The Institute of Internal Auditors

Position Paper

Organizational Governance:
Guidance for Internal Auditors

\- July 2006 -

The Institute of Internal Auditors, 247 Maitland Avenue, Altamonte Springs, Florida 32701-4102, USA
http://www.theiia.org

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IIA Position Paper on Organizational Governance: Guidance for Internal Auditors

Overview

The topic of organizational governance (often referred to as *corporate governance*) is important for many key stakeholders in the political and business worlds. Typically, internal auditors operate in two capacities in this area. First, auditors provide independent, objective assessments on the appropriateness of the organization's governance structure and the operating effectiveness of specific governance activities. Second, they act as catalysts for change, advising or advocating improvements to enhance the organization's governance structure and practices.

By providing assurance on the risk management, control, and governance processes within an organization, internal auditing is one of the key cornerstones of effective organizational governance. This guidance is designed to help internal auditing in its assurance and advisory role with regard to specific aspects of organizational governance.

This document has three main sections:

1. **Definition of Organizational Governance and the Role of Internal Auditing.** This section provides a framework for understanding the role of internal auditing, specific activities internal auditors can perform, and possible next steps for internal auditors.
2. **Organizational Governance Principles, Participants, and Its Interaction With Other Initiatives.** This section discusses additional information on the key principles of organizational governance, the roles of typical participants in this area, and the impact of common organizational initiatives (e.g., quality programs, enterprise risk management) on organizational governance.
3. **Appendices.** This section provides additional definitions and resources related to organizational governance.

Organizational governance is a complex topic that overlaps with other internal audit subjects. Various companies, governments, research organizations, regulatory bodies, and other organizations have addressed aspects of the broad topic of organizational governance through various means. This document is not intended to replace all these publications and does not concentrate on organizational governance as an isolated topic.

The concepts outlined in this document are intended to apply to the role of internal auditing across a broad range of organization types, including publicly or privately owned businesses, nonprofit or for-profit organizations, and government or non-governmental institutions. Regardless of the type of organization, the key concepts in this document can be applied to the company's internal audit activity.

SECTION 1: ORGANIZATIONAL GOVERNANCE AND THE ROLE OF INTERNAL AUDITING

What is Organizational Governance?

There is no single, comprehensive, universally accepted definition of organizational governance. However, certain common elements are present in most definitions of organizational governance that describe it as the policies, processes, and structures used by organizations to direct and control its activities, achieve its objectives, and protect the interests of its diverse stakeholder groups in a manner consistent with appropriate ethical standards.

An often-used definition of organizational governance comes from the Paris-based forum of democratic markets, the Organisation for Economic Co-operation and Development **(**OECD):

> *Corporate governance involves a set of relationships between a company's management, its board, its shareholders and other stakeholder. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.*[1]

See Appendix B in Section 3 for other organizational governance definitions.

Role of Internal Auditing in Governance

Internal auditing typically operates in two capacities. First, auditors provide independent, objective assessments on the appropriateness of the organization's governance structure and the operating effectiveness of specific governance activities. Second, they act as catalysts for change, advising or advocating improvements to enhance the organization's governance structure and practices.

In an organization, management and the board establish and monitor companywide systems for effective governance. Internal auditors can support and improve these actions. In addition, although internal auditors should remain independent, they may participate in the establishment of governance processes. By providing assurance on the organization's risk management, control, and governance processes, internal auditing becomes a key cornerstone for effective organizational governance.

