



Oversight of Internal Audit - What Works Best?

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Consider...

How does the audit committee live up to its significant governance responsibilities and meet the high expectations of shareholders and other outside parties?



The IIA Corporate Governance Model





Key Issues of Concern

- **Financial Accuracy**
- **Risk Management**
- **Control Assessment**
- **External Auditor Oversight**
- **Effective Use of Internal Auditing**



Asking the Right Questions

Audit committee members must maintain an in-depth understanding of internal audit best practices and how internal audit is functioning.



Clarifying the Value of Internal Auditing

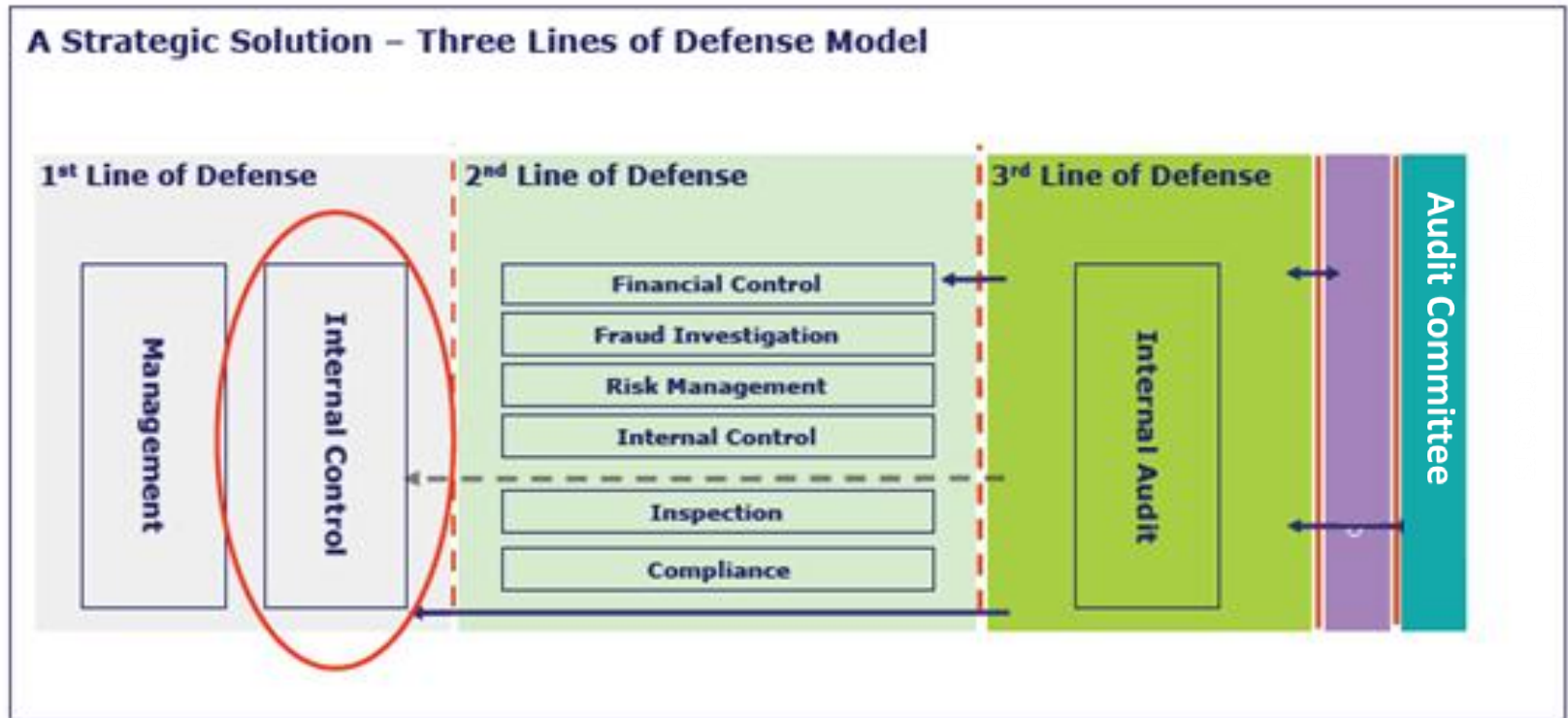
‘Audit committees must understand internal auditing’s role if they are to work effectively and share a healthy interdependence.’



