QlikView and Tableau — to extract, organize, understand and test data related to key controls. The insights can be shared with the AC and executive team.

It is vital for the AC to be in discussion with IA to assess whether it has the capacity to fulfill an expanded role or whether external advisory assistance may be required. The result for some companies will be an IA department whose role will be significantly different than it is today, including serving as a trusted strategic adviser for the AC, providing executive-level consulting around risk and fulfilling a greater role in governance activities throughout the organization.



COLLABORATION AND COMMUNICATION

Some industries, such as financial services and utilities — due to the regulations and risks they face — have already begun to leverage the potential of IA more effectively. To make this happen, defining and aligning oversight roles is an important step. This means a commitment to learning, communication and collaboration, for example, by making sure IA is invited to the executive management meetings as either observers or guests. Some companies are also making a point of involving IA from the outset on important capital or IT projects, to enable real-time assessment by IA as the project progresses. It's up to the AC to set expectations for such endeavours and to ensure IA remains current in key areas impacting the company, including market drivers, business plans, strategy and regulatory changes.

Once it's established who manages what key risks and what committees are involved, management and the CFO and CEO can begin bringing IA in to advise on more issues in other areas of the business.

MAXIMIZING IA VALUE

With the oversight structure in place, the AC can begin focusing on maximizing IA's value. This begins by ensuring IA has the necessary leadership, knowledge and skills to address the full spectrum of risks facing the organization and inspire confidence in its advice. If these elements aren't in place, pursuing those capabilities should be a priority. Once IA has enhanced its own leadership capabilities and expanded its knowledge and skills to address risk in more business areas, the AC can realistically begin to encourage IA to go beyond compliance and assurance and fill a more strategic advisory role with management.

It's also important that the AC push for healthy information sharing between the enterprise risk management (ERM) team and IA. Although IA always acts independently, any information ERM may have already gathered respecting key risks and mitigating activities may help IA focus its efforts.

Effective coordination of IA and ERM will improve risk coverage, reduce redundancies and increase management's confidence in the value of both functions. Additionally, the AC should regularly review the balance between IA's traditional role to provide compliance and assurance and its emerging role as a strategic partner.

MAKING IA A TRUSTED RESOURCE

In today's risk environment, ACs face an overwhelming task. As a result, we're seeing ACs raise expectations and put greater pressure on IA to perform. The AC should be able to leverage IA to help manage leadership's expectations around sensitive issues. IA should be a trusted resource; it should be the AC's eyes and ears within the business, with, of course, full transparency and appropriate communication with management. This will all be a fruitless endeavour, however, if the relationship between the two is not regularly managed and enhanced.

Management sometimes doesn't fully realize what IA can actually do. For example, IA can play a significant role in advising them on best practices and benchmarking. To make this happen, IA needs to build and nurture a trusted-advisory relationship with management — one that is often founded on the value-add that IA is prepared to provide. This expanded role could include multiple focus areas, depending on the business and the industry, from vendor management to process efficiency. It's important, of course, to keep in mind that IA can never create or own controls and risk treatment plans; it can, however, provide leading practices for both.

An IA function that is effectively engaged with other parts of the business is an invaluable resource whose advice should be regularly sought, considered and applied in an increasing variety of ways. The AC can, and should, help make this happen.

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