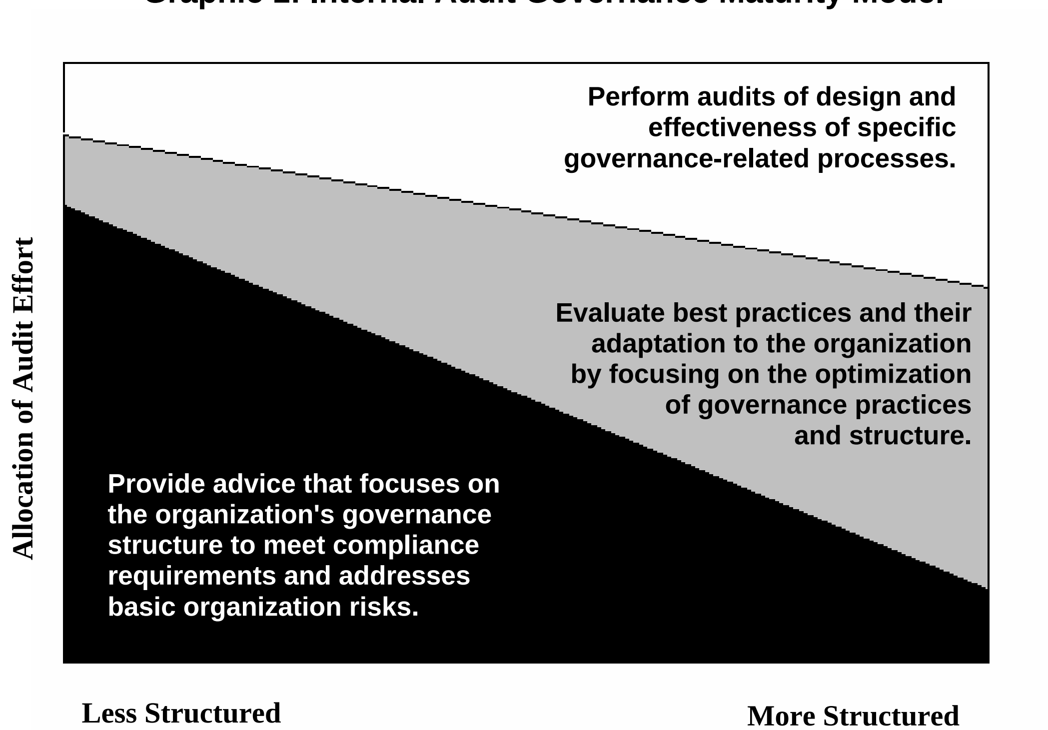
Which capacity is most relevant for internal auditing is highly influenced by the maturity level of the organization's governance processes and structure, and the organizational role and qualification of internal auditors. In an organization with a less mature governance structure and process, the internal audit function may be focused more on advice regarding optimal structure and practices, as well as comparing the current governance structure and practices against regulations and other compliance requirements. In organizations with more structured and mature governance practices, internal auditors could focus more on:

[1] OECD, Principles of Corporate Governance, revised May 2004

- Evaluating whether companywide governance components work together as expected.
- Analyzing the level of reporting transparency among parts of the governance structure.
- Comparing governance best practices.
- Identifying compliance with recognized and applicable governance codes.

The following graphic conceptually shows how the amount of time internal auditors spend on different tasks changes as the structural maturity of the organization's governance practices changes.

Graphic 1: Internal Audit Governance Maturity Model



Internal auditing will often be most effective in dealing with governance activities by doing more than performing discrete audits of specific processes. An internal auditor's unique position in an organization allows him or her to observe governance structure and design, while not having direct responsibility for them. Often, internal auditors can assist organizations better by advising the board of directors and executive management on needed improvements and changes in structure and design, not just whether established processes are operating. This is different, however, from providing objective assessment of specific governance activities through discrete audits.

Ultimately, internal audit assessments regarding governance activities are likely to be based on information obtained from numerous audit assignments over a period of time. Optimally, internal auditors should aim to provide assessments on the effectiveness of key organizational governance elements, either separately from, or combined with, assessments on the effectiveness of risk management and key controls. These governance activity assessments should take into account:

- Specific governance assignments.
- The results of specific board-level governance review work.
- Governance issues arising out of myriad audit assignments performed during a specific period of time.
- Other information available to or known by the internal auditor.

Internal auditors may operate most effectively for the board as an agent of the board who provide independent, objective information and evaluation. The board would then "own" internal auditing, fostering a mutually supportive internal audit-board relationship. To gain a complete understanding of the organization's operations, it is essential that the board consider the internal auditor's work. For instance, internal auditors can inform the board on matters such as culture, tone, ethics, transparency, and internal interactions. In addition, contemporary internal auditing is based on the organization's framework for identifying, responding to, and managing the different strategic, operational, financial, and compliance risks facing the organization. As a result, internal auditors can provide objective assurance on the effectiveness of the framework as a whole, including management's monitoring and assurance activities, and on management of individual key risks.

This role of supporting the board, however, can create tensions because internal auditing also may be positioned as a "partner" to management. Internal auditors will need to manage the needs and expectations of both constituents carefully. Additional guidance on the role of internal auditing can be found in Practice Advisories 1000.C1-2, 1120-1, 1130.A1-1, and 1130.A1-2 of The IIA's *Professional Practices Framework*.

