

Role of IA in *Enhancing* Good Corporate Governance

Vaibhav Sachdeva

Global Risk Management Institute

Understanding Corporate Governance

Corporate governance is a framework that guides how a company's board of directors directs and oversees its operations to achieve strategic goals. It encompasses the relationships among management, the board, shareholders, and other stakeholders. At its core, corporate governance defines a company's objectives, outlines the strategies to reach them, and monitors progress.

This system consists of two key components: internal mechanisms—such as charters, bylaws, and the internal audit department—that ensure ethical and efficient operations, and external mechanisms, which include laws and regulations that hold the company accountable to the public. Together, these elements create a robust structure for responsible corporate conduct.

Effective leadership thinks about potential problems when making strategic plans for the organisation. This means understanding what could go wrong and how those risks might affect achieving goals. For risk management to be successful, it needs clear direction and support from the top.

Good governance provides that framework, ensuring risk management efforts are aligned with the overall strategy. Governance relies on internal controls to put the risk management plan into action. These controls are like safeguards that help prevent or minimise issues. Effective governance communicates how well the controls work to the board of directors. This transparency allows for adjustments and ensures everyone is on the same page about risk mitigation.

Governance is a two-pronged approach that guides an organisation's direction and ensures proper oversight. The strategic direction defines the business model, overall goals, acceptable risk levels, and ethical guidelines (code of conduct). Oversight, where internal audit plays a key role, involves monitoring activities like risk management, controls, and senior management actions. As the ultimate governing body, the board sets the overall direction, holds management accountable, and identifies stakeholder expectations. Within oversight, a risk committee plays a crucial role by pinpointing key risks, connecting them to management processes, assigning ownership, and ensuring risk tolerance aligns with the organisation's overall risk appetite. This combined approach ensures that the organisation operates effectively while managing potential pitfalls.



Governance is a continuous cycle overseen by the board and executed by senior management. Senior management translates board directives into actionable plans, assigns specific risks to designated owners, and establishes reporting requirements for these owners. The board and senior management periodically assess risk tolerance levels and governance expectations, potentially leading to

adjustments in risk management activities. Internal audits act as watchdogs, evaluating and improving governance processes. Risk owners, meanwhile, take the reins on their assigned risks, ensuring the design and operation of effective risk management activities, establishing monitoring procedures, and guaranteeing the accuracy, timeliness, and accessibility of information reported to senior management and the board. In short, governance functions smoothly through the collaboration of the board, senior management,

risk owners, and internal audit, all working together to achieve organisational objectives while effectively managing risks.

Why Corporate Governance is Important:

- **Reduced Risk and Increased Transparency:** Good governance helps identify and manage potential risks derailing company goals. It also ensures clear communication between different parties (board, management, shareholders) about these risks and how they are addressed.
- **Ethical Operation and Public Trust:** Effective corporate governance promotes ethical behaviour within the company. This fosters trust with the public and other stakeholders, essential for a company’s long-term success.
- **Achieving Goals and Objectives:** By setting a clear direction and holding everyone accountable, good governance helps organisations achieve their strategic objectives.

Learnings:

- The different mechanisms (internal and external) that influence a company’s behaviour and decision-making.
- The roles and responsibilities of various stakeholders involved in corporate governance (board, management, shareholders, internal audit).
- How to identify and manage risks through effective risk management strategies.
- The importance of internal controls and clear communication in ensuring smooth operations.
- How a well-functioning governance system fosters a culture of ethics and compliance.

Understanding these corporate governance aspects equips you to evaluate companies and their long-term prospects better. It also helps you grasp the inner workings of organisations and how different parties collaborate to achieve success.

Mapping Internal Auditing’s Impact on Governance

Here is a table summarising the roles, responsibilities, and strategic importance of internal auditing in governance.

Area	Description
Role and Functions	Acts as an independent advisor, providing objective assessments to improve the organisation’s functioning. Evaluates and strengthens risk management, internal controls, and governance processes.
Standards and Frameworks	Adheres to the International Standards for the Professional Practice of Internal Auditing and the broader International Professional Practices Framework (IPPF). Provides a framework for a range of internal audit services and establishes criteria for performance evaluation.
Key Standards	Internal Audit Performance Standard 2110 emphasises the role in strengthening governance, enhancing strategic and operational decision-making, overseeing risk management, and fostering ethical conduct. Evaluates IT governance alignment with organisational strategies.
Ethical Conduct	Governed by the Institute of Internal Auditors (IIA) Code of Ethics, focusing on principles of integrity, objectivity, confidentiality, and competency. Ensures internal auditors navigate ethical dilemmas and uphold professional standards.
Governance Structure	Adapts to the governance framework based on organisation type (public, private, non profit, government), size, complexity, and regulatory environment. Assesses the design and effectiveness of the organisation’s ethics programmes.

Area	Description
Audit Committees	Common in publicly traded companies, composed of independent directors overseeing internal and external audit activities. Ensure financial and ethical integrity, review audit plans and results, and facilitate communication between auditors and the organisation.
Advisory Role	Facilitates board self-assessments, recommends improvements, and assists with enterprise-wide risk management strategies. Monitors the corporate code of conduct and business practices. Evaluates the organisation's internal control framework and ethical climate.
Audit Planning	Develops a risk-based audit plan, considering higher-risk governance processes and controls. The plan includes specific governance processes, risks, and activities to review based on board or senior management requests.
Impact of Findings	Mindful of the implications of audit findings throughout the audit process. Ensures reports are accurate and legally sound by consulting legal counsel. Keeps the board and senior management informed at every step.
Extended Role	Beyond financial controls, assesses performance measurement systems and fosters a culture of fraud awareness. Reports management's responses to regulatory bodies and external auditor reviews.

