

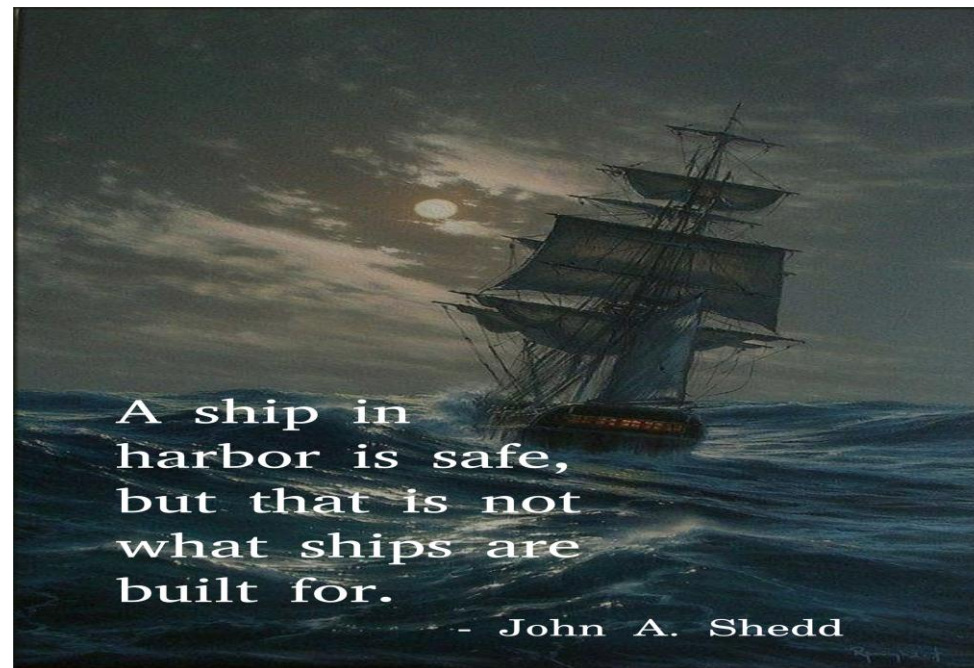
Sustainable Bank

The Role of Internal Audit, Risk Management and Compliance in Ensuring Prosperity and Stability

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Strategic Navigators in Uncharted Waters: The Transformative Role of Internal Audit Across Varying Risk Maturities

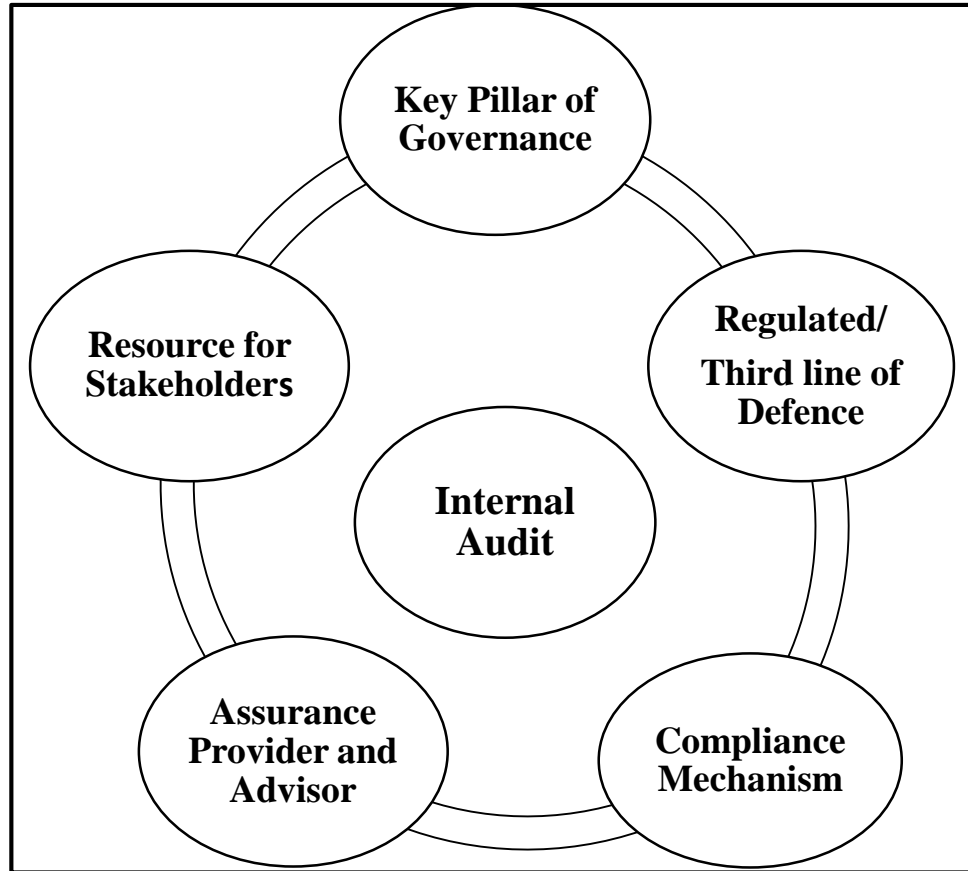
Insights From the Lebanese Banking Sector