Specific Activities of Organizational Governance

Governance activities exist to help the organization meet its objectives in being well-run and accountable to its stakeholders. Just like in any other activity, management and the board will want to articulate their objectives in each area and put in place programs to achieve those objectives. The following sections provide suggestions of the objectives and programs related to different governance activities. Recognizing the significant overlap between governance activities and other organizational initiatives, this document focuses on the tasks that are not typically associated with other initiatives.

Internal auditors can perform specific tasks that assist organizations in regard to governance structure and processes, and should consider assisting management and the board by assessing the following areas:

- *Board Structure, Objectives, and Dynamics*. The board and its committees should be appropriately structured and chartered to operate effectively. There should be healthy board and management interaction; adequate board meeting time devoted to open discussion; a full range of issues considered at board meetings; appropriate board composition (e.g., number of board members, absence of conflicts of interest, capabilities of board members); sufficient frequency of meetings; and meetings in private executive sessions. A board should devote sufficient attention to risks, the organization's risk appetite, and risk management practices. It is not commonplace for internal auditors to evaluate these topics. However, organizations and their boards should consider whether internal audit involvement would be beneficial and accepted.

- *Board Committee Functions*. Internal auditors can review board meeting schedules, establishment of agendas, dissemination of advance information, and adherence to the committee charters. Internal auditors also can evaluate whether the board committees maintain a calendar of responsibilities and regularly monitor performance to published responsibilities.
- *The Board Policy Manual*. Internal auditors could assess the process of developing and maintaining the board governance policy or policy manual (or assist in these activities); evaluate compliance procedures; and make recommendations for improvement.
- *Processes for Maintaining Awareness of Governance Requirements*. Governance obligations vary from country to country and industry to industry. Internal auditors could develop networks and processes to maintain awareness of governance requirements and evaluate and monitor the organization's processes for maintaining external awareness. Internal auditors also could interface with roundtables, professional trade associations, internal and external subject matter experts, and internal compliance or risk assessment committees. Auditors can assess whether the organization is in compliance with governance codes and specific criteria found in a governance codes; if the entity in not in compliance, auditors can evaluate the impact and cause of the noncompliance. Internal auditors can assess the adequacy of the disclosures relating to the organization's governance system in its annual report.
- *Board Education and Training*. Board members need ongoing education on the significant issues facing the organization, changing technology, and emerging risk areas. New board members frequently need education to prepare them properly for their new responsibilities. Internal auditors can assist the board in these efforts by providing development of training content, delivery of training, and administrative support. Alternatively, internal auditors could assess the adequacy of the education provided to board members compared to best practices from other organizations.
- *Proper Assignment of Accountabilities and Performance Management*. Organizational governance responsibilities are assigned to different parties within the company, and each party is accountable for fulfilling its responsibilities. If critical responsibilities are not assigned or assigned to the wrong party, governance suffers. Internal auditors can review whether all the key responsibilities related to organizational governance have been assigned, assigned to the proper parties, and whether the performance management system and disciplinary action processes are effective.
- *Completeness of Ethics Policies and Codes of Conduct*. Most organizations have ethics policies and codes of conduct that govern acceptable employee behavior and represent a key part of the organization's governance structure. Internal auditors can assess whether their organization's policies and codes include appropriate subjects and guidance. A number of codes of conduct are available for comparison. Most contain sections addressing conflicts of interest; confidentiality; fair dealing; proper use of organization assets; compliance with laws, rules, and regulations; and reporting of illegal or unethical behavior.
- *Communication and Acceptance of Ethics Policies and Codes of Conduct*. To be effective, ethics policies and codes of conduct need to be communicated clearly to, and understood and accepted by, employees. Internal auditors can assess whether this communication is occurring and whether the information is understood by employees. Internal auditors can use surveys, interviews, and other means to determine the effectiveness of this communication process. Internal auditors can

assess the effectiveness of the processes established to enable employees to communicate concerns they have regarding inappropriate behavior to management or the board (e.g., a whistle-blower process). Internal auditors can also facilitate discussion of ethics topics and processes to resolve ethical issues.

