

Background to the Speaker

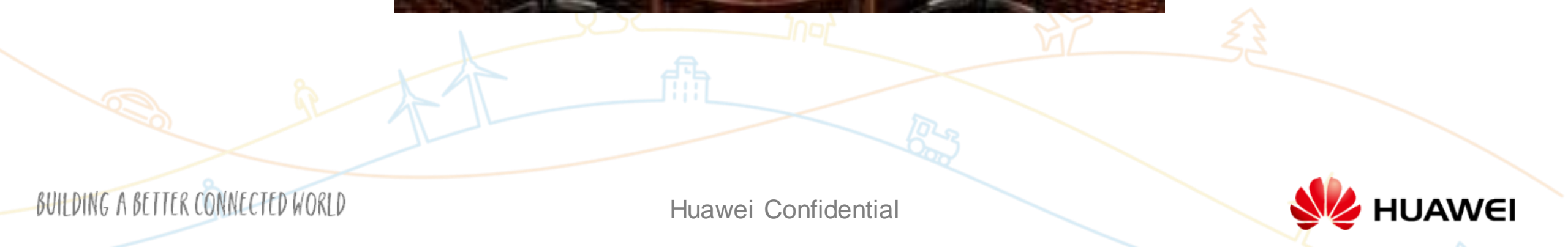
- ❑ Vice President, IA Centre of Excellence, Huawei
- ❑ Past Chairman - Global IIA (2012-2013)
- ❑ Past President of the ECIIA (2010-2011)
- ❑ Past President of the IIA UK and Ireland (2005-2006)
- ❑ Provided Capacity building in Internal Audit & PIFC since 1998
- ❑ Previously worked in the UK, Estonia, Latvia, Lithuania, Poland, Hungary, Czech Republic, Kenya, South Africa, Romania, Macedonia, Croatia, Serbia, Kosovo and Turkey
- ❑ Now responsible for developing internal audit capacity in a worldwide Chinese owned telecoms company

Agenda

1. *What is Governance*
2. *Internal Audit & Governance*
3. *How can IA influence Governance*
4. *Internal Audit & Risk Management*
5. *What should Internal Audit be doing*



1. What is Governance



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1.1 What is meant by Governance

Governance

“...a set of relationships between company’s management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.” (OECD)

1.2 *What is meant by Internal Audit?*

Lets look at the Internal Audit definition

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations.

It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and **governance** processes

1.3 Four Pillars of Effective Governance



“Internal auditing is perhaps the most important pillar in effective corporate governance and risk management. It has a unique position and can cover much broader risk areas than any external audit could.”

