



الاتحاد الدولي للمصرفيين العرب  
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## **Sustainable Bank**

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

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Egypt - Cairo**



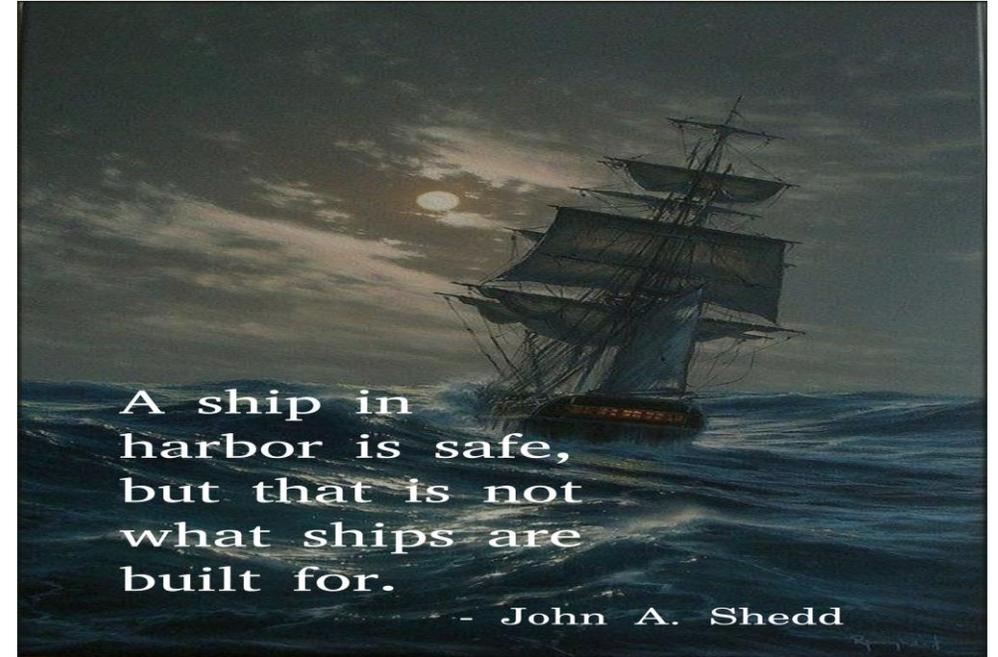
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## **Strategic Navigators in Uncharted Waters: The Transformative Role of Internal Audit Across Varying Risk Maturities**

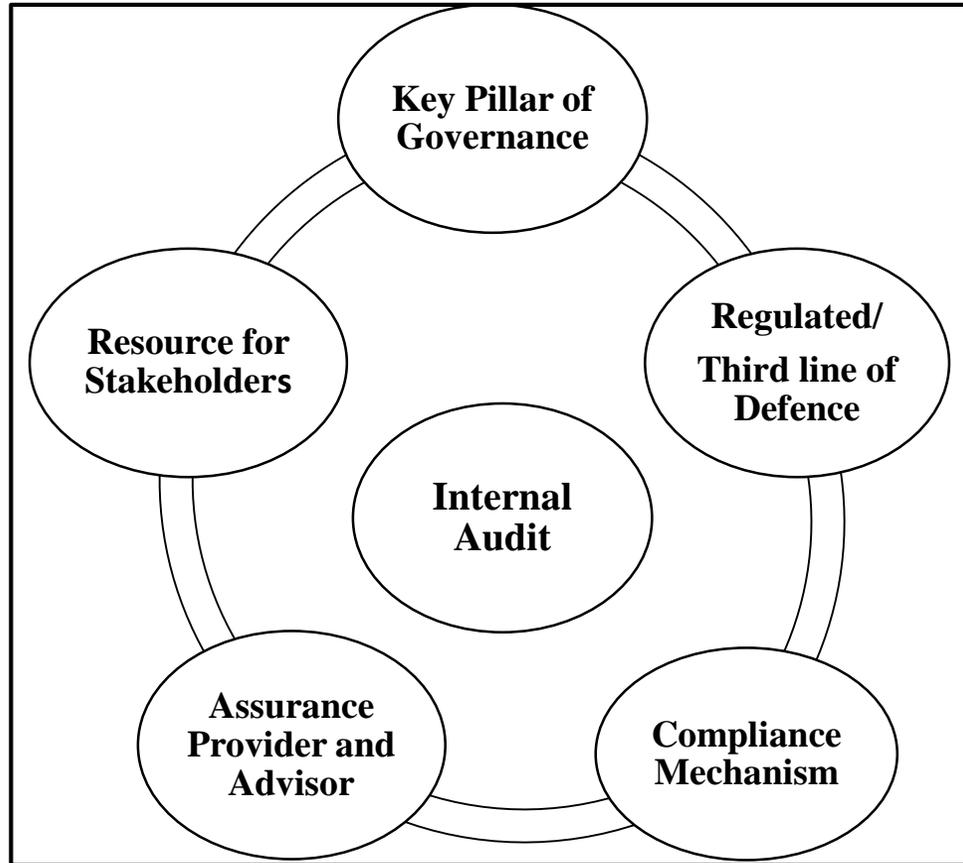
**Insights From the Lebanese Banking Sector**



