

BUILDING BLOCKS FOR AN EFFECTIVE INTERNAL AUDIT FUNCTION

Presentation by:

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Internal Audit Failures



Toshiba - a case of internal audit failure

The 140-year-old pillar of Japan Inc is caught up in the country's biggest accounting scandal since 2011

Asish K Bhattacharyya

August 9, 2015 Last Updated at 21:33 IST

Kenya's Chase Bank placed under receivership by CBK

🕒 7 April 2016 | Africa

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The Wells Fargo Fraud: Where Was Internal Audit?



By Norman Marks | Oct 28, 2016

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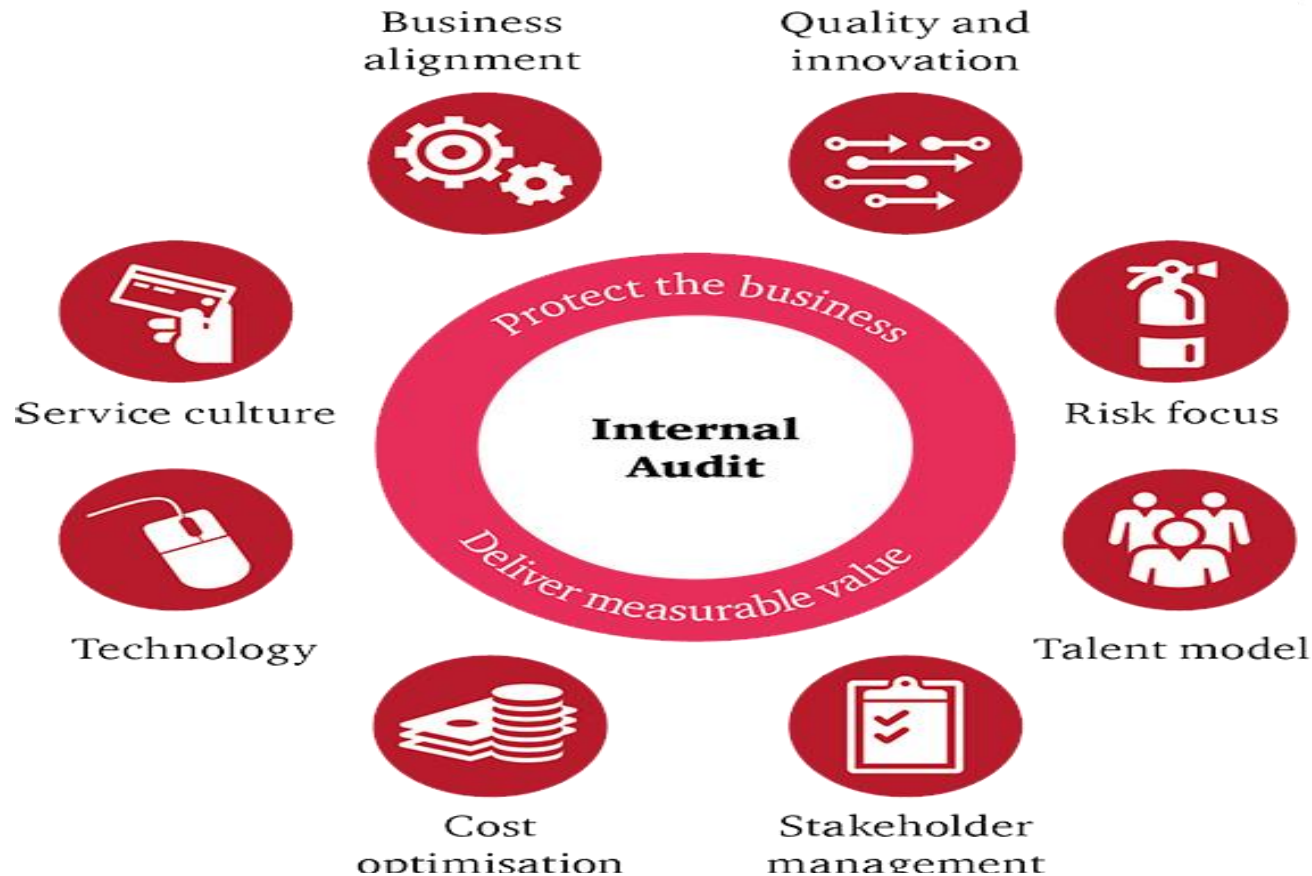
Featured Resources:

