



European Confederation
of Institutes of Internal Auditing (ECIIA) (Ed.)

The Role of Internal Audit in Corporate Governance in Europe

Current Status, Necessary Improvements, Future Tasks



ERICH SCHMIDT VERLAG

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of Bernd Schartmann

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Content

| | | |
|----------|---|----|
| 1 | Introduction | 7 |
| 2 | Results of the Survey | 9 |
| 2.1 | General questions regarding Corporate Governance in Europe..... | 9 |
| 2.1.1 | Do you have a specific definition of Corporate Governance within your country? | 9 |
| 2.1.2 | Which legal requirements regarding Corporate Governance exist in your country?..... | 10 |
| 2.1.3 | Which EU wide regulations regarding Corporate Governance need to be fulfilled?..... | 14 |
| 2.1.4 | How and by whom is/was the Implementation process of Corporate Governance organised in your country?..... | 16 |
| 2.1.5 | Please list all companies which accepted the Corporate Governance Code | 17 |
| 2.1.6 | Are there any customer/stakeholder requirements for Corporate Governance in your country?..... | 17 |
| 2.1.7 | How would you estimate the awareness of Corporate Governance in your country?..... | 18 |
| 2.1.8 | How would you estimate the acceptance of Corporate Governance in your country?..... | 19 |
| 2.2 | Specific questions regarding the current involvement of Internal Audit in Corporate Governance aspects..... | 20 |
| 2.2.1 | What role did the institute play in the CG-development process? | 20 |
| 2.2.2 | What role did your institute play in the CG-implementation process?..... | 21 |
| 2.2.3 | Is the role of Internal Audit defined in the CG-Code/Law? | 21 |
| 2.2.4 | Are there any requirements towards your organisation members regarding CG?..... | 21 |
| 2.2.5 | In case there are any specific regulations: are they subject to year end audit? | 22 |
| 2.2.6 | In case there are any specific regulations: are they subject to internal audit?..... | 22 |
| 2.2.7 | What is your personal opinion regarding CG?..... | 22 |

| | | |
|----------|---|----|
| 3 | State of the art Internal Audit | 23 |
| 3.1 | Position of Internal Audit in a Corporate Organisation..... | 23 |
| 3.1.1 | Organisation of Internal Audit Function..... | 24 |
| 3.1.2 | Relationship of Internal Audit with other Stakeholders of CG | 25 |
| 3.1.3 | Skill set and Training..... | 26 |
| 3.2 | Scope of Internal Audit..... | 27 |
| 3.2.1 | Internal Environment (Control Environment)..... | 29 |
| 3.2.2 | Risk Management | 29 |
| 3.2.3 | Internal Control System..... | 33 |
| 3.2.4 | Information & Communication | 36 |
| 3.3 | Quality Management in Internal Audit..... | 36 |
| 4 | Proposals for the Role of Internal Audit in Corporate Governance in Europe | 39 |
| 4.1 | Supporting an Effective Enterprise Risk Management..... | 39 |
| 4.2 | Support to ensure compliance | 39 |
| 4.4 | Enhanced set up of Internal Audit Function | 40 |
| 4.3 | Taking a more active role in supporting companies code of ethics | 40 |
| 4.5 | Forming a supporting role in Executive Board tasks | 41 |
| 4.6 | Increased cooperation with External Auditors..... | 42 |
| 4.7 | Stronger support for the Board of Directors | 43 |
| 4.8 | Closer Cooperation with Controlling Departments | 44 |
| 5 | Conclusion and further steps | 45 |
| | Project team | 47 |
| | Bibliography | 49 |
| | Attachments | 53 |
| | Questionnaire | 54 |
| | Results by country..... | 56 |

1 Introduction

During the last years, the discussion about good Corporate Governance¹ has increased globally. This can be seen as a result of several scandals and prominent bankruptcies arising from non-compliance with rules and internal controls all over the world, but mainly in the US and in Europe. As a consequence, in some regions specific laws and regulations have been introduced to avoid similar cases or at least to reduce the likelihood of their occurrence. The most commonly known law regarding such matters is the Sarbanes Oxley Act of 2002 (SOX), which defines numerous requirements for those companies which are listed on the American Stock Exchanges.

After several years of experience it can be clearly stated that the necessary efforts for the companies which need to fulfil the requirements of SOX are enormous and sometimes outbalance the relation between these efforts and the advantages coming out of SOX. Furthermore in most of the companies listed in the US, the role of Internal Audit has been reduced to testing and documenting compliance with the SOX requirements. This means that there often is no capacity left to perform other audits or execute audits based on risk-oriented audit plans. It is an observation of many Chief Audit Executives of Global Player companies in Europe not listed in the US – that stakeholders transfer more or less automatically the requirements of SOX as expectations to the companies that are not US-listed. That is too short-sighted, as the business environments throughout the world are different and the US-solution does not fit to all regions.

What are the European needs and solutions? Which kind of Corporate Governance activities do we have in Europe? Which role should Internal Audit play in that context?

With this background, the Management Board of the European Confederation of Institutes of Internal Auditing (ECIIA) has conducted a survey on the status of Corporate Governance in Europe with a specific view on Internal Audit and – based on this survey – has drawn up this Position Paper.

The objectives of this ECIIA Position Paper are

- to give an overview about the most important regulations with respect to Corporate Governance in the European countries

¹ See definition chapter 2.1.

- to summarise the common understanding of an up-to-date Internal Audit Function² in European companies and hence
- to formulate proposals for an enhanced role of Internal Audit in the whole Corporate Governance discussion in Europe.

The ECIIA and its affiliates in the European countries see a current need for the above as the awareness about the value Internal Audit can deliver in order to realise good Corporate Governance could be strengthened. There are, for instance, many regulations and publications defining the role of the statutory auditor as well as about the increased responsibility of the members of the Board of management. A link to what extent a good and efficient Internal Audit Function can on the one hand support the Management and the Board of Directors in reaching its objectives with respect to good Corporate Governance and on the other hand help the statutory auditor is missing up to now.

This ECIIA Position Paper starts in chapter 2 with an illustration of the results of the survey, which was supported by the member institutes of the ECIIA. Chapter 3 summarises the most important aspects of an up-to-date Internal Audit Function and in Chapter 4, the ECIIA has made proposals for an enhanced role of Internal Audit in Corporate Governance in Europe. As the Position Paper aims to cover general aspects of Internal Audit in Corporate Governance, it would go beyond the scope to deal with specific industries or lines of business, e.g. companies in the financial sector and public institutions do have very specific regulations which need to be handled separately.

2 Internal Audit Function is the department or in exceptional cases sometimes also an external organisation that is permanently in charge of providing reasonable and unbiased advice and assurance with the regards to the effectiveness of risk management and the internal control system.

▼ Enhancing Internal Auditing!

The discussion about good Corporate Governance has been increasing globally for years. But still the role an efficient internal audit function can play in this context is not very well known.

This book closes the gap:

Based on a survey between all national Institutes of Internal Auditing in Europe this book shows you a widespread picture of Corporate Governance activities and Internal Audit in Europe:

- Specific questions regarding the current involvement of Internal Audit in Corporate Governance aspects
- State of the art Internal Audit: position, scope and quality management
- Focal points for improving the role of Internal Audit in Corporate Governance in Europe.

This fundamental work written by the European Confederation of Institutes of Internal Auditing (ECIIA) informs you about the most important aspects of a modern internal audit function for European companies!



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