***Dr. Najem Haneen***

***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

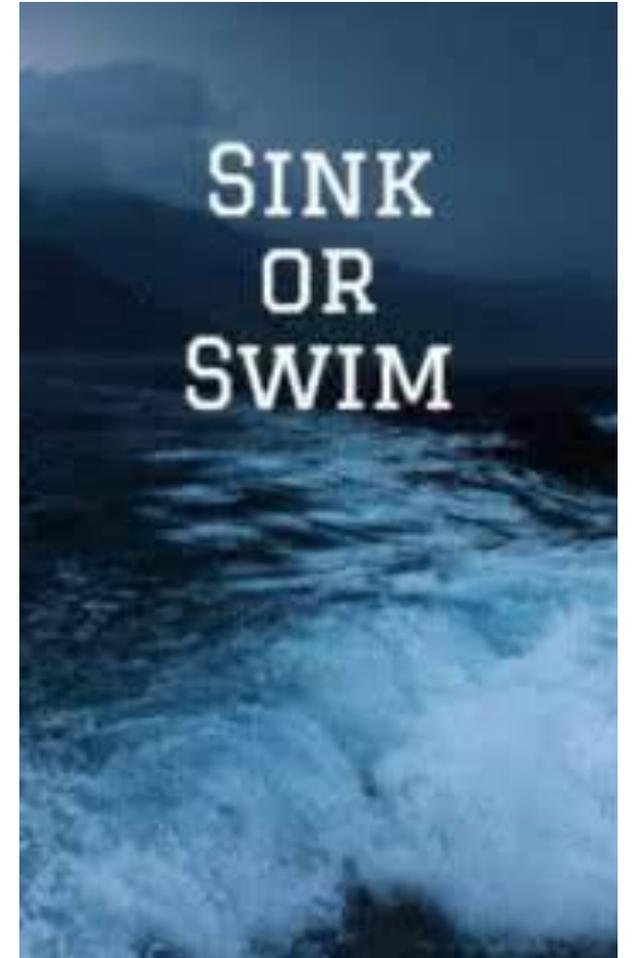
# 1. Introduction: The Need for a Strategic Internal Audit Function

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-naive contexts**

## 2. Inquiry

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



# 3. Objectives

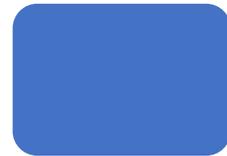
## Internal audit Role within the context of the Lebanese Banking Sector in response to the changing risk and governance landscapes



**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



External Pressures

## □ Impact of External Pressures in Shaping Internal Audit Functions

- Internal audit adapts to pressures for **legitimacy and effectiveness**
- Internal audit functions may engage in **decoupling**: navigation between external regulatory requirements and the practical realities of organizational needs and expectations



Internal Audit

## □ The Dynamics of Internal Audit in Response to Governance, Risk Management, and Accountability Changes

- The evolving landscape requires **adaptive responses from internal audit functions**: role shift- enhanced accountability structures- managing challenges and role ambiguity- aligning with organizational objectives.
- Need to **balance** between conforming to external pressures and the flexibility to address internal organizational dynamics effectively.



