

Good Governance and its Impact on Internal Audit

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Internal Audit:

Internal Audit is a dynamic profession involved in helping organizations, to achieve their objectives through the systematic and disciplined approach to evaluate the effectiveness of risk management, control, and governance processes. Internal auditing today is essential and demanded by stakeholders to be applied as a tool of adhering to sound risk management and as a demonstration to the public that they are in control of their organizations. Internal auditors work across all the areas of the entities/organizations including tangible and intangible aspects ranging from the entity's supply chain or system to its culture /ethics.

What is Good Governance?

Good Governance can be defined as the structures and processes for the control of entities. It's a relationship between the management and board of directors. This proves that internal audit is now a matter of both private and public accountability for efficiency and accountability. A scrutiny from within the organizations is no longer an additional function but a very crucial fundamental foundation on which an organization is built.

Internal Audit's Role in Bolstering Good Governance in Public Sectors:

The role of internal audit in the public sector has changed over recent years. Good governance, in theory, is relatively easy to implement. Practically however, it can be challenging. There are various reasons for this in the public sector, including:

- The availability and diversity of key skills and experience.
- The availability of timely risk and performance data.
- A clear understanding of roles and responsibilities as they relate to key governance activities, including differentiating between “managing” and “overseeing”.
- Given these challenges, internal audit can provide timely and valued assurance and advisory services to support good governance.

Role of Internal Audit in Assessing or Advising on Governance Committees:

Good governance helps ensure that an organization or entity has oversight of its objectives and stays on track to achieve them, for instance: whether a system or major initiative is on track to be implemented on time, within budget, and to specification.

In all of these areas, audit can a vital role in considerations:

- Are roles and responsibilities documented and clearly understood? Audit support in this area can range from assessments and interviews with key stakeholders.

- Are plans and strategies clear and do they align with key objectives? Auditors can assess whether the right stakeholders have been involved in the development and approval of these plans; whether key milestones and risks are identified, regularly monitored by senior management/ governance committees.
- Is the right information (including both financial and non-financial) being reported to monitor progress against objectives and provide early warning indicator of key risks to management and committees. Auditors can further, assess this information with stated plans and the extent to which the information is leveraged to support timely corrective action.

Successful governance requires a culture where key stakeholders should have open discussions around risks and even failures. Embedding internal audit into various governance activities as an advisor can help ensure these open discussions are taking place.

Internal Audit's Role In Governance of Major Projects/ Initiatives:

Public Sector Organizations seem to be undertaking more organizational change, including major capital and IT projects, than ever before. The speed of technological change and aging public infrastructure has seen unprecedented demands on resources. With this comes increased risk in relation to cost overruns or delays or often both.

One of the important questions that are asked include, "Why do major projects have such remarkable challenges?" One way to answer that question is to consider it from governance and risk perspective (i.e. risks not being adequately identified or effectively managed).

This provides an opportunity for internal audit to provide assurance that there is effective governance around how risks are being managed and overseen. While internal auditors may not be subject matter experts in the particular capital project or IT implementation, there could be an opportunity to be involved in facilitating risk assessment or assisting in documenting the risks. Some of the considerations posed under how internal audit can support governance committees are equally relevant to the role internal audit can play in assessing governance over major projects. For instance, are the right people involved from a governance perspective, and is relevant and timely information being reported on the progress of the project or not.

Hence the need for internal audit for effective governance far outweighs the concern for the relationship if an organization/entity is to survive the economic competition and globalization and presents an opportunity for internal audit to be at the front line of an organization/ entity, giving assurance that risks are being managed effectively and major projects/tasks are on track for completion.