- *Ethics Investigations and Related Employee Discipline*. Violations of ethics policies or codes of conduct are investigated usually; if wrongdoing is substantiated, the involved employees are disciplined. Internal auditors can conduct these investigations or, alternatively, assess the adequacy of investigations performed by others. As part of this assessment role, internal auditors should consider whether the investigations were impartial, performed by competent personnel, supported adequately by pertinent facts, and concluded with appropriate actions by management personnel.
- *Management Evaluation and Compensation*. Compensation of management is coming under increased scrutiny. The concern is over not just reported cash compensation, but also indirect forms: stock compensation programs, personal use of the organization's resources, and reimbursement of excessive expenses. Internal auditors could focus on the accuracy and completeness of information provided to the board, the judgment exercised by management when classifying indirect executive benefits, and adequacy of the board's attention to this topic.
- *Recruitment Processes for Senior Management and Board Members*. Internal auditors can review recruitment standards and policies and evaluate whether practices meet organizational objectives. Although internal auditors should not influence individual decisions, patterns or extended deviations can be reported to the board.
- *Employee Training*. Effective organizational governance will normally require employees to be trained on topics such as internal controls, ethics policies, disclosure and compliance requirements, and board policies. Internal auditors can assess the adequacy of this training, and its frequency, effectiveness, and impact.
- *Governance Self-assessments*. The board should perform or provide oversight for assessments of their performance, appropriateness of their charter, adequacy of their calendar, and other governance structures and activities. Internal auditors could assist the board in these responsibilities by facilitating data collection and reporting results to the board. Alternatively, internal auditors can assess the adequacy of these efforts, and their compliance with applicable regulations for reporting back to the board.
- *Comparison with Governance Codes or Best Practices*. It is becoming more common for governments or stock exchanges to establish governance codes. These codes can include a wide range of topics such as financial reporting practices, organizational structure, and social responsibility. They range from being required practices of the organization to suggested best practices. Internal auditors can provide assurance that their organization is in compliance with these codes.
- *External Communications*. External communications include financial reports, press releases, and communication during crises. Internal auditors can assess whether the organization's stated strategies and objectives for reporting to stakeholders are being accomplished. The focus would include not only accuracy, but also full transparency, truthfulness, and timeliness.
- *Oversight of External Auditors*. Internal auditors can assist the board in their management of external auditors by evaluating external auditor performance, their relationship with management and ways of handling disputes, the extent of

additional work outside the normal audit engagement, and fees. Involvement in this area is not likely to take the form of an audit; rather providing advice and support.

There is no one-size-fits-all method to optimizing organizational governance. Each organization must tailor an individual solution that considers industry, maturity, business strategy, capabilities, culture, and competitive position.

Other Considerations

Organizational governance is a complex topic that may take internal auditors into areas not previously explored. Some key considerations to keep in mind are:

- Management may not have formally considered governance matters as part of a larger organizational governance strategy. Before embarking on exploring the proper role of internal auditors related to governance, internal auditors may need to work with management to ensure there is a proper understanding and definition of the governance processes and structure in the organization.
- It is critical that whatever role internal auditing undertakes with regard to organizational governance, its impact on the independence of internal auditing needs to be evaluated. Some roles could result in internal auditing impairing its independence regarding certain audit activities. In this case, internal auditors must communicate impairment of its independence to management and the board, and not perform audits or other assessment activities related to this role.
- A key role of the board and management is the establishment of the organization's strategy. Internal auditors typically do not challenge these key strategic elements or whether the primary organization's strategy is appropriate for the key organization stakeholders. However, this does not mean the internal auditor must remain silent on all items related to strategy. It could be beneficial to the organization for internal auditors to make observations on major issues related to strategy implementation, key risks not adequately addressed by the strategy, conflicts among various strategy elements, or the impact of the strategy on the organization or its stakeholders.
- Internal auditors must be careful to consider not only the results of individual audit tasks in assessing organizational governance, but also the overall structure of governance within the organization. At times, each part may appear appropriate, but could present serious issues when combined. Internal auditors should be aware of the limitations of performing specific governance review procedures without also having considered the broader (e.g., board) governance processes. Many elements of governance are driven from the top, and internal auditors should consider a top-down review of governance to ensure that designed processes are adequate and embedded effectively throughout the organization.
- The governance environment is changing rapidly in many countries and industries. The internal auditor must continue to monitor these changes and evaluate how they impact the role of internal auditors in the future.
- Auditing organizational governance requires skills and competencies that internal auditors may not possess. Before undertaking audits in the governance area, it is critical to ensure that internal auditors posses the relevant skills or obtain appropriate training. Internal auditors also should be encouraged to seek different tools, resources, and best practices.