Understanding Internal Audit

- ***Role - Charter***
- Plans – Strategic / Operational
- Resources – Skills & Knowledge
- Reporting lines
- Reports – AC / Management
- Leadership
- Performance - QAR

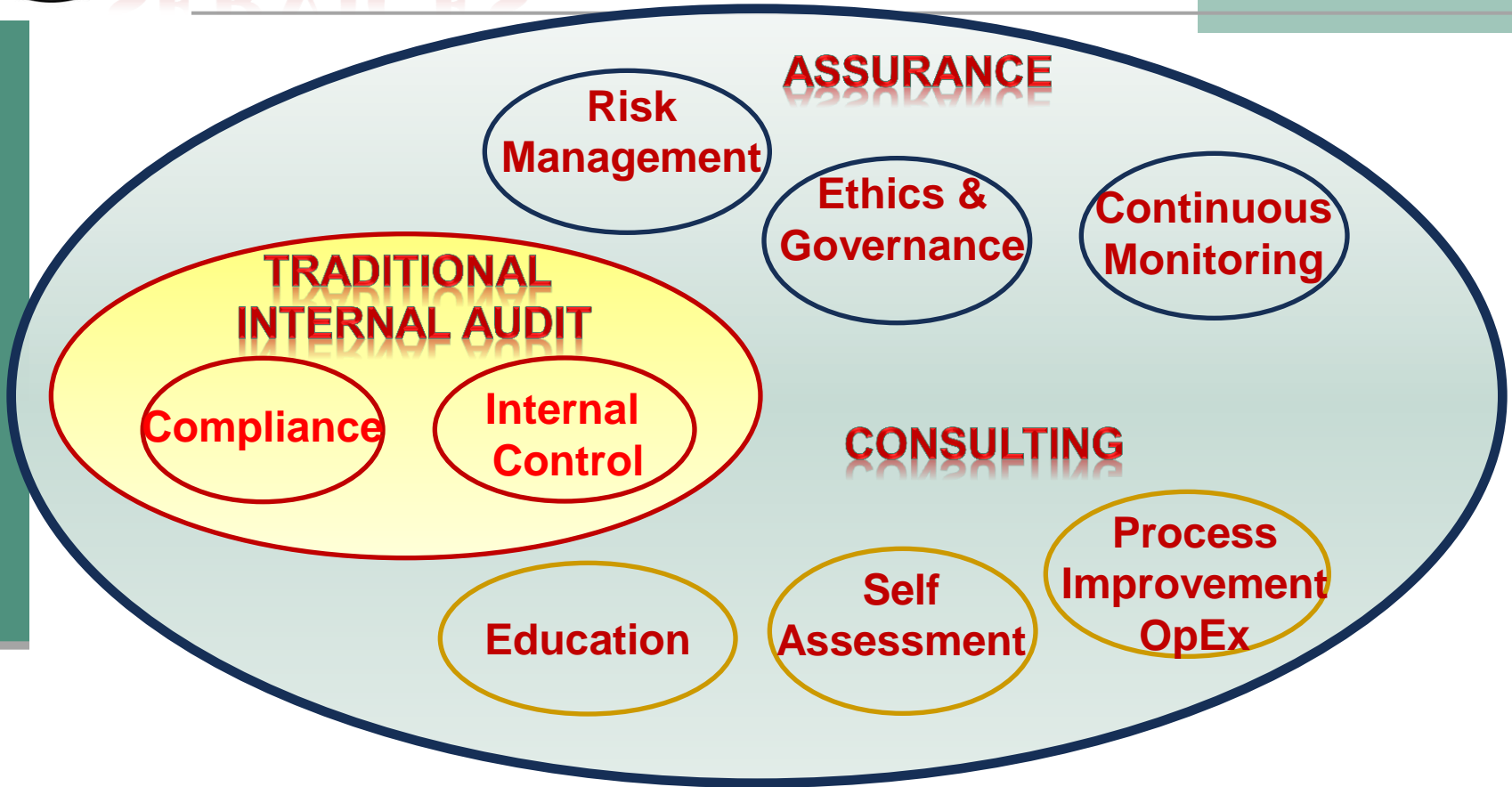
LINE OF DEFENCE



* Jean Pierre Garitte *"Internal governance in the public sector: internal*



ADDITIONAL INTERNAL AUDIT SERVICES