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In search of the Value Added...

1. Introduction: The Need for a Strategic Internal Audit Function



Role of Internal Audit stands at critical juncture.

Evolving Risk and Governance Landscapes

- Emphasis on risk management and Resilience
- Strategic Reforms due to corporate failures
- Enhanced Oversight

Complex Interrelationships among Governance, Risk and Control

- Increased focus on risk oversight and risk-based control designs as defensive mechanisms.
- Need for collaboration and adaptation
- Questioned adequacy of the adopted governance frameworks.

Internal Audit Response

- Shift from traditional assurance to strategic advisory roles- challenge governance models
- Risk-based internal audit approach
- Understanding the context is crucial for an added-value role
- Adaptable internal audit is challenging

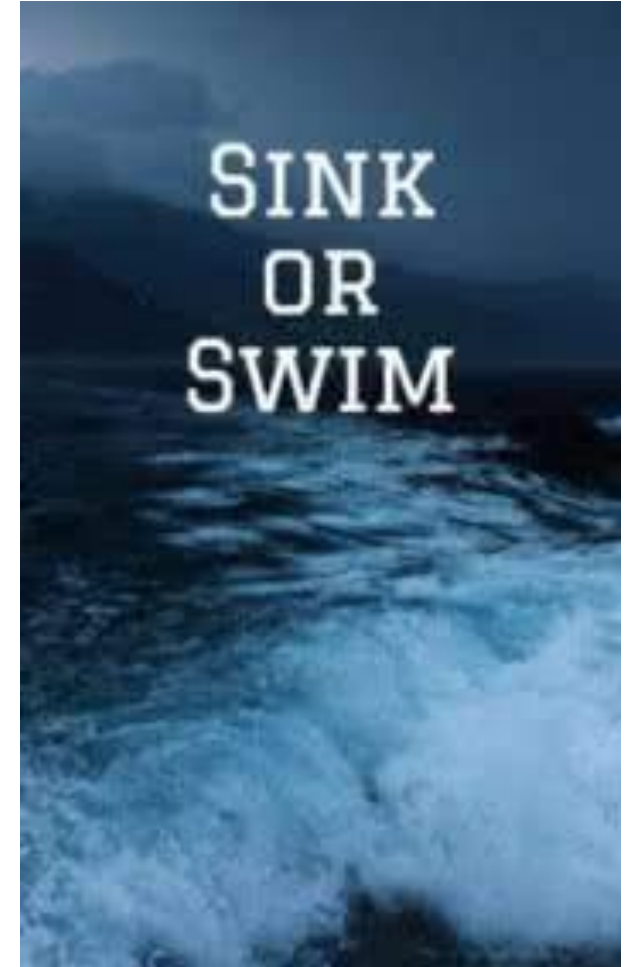
1. Introduction: The Need for a Strategic Internal Audit Function

1. **The impact of different governance environments, organizational culture and lifecycle, low- risk maturity level on internal audit role**
 - Context-dependent nature of internal audit and several contributing factors
 - Inconsistent results on the impact of organizational settings on the value addition of internal audit
2. **Internal audit role in risk management as a driver of organizational accountability in response to change**
3. **An existing expectation gap**

The evolving roles of internal audit in risk management and accountability across various risk maturities need to be addressed, especially in risk-naïve contexts

2. Inquiry

“Given the organization’s risk maturity, how can internal audit help manage risk and enhance accountability?”



