

IIZ WINTER SCHOOL 2018

**DRIVING GROWTH – DISRUPTING THE MINDSET
COMPLETELY**

**THE ROLE OF AUDIT AS A MANAGEMENT
TOOL IN INSURANCE COMPANIES**

J.B. MHLABI – 22 AUGUST 2018

DISCLAIMER

VIEWS

- From a point of comfort with the truth
- Own perspective, independent of associated organizations

FIRST MUTUAL

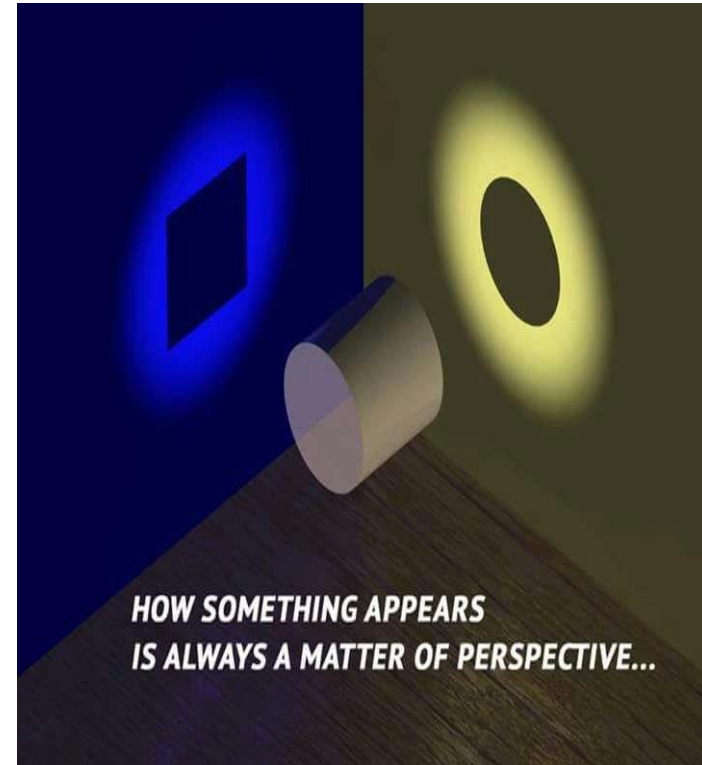
- Head of Audit & Risk Management
- Will comply with the IPEC directive

INSTITUTE OF INTERNAL AUDITORS

- On the Board Committee for CAE
- Ex-Board Member & Chair of CAEs

INSTITUTE OF RISK MANAGEMENT

- Member of the Founding Committee to establish a local chapter



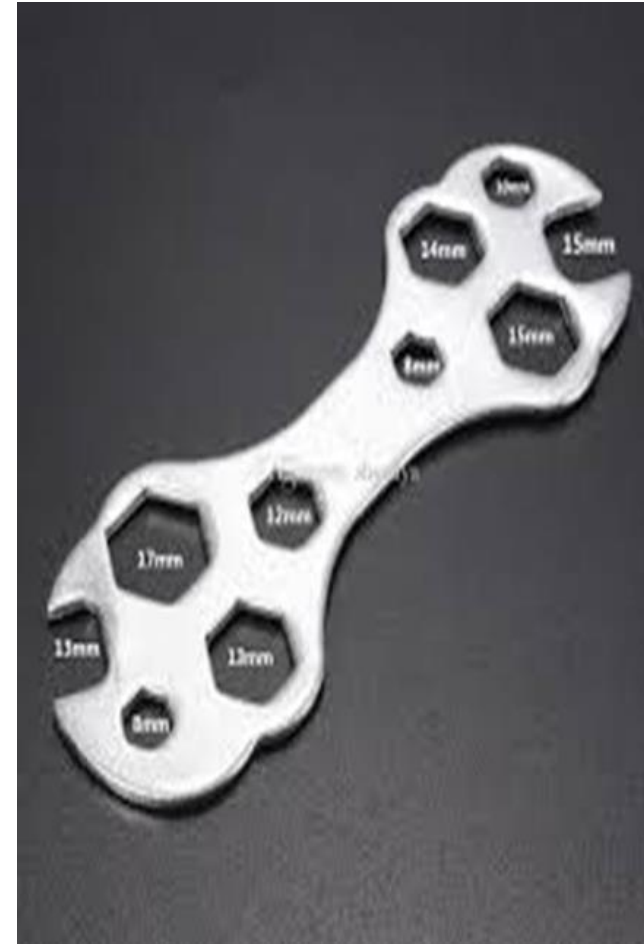
THE MESSAGE

THE BIG IDEA

- Company must get the right tool for its specific circumstances
- Maintain it in top form
- Only use it for the intended purposes
- Use it for all intended practical purposes

AGENDA

- Understand the requirements and the tool
- Manage the roles and expectations
- Making the tool effective



UNDERSTAND THE TOOL

WHAT IT'S NOT

- Not a witch-hunter, blood hound or police man
- Not issuers of licenses to “fix them”

WHAT IS CURRENTLY “OFF”

- Largely manned by accountants and “others”
- Generally under skilled in ICT and technical areas
- Some say... “Reserved, excitable, petty, not in touch, historians...” ???