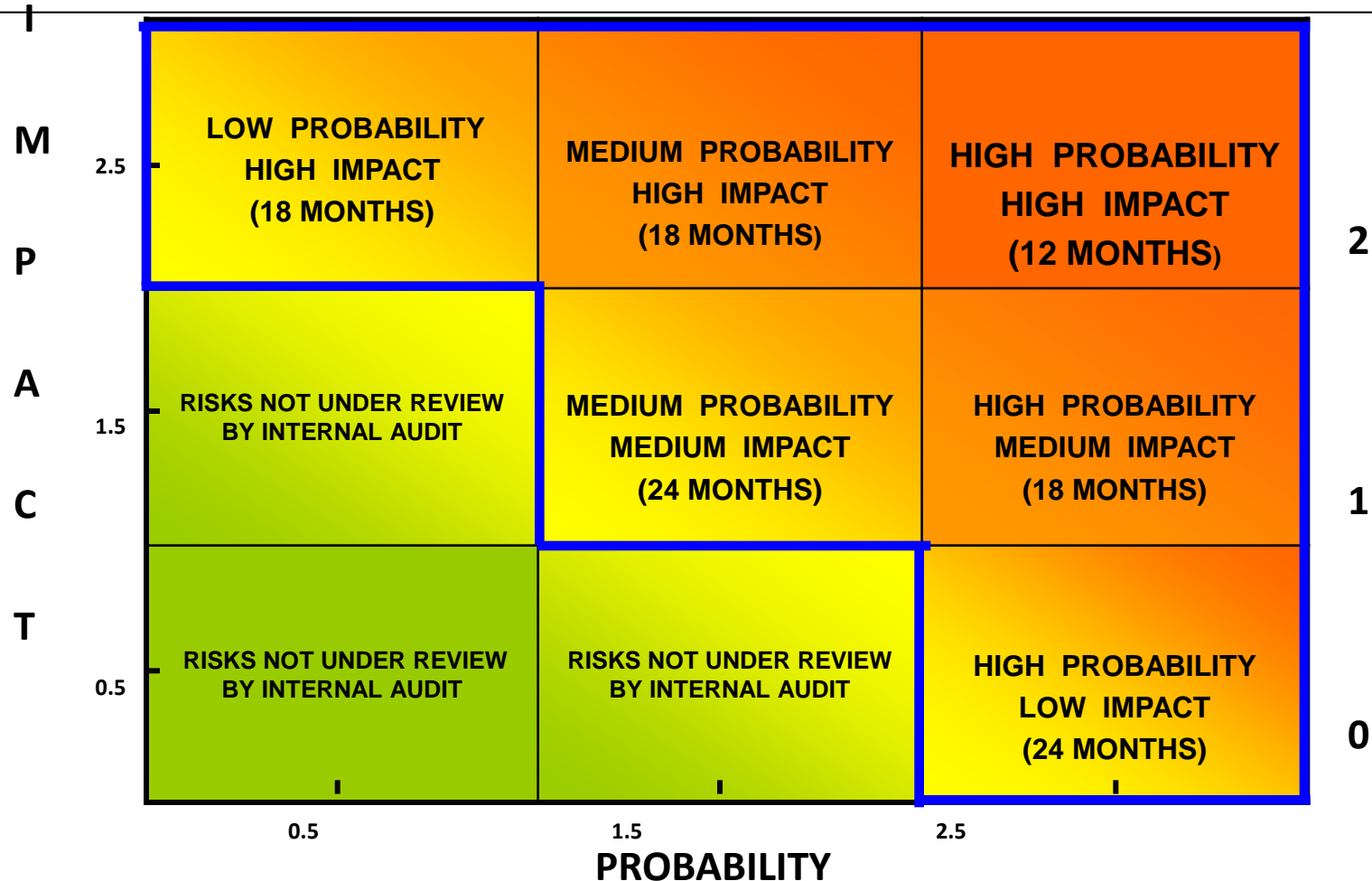
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KEY PROCESSES AUDITS - RISK LEVELS TO DEFINE FREQUENCY



Results of Risk Assessment workshops defines high and medium risk key processes that should be audited. Risk Assessments will be performed twice a year. Low-risk processes will be monitored by Management through Control-Self Assessments facilitated by IA.