3. Objectives

Internal audit Role within the context of the Lebanese Banking Sector in response to the changing risk and governance landscapes



❑ **Bridging the gap between** internal auditors and stakeholders as joint players in governance



❑ Considering the **context-dependent nature** of internal audit



❑ Identifying how internal audit functions can **adapt to varying risk maturity levels**



❑ Assessing the **implementation of risk-based approach in practice**



❑ Discussing the **transformative journey of internal audit** from being compliance mechanism to becoming strategic navigator

4. Practical Concerns

Risk-Based Internal Audit

- **Aligns audit practices with organizational goals.** Key component of mature and resilient organizations.
- **Integral to enhancing the effectiveness of risk management, control and governance processes**
- **Different influencing factors**
 - **Risk maturity level:** influence the implementation of a risk-based approach.

Internal Audit Value -Added

- **The value increases when it contributes to improving risk management**
- **An effective audit function is not necessarily a value-added one**
- **Several common attributes of value-adding audit functions**
- **A debate on the value-added aspect of the function; influenced by different factors**

Internal Audit Effectiveness

- **A risk-based concept; a relevant mechanism in governance.**
- **Absence of consensus on a framework** related to audit effectiveness: a multi-dimensional, context-dependent concept

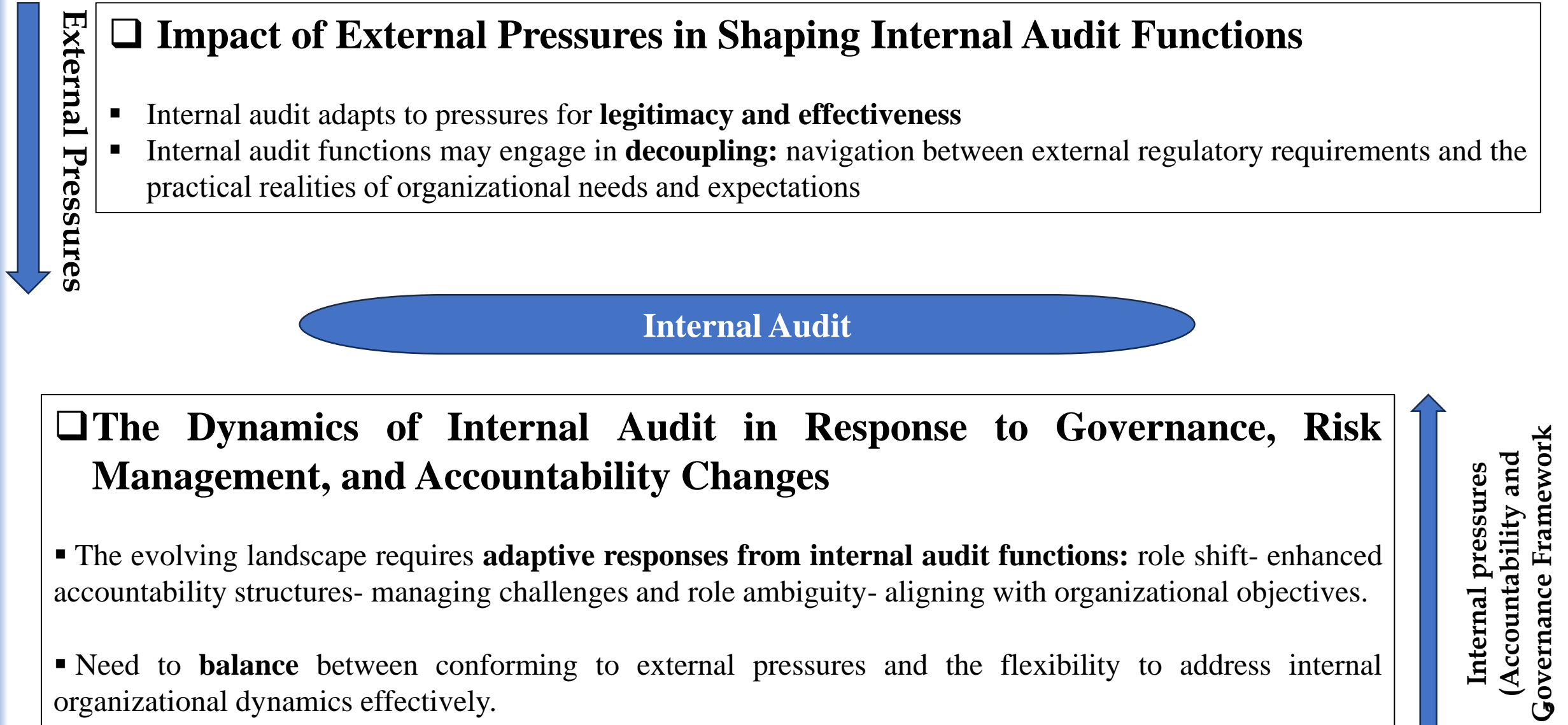
Internal Audit Roles

- **Both assurance and consulting roles** are important
- **Diverse and changing perceptions**
- **Shifts towards proactive approach,** with partnership orientation with management
- **Role is adjusted** with the changes in organizational and environmental circumstances

4. Practical Concerns

- The impact of culture and regulatory systems on internal audit.
- The role of internal audit in risk management in different environments : governance systems, size and culture of organizations, varying risk profiles
- Risk-based audit in various regions; the ability of internal auditors to manage risks; impact on corporate governance