Possible Next Steps
When pursuing an expanded role in the area of organizational governance, internal auditors can start along a number of different paths. Possible first steps include:

1. Review all relevant internal and external written policies, codes, and charter provisions, pertaining to organizational governance.
2. Discuss organizational governance with executive management or members of the board. The objective of these discussions is to ensure internal auditors have a clear understanding of the governance structure and processes from the perspective of those responsible for them, as well as the maturity of these processes.
3. Discuss options for expanding the role of internal auditors in organizational governance with the board chair, board committee chairs, and executive managers. These discussions could involve explaining the potential actions internal auditors could take and the resources required, as well as the possibility of an assurance gap between the board's assurance requirements and the organization's practices, if internal auditors did not assist in this area. Ensure the internal audit charter is consistent with the expanded role being considered.
4. Discuss organizational governance topics with other key stakeholders including external auditors and employees of the organization’s departments such as legal, public affairs corporate secretary office, compliance, and regulatory affairs. During these discussions, explore their current and future activities, as well as how an expanded internal audit role could coordinate with their activities.
5. Develop a broad framework of the organization's governance structure by identifying potential areas of weakness or concern.
6. Draft a multi-year plan to methodically develop the internal audit role in organization governance areas.
7. Perform a pilot audit in one of the areas noted above. Select a single, well-defined, manageable topic and assess the adequacy of the design and execution of the activities related to that topic. Performing a pilot audit will allow the internal auditor a chance to gauge the organization's response to his or her expanded role and learn how to coordinate more effectively with other stakeholders.

SECTION 2: ORGANIZATIONAL GOVERNANCE PRINCIPLES, PARTICIPANTS, AND ITS INTERACTION WITH OTHER INITIATIVES

Commonly Identified Organizational Governance Principles

Organizational governance is a broad concept. A partial list of principles often included in defining effective governance processes are:

1. Ensure a properly organized and functioning board that has the correct number of members; an appropriate board committee structure; established meeting protocols; sound, independent judgment about affairs of the organization; and periodically reaffirmed membership.
2. Make sure board members possess appropriate qualifications and experience, with a clear understanding of their role in the governance activities, a sound knowledge of the organization's operations, and an independent/objective mindset.
3. Assure that the board has sufficient authority, funding, and resources to conduct independent inquiries.
4. Maintain an understanding by executive management and the board of the organization's operating structure, including structures that impede transparency.
5. Articulate an organizational strategy against which the success of the overall enterprise and the contribution of individuals are measured.
6. Create an organizational structure that supports the enterprise in achieving its strategy.
7. Establish governing policy for the operation of key activities of the organization.
8. Set and enforce clear lines of responsibility and accountability throughout the organization.
9. Ensure effective interaction among the board, management, external and internal auditors, and any other assurance providers.
10. Secure appropriate oversight by management, including establishment and maintenance of a strong set of internal controls.
11. Make sure that compensation policies and practices — especially related to senior management — are consistent with the organization's ethical values, objectives, strategy, and control environment, and encourage appropriate behavior.
12. Communicate and reinforce throughout the organization an ethical culture, organizational values, and appropriate tone at the top, which includes an environment that allows employees to raise concerns without fear of retaliation, as well as where potential conflicts of interest are monitored and investigated.
13. Effectively use internal auditors, ensuring the adequacy of their independence, resources, scope of activities, and effectiveness of operations.
14. Clearly define and implement risk management policies, processes, and accountabilities at the board level and throughout the organization.
15. Effectively use external auditors, ensuring their independence, adequate resources, and scope of activities.
16. Provide appropriate disclosure of key information, in a transparent manner, to stakeholders.
17. Provide disclosure of the organization's governance processes, comparing those processes with recognized national codes or best practices.
18. Ensure proper oversight of related party transactions and conflict of interest situations.

There are other common elements of effective governance in organizations. The publications included in Appendix A have additional discussion of organizational governance principles.

The IIA's definition of internal auditing refers to "...bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." This definition incorporates the broad advisory and assurance role that internal auditing can have regarding an organization's governance processes.