Audit Universe / Time		2011																																																Audit weeks/ wo/man																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																														
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Internal Audit Resources

- Staffing – In-house, Outsource, Cosource
- Required skills & knowledge
 - Adherence to the *Standards*.
 - Compliance with the Code of Ethics.
 - Competency, evidenced by certification (CIA).
 - Ongoing professional development.



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AUDIT SCORECARD

AUDIT 1

Audit 1, 09 Agust-03 Sept. 2010

Findings Per Category	CR	HR	PR	HPI	PFI	Total
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Previous Audit	0	0	5	3	1	9
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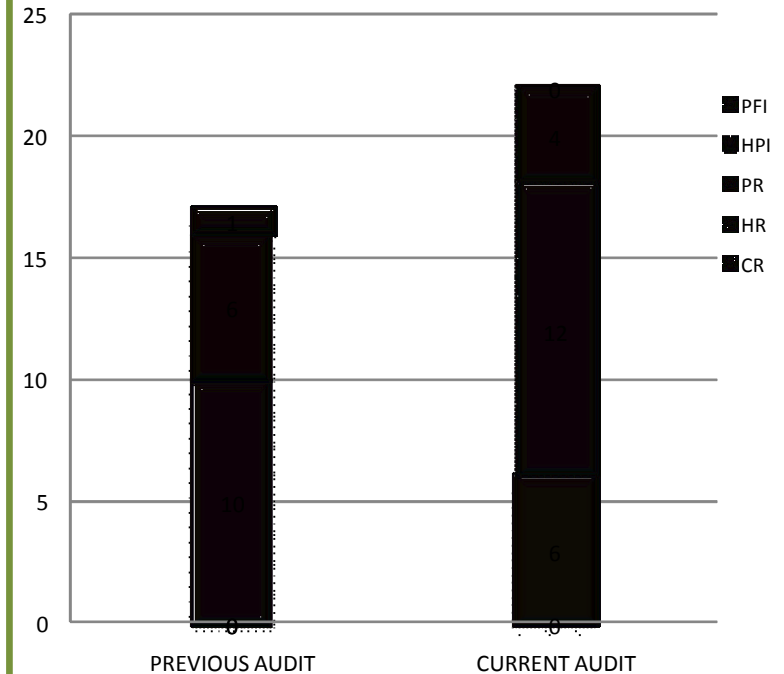
Equivalent Score *	0	0	10	6	1	17
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Current Audit	0	2	6	2	0	10
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Equivalent Score *	0	6	12	4	0	22
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* Equivalent Score = Findings x Multiplier

MULTIPLIERS					
	CR	HR	PR	HPI	PFI
Multiplier	5	3	2	2	1



CATEGORIES





CR : Critical Risk
 HR : High Risk
 PR : Potential Risk
 HPI : High Potential For Improvement
 PFI : Potential For Improvement



AUDIT RESULTS ASSESMENT

Criteria	Critical risk	High risk	Total Audit Score
Needs significant improvement	1 finding and over	5 findings and over	70 and over
Needs moderate improvement	-	2 findings and over	40 and over
Generally confirms to expected standards	-	1 finding	Below 40

Ref.	Control Objectives		
A	Budgeting & Forecast		
	<ul style="list-style-type: none">To make complete and correct assumptions and calculations during budget preparation.To update forecasts promptly, completely and accurately as new information becomes available.To analyze financial statement accounts thoroughly and timely.		
B	Marketing Strategy		
	<ul style="list-style-type: none">To effectively identify potential and existing customers and develop marketing strategies to influence those parties to purchase products or services.To effectively design marketing strategies giving consideration to competitive, regulatory, business environment or other factors that may influence the entity's marketing activities, and potential changes in those factors		
H	Vendor Management		
	To monitor the performance and financial viability of service providers and to gain assurance in their ability to quickly recover from disruption of services.		
Risk and Control Diagram			
Inherent Risk 5 = High Risk to 0 = No Risk	5	G	C,D B
	4		
	3	A,E,F	
	2	H	
	1		
	0		
			5 4 3 2 1 0
Control Design and Operational Effectiveness 5 = Optimized to 0 = Non-existent			