- The contribution of internal audit through advisory services: the appropriate balance between the roles or consolidated approaches

5. Internal Audit Function In Practice



6. Insights from the Lebanese Case

1. Governance Structure and Leadership Effectiveness

Regulatory-driven governance structure - compromised effectiveness- independence issues in oversight functions- intertwined roles of ownership and management. A need for robust oversight mechanisms and a systemic revamp to enhance governance.

2. Risk and Control Culture and Reform Plans

Significant disparity in the maturity of risk culture and strength of control environments. Few large banks have more mature risk cultures- mostly reactive naïve cultures. A systemic change and leadership-driven reforms are necessary; negative outlook for reforms.

3. Objectives and Perception of Internal Audit

Diverse expectations- varying roles in risk and crisis management- different views on value-added- gap between the perception of auditors and stakeholders-different objectives and capacity. A call for deeper business understanding; more proactive engagement in risk management.

7. The Strategic Navigator Model

Governance, Accountability, and Risk Culture Reforms



- 1. Strengthening governance frameworks** (Clear delineation of roles and responsibilities).
- 2. Developing a robust risk culture** (Continuous education and awareness programs).
- 3. Strategic reforms and accountability enhancement** (Implementing independent oversight functions; Enhanced committee roles).

Internal Audit leads and advocates Systemic reforms

Internal Audit Roles and Implications on Independence



- 4. Shift towards proactive risk management practices** (ongoing risk evaluation)
- 5. Expanding advisory services** (align with objectives; broader scope and revised audit charters ; step into first lines).
- 6. Dynamic balance between assurance and consulting** (Organizational needs and risk maturity; stakeholders and regulators support).
- 7. Maintaining independence and Objectivity** (Independence in risk-naïve contexts, practical relevance vs. absolute independence).
- 8. Compliance mechanism/efficiency reviews**
- 9. Crisis Response** (Enhanced audit agility in risk and crisis response).