CHANNEL: Information Management

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How Imperial Bank bosses stole billions from depositors

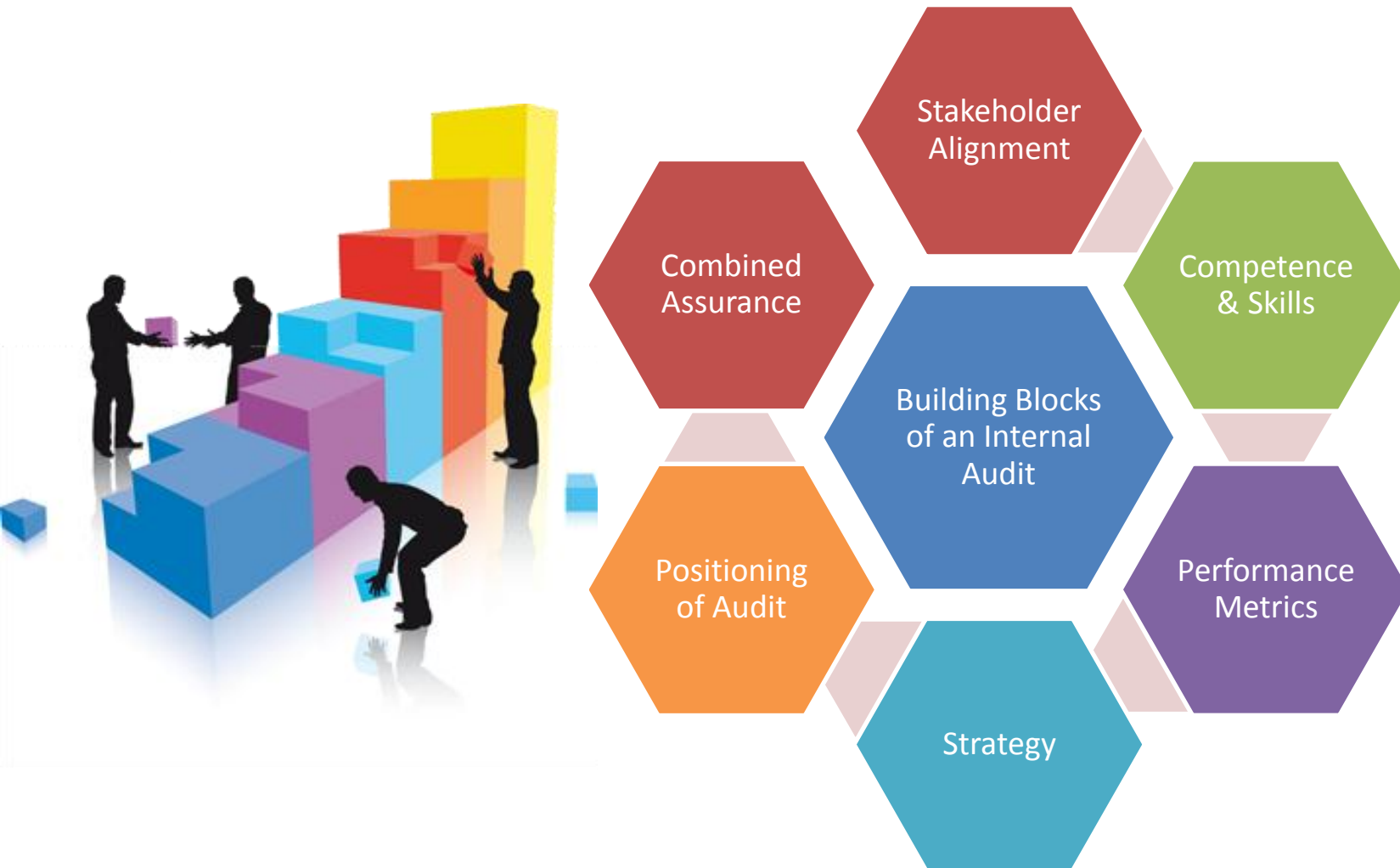
Effective Internal Audit Function



Internal audit is most effective when its resource level, competence, and structure are aligned with organizational strategy, and it follows IIA standards.