Color Legend	
	The top right quadrant has high or moderate inherent risk and less than effective/efficient control design and/or non-compliance with controls during execution.
	The top left quadrant has high or moderate inherent risk and well designed and functioning controls.
	The bottom right quadrant has low inherent risks and less than effective/efficient control design and/or non-compliance with controls during execution.
	The bottom left quadrant has low inherent risks and well designed and functioning controls.

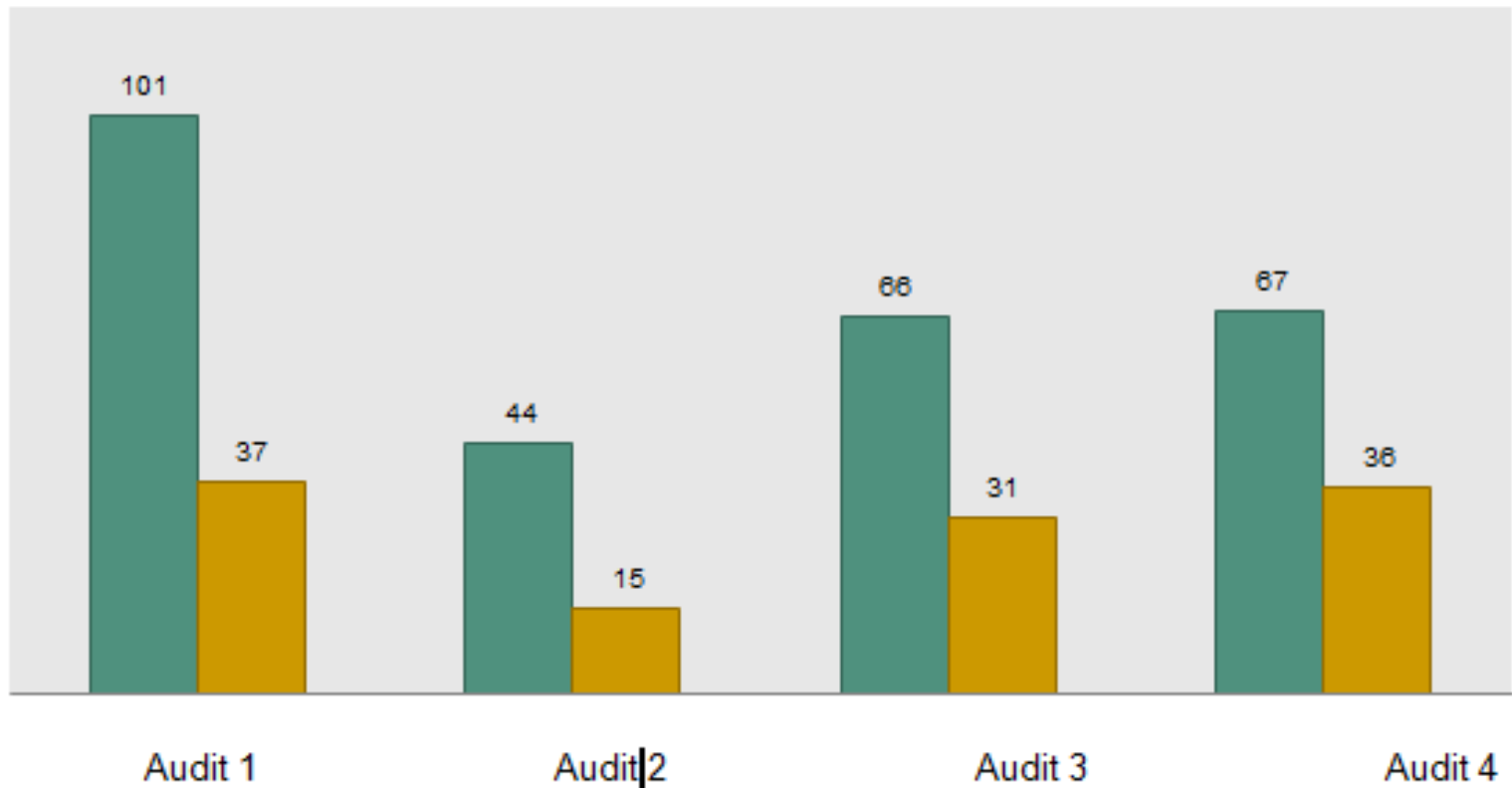


FOLLOW UP PROGRESS 2009 - 2010



Follow Up Progress

■ Audit Score ■ Follow Up Score





Understanding Internal Audit

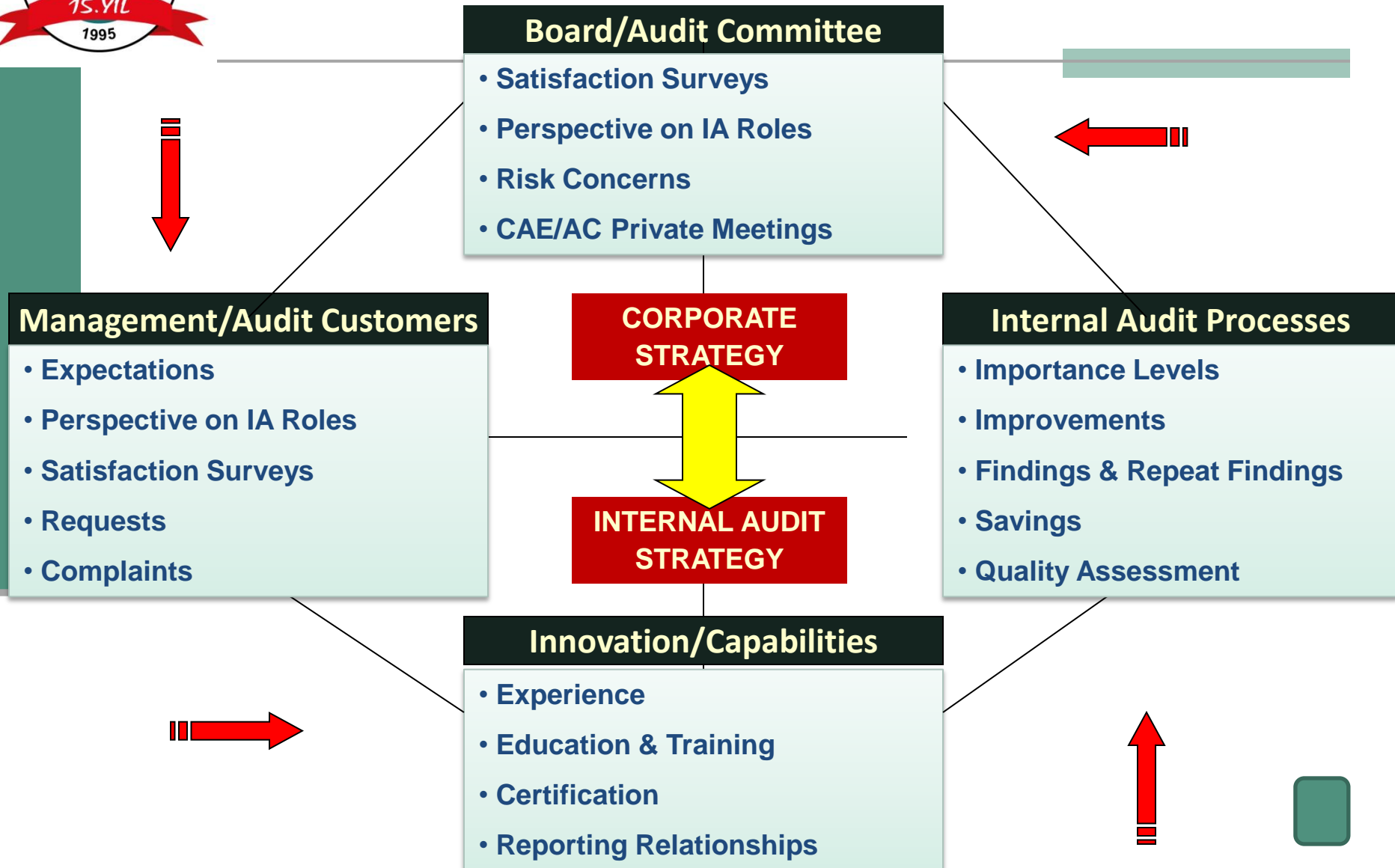
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Balanced Scorecard for Internal Auditing