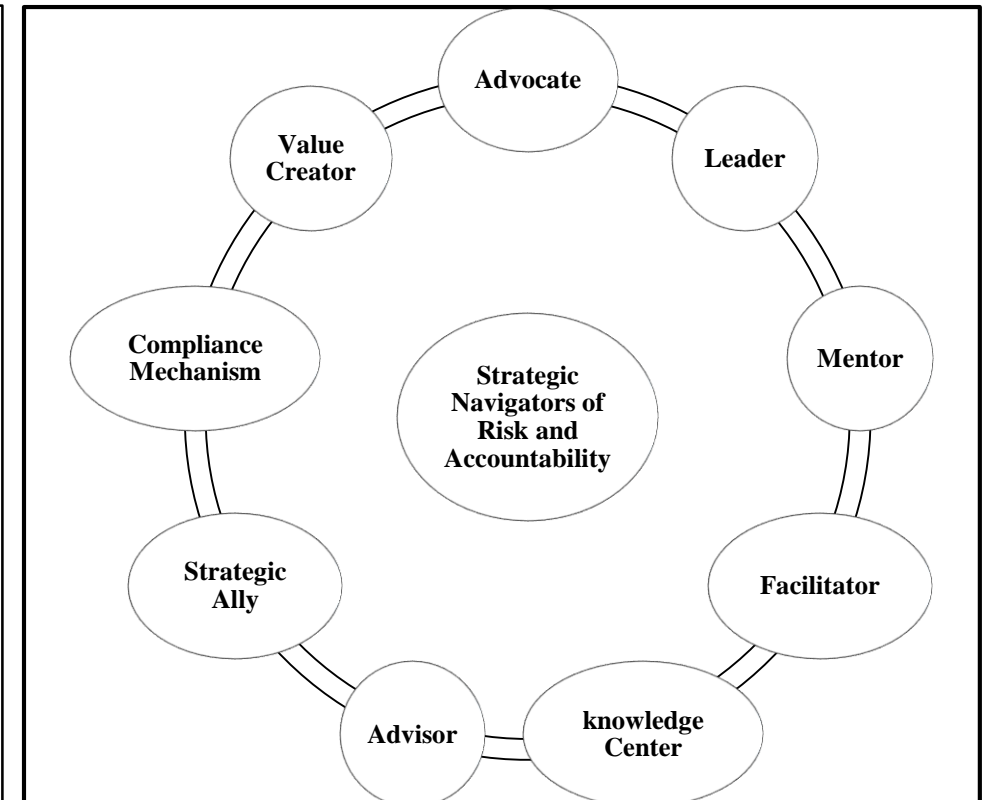
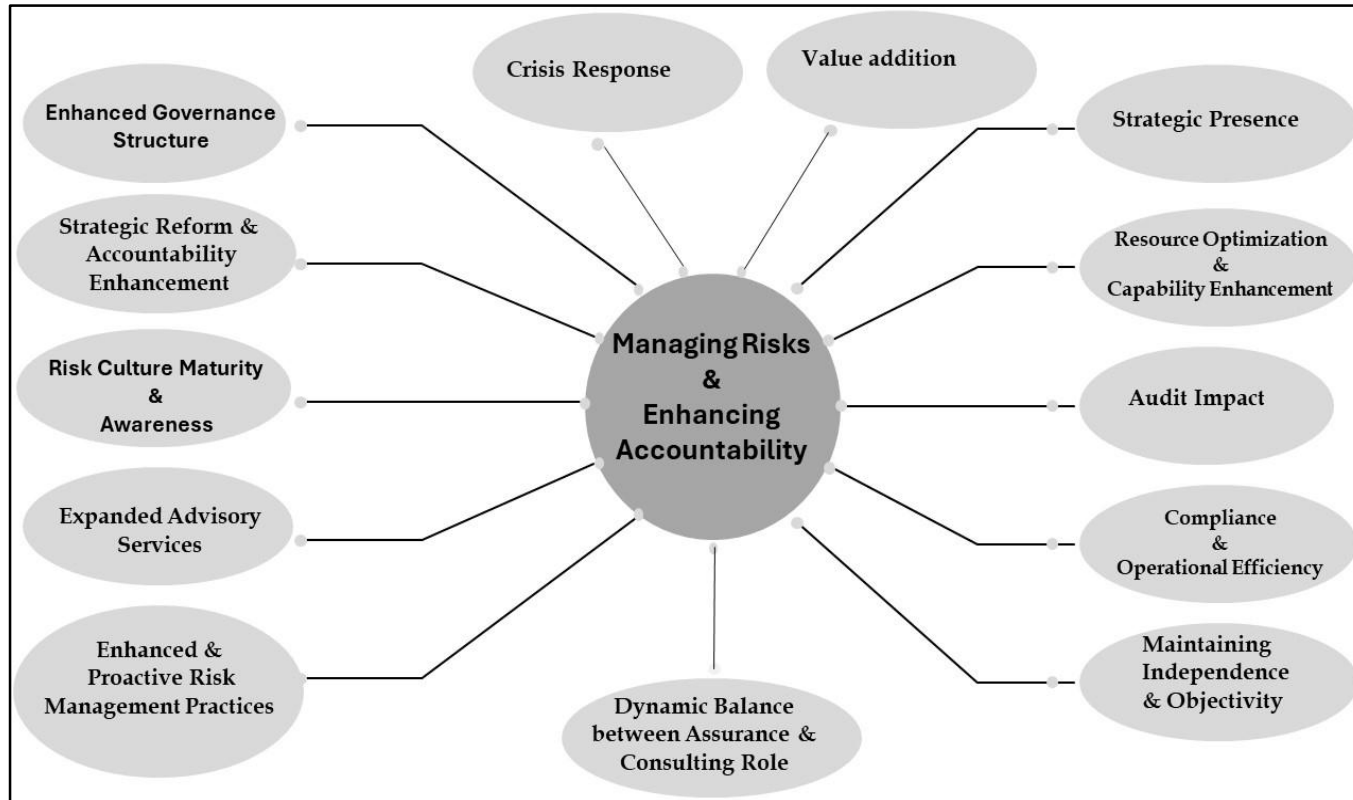
Internal Audit Effectiveness and Strategic Value Contribution