- Lord Smith of Kelvin

Suggests a close relationship with Governance & Risk Management

2. Internal Audit & Governance



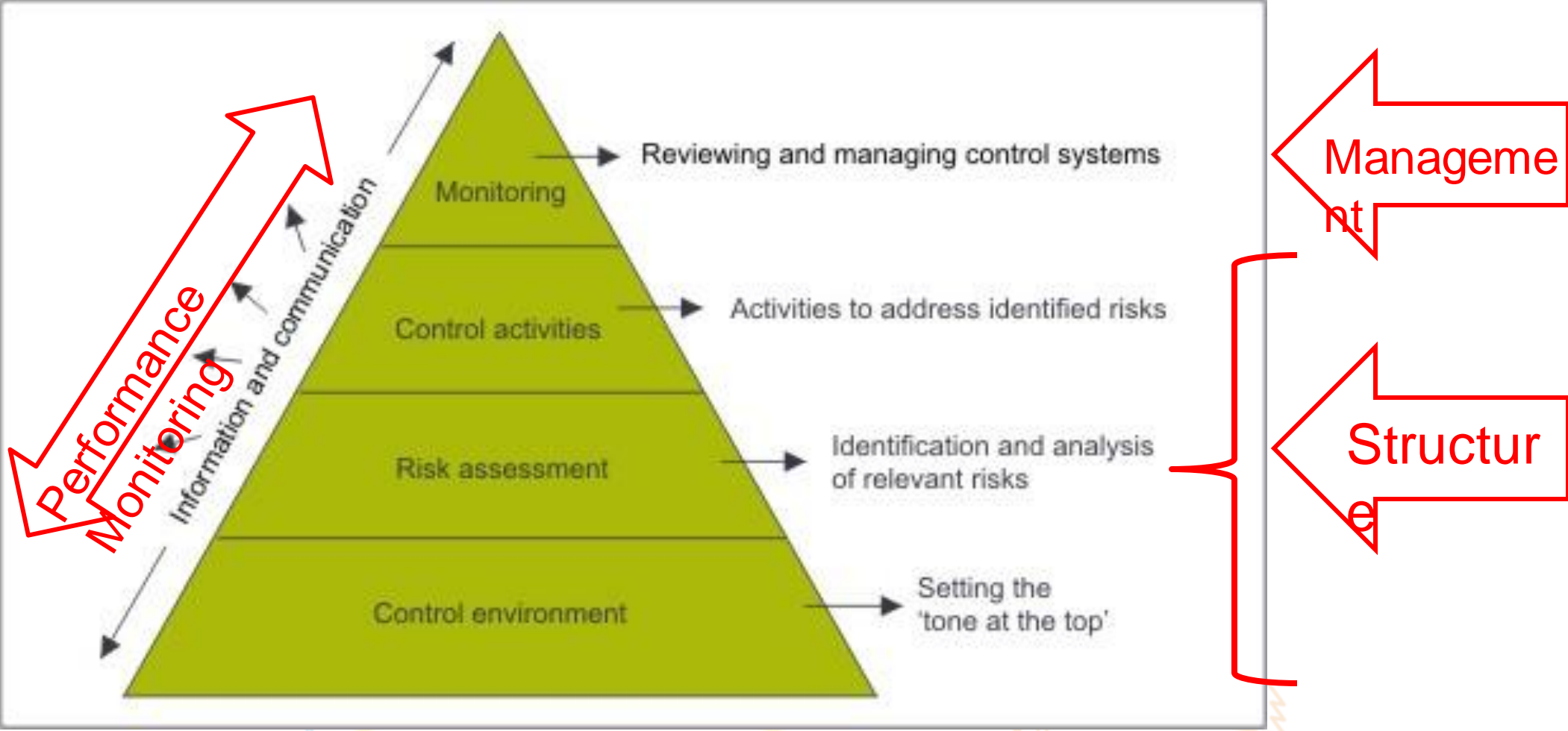
Perhaps not leading but certainly partnering