Source: PWC

Building Blocks of an effective Internal Audit Function



Positioning of Internal Audit



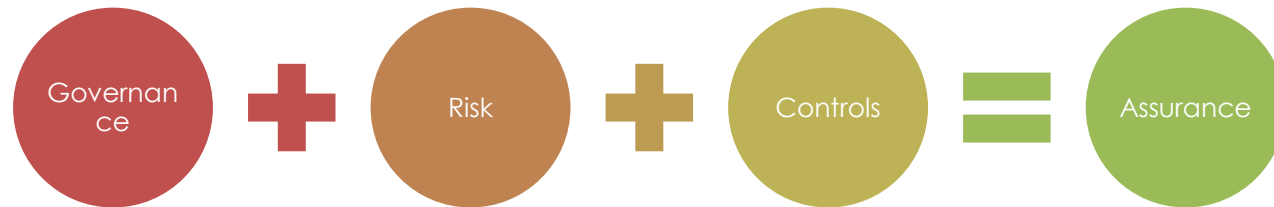
Role of Audit: Help the Board and Executive Management to **protect the assets, reputation and sustainability** of the organisation.

Key considerations on the Positioning of Internal Audit

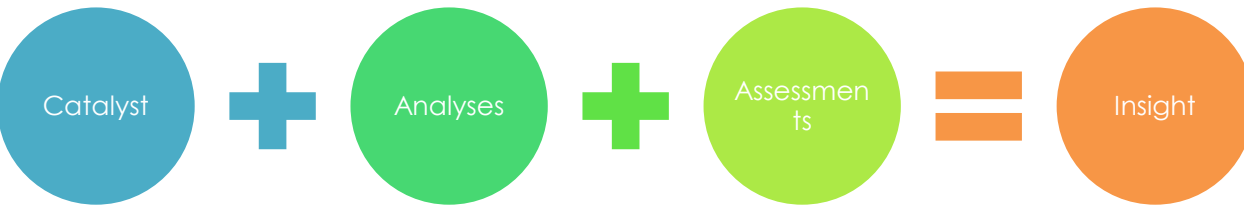
Positioning & Independence of Chief Internal Auditor (CIA)	<ul style="list-style-type: none"> ✓ Primary reporting line of CIA should be to the Chair of the Audit Committee & Secondary reporting line to the CEO. ✓ The CIA should be at a senior enough level within the organisation (normally expected to be at Executive Committee or equivalent) ✓ Internal Audit Function should be independent of Risk, Compliance & Finance Functions ✓ Right to observe & attend all Executive Committee meetings
Appointment of CIA	<ul style="list-style-type: none"> ✓ The Audit Committee should be responsible for appointing the CIA and removing him/her from post.
Appraising Performance of the CIA & Audit Function	<ul style="list-style-type: none"> ✓ Audit Committee Chair sets objectives for the CIA and appraising his or her performance in consultation with the CEO.
Budgeting & Funding of Internal Audit	<ul style="list-style-type: none"> ✓ The Audit Committee should be responsible for approving the Internal Audit budget and, as part of the Board's overall governance responsibility,
Remuneration	<ul style="list-style-type: none"> ✓ The Chairman of the Audit Committee should be responsible for recommending the remuneration of the Chief Internal Auditor to the Remuneration Committee.
Access to information	<ul style="list-style-type: none"> ✓ Timely & Unrestricted Access to all key management information based on audit charter.
Quality Assurance Improvement Plan	<ul style="list-style-type: none"> ✓ Internal Audit functions of sufficient size should develop a quality assurance capability, with the work performed by individuals who are independent of the delivery of the audit.
Reporting	<ul style="list-style-type: none"> ✓ Internal Audit should be present at, and issue reports to the appropriate governing bodies, including the Board Audit Committee, the Board Risk Committee and any other Board Committees as appropriate.

Stakeholder Alignment

Value of Internal Audit to Stakeholders



Internal Auditing provides assurance on the organization's governance, risk management, and control processes.



Internal Auditing is a catalyst for improving an organization's effectiveness and efficiency.