- 10. Audit Impact** (Link Audit with strategy ; Strategic partner; continuous improvement).
- 11. Optimizing audit resources** (Focus on high risk; management and audit committees support; training and integration).
- 12. Collaboration and integration** (Collaborative governance framework; integrated risk management/combined approaches; optimizing communication channels).
- 13. Enhanced strategic presence** (Elevating role in strategic planning and decision-making; Audit committee support).
- 14. Value addition** (New value-adding channels; adaptable and responsive audit practices).

7. The Strategic Navigator Model

- ❑ Several strategies needed to enhance risk management and accountability
- ❑ Distinct evolving audit role under each strategy
- ❑ Difference in audit roles across varying risk maturities
- ❑ Strategies for Risk-Naïve Institutions - Focus on foundational elements of risk management ; fostering a risk-aware culture.



8. A Call for Strategic Reform in Risk-Naïve Organizations

Standard Setters/IIA

Tailored frameworks and adaptable audit practices for Risk-Naïve firms

IIA guidance ; a framework for the scenario of audit practices in risk naïve firm.

Standard Setters, Regulators & Audit Committees

Reconsideration of the conversation on internal audit independence in risk-naïve organizations:

Organizational Relevance Approach

All Stakeholders & Internal Auditors

Adopting collaborative governance framework and new internal audit roles across different maturities

active and new roles for each stakeholder in the governance landscape - engaging auditors in decision-making - formalization of expanded audit role in charters

Regulators & Board Members

A genuine shift towards effective governance rather than governance by design

restructuring governance to separate ownership from management- active role of independent members

Board , Upper Management & Internal Audit

Optimizing resources and enhancing capability

Investing in training and resources - incorporating technology and skilled personnel - adequate budgets reviewed by board and audit committees

Standard Setters, Regulators & External Auditors

Revised evaluation models for audit effectiveness according to the risk maturity level

9. Conclusion: Lessons for a Sustainable Future

Outcomes of effective collaborative governance models and integration with risk management in practice;

Developing practical tool for internal audit practices

The effectiveness of adaptable internal audit practices in risk-naïve firms;

Developing operational guidelines for implementation.

**The long-term effect of strategic reforms in governance / risk management across diverse settings;
quantitative metrics to evaluate the impact**

The perception of internal auditors' independence and its relevance as a result of changes in governance frameworks

The value-added/ challenges of the strategic presence in organizations adopting this role.

9. Conclusion: Lessons for a Sustainable Future



- The Lebanese banking crisis underscores the strategic importance of a **proactive** and value-driven internal audit function.
- Internal audit is essential to **sustainable governance** and risk culture transformation, especially in risk-naïve settings.
- The evolving role requires a **dynamic approach** that meets the risk needs of organizations at all levels of risk maturity.

“In a rapidly evolving risk landscape, how can internal audit functions become not just navigators but architects of risk management and accountability frameworks? “

*“Not Adding value is the same as taking it away”
Seth Godin*

Thank you

Dr.Haneen Najem

