



Auditing Governance

Presented by: Susan Landauer
Partner, Forensic Accounting Services Group, LLC

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Agenda

- What is Governance
- What is a Governance Audit
- Why perform an audit
- What is the framework
- What is Internal Audit's role
- Key questions for consideration
- Assessment components
- Reporting
- Pitfalls

Governance

- IIA defines as: the combination of processes and structures implemented by the board in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.
- The Organization for Economic Co-Operation and Development defines as: The procedures and processes according to which an organization is directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organization-such as the board, managers and other stakeholders – and lays down the rules and procedures for decision -making.
- Ethics is a very important part of governance.



Culture

"Culture, more than rule books, determines how an organization behaves."

Warren Buffet

What is a Governance Audit?

- An evaluation of existing governance framework around organizational strategies, oversight, ethical behaviors, and corporate culture.
 - Includes codes of conduct / acceptable employee conduct

Why Perform a Governance Audit

- Does your credit union demonstrate sound governance practices?
- Has it....
 - Demonstrated commitment to integrity and ethical values?
 - Exercised oversight responsibility?
 - Established an appropriate structure, authority and responsibility?
 - Demonstrated commitment to competence?
 - Enforced accountability?

Framework: Three Lines of Defense



Internal Audit's Role

- To ensure the following...
 - Design fits with purpose and goals of the credit union
 - Standards are communicated and understood at all levels
 - Structure provides support of objectives
 - Desired outcomes are being achieved
 - Management is upholding commitments



Key Questions to Consider

1) Assess compliance against external or internal standards and expectations?



Key Questions to Consider

2) Conduct specific audit of governance or incorporate into other entity assessments?

Three main factors:

- Organizational complexity
- Size, structure and experience of IA function
- Existing audit types in universe/plan



Key Questions to Consider

3) Extent to evaluate design versus operating effectiveness of governance?



Key Questions to Consider

4) Will the audit be a point-in-time review or include both backward and forward-looking perspectives?

- What is the context?



Key Questions to Consider

5) Should the audit consider assessment of experience and competence of leadership?

- Board
- Committees
- Senior Management
- Others

How to “Slice” Governance

- Geography / Legal Entity
- Business lines and functions
- Management Philosophy – integrity and ethics
- Board / Supervisory Committee
- Activities
- Organizational Structure
- IT Controls and Structure

What to evaluate?

- Entity-Level Control Categories
 - Bylaws
 - Board, Human Resource, and Management Policies
 - Board, Sub-Committee, and Organizational Structure
 - Communications (Tone At The Top)
 - Reporting (Regulatory, Financial, and Internal)
 - Etc...

Entity Focus

- Entity-Level Control Categories
 - Management philosophy
 - Integrity and ethics
 - Board/Supervisory Committee
 - Assignment of authority/responsibility
 - Organizational structure
 - HR policies and practices
 - Commitment to competence



Management Philosophy

- Strategic/Business plan
- Policy and Procedure Manual
- Board/Committee reporting
- Budget/Forecast (ALM Model)
- Financial reporting
- Internal Audit plan



Integrity and Ethics

- Code of Conduct (Ethics Policy)
- Fraud Prevention Policy
- Whistleblower Policy

Board/Supervisory Committee

- Code of Conduct
- Conflict of Interest
- Tone at the Top
- Committee Charters
- ALCO
- Board Oversight of Management
- Knowledge and Expertise
- Risk Assessment (ERM)



Assign Authority/Responsibility

- Assignment process
- Segregation of duties
- Change management
- Operations monitoring

Organizational Structure

- Divisions/Departments
- Reporting lines
- Legal
- Internal Audit (independent)



Human Resource Policies

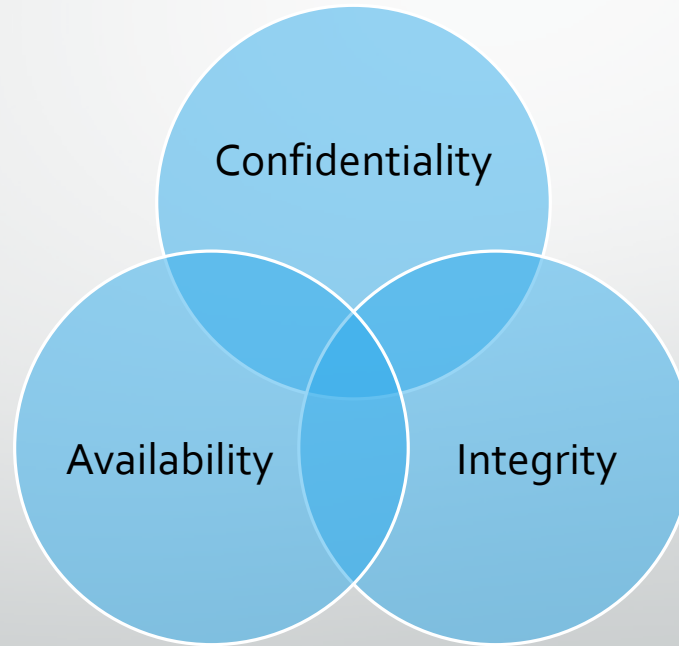
- Hiring and retention
- Code of Conduct
- Conflict of interest
- Ethics
- Whistleblower
- Training
- Performance evaluations