Aspects of internal auditing's role in governance are addressed in performance standard 2130 of the International Standards for the Professional Practice of Internal Auditing:

> 2130: Governance
> The internal audit activity should assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
> - Promoting appropriate ethics and values within the organization.
> - Ensuring effective organizational performance management and accountability.
> - Effectively communicating risk and control information to appropriate areas of the organization.
> - Effectively coordinating the activities of and communicating information among the board, external and internal auditors, and management.
>
> 2130.A1: The internal audit activity should evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities.
>
> 2130.C1: Consulting engagement objectives should be consistent with the overall values and goals of the organization.

Participants and Roles
There are, broadly speaking, five parties that participate in an organization's governance activities and each has specific responsibilities.

Role	***Responsibilities***
Board	• The focal point for all governance activities. • Ultimately accountable and responsible for the performance and affairs of the organization, effective risk management practices, and establishing a risk appetite level. • Oversees all organizational activities (e.g., risk management, strategic direction setting, compliance with laws, good business, and ethical practices), but does not have direct management of any of them. • Establishes the "tone at the top" and implements best governance practices for organizational performance.

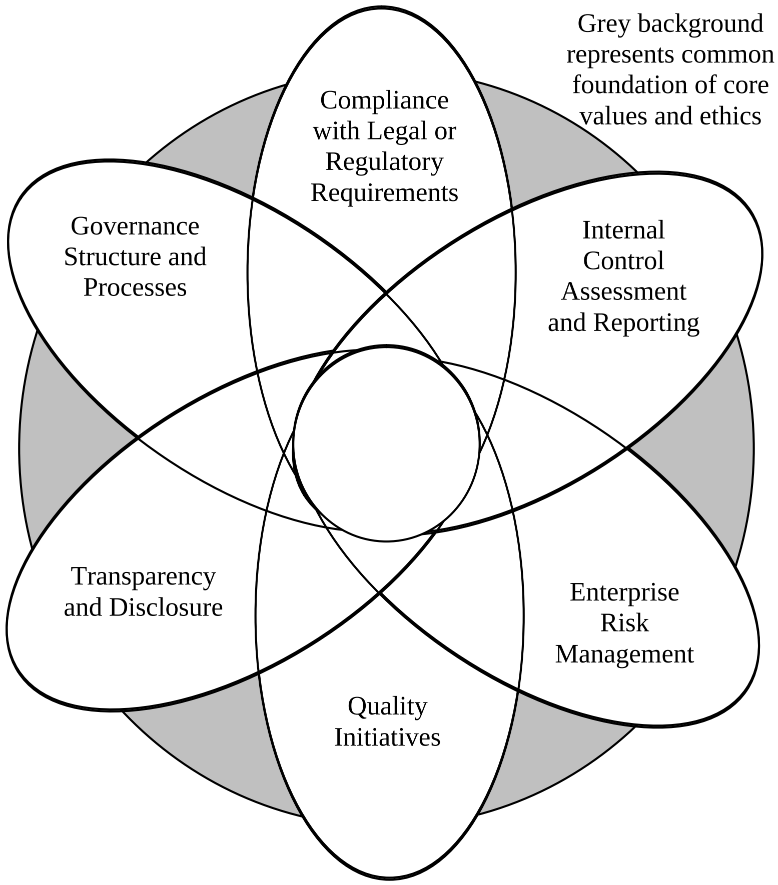
Senior Management	• Under the oversight of the board. • Sets strategic direction and establishes an entity's value system. • Provides assurance that risks are managed as part of a risk management process, operations are monitored, results are measured, and corrective actions are implemented in a timely fashion.
Operating Management	• Deploys strategy, enforces internal control, and provides direct supervision for areas under its control. • Accountable to executive management, and ultimately the board, for implementing and monitoring the risk management process and establishing effective and appropriate internal control systems.
Internal Auditing	• Performs assessments to provide assurance that governance structures and processes are properly designed and operating effectively. • Provides advice on potential improvements to governance structures and processes.
External Auditing	• Provides independent assurance on the financial statement preparation and reporting activities, in accordance with applicable regulations and accounting principles.

The roles of the parties are separate, and the responsibilities of each role are different. Effective governance is diminished if role boundaries are not respected. Good governance results from effective synergy generated among the activities of these differing roles, while maintaining their separation.

Organizational Initiatives Impacting Governance

A number of different initiatives within organizations overlap with the area of governance. Additionally, there are organizational initiatives that primarily may be directed at operational or compliance concerns, but which nonetheless impact governance activities.

The following chart illustrates this overlap between organizational governance and some of the more common initiatives of organizations.