Internal Auditing provides value though objective and independent advisory

Key Challenges / Questions

- Profit or Controls?
- Compliance or Partial Compliance?
- Ethics or revenue?
- Purpose or Interests?
- Political Perception or Defiance of Powers?

Combined Assurance



“one language, one voice, one view”

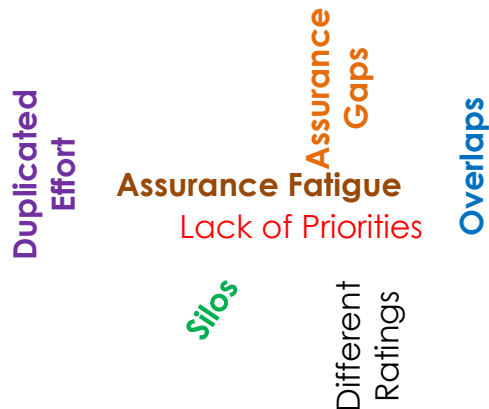
Legacy approach: Audit focuses on “providing assurance concerning the adequacy and effectiveness of controls”.

New School of thought:

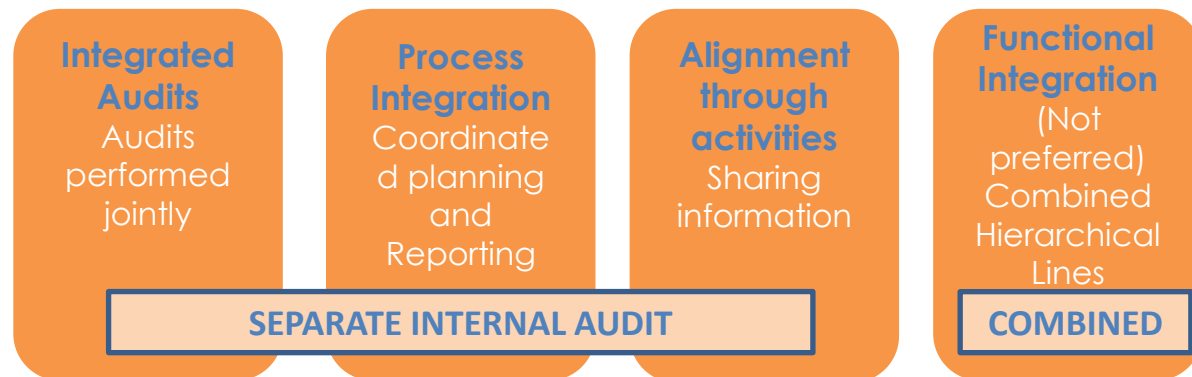
“Only looking at controls and providing assurance concerning the adequacy and effectiveness of these controls to the board is no longer sufficient; assurance should be provided on effectiveness of risk management. Thus the need for a redefinition of Internal Control as risk management” - **Spira and Page**

“Audit opinions should be on the effectiveness of risk management processes not control effectiveness. The US Sabarnes Oxley act of 2002 should be revised to shift more emphasis in audits from controls to risk management” - **Leech and Leech**

Why Combined Assurance?



