

# AUDITING THE AUDITOR AND AUDIT COMMITTEE FOR EFFECTIVENESS

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23 June 2017

# Presentation agenda



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# Introduction



- ❑ The current business climate is driven by demands for better governance, accountability and transparency.
- ❑ In this climate, audit committees and top management are asking tough questions about the quality and effectiveness of their internal audit functions.
- ❑ On the other hand investors are relying on the external auditors to determine the soundness of the companies they have invested in.

# Rationale for Auditing the Auditor



- ☐ Independent reviews
- ☐ Continuous Improvement of Quality
- ☐ Compliance with legal requirements
- ☐ Boost public/investor confidence in financial statements and operations
- ☐ Past omissions/failures of auditors ie Enron, local companies/banks.

# International Practice on oversight of audit



- ❑ USA Public Company Accounting & Oversight Board (PCAOB)- oversees the audits of public companies and other issuers in order to protect the interests of investors.
- ❑ PCAOB role of registration, inspection, standard setting and enforcement on external auditors.
- ❑ Powers to conduct periodic inspections and thoroughly review the quality and practices of auditors' work

# International Practice on oversight of auditors



- ❑ Mauritius Financial Reporting Council as an independent regulator for promoting confidence in corporate reporting and governance.
- ❑ FRC approves and licenses auditor's, audit practice review and monitors compliance with accounting and financial reporting standards.

# International Practice on oversight of auditors



- ❑ Australia: Financial Reporting Council (FRC) has oversight of the accounting and auditing standards setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors.
- ❑ UK FRC promotes high quality Corporate Governance & reporting, sets auditing & ethical standards, monitors and enforces audit quality

# External Auditor Oversight



## ❑ Audit Committee Oversight

- Essentially an annual assessment would focus on the audit team, the engagement partner, their independence and objectivity and the annual quality of audit work performed.
- Rotation of the audit team and the firm
- According to Audit Committee guidelines, 2016 AC should assess the independence and objectivity of the external auditor annually



# External Auditor Oversight



- Seek reassurance that the auditors and their staff have no financial, business, employment or family/personal relationship with the entity.
- Develop and implement a formal policy on the non-audit services to be offered by the audit firm.

# External Auditor Oversight



## ❑ Public Audit Act, 2015

- For each Financial year OAG shall be audited by an external auditor appointed by the National Assembly.

## ❑ ICPAK Quality Assurance

- The Accountants Act, provides that the Institute shall regulate its members and the Institute has implemented the quality assurance reviews on practicing members.