WHAT IT SUFFERS.....OFTEN

- Under-resource, starved of your attention
- Evidenced by repeat issues, slow resolution
- Left out from the top table – EXCO, Strategy
- Among last items on agenda of various meetings
- Misunderstand their role, misalign expectations



FIRST MUTUAL

HOLDINGS LIMITED

Go Beyond

LIFE | HEALTH | INSURANCE | REINSURANCE | SAVINGS | PROPERTY

UNDERSTAND THE TOOL

DEFINITION OF INTERNAL AUDITING

....an independent, objective assurance and consulting activity designed to add value and improve an organization's operations.

It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (GRC).

THE ASPIRATION

To be the trusted advisor, a business partner with shared objectives & values who provides positive (not negative) assurance

FIRST MUTUAL

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UNDERSTAND THE TOOL

ASSURANCE

- Target for assurance is senior management and the board. But you also stand to benefit!
- The criteria used are the controls management declares
- The word ‘assurance’ carries a positive meaning, comfort that all is well
- But we tend to see the “negative” findings only in IA reports – a function of the agenda to improve GRC
- Initial negative finding is not a major problem - repeat findings are!
- Follow-up audit reviews should clear prior findings - issue of the “green card”
- Ensure declared controls are actually in place and dispose of findings
- Ask for positives to be reported

UNDERSTAND THE TOOL

ADVISORY / CONSULTANCY

- By arrangement with management
- Scope defined to address a specific area for advice in an area where IA have competence
- The nature of output from the exercise should largely be predictable and “safe” – not finding any wrong but advising on options to be considered, often with a clear recommendation
- Useful for new projects, changes to processes, systems products, markets or channel
- Not enough advisory taken up generally

➤ Where practical and beneficial, ask for advisory

UNDERSTAND THE TOOL

ZIMBABWE NATIONAL CODE

- Board is responsible for GRC issues
- Board should be inclined towards justice before profit and truth before sales..... should be morally guided by principle rather than popularity
- Board Audit Committee is among essential committees that should comprise more independent non-executive directors
- IA serves the Board and must draw on the above requirements on the Board to set its own tone.....

Allow it to be!!

ROLE OF INTERNAL AUDIT

ZIMBABWE NATIONAL CODE

Internal Audit should:

- Evaluate the governance processes
- Assess the effectiveness of risk management processes and the internal control framework
- Analyze and evaluate business processes and associated controls
- Assess risk of fraud, corruption, unethical behavior and other irregularities
- Allow IA to cover the full breadth of their mandate without undue limitation

ROLE OF INTERNAL AUDIT

ZIMBABWE NATIONAL CODE

- **Controls should be established over not only financial matters – also operational, compliance & sustainability**
- **IA should be empowered through an approved Internal Audit Charter**
- **IA work to the International Internal Auditing Standards**
- **Do not limit scope to financials because Accountants dominate the team numbers / for external auditor benefit**
- **Ensure the Board Audit Committee reviews the Audit Charter to ensure it is kept current & relevant**
- **Drive for continuous improvement of the IA function**

ROLE OF INTERNAL AUDIT

ZIMBABWE NATIONAL CODE

- **Audit Committee to drive for combined assurance that provides a coordinated approach to all assurance activities**
 - **Assurance activities must cover all significant functions within the organization**
 - **IA should be an integral part of combined assurance**
 - **CAE should have a standing invitation to executive meetings**
- **Improve efficiencies by bringing IA to the table always & early**

