



AIF
ASIAN INSTITUTE OF FINANCE

Strategic Auditing The New Paradigm

Lanai Kijang,
Bank Negara Malaysia

Programme Facilitator: Dr. David Bobker



Strategic Auditing - The New Paradigm

Overview

The Global Financial Crisis (GFC) graphically illustrated significant failures in board competence, risk management, corporate governance, regulation and supervision. Politicians, regulators and financial institutions worldwide have been looking carefully at these issues to come up with revised rules and frameworks.

Just as risk management failed, it seems that internal audit did not deliver when it most needed to, so things cannot stay as they are. The aim of this programme is to set out a direction for next steps in the development of internal audit.

Experienced internal auditors are well aware that when a line manager describes how well the control systems for which he or she is responsible are performing, generally, on closer inspection, the reality is somewhat different. In the same way, most heads of audit believe they have adopted "best practice" and are carrying out "risk based audit" when in many cases they are not.

The profession of internal audit now needs to move forward, in particular into perhaps previously forbidden territory. Since internal audit reports direct to the board of directors via the audit committee, it stands very much at the centre of the governance of the organisation and needs now to focus itself more clearly on matters of that level of significance. Unfortunately, what may stand in the way is the approach and understanding of audit committees, boards, top managements and regulators who have not necessarily caught up with current thinking. Therefore we intend to discuss that key problem during the workshop and explore ways of dealing with it.

In addition, the profession of risk management is really coming of age and the true nature of the relationship between internal audit and risk management is an important matter which, in many organisations, has not yet been dealt with satisfactorily.

This programme takes the form of a working discussion, in workshop format to establish what if anything is required to make internal audit more effective, including changes in rules and governance codes if needs be. We set out a working framework based on the new paradigm as a basis to work from.

Guest Speaker

AIF normally invites a prominent leader from the business and finance world to share some of his/her own experience with participants within the theme of the programme, and then lead a discussion on a key topic. This allows participants to benefit from leaders who are able to relate first hand some of the interesting and complex issues of the human side of strategy and management as well as the theoretical side.

Who Should Attend

- Heads of internal audit and their direct reports;
- Board directors including members of audit committees who wish to clarify the role of internal audit and its relationship to the board;
- Top management and line managers who want to gain an understanding of the role of internal audit
- Risk managers, compliance, treasury and finance managers who want to understand audit better and the relationship between their own role and that of internal audit

Approach

The workshop will be an interactive seminar using the "action learning" principle where participants will debate the fundamental issues. An internal audit framework will be presented as a basis for the discussions supplemented by case studies to bring alive the issues. The overall aim will be to discuss critically how internal audit operates now and where it needs to go to become more effective.

Learning Outcomes

After completing the programme participants will be able to:

- Explain the principles of strategic risk management
- Explain the three areas of the risk curve and how each is managed
- Explain the principle of maximising return on allocated capital
- Explain the principle of inverse risk logic and the test to destruction
- Prepare a fully risk based annual audit plan
- Improve audit assignment plans
- Link more rigorously audit work to key risks
- Improve reporting by focusing on assurance as well as deficiencies
- Improve relationships with audit "customers"

Your Facilitator



Dr. David Bobker MA, DPhil, ACA, FRM

Dr David Bobker is Deputy Director, Risk Management Centre at the Asian Institute of Finance which he joined in April 2010. Prior to that he headed his own risk management consulting and training firm. During 2009 and 2010 he developed and led the risk management module of the Financial Institutions' Directors Education Programme (FIDE) sponsored by Bank Negara Malaysia.

Dr Bobker's career has been in the financial services industry. He led group internal audit in two major UK financial institutions for over 10 years during which time he developed and implemented the approach put forward in the workshop. In the 1980's he trained as a UK Chartered Accountant with Peat Marwick Mitchell in London (now KPMG) specialising in insurers and Lloyds syndicates and later worked with Touche Ross (now Deloitte) at the time of the introduction of financial services regulation and compliance. He was Head of Group Audit for UK mortgage bank, Alliance & Leicester plc (where he was also Group Compliance Officer) and then for the insurer, Norwich Union plc (now Aviva). He also worked as a supervisor of mortgage banks at the Building Societies Commission (now part of the FSA). He holds a DPhil in mathematics from Oxford University and also the Financial Risk Manager (FRM) qualification from the Global Association of Risk Professionals.