# External Auditor Oversight



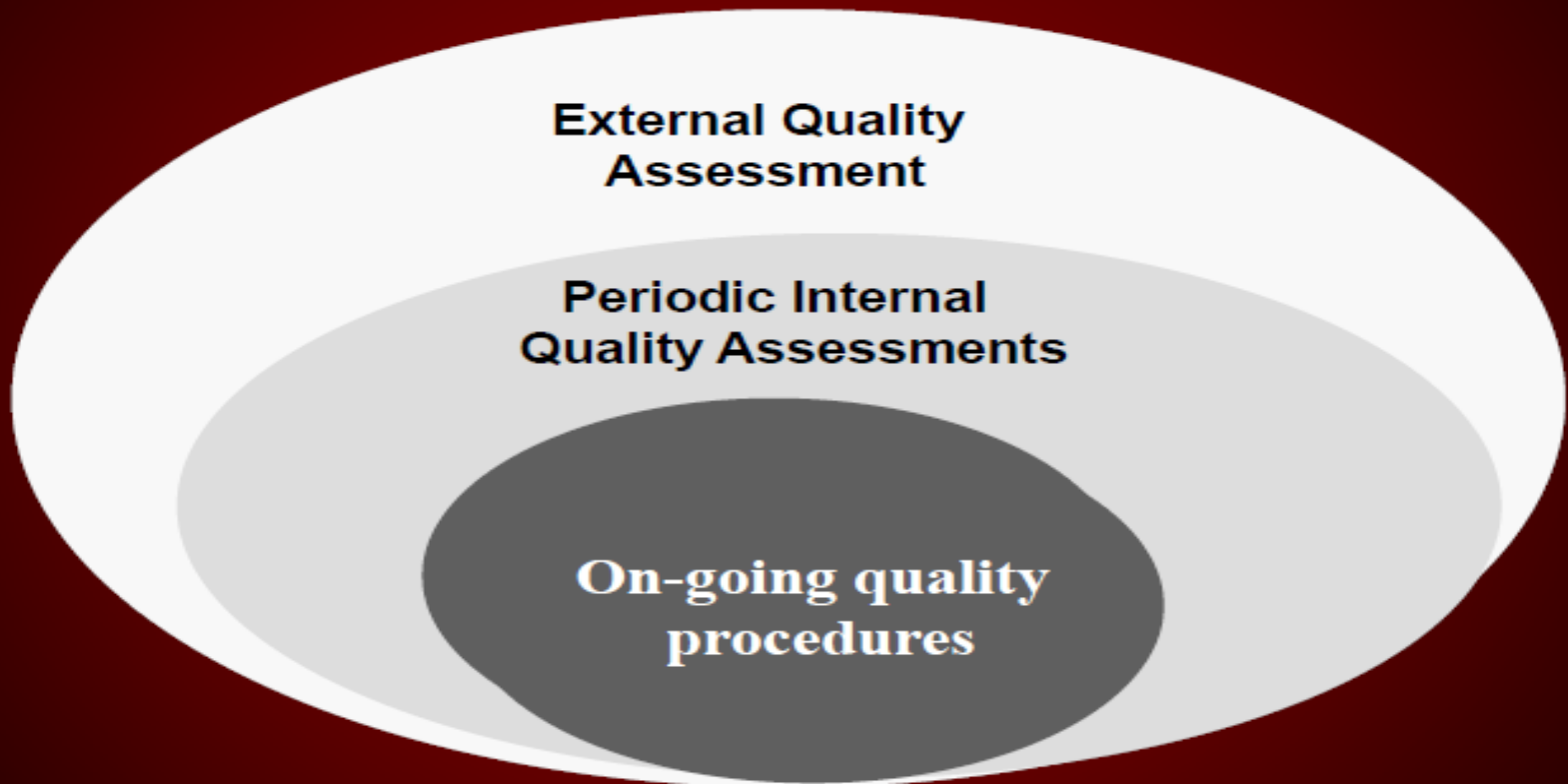
## ❑ Role of regulators

- CMA, CBK, IRA etc in approving external auditors of regulated entities, insurance and listed companies and commercial banks.

# Internal Audit Quality Assurance



## IIA Standards on QAR



# Quality Assurance and Improvement Program



## ☐ Internal assessment

- Ongoing reviews of the performance of the internal audit activity; and
- Periodic reviews performed through self-assessment or by other persons within the organization, with knowledge of internal auditing practices and the Standards.

# Quality Assurance and Improvement Program



- ❑ An external assessment is a comprehensive review that examines the Internal audit;
- Conformance to Internal Audit Services with Internal Audit Standards.
- How it meets the expectations from Audit Committee, Chief Executive and Management.
- Skills, knowledge and experience
- Opportunities for improvement and validates the quality of the unit.

# Quality Assurance and Improvement Program



- ❑ Evaluates compliance with the Standards, the definition of internal auditing, the Code of Ethics, the internal audit & audit committee charters, the organization's governance, risk and control assessment.
- ❑ All internal audit departments, even those outsourced or co-sourced, must undergo internal & external quality assessments.

# Internal Auditing and Quality



- ❑ Mandatory for every internal audit activity to have an external quality assessment at least every **five years** to be in compliance with the Standards .
- ❑ Following the assessment, the Chief Audit Executive should create an action plan that addresses each opportunity for improvement and enhance its strategic performance.



# Internal Auditing and Quality



- ❑ An external Quality Assessment Review can facilitate the transformation of an internal audit department into a more strategic business partner and value-added activity.
- ❑ The process will result in improving IA performance and services, as well as promoting the image and credibility of the internal audit activity.

# Internal Auditing and Quality



## ❑ Areas of improvements

- Inadequate Quality Assurance & Improvement Program
- Consulting omitted from the mission and charter
- Inadequate IT coverage or technical skills
- Lack of performance measures

# Internal Auditing and Quality



## ❑ Areas of improvements

- Inappropriate CAE reporting relationships
- Out-of-date charters
- Client perception of inadequate audit staff knowledge
- No formalized risk assessment process

# Audit Committee Assessments



- ❑ PFM Act and regulations requires every National and County Government entity to appoint an Audit Committee.
- ❑ Audit Committee Guidelines, 2016 AC to provide strong and effective oversight and periodic assessment of the performance of IA.

# Audit Committee Oversight role



- ❑ In the review of the internal audit function, the audit committee should:
  - ensure that the internal auditor has direct access to the board chairman and the committee and is accountable to the audit committee;
  - review and assess the annual internal audit work plan;

# Audit Committee



- review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- meet with the head of internal audit at least once a year
- monitor and assess the role and effectiveness of the internal audit function in the overall context of the entity's risk management system.

# Audit Committee Assessment



## ❑ Annual Self-Assessment

- Assess its performance and achievements against its mandate, roles, duties & responsibilities.
- assess its composition, training, meetings, charter and performance.

# Audit Committee Assessment



## ❑ Annual Self-Assessment

- Self-assessment may highlight a need for enhancements to the role, operational processes or membership of the committee.
- The Committee may use an external facilitator to provide assistance with the self-assessment process.



# Conclusion



- ❑ Audit Committee is as good as the Internal Audit Function.
- ❑ Increasing demand for high quality of service and value addition that meets customers expectations.
- ❑ Renewed focus on risk management and governance
- ❑ No more questions of where was the auditor?

# Conclusion



Q & A