

# European Governance

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## In search of stability

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## Better grip on risk still needed, say business leaders

In the current environment, it is important that organisations strive to get a better grip on overseeing the risks their businesses face, says David Landsittel, chair of COSO, the corporate governance thought leadership body.

“Both management and board members are not satisfied with board oversight of risk management and, as a result, pressure is mounting from regulators and others to continue to enhance board oversight processes”, Landsittel said, speaking at the ECIIA annual conference in Madrid.

“Board directors are sometimes over-confident about the way they view risk management and internal control, resulting in overlooking risks that could have a significant impact,” he said.

Landsittel noted that COSO has published and will continue to issue “thought papers” with a goal of helping organisations move their risk management processes up the “maturity curve” and will release an exposure draft of a proposed update to its internal control framework soon.

“Good risk management and internal control are the necessary

for the long-term success of all organisations and internal audit is the last line of defense to ensure global assurance on internal governance to the corporate boards”, commented Richard Chambers, President and CEO of the Institute of Internal Auditors, speaking at the ECIIA conference.

Chambers said that a more stable model of corporate governance was beginning to emerge.

“We are starting to see boards hold the chief executive officer and management to account more strongly. Internal audit is playing a role in supporting the board in that move”, Chambers said.

Landsittel's and Chambers' views echo the European Commission's recent efforts to improve the long-term viability of listed companies by encouraging better corporate governance. In its most recent consultation document, The EU Corporate Governance Framework, the EC focused on how corporations should manage and report on risk following recent financial and economic crises.

## Auditors join forces in fight for better controls in the public sector



Presidents of the members of the European Confederation of Institutes of Internal Auditing met at their General Assembly on the 22nd of October in Madrid. The General Secretary of EUROSAL, the European Organisation of Supreme Audit Institutions, addressed an opening speech to the assembly, where he remarked the value of joining forces to help to improve controls over government expenditure and performance processes.

“It is clear that the crisis has opened new areas of action for public scrutiny, especially as it concerns public expenditure and

fiscal stability and the containment of debt”, commented the Secretary General of EUROSAL, Manuel Núñez Pérez.

Mr. Núñez's participation in the opening of this meeting reinforces the cooperation set by the agreement signed in March of this year between the two organisations, as well as the global agreement previously reached between the world wide organisations, INTOSAI and the IIA.

“Our Global agreement with INTOSAI recognises the worldwide value of professional collaboration between external audit and internal

audit in the public sector considering the common objectives of promoting better control and ethics within the governmental entities”, said Richard Chambers, Chairman IIA.

“Supreme Audit Institutions of the euro zone countries are following closely the model of supervision and control of the European Stability Mechanism which has already entered into force” said Mr. Núñez Pérez, “The prolonged crisis has highlighted the social values of any business organisation as well as the achievement of profitability and concern for keeping long-term solvency. It has social responsibility goals to be addressed and internal auditor involvement is very relevant.”

“Perhaps the continuing crisis forces us to revise many approaches in the organisation of the public and private sectors and to forget attitudes more interested in short-term and immediate success than in the suitability of the organisation and business network, and in safeguarding the welfare state” states Núñez Pérez.

# In search of stability

Corporate governance should be at the heart of the new world order in Europe, but business leaders warm against enforcing extra legislation

**Internal** audit is playing an increasingly important role in the new corporate governance “world order” that is beginning to emerge in Europe. While the European Union is still consulting on its initiatives to achieve more stability in businesses listed on the zone’s stock exchanges, the direction of reform is becoming clear: better corporate governance.

“We have a corporate governance model starting to emerge that makes a lot more sense in terms of stability,” said president and chief executive officer of Global

IIA Richard Chambers, speaking at the recent annual conference of the European Confederation of Internal Auditors in Madrid.

“We are starting to see boards hold the chief executive officer and management to account more strongly,” he said. “Internal audit is playing a role in supporting the board in that move.”

In its most recent consultation document, The European Corporate Governance Framework, the European Commission focused on how corporations should manage and report on risk following recent financial and economic crises.



The model of corporate governance favoured by the ECIIA and put forward to the EC during the body’s recent consultation on its Green Paper is the “three lines of defence model.” This sees an organisation’s internal control and operational management picking up risks and control issues in the first line of defence; followed by risk management, compliance and essential monitoring functions in the second; with internal audit acting as global assurance in the third line of protection.

Chambers said that this model sat nicely with the new world order and that internal audit is professionally

prepared. “Internal audit is the last and ultimate line of defence the board wants to identify internal control issues – beyond that lays the abyss of regulators,” he told the conference. If regulators found something wrong, the consequences are likely to be more severe than if it had been identified in-house and sorted.

## Rising to the challenge

José Manuel Muries, chairman IIA Spain and conference organiser said, that internal audit was well placed to rise to the challenge. “Globalisation is making countries

more interdependent,” he said. “Internal audit has a role to play in the current crisis because its core values of objectivity and independence are more important than ever.”

He said that value, or “valor,” had two meanings in Spanish, both of which were important. First, he said, internal audit terms created value by providing consistent insight into the organisation’s activities and giving it the confidence that risk was being managed properly. Second, it pointed to a state of mind, one that, for example, was prepared to go against the flow and to make an objective analysis and judgment of a »

» situation that could run counter to the view of management, if necessary.

Cristina Martínez, board member of FERMA, the Federation of European Risk Management Associations, also said that internal audit should contribute to the corporate governance of a company and that risk management should be seen as a real tool for decision-making processes.