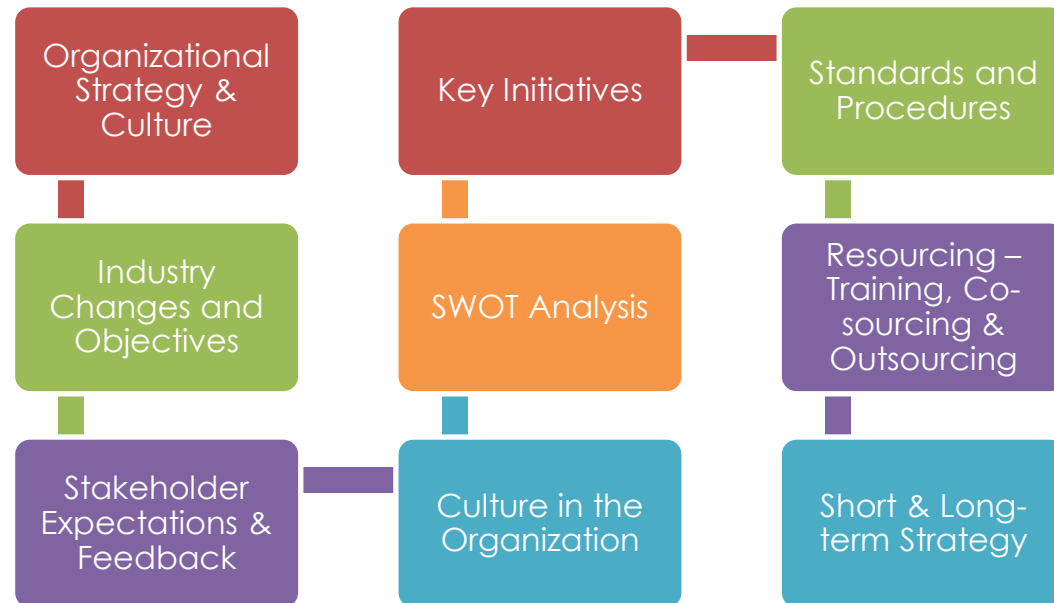
Coordinating Combined Assurance Activities



Internal Audit Strategy



Key considerations in Developing a Short & Long-term Strategy



Performance Metrics



“Bottom-Up Performance Monitoring and Evaluation”

Performance Metrics should be established and progress of performance reported to the board and executive management. Examples of performance metrics:



Completion Rate of the Audit Plan & Timelines for reporting



Satisfaction Surveys – Audit Committee, Executive Management & Process Owners Audited



Quality of Recommendations made in the Audits



Staff Absorbed by the Business – Trusted Advisors



Implementation Rate of recommendations (Aging of recommendations)



Quality Assurance Improvement Plan (Internal and External)



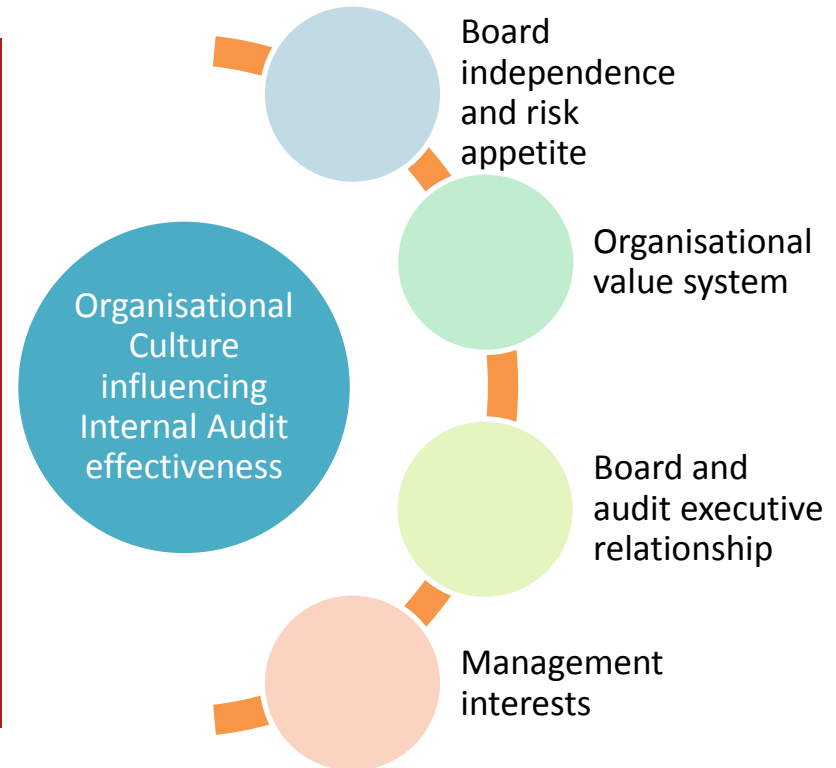
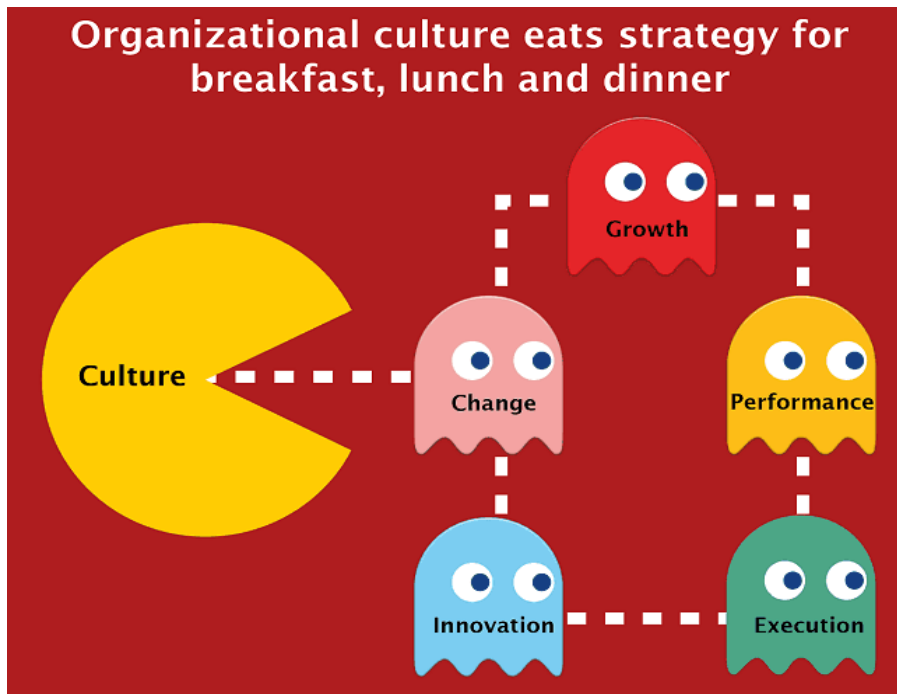
Revenue Optimisation & Cost Saving Opportunities (Quantified) Identification

