



Role of Auditors in Risk Management

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***Presentation by:
CPA Timothy Kimathi
Director & Principal Consultant
Management Audit Consulting Ltd***

❖ CONTENTS

❖ *Definitions*

❖ *Risk Management responsibilities*

❖ *IPPF Standard 2120*

❖ *IIA Position Paper*

Some definitions



❖ Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Some definitions



❖ *Assurance* – a positive declaration intended to give confidence

- *Assurance Services:* An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization.

❖ *Consulting* – giving professional advice

- *Consulting Services:* Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organization's governance, risk management, and control processes without the internal auditor assuming management responsibility.

Some definitions



Risk Management is a structured, consistent and continuous process for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of an entity's objectives.

Clearly, responsibility for Risk Management rests with the Board and Executive Management!

Risk Management responsibilities



The board delegates the responsibility for RM to Management. However, the board remains ultimately responsible.

The board, therefore, needs assurance that RM in the entity is working effectively.

Has the audit committee asked internal auditing...

■ Yes ■ No

to provide an opinion on any individual programs or areas related to risk management?

41%

59%

to provide an opinion on the organization's overall risk management processes?

23%

77%

to perform specific audits of any components of risk management?

28%

72%

for recommendations or advice on enhancing the organization's risk management processes?

45%

55%

Source: IIA Research Foundation

Risk Management responsibilities



Assurance is obtained from:

- Management of the entity – periodic reports (effectiveness of the RM process, emerging risks, failures of control measures, etc.)
- Internal Auditors – who should provide *independent & objective assurance* on the effectiveness of the RM process
- Others – external auditors, etc.

IPPF Standards



Standard 2120

The internal audit activity *must* evaluate the effectiveness and contribute to the improvement of risk management processes.

The IA needs to ascertain whether:

- Organizational objectives support and align with the organization's mission;

IPPF Standards



- Significant risks are identified and assessed;
- Appropriate risk responses are selected that align risks with the organization's risk appetite; and
- Relevant risk information is captured and communicated in a timely manner across the organization, enabling staff, management, and the board to carry out their responsibilities.