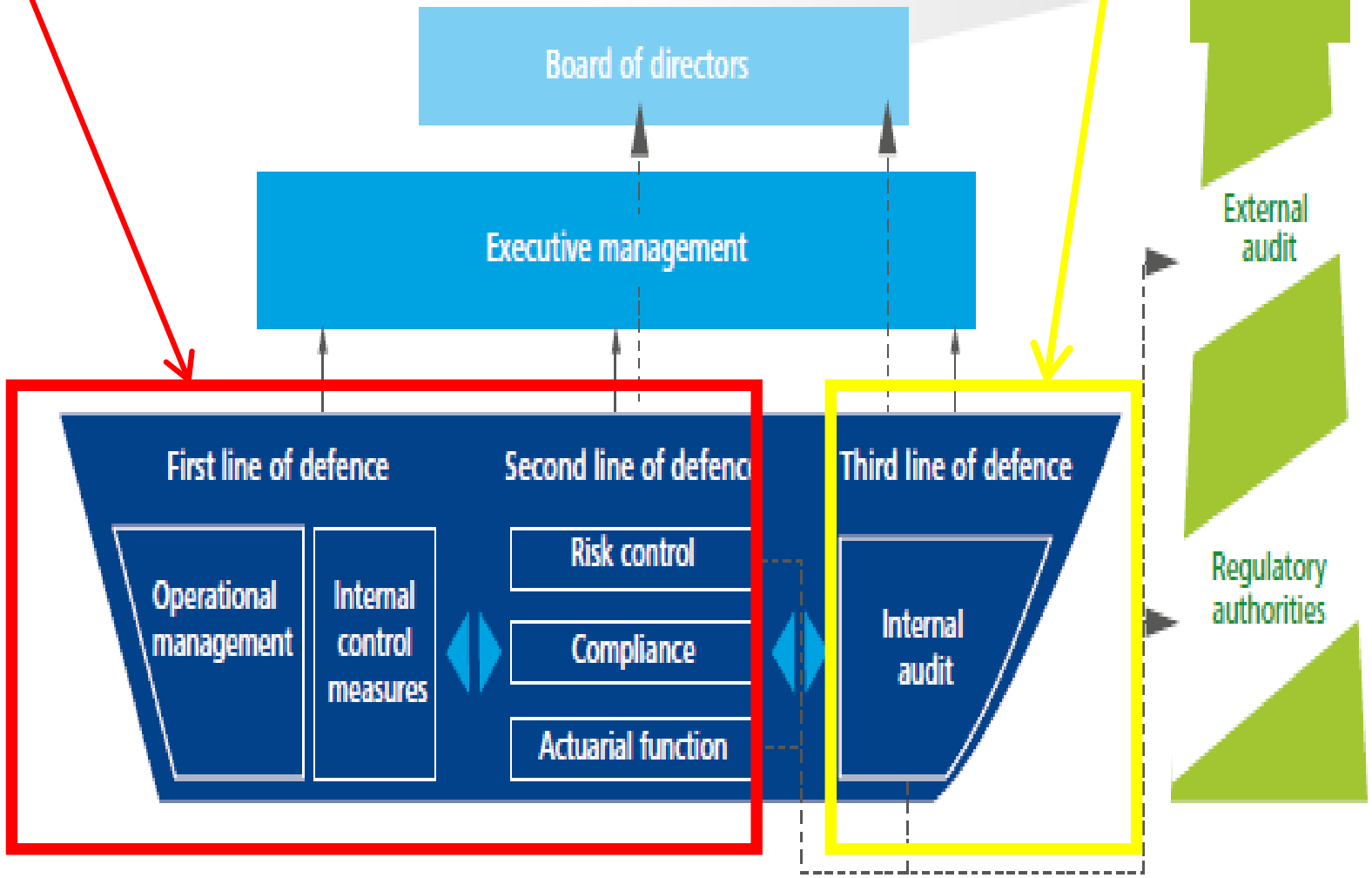
ROLE OF INTERNAL AUDIT

DIRECTIVE ON GOVERNANCE & RISK MANAGEMENT

- Directive sets out the minimum IPEC expectations and requirements to ensure an effective GRC is in place.
- IA is one of 4 control functions in the expected GRC
- Directive is based on the Three Lines of Defence model
- IA is the 3rd line of defence and should use a risk based approach to provide assurance to the underwriter's board and senior management on the effectiveness of risk assessment and management, including the manner in which the first and second lines of defence operate
- Task covers all elements of an underwriter's risk, compliance, and actuarial management framework

- Own & manage the risk in line with primary mandate
- Honour terms of any SLAs.

- Add value to the GRC
- Practice IA professionally



ROLE OF INTERNAL AUDIT

Scope of work should provide appropriate sufficient assurance over:

- **market, insurance, credit, liquidity, operational (including insurance fraud), and regulatory and compliance (including reputational) risk**
- **accounting and financial policies and whether the associated records are complete and accurate**
- **the extent of compliance by the insurer with applicable laws, regulations, rules, and directives from all relevant regulatory authorities**
- **intra-group transactions, including intra-group risk transfer and internal pricing**

ROLE OF INTERNAL AUDIT

Scope of work should provide appropriate sufficient assurance over:

- adherence by the insurer to the insurer's **remuneration policy**;
- the reliability and timeliness of **escalation** and reporting processes, including whether there are **confidential means for employees to report** concerns or non-compliance, and whether these are properly communicated, offer the reporting employee adequate **protection from retaliation**, and result in appropriate follow up; and
- the extent that any non-compliance with internal policies or external legal or regulatory obligations are documented, and **appropriate corrective or disciplinary measures** are taken, including in respect of individual employees involved.

MAKING THE MOST OF I.A.

- **Manage expectations** - reduce relationship to relevant SLAs
- **Strike the balance** – between assurance and advisory work
- **Manage set-up** – ensure independence and objectivity
- **Recognition** – invite to the top table, projects, strategic discourse
- **Resource** – staffing, staff development, assignment duration
- **Recognize** – resolve audit issues within agreed times

MAKING THE MOST OF I.A.

- **Professionalize** – CIA qualification, adherence to the Standards including continuous improvement and quality assurance reviews,
- **Upskill** – computers, insurance and other non-traditional
- **Participate truthfully** - sufficient n honest view on risks & controls
- **Honour schedule** – meetings and planned assignments without fail
- **Network** – Internally and in external associations IIAZ (“Progress through sharing”), IRM

CLOSING

- **Get the right tool for your specific circumstances**
- **Maintain it in top form**
- **Only use it for the intended purposes**
- **Use it for all intended practical purposes**

THANK YOU