AN EVOLVING PROFESSION

• Prior to 1941:
  • Manual record-keeping, poor systems
  • Railroad companies: the first modern employers
  • Primary risks: error and theft
  • IA function: clerical

• Since then:
  • Technology: advanced information systems, automated controls
  • Complex organizational structures

• Today
  • High-level risks
  • Professional judgment; independent, objective assurance and consulting activity
  • Helps an organization accomplish its objectives
  • Banking Sector Requirement
  • Role in combatting corruption - international conventions against corruption (ex. UNCAC)

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IA WITHIN THE PUBLIC SECTOR

• Acknowledged in/by:
  • literature / standards: Std’s 9140 & 9150 of INTOSAI (Int’l Org of Supreme Audit Institutions)
  • research efforts: IFACI (The Institut Francais de l’Audit et du Controle Internes)
  • current practice: USA, UK, France, Brazil, Japan, South Africa, Bahrain...

• A decentralized function:
  • Specific to each individual governmental unit / ministry
    • Advisory capacity to its management
      • Presence – unique skill-set
  • may NOT be replaced by an external / centralized audit function

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THE EFFECTIVE IA FUNCTION

• The IA Charter:
  • A clear / formal statement establishing the IA mandate
  • Reviewed periodically
    • **Role & responsibility:**
      • To provide a formal and **impartial review and appraisal** of the design, implementation and effectiveness of operational activities & the risk (including **FRAUD**) management, control, & governance processes
        • Clearly distinguished from management’s responsibilities
      • To assist management
      • To assist the BOD / Audit Committee /High authority

• **Independence: KEY**
  • No line responsibilities; floating control
  • Free from any interference

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THE **EFFECTIVE IA FUNCTION**
THE IA CHARTER (CONT’D)

- **Reporting lines:**
  - Administrative: to the president / CEO/ Minister
  - Functional: to the Audit committee / BOD/Council (high authority)

- **Authority:**
  - Unrestricted access – without delay - to records, information, physical properties, personnel & audit committee

- **Scope of work:**
  - Integrity and reliability of financial and operational information
  - Effectiveness and efficiency of operations
  - Safeguarding assets
  - Compliance with laws, regulations, contracts & codes of conduct

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DEALING WITH FRAUD & CORRUPTION: CURRENT (REACTIVE) MODEL

1. Fraud incident
2. Investigation
3. Action
4. Resolution
DEALING WITH FRAUD & CORRUPTION: SUGGESTED (PROACTIVE) MODEL
Fraud & Corruption
- Explicit reference for responsibility in the Audit Charter
- If IA and F&C investigation functions are separate:
  - “the risk of non pursuit of control deficiencies increases […], even more so if it exists separately and outside the ministry”.
  - Responsibilities shared and clearly stated
  - Work programs should be coordinated
  - Findings / internal control deficiencies should be communicated

**Follow up** : adequacy and implementation of **corrective measures**

**Coordinate with external auditors** to ensure adequate audit coverage & minimize duplicate efforts

Develop an **IA activity plan** of engagements based on:
- The risk assessment of organizational activities
- Input of senior management/ the BOD/ higher authority
- Efficient & effective use of resources.
- Submit the plan to the **BOD/Council and to senior management** as appropriate, along with the staffing plan & financial budget for approval

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CONCLUSION

IA should be the ‘eyes and ears’ of the authorities to which it is accountable:
- Clear statement of role
- Intent to deliver its full potential: empowerment

- Sources:
  - Internal Control and Internal Audit: Ensuring Public Sector Integrity and Accountability; OECD, 2011