

# Improving the Effectiveness of the Internal Audit:

## *Challenges to the effectiveness of Internal Audit*

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# Value of internal audit

- The internal audit function should be able to tell :
  - when the organization is being poorly managed,
  - where critical risks are not being identified or properly managed,
  - when the organization's objectives are not likely to be met.

# Internal audit in practice(1)

- Internal audit does not always provide assurance.
- Internal audit does not always provide value-added consulting services.
- Internal audit does not often evaluate the governance processes.
- Internal audit does not often evaluate the risk management processes.

# Internal audit in practice(2)

- Internal audit operates as a second line of defense.
- Internal audit acts and is perceived as a compliance function.
- Internal audit inspects physical existence of assets, signatures, etc.

# Perception by stakeholders

- No added value.
- No business partner.
- No alignment with organization's strategy.
- Fear factor: from errors to punishment.
- No managerial talent.
- No meaningful KPIs.
- Not focused on the proper risks.
- No transparency

# Conditions of audit committees

- No proper monitoring of risk management, internal control and internal audit.
- Not always properly staffed.
- Not well prepared.
- No support when needed.
- Not existent.

# Conditions of organizations

- No risk and control culture.
- No risk ownership.
- No accountability.
- Control is not my business.
- Cost cutting affects control tasks.

# Efforts by the internal audit function (1)

- Internal audit should be an agent for change:
  - Change the risk and control culture of its organization.
  - Coordinate risk management activities.
  - Develop an assurance map for its organization.



# Efforts by the internal audit function (2)

- Focus on the areas that need to be audited, not what is easy to audit.
- Provide assurance on major risks.
- Audit the second lines of defense and, if OK, rely on the results of their work.
- Do not duplicate second line of defense activities.

# Efforts by the internal audit function (3)

- Develop a comprehensive audit/risk universe.
- Assess the risks on a periodical basis.
- Do not adhere to its audit plan in a rigid way.
- Develop metrics (KPIs) that are relevant to its stakeholders.

# Efforts by the internal audit function (4)

- Write reports with impact.
- Do not focus on problems but offer solutions.
- Solutions should not be academic but pragmatic.
- Listen to its stakeholders.

**THANK YOU!**

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