2.1 Internal Auditors and Governance

From the definition of Governance we get the following key words

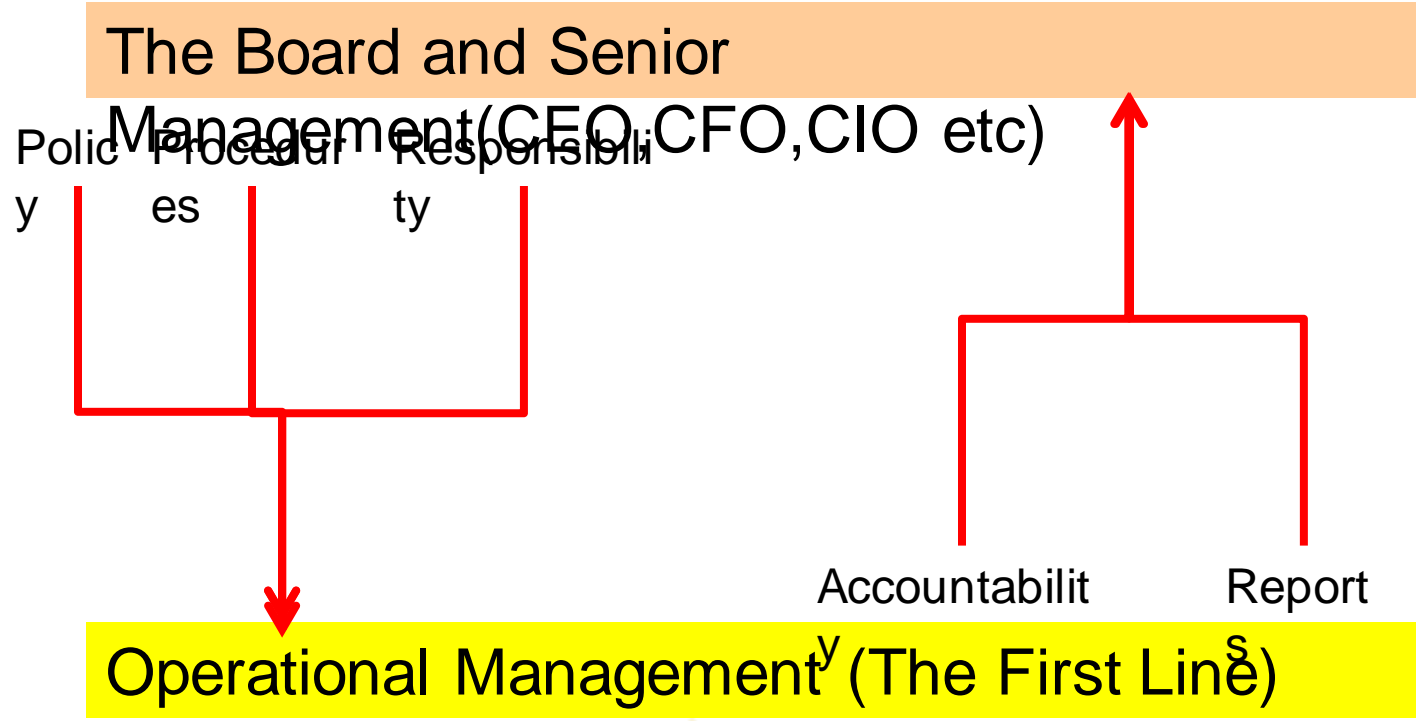
- Relationships between Management and the Board
- Structure
- Setting Objectives
- Means of attaining objectives
- Monitoring performance