The center of the diagram illustrates those aspects of an organization that are common across many, if not all, initiatives and activities. The organization's core values and ethics are the foundation for all activities, such as:

***Compliance with Legal or Regulatory Requirements*.** Various requirements are imposed by stock exchanges, industry regulators (e.g., banks, insurance companies), legislative bodies (e.g., the U.S. Congress with the U.S. Sarbanes-Oxley Act of 2002), etc. In these cases, organizations typically have responded by implementing certain structures and processes to ensure compliance. Often, responses to these requirements define the key elements of the governance structure (e.g., composition of the board, role of external auditors).

***Internal Control Assessment and Reporting*.** Internal controls help organizations ensure that management's strategies and directions are carried out, often to mitigate risk. Many organizations have robust activities to document, assess, and report on the adequacy of these internal controls using established control frameworks such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO), Criteria of Control (CoCo), etc. Elements of these frameworks clearly overlap with elements of governance, including the control environment, monitoring, and detailed control activities.

***Enterprise Risk Management*.** Organizations face a variety of risks, and many organizations are evaluating the adequacy of their risk management processes. COSO issued a framework for understanding and evaluating an organization's ERM structures and activities. Adequate understanding and assessment of risk and the effective implementation and functioning of appropriate risk mitigation strategies are key elements of governance processes.

***Quality Initiatives*.** Initiatives for improving quality processes in an organization include International Standards Organization (ISO) certification, European Foundation for Quality Management European award, Six Sigma, and the Baldridge award model. The various means these initiatives use to measure the effectiveness of an organization overlap with many structural elements of governance.

***Transparency and Disclosure*.** Organizations commonly report financial results and information to key stakeholders and increasingly are reporting more than financial results. Reporting on social responsibility, efforts to preserve the environment, and other social issues are becoming common. Communicating an organization's values regarding stewardship, management practices, employee relations, and other topics often shows an organization's culture and tone. The transparency of financial and non-financial disclosures to stakeholders is a key element of governance.

***Governance Structures and Processes*.** Although many of the initiatives listed above overlap with the general concept of organizational governance, some aspects are unique to organizational governance. These often relate to management structure, organization oversight, actions taken to set the tone of the organization (e.g., disciplinary actions taken by the board or management against those who violate organizational values), and specific processes related to the activities of executive management and the board.

There are undoubtedly other initiatives and activities that support governance. Based on the organization, the methods of pursuing those initiatives, and interaction of initiatives within an organization, there is often significant overlap among the activities of the various initiatives. There is nothing inappropriate with this overlap, but internal auditors need to understand these overlapping objectives and activities, clarify how they impact organizational governance activities, and understand the assessment or consulting work they perform in these other areas before fully executing their organizational governance activities.

SECTION 3: APPENDICES

Appendix A: Resources Discussing Organizational Governance Topics

Institute of Internal Auditors

- IIA Web Site: Tools and Resources for Corporate Governance Initiatives and Current Legislation, http://www.theiia.org/?doc_id=4061.
- *Corporate Governance and the Board: What Works Best,* IIA Research Foundation, http://www.theiia.org/bookstore.cfm?fuseaction=product_detail&order_num=408.
- *Audit Committee Effectiveness: What Works Best, 3rd Edition*, IIA Research Foundation, http://www.theiia.org/bookstore.cfm?fuseaction=product_detail&order_num=5000.

Government and Stock Exchange Guidance/Regulations

- The Combined Code on Corporate Governance, http://www.frc.org.uk/corporate/combinedcode.cfm.
- ASX Corporate Governance Council — Principles of Good Corporate Governance and Best Practice Recommendations, http://www.asx.com.au/about/pdf/ASXRecommendations.pdf.
- U.S. Sarbanes-Oxley Act of 2002 and the SEC's Final Rules implementing the act's provisions, http://www.sec.gov/about/laws.shtml.
- Corporate Governance: A Practical Guide, London Stock Exchange and RSM Robson Rhodes LLP, June 2004, http://www.londonstockexchange.com/NR/rdonlyres/C450E4FC-89C2-4042-804A-685855FF217B/0/PracticalGuidetoCorporateGovernance.pdf.

