

DISCOVERING RELATED PARTY TRANSACTIONS: INTERNAL CONTROL PROCESSES

GERRY COX
CHAIRMAN EMERITUS

IIA OVERVIEW

- Established in 1941, The IIA is the global voice, acknowledged leader, principal educator and recognised authority of the internal auditing profession.
- The IIA maintains *The International Standards for the Professional Practice of Internal Auditing (Standards)*
 - Principles-based
 - Available in 29 languages
 - Globally recognised
- Over 170,000 members in 165 countries

KEY RISKS

- Over-reliance on owners, board members, and executives to identify related parties *and* related party transactions (RPTs)
- Failure to identify related parties
 - Not easily identifiable
 - Ownership structure can be complicated
- Failure to identify RPTs
 - People are sometimes unaware

KEY RISKS

- Improper valuation of related party activity
 - RPTs may not be given accounting recognition
 - RPTs may lead to fraudulent financial reporting
- Inadequate disclosure in financial reports of related party activity
- Failure to prevent illegal/improper activity

KEY CONTROLS

- Appropriate organisational **culture** and **tone**
- Clear conflict of interest **policy**
- **Ongoing communication** of policy and expectations for compliance, including sanctions for non-compliance
- **Training**
 - all board members and executives
 - employees in a position that would likely encounter or process related party transactions

KEY CONTROLS

- **Identification** of activities/functions which are most prone to RPTs
 - **Ensure vetting of all third-parties**
- **Whistleblower option**
 - Culturally sensitive issue – people are hesitant
 - Employees must have access to right person, in right language
 - Assurance of non-retribution
 - Board and AC must encourage usage

INTERNAL AUDIT'S ROLE

- Ensure related party activities are properly addressed through internal controls
- Ensure related party activities are consistent with:
 - the organisation's code of conduct and conflict of interest policy
 - Laws/regulations
 - Disclosure requirements

DEALING WITH CONFLICT

- Stay focused on internal auditing's key constituency (i.e. Audit Committee)
- Internal Audit's reporting lines
- Stay professional and objective
- Gather and rely on good factual information
- Disclose if information cannot be obtained
- Be prepared to challenge strong powers in the organisation