2.2 Isn't this the basis of the Internal Control Framework



This is not new, this is the basis of organisational control

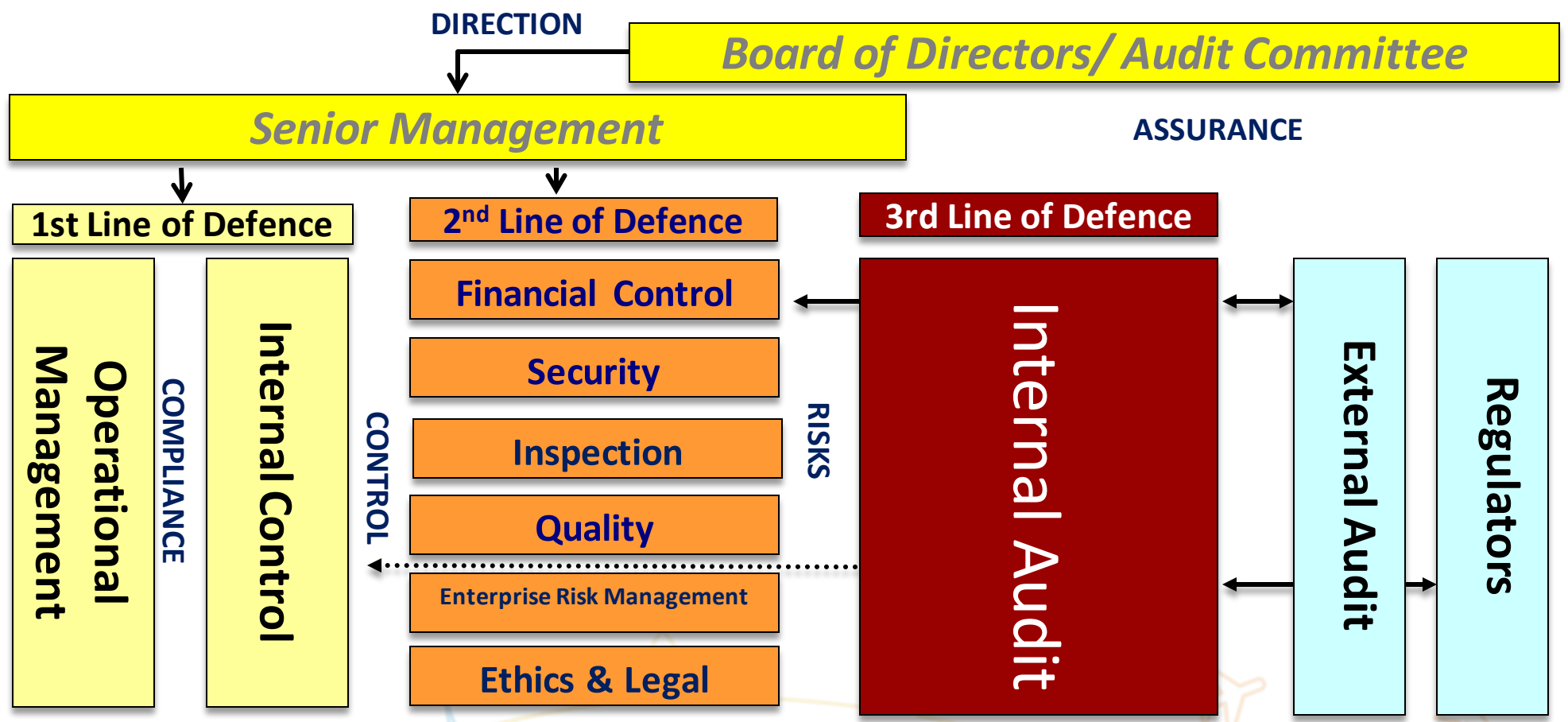
2.3 The Governance Flow



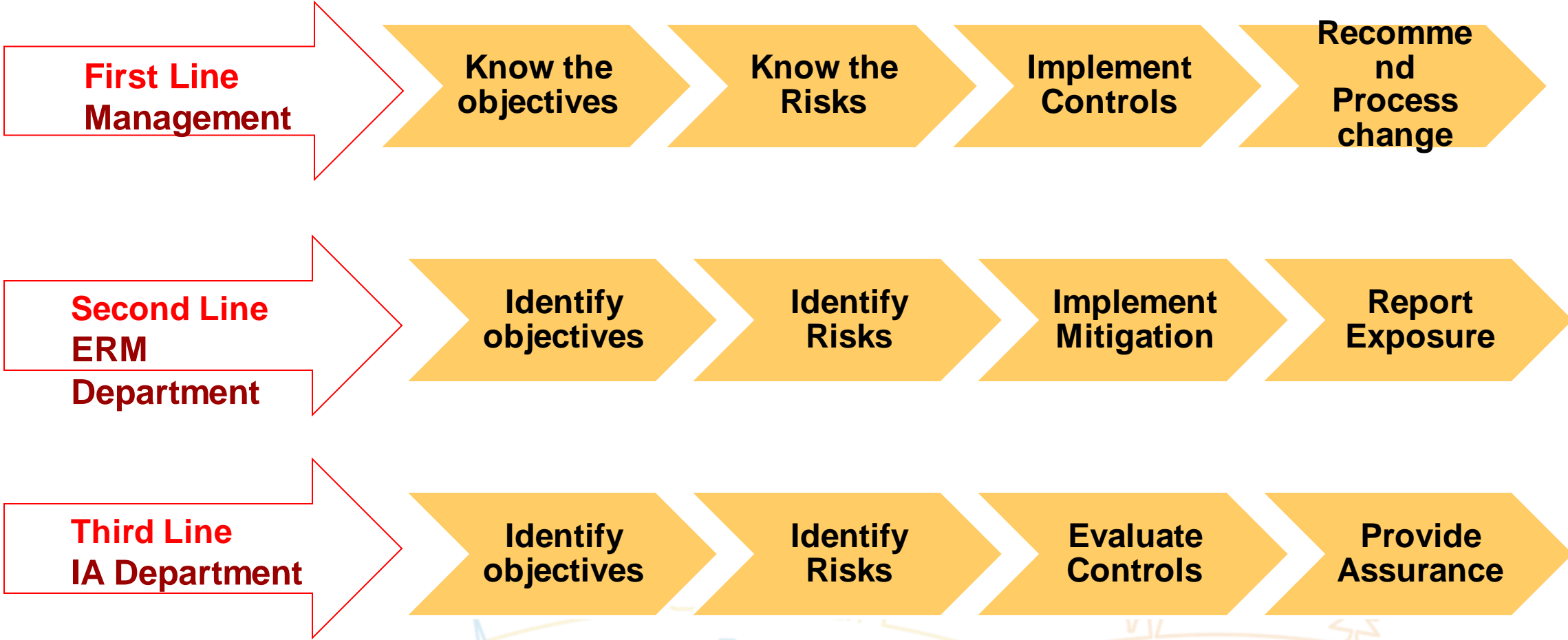
3. How can Internal Audit influence Governance



