



# ***Continuous Audit in Italian Corporations and Banks***

Dr G. Paolo Voarino  
Tasc (Milan)

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1



## **Outline**

- History
  - Leading experiences on non overlapping micro-processes as a basis for Internal Control System
    - related non overlapping risks
  - Continuous AS IS maintenance linked to web communication
- Some Problematic cases in Italy
  - Italian Banks (Basel2 Operational Risk)
    - BPCI and Bipop mergers
  - Parmalat (double billing)
  - Telecom Italia (misuse of CA application on retail billing)
  - ENI (over billing and weaknesses in monitoring systems)



## International History

- CPAS effort and embedded modules (ITF)  
–1987
- AICPA /CICA monograph 1999
- Continuous systrust 2001
- Basel2 Operational Risk request and experiences
  - Delays in early schedule
  - Processes analysis
  - etc

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3



## Italian Banks position (Basel2 Operational Risk)

- In the Basel Committee web site, the Bipop state of the art in 2001 with the A=I project
- interesting international project:
  - Andersen (Chicago);
  - Marsh & McLennan (NYC);
  - Cisco Systems (Paris)
  - SAP AG (Waldorf)
  - Tasc (Milan)
- Auditability of computing platform
- Extended to risk Process Auditing performed
- Early experience in Attestation of actual ICS implementation

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4



## Parmalat

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- What happened
- What ensued?

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5



## Telecom italia

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- Strictly internal model adopted
- only internal applications
- Auditability?
- Internal Auditing performed?
- External Auditors?
- Attestation?

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6



## ENI

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- Gas retail billing is under investigation
- only internal applications?
- System Auditability?
- Internal /External Auditing procedures performed?



## In summary what were the problems

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- In the business model
  - Bureaucratic approach only
  - Weaknesses in maintenance of process documentation
  - Weaknesses in maintenance of risks self-assessment
- With the audit
  - Only Attention Getting Systems
  - Little International exposure on Indicators
  - Weaknesses CA applications



## Auditing major Companies (e.g. banks)

- Micro-process definition
- Annual comprehensive review
- Continuous monitoring of automated processes
- Disclosing real time some information for the regulators



## micro-processes definition in major Companies (e.g. banks)

- Large projects only for compliance reasons
- Never associated with internal communication
- Focus on TO BE status (good business only for consultants)
- Low level of detail (maintenance)



## Annual comprehensive review

- Too expensive if performed only for bureaucratic reasons
- 3 types of indicators
  - KPIs
  - RAIs
  - POIs
- Consob inquisitive approach to auditing



## Continuous monitoring of automated processes

- Internal Attention Getting Systems only
- Lack of integration with the micro-processes platform
- Self standing of Loss-logs never integrated with the micro-processes platform
- Lack of feed-back



## Disclosing real time some information for the regulators

- Not encouraged by regulators
- No KPIs enhanced by central bodies (e.g. Italian Banking Association -ABI-)
- Large Corporations still enjoy monopolistic positions and related pricing
- Mid size and Small Companies are expecting UE era as an opportunity of growth (Maria-Theresa times)

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13



## Conclusions

- Italian prosecutors investigations (Bipop, Parmalat, Bpi, Telecom Italia, ENI, Italease) are publicly opening a black box → Interesting condition for international academia
- Need to re-think third party assurance with focus on the client
- Need to rethink the audit to use new technology (analytic, IT and TC)
- We need a new international business model (Maria-Theresa times)

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14



## Continuous Audit and Reporting in Italy: Issues and Prospects

- Panel: Gullo (Burani), Crescentino (Assirevi), Lolli (Uni FE), Voarino [Zambon]
- Lolli: listed Companies must release price sensitive info to the market
- GPV: June 9, 2007 press info re: Italease Bank
  - [...] deviations from internal procedures and weaknesses in coordinating delegation of powers
  - “Jan 1 – May 31 derivatives risk from 225 to 600 Mln €. From May 22 to May 31 up 100 Mln €” [+ other detailed numbers]
- Should Management comment with official audited numbers?
- Should the Auditors have requested a CA system in place before letting the Bank selling these risky financial products to customers?
- Should this CA system also cover the process of informing customers about the high risk of their “investment”?

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15



**Maria Theresa, Holy Roman Empress, Queen of Bohemia and Hungary, Archduchess of Austria, (German: Maria Theresia, Hungarian: Mária Terézia, Czech: Marie Teresie; May 13, 1717 – November 29, 1780) was (reigning) Archduchess of Austria and Queen of Hungary and Bohemia.**



**Maria Theresa helped initiate financial and educational reforms, promoted commerce and the development of agriculture, and reorganized the army, all of which strengthened Austria's resources**

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16



**Mario Draghi** (born September 3, 1947) is an Italian banker and economist, nominated to be the new governor of the Bank of Italy on December 29, 2005. He has taken office on January 16, 2006.



(governor)



Statutory Auditor

Born in Rome, Draghi earned a doctorate in economics from the Massachusetts Institute of Technology in 1976. He was then a professor at the University of Florence from 1981 until 1991. He was also an Executive Director of the World Bank from 1984 to 1990. In 1991, he became director general of the Italian treasury, and held this office until 2001. During this time, Italy carried out extensive privatisation prior to its 1999 adoption of the euro. Draghi was appointed chairman of the Italian Committee for Privatisations in 1993. He is a trustee at the Princeton Institute for Advanced Study and also at the Brookings Institution, in Washington, D.C. Draghi joined Goldman Sachs as a partner in January, 2002.



**Victor Emmanuel III** (Italian: *Vittorio Emanuele III*; 11 November 1869 – 28 December 1947) was King of Italy (29 July 1900 – 9 May 1946), Emperor of Ethiopia (1936–43) and King of Albania (1939–43). During his long reign, Victor Emmanuel III saw two world wars and the birth, rise and fall of Fascism.



He has been seldom treated sympathetically by historians. His almost forced abdication on the eve of a referendum on the future of the Italian monarchy achieved nothing — being too little, far too late. At worst, it reminded undecided voters of the role the monarchy and the King's own actions (or inactions) had played during the Fascist period, at precisely the moment when monarchists were hoping that voters would focus on the positive impression created by Crown Prince Umberto and Princess Maria José as the de facto monarchs of Italy since 1943.

## Antonio Fazio



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19