Internal pressures  
(Accountability and  
Governance Framework)

## 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).

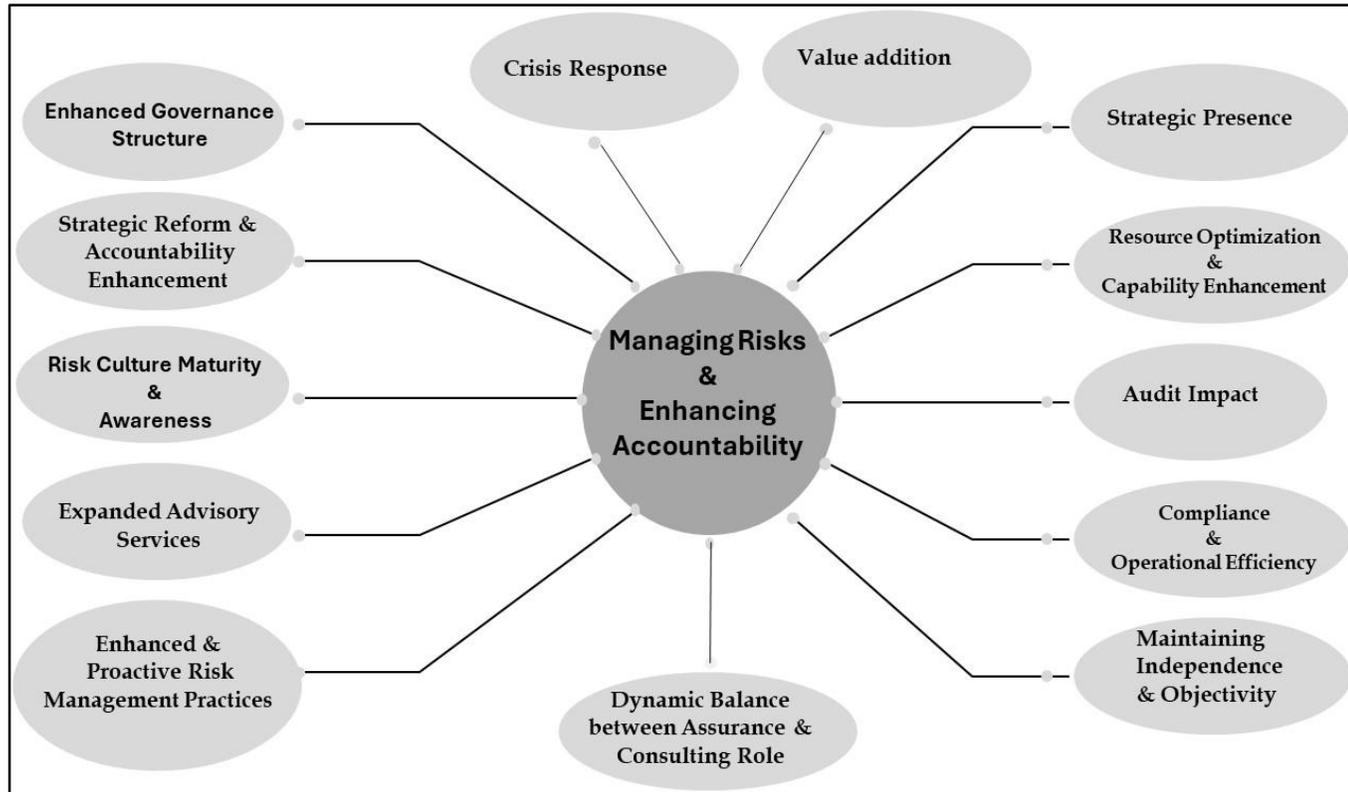
## Internal Audit Effectiveness and Strategic Value Contribution



- 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*