3.1 How can IA influence Governance - The 3 Lines of Defence



3.2 A shared purpose but with different roles



3.3 Everyone playing for the same team

Football managers often say that for the goalkeeper to miss a save, 10 other players must have missed it before him.

This third line role likens internal audit to that of a goalkeeper in a football match. When the ball is lost in midfield (first line) and the defence (second line) fails to pick up the opposition's attack, it is left to the goalkeeper (third line) to save the day.

There is a reasonable expectation that internal audit will identify the weaknesses in both first and second lines and failure to do so may lead to significant loss to the organisation.

1st line:
Business Management

2nd line:
Risk Mgt / Compliance / Others

3rd line:
Risk Based Internal Audit



External Audit and the Regulators are the Referee and Linesman

3.4 How to improve Governance

As part of Governance risks need to be identified so we need effective Risk Management



Sepp BLATTER



Michael GARCIA and Hans-Joachim ECKERT

Michael Garcia quits as FIFA ethics investigator

American lawyer cites 'lack of leadership' at the top of FIFA in resignation statement after leading investigation into 2018 and 2022 World Cup bid process. He resigned after an "erroneous" version of his investigation into the World Cup bidding process was published.

4. Internal Audit & Risk Management



4.1 IA & Risk Management - Using the components of Enterprise Risk Management

Internal environment

Objective setting

Event Identification

Risk assessment

Risk response

Control activities

Information and communication

Monitoring

**First Line
Implements**

**Second Line
Oversight**

**Third Line
Evaluates**

4.2 *Internal Audit's Role in Risk Management*

3 Lines of defence shows there is:

- Synergy
- Commonality of purpose

And there can be:

- Holistic use of outcomes
- Reliance upon each other's work

But could there be pitfalls

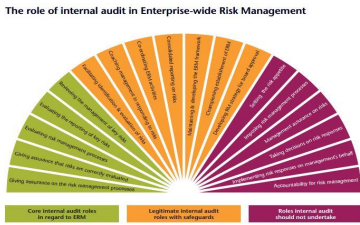
4.3 Internal Audit's Role in Risk Management

So with those advantages

Can the first, second and third lines of defence work together?

They can, but **SHOULD** they?