Strategic Auditing Programme Outline

Course Content

Introduction and Course Objectives

1. Strategic Risk

The key elements of strategic risk management will be discussed. Strategic risk assessment is the basis of internal audit work. This session will cover strategic planning, analysis of the business model and how strategic risks may be identified. The extent of internal audit coverage of the business strategy will be discussed and how, if at all, this differs from standard practice.

2. Risk and Risk Management

The “inverse risk logic” approach will be explained and how it relates to the business strategy and business model. The three areas of the risk curve will be covered and how this relates to capital management and the optimization of business mix. The that catastrophic risk is (or more usually is not) managed will be covered together with the need for a critical vulnerability review to identify the potential catastrophes faced by the organization. The type of board reporting system (including the level 2 control system) required for effective strategic risk management will be covered and the usual shortfalls from the ideal faced in reality.

3. Risk Governance and Internal Audit

Internal audit by virtue of its direct reporting line to the board is central to effective corporate governance – or should be. The implications of this will be discussed to understand better the proper role for internal audit. The importance of clear statements of materiality will be explained so that internal audit may focus solely on the strategic risks where lower level issues are dealt with by line management. The role of the board and board committees will be covered also and the often erroneous expectations of the directors and what can be done about it.

4. Overview of Risk Based Auditing

Risk based audit under the new paradigm will be explained. The standard approach to risk based audit is generally bottom up. However, under the new paradigm, following inverse risk logic, the role of internal audit is much clearer as is the approach to planning and executing an audit plan. This session will give an overview of the whole process, highlighting differences with the standard approach.

5. Annual Planning

Following the overall methodology this session will demonstrate how an annual plan may be formulated, linked directly to the business strategy and business model. Illustrations of the kind of documentation to be produced will be covered as well as issues surrounding approval of the plan by the audit committee.

6. Assignment Planning

The implications of the approach for assignment planning will be discussed. Emphasis will be placed on high level assessment of the key risks including an assessment of risk culture and the need for close examination of the performance measurement system and individual KPI's. The need for clarity in the linkage between risk and audit work will be discussed as well as what needs to be looked for by way of the level 2 control system.

7. Gathering Evidence

The approach to evidence is not much different under the new paradigm. However, there are issues to be discussed such as :

- the misunderstanding of the value of compliance samples which, in general terms, contribute almost no useful evidence;
- the assessment of risk culture
- the assessment of the risk reporting systems

8. Issues, Action Plans and Reporting

The way internal audit reports to management and the board is critical to its success. For example, it is proposed that internal audit should not make recommendations to address identified weaknesses since that cuts across management responsibility for managing risk. Some local internal audit functions already follow that approach. The most effective way to report will be discussed including how issues are graded and colour coded and how positive assurance may most effectively be reported as well as issues to be addressed.

9. Summary and close

A “wash up” session to summarise the key issues which have been discussed during the workshop.

Strategic Auditing - The New Paradigm

Participant 1 Mr. Ms. Mrs. _____

Name (To Appear on Tag) _____

Job Title _____ Email _____

Participant 2 Mr. Ms. Mrs. _____

Name (To Appear on Tag) _____

Job Title _____ Email _____

Participant 3 Mr. Ms. Mrs. _____

Name (To Appear on Tag) _____

Job Title _____ Email _____

Company _____

Address _____

State _____ Postcode _____ Country _____

Telephone _____ Fax _____

Payment must be made before commencement of programme.

Programme fee:

- * RM3,100 per pax
- * **RM2,799 per pax** (First 10 to register)
- * **RM2,499 per pax** (Group registration of 3 or more)
- * **RM2,600** (For Government and Public Sector)

Payment:

Booking should be made on the booking form above. Following receipt of the booking form, an invoice will be issued and the booking will be confirmed on receipt of full payment of the fee. Payment should be made by bankdrafts made payable to "Asian Institute of Finance Berhad". Telegraphic Transfer can also be arranged upon request.

A 50% cancellation fee is payable for cancellation more than 2 weeks before the programme commences. The total fee is retained in the event of cancellation less than 2 weeks before the commencement date.

Kindly forward or fax the Booking Form to:

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