Nongovernmental Guidance and Best Practices

- Principles of Corporate Governance, Organisation for Economic Co-operation and Development (OECD), http://www.oecd.org/searchResult/0,2665,en_2649_201185_1_1_1_1_1,00.html.
- Frequently Asked Questions in Corporate Governance from the National Association of Corporate Directors:
  - — General, http://www.nacdonline.org/FAQ/details.asp?faq=1.
  - — Audit and financial, http://www.nacdonline.org/FAQ/details.asp?faq=2.
- National Association of Corporate Directors (NACD) Bookstore, https://secure.nacdonline.org/source/library/ordershome.cfm?activesection=Orders, includes the "Report of the Blue Ribbon Commission on Audit Committees" and other publications.
- International Federation of Accountants — Research and discussion papers from 2004, http://www.cimaglobal.com/cps/rde/xchg/SID-0AAAC564-07226933/live/root.xsl/9530.htm.
- COSO Related Resources, http://www.theiia.org/?doc_id=4884.
- Independent Audit Limited, Better Governance Reporting: A Practical Framework, www.independentaudit.com/reporting/documents/BetterGovernancereporting-Apracticalframework.pdf.

- Basel Committee on Banking Supervision — Consultative Document — "Enhancing Corporate Governance for Banking Organizations," issued for comment in July 2005. (The IIA commended the Basel Committee's efforts to promote effective corporate governance. In its reply, The IIA offered eight recommendations to the committee, advocating internal audit activities and the internal auditor's role in good governance and accurate financial reporting.) See The IIA Position Papers & Responses to Exposure Drafts 2005 Web page, http://www.theiia.org/?doc_id=126, item No. 6.
- Links to various countries' governance codes or guidelines as assembled by the European Corporate Governance Institute, http://www.ecgi.org/codes/all_codes.php.
- White papers on governance by Institutional Shareholder Services, Inc., http://www.issproxy.com/governance/whitepapers.jsp.
- King II code on corporate governance, http://www.iodsa.co.za/corporate.htm.

Company Examples

- Continental Airlines, Corporate Governance: Charters of Committees of the Board of Directors, Governance Guidelines, Ethics Code, Fair Disclosure, http://www.continental.com/company/investor/governance.asp.
- Starbucks Corporate Governance Principles and Board Committee Charters and Policies, http://www.starbucks.com/aboutus/corporate_governance.asp.

Related IIA Guidance

Some of the topics mentioned in this document have been addressed in more detail in Practice Advisories of The IIA:

- 1000.C1-2: Additional Considerations for Formal Consulting Engagements.
- 2100-1: Nature of Work.
- 2110-1: Assessing the Adequacy of Risk Management Processes.
- 2120.A1-1: Assessing and Reporting on Control Processes.
- 2130-1: Role of the Internal Audit Activity and Internal Auditor in the Ethical Culture of an Organization.

Appendix B: Definitions of Organizational Governance

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimized. (Australia)[1]

"Corporate governance" refers to the set of rules applicable to the management and control of a company. It is the duty of the board of directors to manage the company's affairs exclusively in the interests of the company and all its shareholders, within the framework of the laws, regulations, and conventions under which the company operates. (Belgium)[2]

"Corporate governance" means the process and structures used to direct and manage the business and affairs of the corporation with the objective of enhancing shareholder value, which includes ensuring the financial viability of the business. The process and structure define the division of power and establish mechanisms for achieving accountability among shareholders, the board of directors and management. The direction and management of the business should take into account the impact on other stakeholders such as employees, customers, suppliers, and communities. (Canada)[3]

The nature of supervision by a present-day board of directors, having independent directors at the heart of its activities, is the undertaking of appropriate monitoring from the aspect of fulfilling the duties entrusted to them, while motivating the executive managers and employees with an appropriate compensation system in order to encourage independence. The balancing of this supervision (from the standpoint of the shareholders) with management (the administration of the company business) is called governance…Governance, which is the primary role of the independent director, is to ensure the introduction and correct functioning of the internal audit and compensation systems…Corporate governance is a scheme for ensuring that the executive managers, who have been placed in charge of the company, fulfill their duties. (Japan)[4]

Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business, and reporting to the shareholders on their stewardship. The board's actions are subject to laws, regulations, and the shareholders in general meeting. (United Kingdom)[5]*.*

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[1] The Australian Stock Exchange Corporate Governance Council, Principles of Good Corporate Governance and Best Practice Recommendations, March 2003.
[2] Belgium Commission on Corporate Governance, Corporate Governance for Belgium Listed Companies, December 1998.
[3] Toronto Stock Exchange Committee on Corporate Governance, Dey Report, December 1994.
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