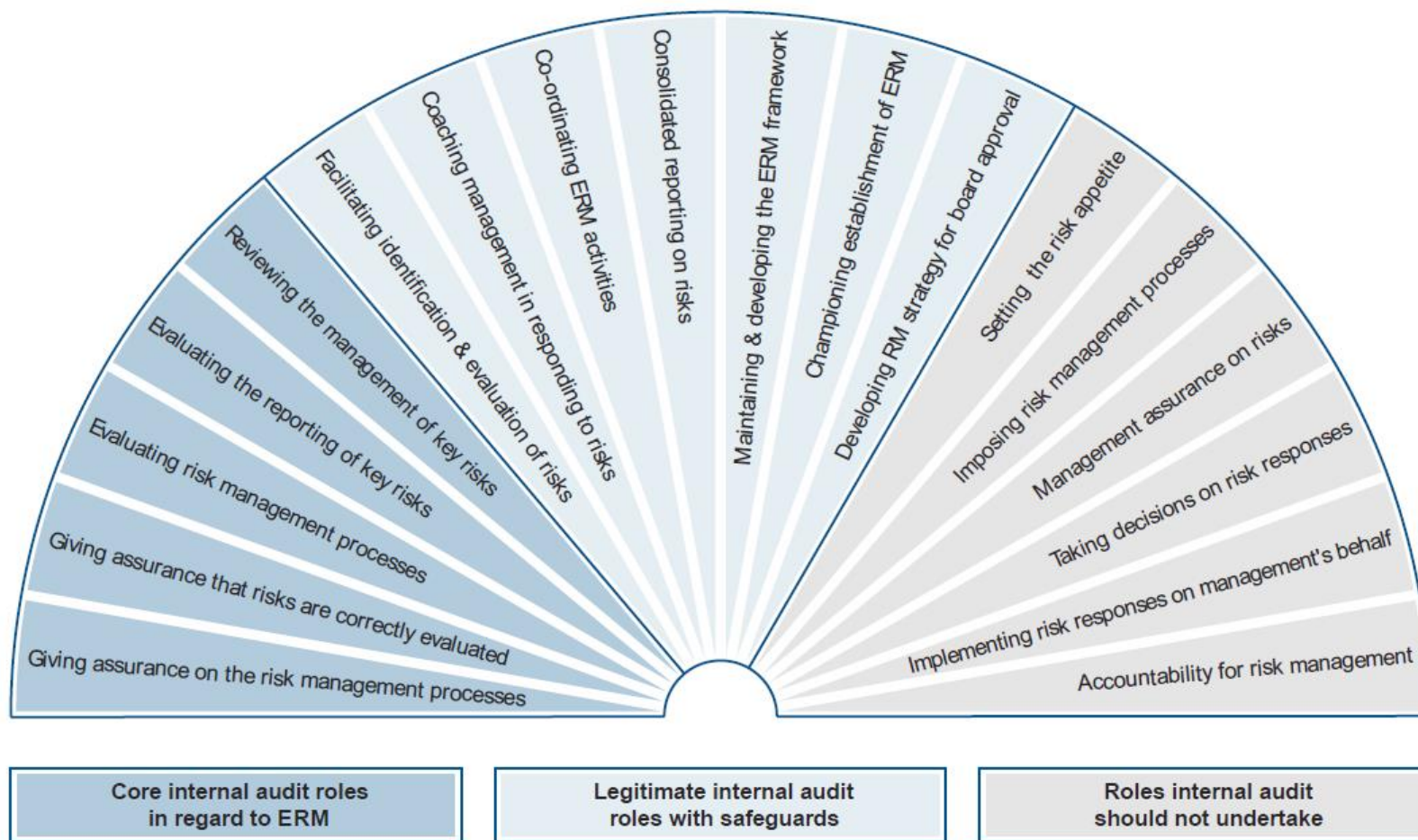
IIA Position Paper



Key factors to consider in performing RM roles:

- Does the activity compromise the IA's independence and objectivity?
- Does the activity improve the entity's risk management, governance and control processes?

Figure 1 – Internal audit role in ERM



- **Source: IIA Position Paper – Role of Internal Audit in ERM**

IIA Position Paper



Internal auditors will normally provide assurances on three areas:

- Risk management processes, both their design and how well they are working;
- Management of those risks classified as ‘key’, including the effectiveness of the controls and other responses to them; and
- Reliable and appropriate assessment of risks and reporting of risk and control status.

IIA Position Paper



IA core roles in RM:

- Reviewing the management of key risks
- Evaluating the reporting of key risks
- Evaluating, and giving assurance on, the RM processes
- Giving assurance that risks are correctly evaluated

IIA Position Paper



IA roles with safeguards:

- Facilitating the identification & evaluation of risks
- Coaching management in responding to risks
- Coordinating ERM activities
- Consolidated reporting on RM
- Drafting RM strategy for board approval
- Championing establishment of ERM

IIA Position Paper



Roles IA should not perform roles:

- Setting the risk appetite
- Imposing RM processes
- Providing assurance (on behalf of management) on risks
- Taking decisions on risk responses
- Implementing mitigations/controls on behalf of management
- Accountability for RM

IIA Position Paper



Safeguards:

- Management remains responsible for risk management.
- Nature of IA's responsibilities should be documented in the IA Charter.
- Any work beyond the assurance activities should be recognized as a consulting engagement and the implementation standards related to such engagements should be followed.

Other roles



IA should also:

- Educate and train audit committees and management on risk and risk management concepts.
- Seek opportunities to perform more risk management consulting services in support of whoever is managing the risk management program.



Thank you!!

Management Audit Consulting Limited
Davard House, Cedar Road off Rhapta Road, Westlands
Tel: 4450890/1, 0715096708, 0736952271
Email: info@managementaudit.co.ke
Website: www.managementaudit.co.ke