



“The Internal Audit Professionals”™

CORPORATE GOVERNANCE

Corporate Governance today requires attention to detail and an active and engaged board of directors. Thanks to Sarbanes-Oxley, gone are the days of asking your golfing buddies to serve on your board of directors – at least for publicly traded companies. Corporate Governance is also a concept that means different things to different people. Chances are that if you ask five different people for a definition of Corporate Governance, you’ll receive five different answers.

From an Internal Auditing Perspective, Corporate Governance should mean primarily one thing; ensuring that sufficient Corporate policies and procedures are in place and are adhered to in order to ensure that financial results are presented to shareholders in an accurate and transparent manner. Occasionally, Corporate Governance is interpreted as the ability of governing boards to motivate, provide incentives, and otherwise reward corporate management to improve financial performance through the use of questionable accounting techniques.

The Internal Auditor and Audit Committee each have roles to play in matters of Corporate Governance. Internal auditors are to ensure that an organization is efficiently run, morally sound, technologically advanced, cognizant of the environment and other areas of concern, and safe from unnecessary risk.¹ The audit committee is to provide assurance that the corporation is in compliance with laws and regulations, is ethically sound, and maintains effective controls against employee conflict of interest and fraud. This means the internal auditor has a duty to work closely with the board of directors and audit committee members to address and correct deficient operating procedures, and recommend corrective actions. This duty doesn’t end with an evaluation of the system of internal controls. Corporate Governance or “The Tone at the Top” extends far beyond the implementation of a sound internal control system. Corporate Governance gives birth to a culture which typically permeates a boardroom and engulfs middle level management, transforming them into an army of corporate loyalists. The culture that these mid-level managers buy into can be good, bad or somewhere in between. The role of the internal auditor is to ensure that the culture that puts its stamp on the organization is one which, in addition to adopting morally sound business practices, also encourages corporate-wide accountability and allows the expression of divergent viewpoints. Adopt the mantra that states, “Where all think alike, no one thinks much”, and encourage healthy and

productive discussion within your organization. Maintain a healthy professional skepticism if something appears awry.

Interaction with the audit committee is a crucial responsibility of internal auditing in today’s business environment. Even though external auditors took the fall for the Cendant and Enron scandals, many rightfully ask, “Where were the internal controls and the internal auditors?” Although the Institute of Internal Auditors stresses the importance of “mutual cooperation” between internal auditors and the audit committee, in reality, effective internal auditors assume a much more active role and should assume a fiduciary responsibility when interacting with the audit committee. In addition to taking direction from the audit committee, internal auditors should provide guidance to the audit committee. As in any good marriage, both parties should feel free to communicate openly and directly and work together for the common good without fear of retribution or reprisal. Internal auditors have a moral obligation to notify the audit committee if the corporation is in violation of laws or regulations, is conducting its affairs unethically, or is permissive of employee conflicts of interest. Audit committees should solicit the input of internal auditors, be actively involved in the development of the annual internal audit plan, and should expect internal auditors to examine and evaluate the adequacy and effectiveness of the organization’s systems of internal controls.

PRI AUDIT & CONTROL is a full-service professional internal auditing firm, owned and operated by Certified Internal Auditors, who are also CPA’s. We have extensive experience working with audit committees and board of directors in many different industries and have taken an active role on behalf of our clients when interacting with corporate board members. We’ve adopted a proactive approach to matters of Corporate Governance, and are committed to maintaining the integrity of the internal auditing profession, and increasing the role and stature of the internal auditing profession. Ask us about our audit committee oversight and evaluation tools.

PRI AUDIT & CONTROL has experience and expertise in all areas of internal audit. For more information on our approach to Corporate Governance or any of our Internal Audit, Risk Management or Consulting services, please contact:

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¹ “Internal Auditing and Corporate Governance: Where’s the Connection?” www.theiia.org, Document #344