ACHIEVEMENTS - 2010



People

1. Retained and Developed Talent
 - i. Volunteer Turnover 0%
 - ii. Diversified team
2. Invested in Human Capital
 - i. Training hours/auditor : 90
 - ii. Staff Certified 50% vs 40% PY (+1 CIA)
3. Assessments of Talents for Line Position 
4. Flexible Workplace and Schedule
5. Increased experience
6. Mid-year meetings to evaluate performance



Communication

1. Coordination with AG and E&Y
2. Attended to 2nd Bottlers' Internal Auditors Meeting in TCCC HQ Atlanta
3. Audit Committee 'Year-end' dinner
4. Road Show to Senior Management
5. Issued audit reports in Turkish for better understanding of local Management

Process

1. Completed Planned Audits within Budget
2. Utilized Technology by using Computer Assisted Audit Techniques
3. Decreased reporting time by writing audit reports in Turkish
4. Due to shortage in the available hours, did more with less resources

Stakeholder

1. Increased Partnership with Management
 - i. Risk Assessments performed
2. IAD as a Trusted Advisor to Management
 - i. Decreasing audit scores in follow-up audits 
 - ii. High rate in the number of recommendations accepted 
3. Customer Satisfaction Survey results

KEY PERFORMANCE MEASURES - 2010



		2008	2009	2010
HR	Volunteer Turnover	20%	0%	0%
	Percentage Of Staff Certified	50%	40%	50%
	Hours of Training per Auditor	110	96	91
	Percentage of Training Plan Achieved	122%	106%	101%
Productivity	Number of Auditors per 1000 employee	1,7	1,4	1,6
	Million UC per Auditor	53	49	47
	Number of Auditors per Billion YTL of Assets	4,7	4,4	4,7
	Completed vs Planned Audits	97%	100%	92%(*)
	Staff Utilization (Direct vs Indirect Time)	86%	85%	86%
Effectiveness (*)	Number of Total Findings	171	256	350
	Number of Major Findings (Critical Concern/High Risk)	56	103	90
	Percent Recommendations accepted	99%	100%	100%
	Number of Process Improvements	22	44	48



SATISFACTION SURVEY RESULTS



Evaluation Scale: Strongly Agree:4 Agree:3 Disagree:2 Strongly Disagree:1

Section/Item Evaluated	Average Evaluation	
	2010	2009
Operational Effectiveness		
There was no unnecessary disruption to my operation's daily activities, and our work environment was respected, e.g. safeguarding of documents, access to facilities.	3,12	2,95
The stated objectives of the audit were met.	3,13	3,05
It was given the opportunity to provide input on the findings and conclusions and on the recommendations made to address them.	3,24	2,84
My staff and I were given the opportunity to provide input (our concerns and perspectives) to the planning process, including identification of significant issues and risks, the final audit objectives and scope, and the criteria.	2,55	2,72
Communication		
It was informed, or became aware, on a timely basis that an internal audit had been scheduled.	3,47	3,46
Sufficient notification was provided for work required of my staff or me.	2,88	2,83
I was notified formally on a timely basis of the commencement of the audit, and the initial objectives and scope were clearly described.	3,06	3,08
The internal auditor(s) kept me informed throughout the process on a timely basis.	2,75	2,78
The approach to be taken by the internal audit team was clearly described.	2,40	2,86
Reporting		
The timing of the audit was appropriate.	3,69	3,11
The draft audit report was issued on a timely basis following the completion of the fieldwork.	3,25	3,08
Conclusions reached and audit opinions were adequately supported by facts.	3,00	2,92
Recommendations were useful, realistic, and cost-effective.	2,81	2,95
Audit findings were balanced and constructive and included both positive findings and opportunities for improvement.	2,60	2,72
Communication of audit findings and results was timely, clear, and complete.	2,40	2,72
The audit was completed on a timely basis, commensurate with its complexity.	2,10	3,03
I was given sufficient time and guidance to prepare a management response and action plan.	1,75	2,86
Skills and Experiences		
The internal auditor(s) demonstrated professionalism, competence, objectivity, knowledge of the subject matter, and a constructive and positive approach.	2,89	3,08
Overall Average	2,84	2,95