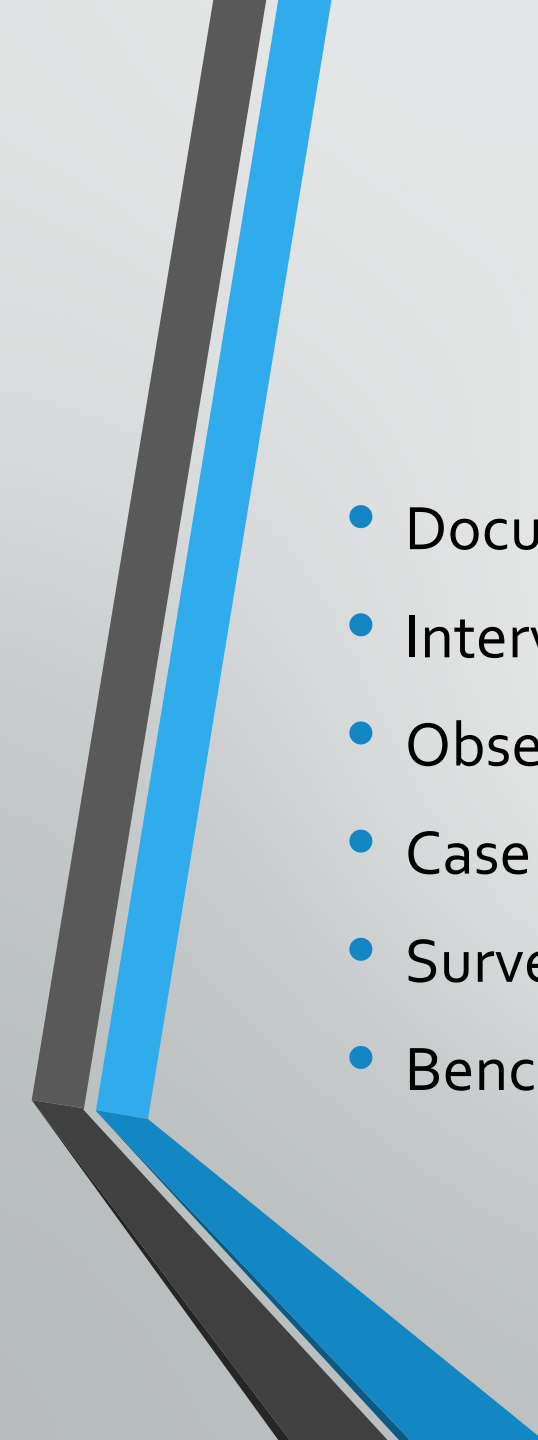


Commitment to Competence

- Development/training (all levels)
- Education/Tuition Assistance Program

Information Security Governance





Internal Audit Approach

- Document review
- Interviews
- Observation
- Case Studies
- Survey
- Benchmarking

Document Review

- Organizational Charts
- Meeting agendas and minutes
- Schedules of delegated authority
- By-laws and governance manuals

Interviews

- Can provide insight into existing strengths of organization, as well as areas for improvement and development
- Interviews must be considered confidential, so they feel free to talk. Retaliation must not be a concern
- Possibly hold outside of the credit union. May present as a less threatening atmosphere, a place of trust.
- Interview suppliers and consultants regarding their experience with credit union
- Record the interviews; ask same questions so answers can be tabulated, if possible.

Observations

- Observe meetings where governance is exhibited:
 - Evaluating the process of debate
 - How does culture / ethics / governance process effect outcome?

Case Studies

- Deep dives of processes for:
 - Transactions
 - Corporate events
 - Significant decisions
- Processes include escalation of situations, decision making, and approvals

Surveys

- Get individual perspectives on key issues identified
- Determine target recipients
- Include benchmarks, such as level of employment, duration of employment, and prior experience with processes being surveyed (i.e.. Whistleblower)

Benchmarking

- Include external data to compare results
 - Annual reports
 - Call reports
 - Industry data

Report and Communication

- Internal Audit Report
- Meeting with Executive Management
- Board
- Supervisory Committee

Pitfalls in Conducting the Audit

- Inadequate training of IA staff
- IA reviews minutes and other documentation for completeness but not effectiveness
- Root causes of failures or shortfalls are not clearly identified
- IA aligns review to structure vs. end to end processes
- Lack of support from management
- Delicateness of situation may make process intimidating



Questions?

Slandauer@forensicasg.com