Some time ago the IIA introduced the FAN



4.4 Internal Audit's Role in Risk Management

The role of internal audit in Enterprise-wide Risk Management



It is still relevant

5. What should Internal Audit be doing



Goalkeeper

Fire
Fighter



Forward
visionary



Adviser

Anti
Fraud



5.1 What should Internal Audit be doing



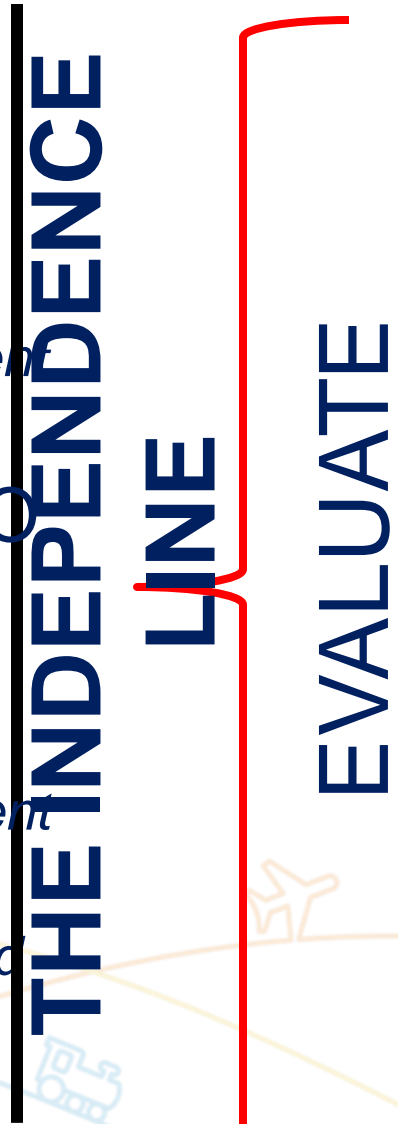
GOVERNANCE
Policies, Procedures, Internal controls
Determined by Senior Management



COMPLIANCE/CONTROL
Policies, Procedures, Internal controls
Enforced by First Line Management



RISK MANAGEMENT
All Operations Identified Assessed Mitigated and Controlled
Overseen by the Second Line



5.2 Improved Business Acumen



Internal Audit is there to serve the business and needs business knowledge in order to make recommendations that work

Without business acumen the internal audit department will be considered distant and with no practical authority in the organisation



5.3 Continue the base evaluation but enhance coverage

1. Support the increasing accountability requirements made of the Front Line
2. Take a holistic approach to risk so that the Organisation's risks form the basis of the work done by Internal Audit
3. Ensure that you identify the root cause of control failures

5.4 Communication skills

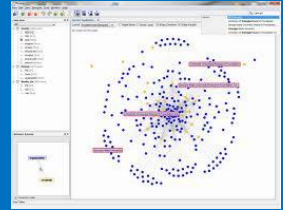
Listening



Reports



Visual Analytics



Social Media

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5.5 Understanding of Culture



Not to be underestimated

The things that you can see are easy to change



The things that you cannot see are difficult to identify and to change



5.6 Substantial Improvement in Quality Assurance



2015 Global Pulse of the Profession

- 34% of CAE's admitted to having a well defined QAIP
- 37% of CAE's said they were developing a QAIP
- 29% of CAE's admitted to not having a programme

The 2000 revision of the Standards made it mandatory for every IA department to have an external assessment every 5 years from 2002

5.7 Talent Management

PAST

Work for one firm for your lifetime

Keep your nose clean and seek promotion

Be loyal to the company

Be grateful to the company for your job

Expect to self learn

Be a General

Be a salesman

PRESENT

Many employers so attain skills to leverage career wherever it may take you

Have a network as you never know where the next job will be

Be loyal to self & ready to move for advancement

Money not the main motivator, in the company for what it gives you

Expect to have assistance in becoming professional

Expect to have someone mentoring and developing

Have comprehensive knowledge of business skills

PARTNERS WITH MANAGEMENT DEFINITELY BUT NO MORE

Someone needs to be available to provide reliable
assurance



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THANK YOU

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