Improving governance and audit practices within an organisation is critical for maintaining transparency, accountability, and sustainability. **Here are practical steps organisations can follow to enhance their governance and audit practices:**

- **Understand Regulatory Requirements:**

Organisations should comprehensively understand the regulatory requirements relevant to their industry and jurisdiction. This includes laws, regulations, and standards about governance and audit practices. For example, in the United States, organisations must comply with the Sarbanes-Oxley Act (SOX), which mandates stringent governance and auditing standards for publicly traded companies.

- **Establish Clear Governance Structures:** Define and implement clear governance structures within the organisation. This includes delineating roles, responsibilities, and decision-making processes across different levels of management. Establishing a clear governance framework helps ensure accountability and transparency in decision-making.

- **Develop Robust Internal Controls:** Internal controls are essential for mitigating risks and ensuring compliance with policies and regulations. This may involve segregation of duties, regular monitoring, and periodic assessments of control



effectiveness.

- **Invest in Technology and Automation:** Leverage technology and automation tools to streamline governance and audit processes. Implementing enterprise resource planning (ERP) systems, governance, risk, compliance (GRC) software, and data analytics tools can enhance efficiency, accuracy, and transparency in auditing and governance activities.

- **Promote Ethical Conduct and Integrity:** Foster a culture of ethical conduct and integrity throughout the organisation. This includes

promoting honesty, fairness, and accountability among employees and stakeholders. Establishing a code of conduct and providing ethics training can help reinforce ethical behaviour across the organisation.

- **Conduct Regular Risk Assessments:** Conduct regular risk assessments to identify and mitigate potential threats to the organisation's objectives. This involves identifying internal and external risks, evaluating their likelihood and impact, and developing risk mitigation strategies. Incorporate risk management into governance and audit processes to ensure comprehensive risk oversight.

- **Enhance Board Oversight and Independence:** Strengthen board oversight and independence to improve governance effectiveness. This may involve appointing independent directors, establishing board committees with specific oversight responsibilities (e.g., audit committee, risk committee), and conducting regular board evaluations to assess performance and effectiveness.

- **Implement Continuous Monitoring & Reporting:** Implement mechanisms for continuous monitoring and reporting of governance and audit-related activities. This includes establishing key performance indicators (KPIs), metrics, and dashboards to track progress, identify trends, and facilitate timely decision-making. Regularly communicate governance

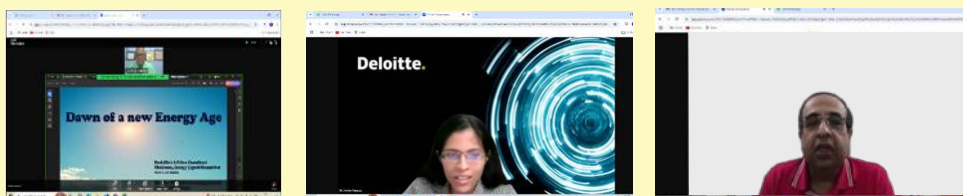
and audit findings to stakeholders through transparent reporting channels.

- **Encourage Stakeholder Engagement:** Foster open communication and engagement with stakeholders, including shareholders, employees, customers, and regulatory bodies. Solicit feedback, address concerns, and incorporate stakeholder perspectives into governance and audit processes to enhance transparency and accountability.

Conclusion

Internal auditing is a powerful tool for strengthening corporate governance by conducting audits to identify and evaluate risks. These audits provide valuable insights into the processes and structures crucial for the organisation's success. As the complexity and volume of risks organisations face keep rising, the role of internal audits is expected to broaden. This includes risk oversight, organisational culture and employee behaviour, sustainability practices, and non-financial reporting metrics. In today's environment with constant technological advancements, geopolitical shifts, cyber security threats, and disruptive innovations, a dynamic and adaptable internal audit function becomes essential for ensuring sound corporate governance.

Virtual Power Symposium Explores Digital Transitions Towards Net Zero



The recent webinar titled “Digital Transitions in the Age of Net Zero,” hosted by the IIA India Calcutta Chapter on October 19, 2024, marked a significant milestone in addressing the challenges and opportunities within the Power and Utility sector's journey towards net-zero emissions. Industry leaders and experts discussed digitalisation's transformative potential, emphasising advanced technologies such as AI-driven analytics, smart grids, and IoT-enabled energy management. Key discussions focused on leveraging these innovations to enhance energy efficiency, minimise carbon footprints, and foster sustainability across operations. Burzin Dubash, President of IIA India, shared insights on the energy sector being at a pivotal intersection of digital evolution and the shift towards net-zero emissions, urging internal auditors to prioritise critical risk areas, including cybersecurity, data integrity, and sustainability audits. With valuable insights from pioneering professionals, the symposium provided a strategic roadmap for power utilities aiming to align their digital strategies with sustainable impacts, thereby setting a new benchmark for resilience in a low-carbon future.