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The Emerging Role of Internal Audit in Risk Governance

INTRODUCTION

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We will examine the role of IA in risk governance by going through how perceptions changed and clarity of the IA role was obtained.

Then we will examine the role under the current scenario.

And finally, we will try to do crystal ball gazing to envisage the role in the future era of digital transformation and block chain technology

INTRODUCTION

Risk governance under ERM is an integral part of corporate governance. The Board of Directors is responsible for the ERM framework. The Audit Committees requires internal auditors to review and provide assurance on the effectiveness of the ERM framework.

The objective of the presentation is clarify the role of the internal audit, how it has emerged over the years and the expectation in future business environments.

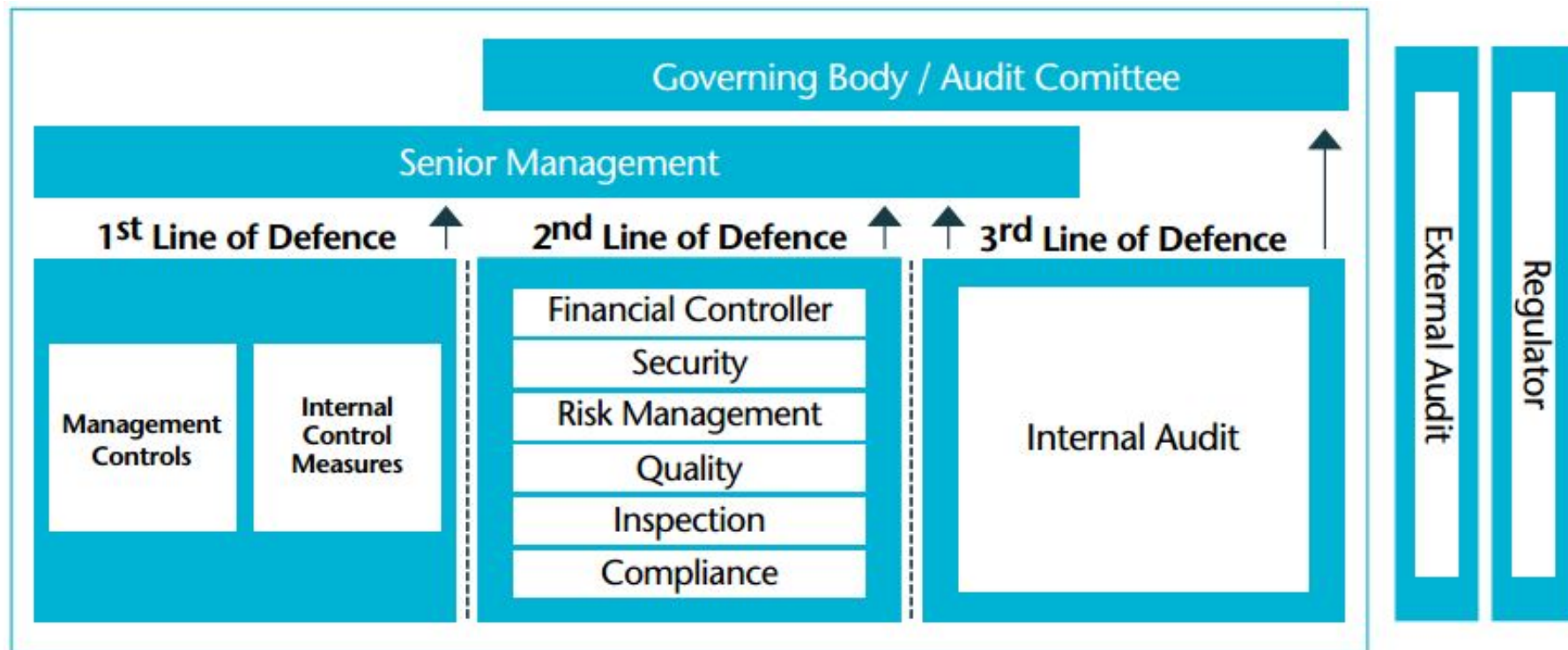
Emerging Clarification of IA Role in RM

1. View of the International Risk Management Institute (IRMI)
2. 2010 IIA Global Internal Audit Network (GAIN) survey

	Survey Questions – Description of Role of Internal Audit	Results
1	Providing consulting and advice on risk management	77%
2	Being a catalyst in the formation of a risk management framework	48%
3	Active participation in implementing risk management	45%
4	Provide independent assurance on RM function	40%
5	Assistance on RM function	20%

3. 2013 IIA Position Paper on 3 Lines of Defense

3 Lines of Defense



Role of Each Line of Defense in Risk Management Process

FIRST LINE OF DEFENSE	SECOND LINE OF DEFENSE	THIRD LINE OF DEFENSE
Risk Owners / Managers	Risk Control and Compliance	Risk Assurance
<ul style="list-style-type: none">- Operating management	<ul style="list-style-type: none">- Limited independence- Reports primarily to management	<ul style="list-style-type: none">- Internal audit- Greater independence- Reports to governing body

IA role with regard to ERM is to provide objective assurance to the board on the effectiveness of risk management and provide assurance that the internal control framework is operating effectively.

The Role of Internal Audit in Enterprise-wide Risk Management



Internal Audit Roles with Safeguards

1. The nature of internal audit's responsibilities should be documented in the **audit charter** and approved by the Audit Committee, understood and recognized throughout the organization.
2. It should be clear that management remains **responsible** for risk management.
3. Any work beyond the assurance activities should be recognized as a **consulting engagement**.

Business Risk

A ship is safe in the harbor, but that is not the purpose.

Any business venture entails a degree of risk.



Enterprise Risk Management (ERM)

COSO has defined ERM as: a process applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity adversely and manage risks to be within the risk appetite, to provide assurances regarding the achievement of the entity objectives.

Enumerating IA's Role through aspects contained in the COSO Definition

1. Business Objectives
2. Risk Identification
3. Grading / Prioritizing Risks
4. Unmanaged Risks – Risk Appetite
5. Risk Maps
6. Risk Register
7. Risk Champion

Co-sourcing Audits

Specialized functions can be reviewed by external service providers where relevant in-house resources are not available.

IA's Role in Risk Governance in the near future

In the forthcoming era under Digital Transformation (DT), the structure of doing business will change drastically. Under DT business processes will lose significance and innovation strategies will be at the forefront. IA's role will be to review strategies in terms of achieving business objectives and to ascertain whether the staff is provided with relevant training in the new technology.

IA's Role in Risk Governance in the next decades

Block chain technology will be at the forefront of all financial transactions. In view of distributed open ledgers, and immutability of transactions, risk control for avoiding hacking of data will be rendered meaningless. IA will need to focus at source on the introduction of data that forms the block before logarithms can be applied to validate the transaction that will be added to the block and later the chain.

Educating the Operating Staff

- Explain staff owning key business processes the concept of risk – hindrance to achievement of objectives.
- Distinction between cause and impact of risk.
- Distinction between localized and enterprise wide risks
- Grading of risks based on cost of impact and likelihood of occurrence.
- Corrective and preventive measures to manage risks.
- Identifying unmanaged risks.
- Establishing criteria for classification of unmanaged risks
- Management approvals for risk appetite.
- Compilation of risk register.

Conclusion

- Risk management is a fundamental element of corporate governance.
- Management is responsible for establishing and operating the risk management framework on behalf of the board.
- Internal auditor's core role in relation to ERM should be to provide assurance to management and to the board on the effectiveness of risk management.
- When internal auditing extends its activities beyond its core role, it should apply certain safeguards.



Thanks for
Attention