RESULTS OF IAD QAR 2009



IIA Standards Scorecard Summary

Rating



Rating



IIA Attribute Standards

1000 - Purpose, Authority, and Responsibility

1100 - Independence and Objectivity

1200 - Proficiency and Due Professional Care

1300 - Quality Assurance and Improvement Program

IIA Performance Standards

2000 - Managing the Internal Audit Activity

2100 - Nature of Work




2200 - Engagement Planning

2300 - Performing the Engagement

2400 - Communicating Results

2500 - Monitoring Progress

2600 - Resolution of Management's Acceptance of Risks

-  Generally conforms to the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, complies with the requirements of the individual Standard.
-  Partially conforms to the activity and is making good-faith efforts to comply with the requirements of the individual Standard.
-  Does not conform to the activity and is not aware of, is not making good-faith efforts to comply with, or failing to achieve many/all of the objectives of the individual Standard.



Audit Committee should ask whether?

- Expanding role of IA reflected in Charter ?
- IA Independent & Objective ?
- IA Plans are flexible enough?
- IA Budget adequate ?
- Any limitation on IA scope?
- How IA leverage other assurance functions?
- IA has right resources?
- IA has right staffing model?
- IA is part of Management team?
- IA has a Quality Assurance & Improvement program?

AC SCHEDULE 2010 – 2011



Audit Committee Schedule 2010 -2011								
Date of the Meeting	3.24.10	7.1.10	10.11.10	11.25.10	3.9.11	6.8.11	9.7.11	11.9.11
Time	09-12:30	09-12:30	15-18:00	15:00-18:00	09-12:30	09-12:30	09-12:30	15-18:00
Financial and Related Reporting								
Review of financial results for the quarter	X		X		X		X	
Current accounting and financial reporting matters	X		X		X		X	
Controls and Compliance								
Legal & regulatory matters	X			X				
Tax matters	X				X			
Code of Ethics		X				X		
Risk Management			X				X	
Information systems		X						X
Internal Audit								
Internal audit charter, objectivity & independence	X			X				X
Internal audit plan, budget & staffing				X				X
Internal Audit Quality Assurance Review				X				X
Coordination with external auditors	X				X			
Summary of significant findings	X	X	X	X	X	X	X	X
Private session with internal audit director				X				X
External Audit								
Appointment with external auditors	X			X	X			
External auditors' audit plan, independence	X				X			
External auditors' internal control findings	X			X	X		X	
Private session with external auditors	X				X			
Other Committee Activities								
Minutes of previous meeting	X	X	X	X	X	X	X	X
Audit committee charter	X			X				
Audit committee self-assessment				X				X
Report to the board of directors	X	X	X	X	X	X	X	X
Report to shareholders	X				X			
Annual AC Dinner				X				X



For More Information on Audit Committees and Governance

- IIA website www.theiia.org/go?to=audit_committee
- IIA Turkey (TIDE) website www.tide.org.tr
- Research/Publications
 - *Audit Committee Effectiveness: What Works Best*
 - *Tone at The Top* (corporate governance newsletter)
 - *The Professional Practices Framework*
 - The IIA Bookstore
- Guidance
 - *Audit Committee: Purpose, Process, Professionalism*
 - *Audit Committee: Discussions on Performance* (self-assessment)
 - *20 Questions Directors Should Ask About Internal Audit*
 - *Yönetim Kurulları'nda İç Denetim hakkında sorulması gereken 12 soru – TUSIAD Mayıs 2008*



IIA Turkey (TİDE)

- Established 19.9.1995
- 1996 - IIA (The Institute of Internal Auditors) & ECIIA membership
- 2004 – IIA National Institute status
- 1500 members from 300 organization
- Seminars, conferences, certification, publications,
- ‘Progress through Sharing’

TEŞEKKÜRLER...