Competence & Skill



- Subject Matter Experts (SME's) Identified and used.
- Audit involvement in Innovation & Project Management
- Robust Succession Planning.
- Resource Skills Match Requirements.
- Targeted Training & Development that is monitored.
- Continuous Professional Development.
- Complementary Skills Mix e.g. Data Mining, Technology, Processes, Financial reporting, Tax as well as business experts.
- Recruitment baseline defined and ensures right mix of skills.

Organizational culture and Internal Audit Effectiveness



Culture binds strategy to outcomes and poor organisational culture contributes to corporate failures and limits internal audit effectiveness.

Internal Audit Function Maturity Model



Overall Maturity Level	Policy	Methodology And Process	People	Systems and Information	Communication And Reporting	
Optimized	Continuous monitoring and updating for necessary changes and emerging leading practices	Continuous monitoring and updating for necessary changes and emerging leading practices	SMEs identified and used; training and development monitored; robust succession planning in place	Extensive use of data mining and analytics; continuous audit and monitoring processes in place driving value	Communication and reporting highly effective; high level of quality demonstrated in timely reports	Realization Of Value Proposition
Managed	Policies are communicated to personnel and training occurs as necessary	Methodology and processes are communicated to personnel and training occurs as necessary	All resources have appropriate skills and credentials; targeted training and development in place	Data integrity is high; automated reports are reliable; key data is monitored continuously	Communication and reporting highly effective; quality and timeliness metrics defined and monitored	
Defined	Policies are defined, in place, and documented	Uniform methodology and processes are defined, in place, and documented	Appropriate skills and credentials in place; training requirements documented and executed	Stable systems in place; information generated is reliable and relied upon	Communication and reporting processes are defined, in place, and documented; effective use of reporting templates	
Repeatable	Policies are defined and in place but may not be documented	Uniform methodology and processes are defined and in place but may not be documented	Some specialized technical skills and credentials; training and development defined but may not be documented	Fairly effective systems are in place; low reliance on data and information generated from systems	Communication and reporting processes are defined and in place but may not be documented	
Initial	Policies are not defined or in place	Methodology and processes are not defined or in place	Resource skills and credentials do not match process requirements; training programs not defined	High reliance on manual systems and spreadsheets; critical information not readily available	Communication and reporting done on an ad hoc basis; no validation of results or focus on quality	
						Risk of Failure

Source: www.theiia.org



Thank You