DISCOVERING RELATED PARTY TRANSACTIONS: INTERNAL CONTROL PROCESSES

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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