But in a panel discussion at the conference she expressed concern that the EC's recommendations might lead to further burdensome regulations. "FERMA welcomes the EC's recommendations as they go beyond mere superficial compliance and box-ticking," said Martínez. "There is no need for further regulation, but there is a need to strengthen the existing rules in places."

### Nervous over regulation

Roger Barker, advisory board member at the European directors' group ECODA, another member of the panel, said that the EC's Green Paper gave a "comprehensive and balanced description" of what areas needed to be addressed to achieve good corporate governance in European companies.

But he said that he became "more



nervous" when he realised that the only option the EC had considered in addressing these issues was to bring forward European-wide legislation. He said that while most people agreed that corporate governance failings in the financial sector had contributed to the current crisis, directors believed that nothing had happened to shake their confidence in the overall framework of national corporate governance codes that operated on a comply or explain framework.

If laws are passed, said Barker, Europe would move from a system

**“Internal audit has a role to play in the current crisis because its core values of objectivity and independence”**

where companies had flexibility to decide on best practice within the corporate governance framework, to enforcement “as a matter of compliance on a tick-box mentality.”

“The answer to the financial crisis is not more regulation of listed companies,” said Carmine Di Noia, board member of the European Issuers. “The problem was not the regulation, but the supervision of financial institutions. Why not change the regulators and not the regulation supervision?”

Di Noia agreed that many of the EC's suggestions were really needed, but he said that they were not needed through the introduction of more regulation. He said that Parmalat, the failed Italian conglomerate, was a case in point. He suggested that if one had read the corporate governance reports published by the company, one could have seen where the problems existed. For example, the chairman and chief executive officer were the same person and there was a huge delegation of power



to that person and the CFO was a member of the audit committee, like a fox guarding the poultry. “I would like now for companies to be as transparent in the corporate governance reports as Parmalat was in its own: But few read it,” he said.

### Clarity needed

Carolyn Dittmeier, chief audit executive, Poste Italiane and president of ECIIA, warned that some of the reforms suggested in the EU's Green Paper would require a fair amount of guidance.

For example, she said, the document suggested that there should be a mandatory risk committee around the area of risk models. “Not everyone agrees on a definition of what a risk model looks like,” she said. In

addition, external audit firms may be required to report on an organisation's risk report, but, again, there is no clear definition of what a risk report is in practice and what it should contain.

Dittmeier said that the ECIIA's response to the green paper tended to move towards more stringent comply or explain rules and review over mandatory requirements, and towards achieving greater accountability. For example, she said, in Italy many companies had the role of chairman and chief executive carried out by the same person. “If there is strong clarity as to the roles, powers and authorities exercised in reality, then it is easier to see if there is an excessive concentration of power,” she said.

Whatever the outcome of the EU's deliberations, José Manuel Martínez, chairman and chief executive officer of the Spanish insurer MAPFRE, who also spoke at the conference, said: “The governance system should be at the service of business goals.”

To that end, David Landsittel, chair of COSO, the corporate governance thought leadership body, said that it was important for organisations to strive to get a better grip on overseeing the risks of their businesses.

**The ECIIA conference took place in Madrid on 19-21 October 2011.**

# ECIIA elects new management board



Carolyn Dittmeier

During the General Assembly that took place in Madrid on the 22nd of October, Carolyn Dittmeier was elected President. Ms Dittmeier is Chief Audit Executive of Poste Italiane and past president of the institute of internal auditors of Italy. A graduate of Wharton School of the University of Pennsylvania, CIA and CPA. In addition the following professionals, high level representatives of the institutes of France, Germany, Spain, Norway, the Netherlands, the UK and Lithuania were elected (*see Management Board*).



Also during the General Assembly Pascale Vandenbussche was appointed the new Secretary General.

## Management Board



Marie-Hélène Laimay  
Vice President



Hans Joachim Büsselberg



Martin Stevens  
Treasurer



Thijs Smit



Kristina Bernotaite



Philip Ratcliffe



Juan Ignacio Ruiz Zorrilla

## Address from the president

I will work hard with my colleagues on the Management Board to ensure that the ECIIA continues to effectively promote risk management, internal control, internal audit and corporate governance in Europe and the Mediterranean Basin.

The primary objectives of my mandate are:

- to ensure ECIIA provides a primary reference point for information and guidance on sound governance principles
- to support the development of norms and guidance, as appropriate, in the areas of corporate governance and the audit profession
- to raise awareness of the value of internal audit through the Three Lines of Defense Model.

All organisations have an interest in good Corporate Governance and, as part of this, the Corporate

Governance Citizen Programme developed by the ECIIA provides a means for an organisation to manifest their commitment to such. As internal auditors, we are passionately committed to assisting entities, both private and public, to achieve the highest and most efficient levels of governance.

In light of the financial crisis, the corporate governance failures experienced and the consequential trend towards increased regulation, I believe that our top priority is to emphasise to all enterprises the importance of solid and efficient internal governance.

In addition, the time has come to emphasise assurance beyond the financial reporting area. As internal auditors play an important role in assessing the information and communication processes that form the basis for strategic and operational management

decisions, I believe that priority must also be placed on providing knowledge and guidance that will in turn lead to efficient dialogue with auditors and the board or other governing bodies.

For all these reasons, I have selected as the theme for my mandate: “internal governance before external regulation”.

The ECIIA is a key element in the development of good European-wide Corporate Governance and with our National Institutes located in all 36 countries of the European Union and in a large number of the surrounding neighbourhood countries, internal auditors represent a driving force for change.

**Carolyn Dittmeier**  
**ECIIA President**