







# DEVELOPMENTS, TRENDS, CHALLENGES & OPPORTUNITIES IN INTERNAL AUDIT; REFLECTION AND INTERVENTIONS FROM ICPAK

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# Market headlines that re-define the Business Case for Auditors



	Year	Amounts involved	Fun Fact
	→ 2001 →	USD 74 Billion of shareholder money lost	→ Fortune magazine named Enron as <b>"Most innovative Company"</b> for 6 years in a row prior to the scandal
	→ 2005 →	Accounting fraud to the tune of <b>USD 3.9 Billion</b>	→ Posted largest corporate quarterly loss in 2008 of USD 61 Billion; got bailed using taxpayer funds, rewarded executives USD 165M in bonuses
	→ 2008 →	Hid over <b>USD 50 Billion</b> in loans disguised at sales	→ In 2007, ranked as <b>"Most Admired Securities Firm"</b> by Fortune magazine
	→ 2009 →	Falsely boosted revenue by <b>USD 1.5 Billion</b>	→ The Founder's wife published a book about his existentialist.
	→ 2015 →	Overstated profits by <b>USD 1.2Billion</b> from fraudulent accounting	→ Commended for setting up governance processes, having Audit Committee and Internal control teams in Japan a practice more common in Western world.
	→ 2016 →	Unauthorized cross selling and creation of <b>2Million</b> fake accounts.	→ Rose to be the 3 <sup>rd</sup> largest bank in asset base and second largest in deposits

# Market headlines that re-define the Business Case for Auditors



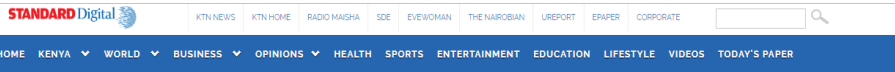
**RENT TO OWN**  
**75,000** per month

**GATEWAY PARK**  
SYOKIMAU  
**RAMA HOMES**

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## Hackers steal Sh 30 billion from Kenya's financial institutions

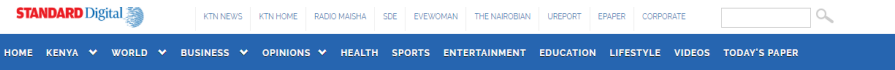
By Cyrus Ombati | Published Thu, March 9th 2017 at 11:11, Updated March 9th 2017 at 11:33 GMT+3



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## Detectives probe possible loss of Sh70 billion at Kenya Pipeline

By Moses Michira | Published Mon, June 4th 2018 at 00:00, Updated June 3rd 2018 at 20:38 GMT+3



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## Kenya Power top managers face prosecution over Sh759 million fraud

By Paul O Ogemba and Audrey Korir | Published Tue, July 17th 2018 at 00:00, Updated July 17th 2018 at 00:05 GMT+3

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## Man charged with hacking KRA and causing Sh4b loss

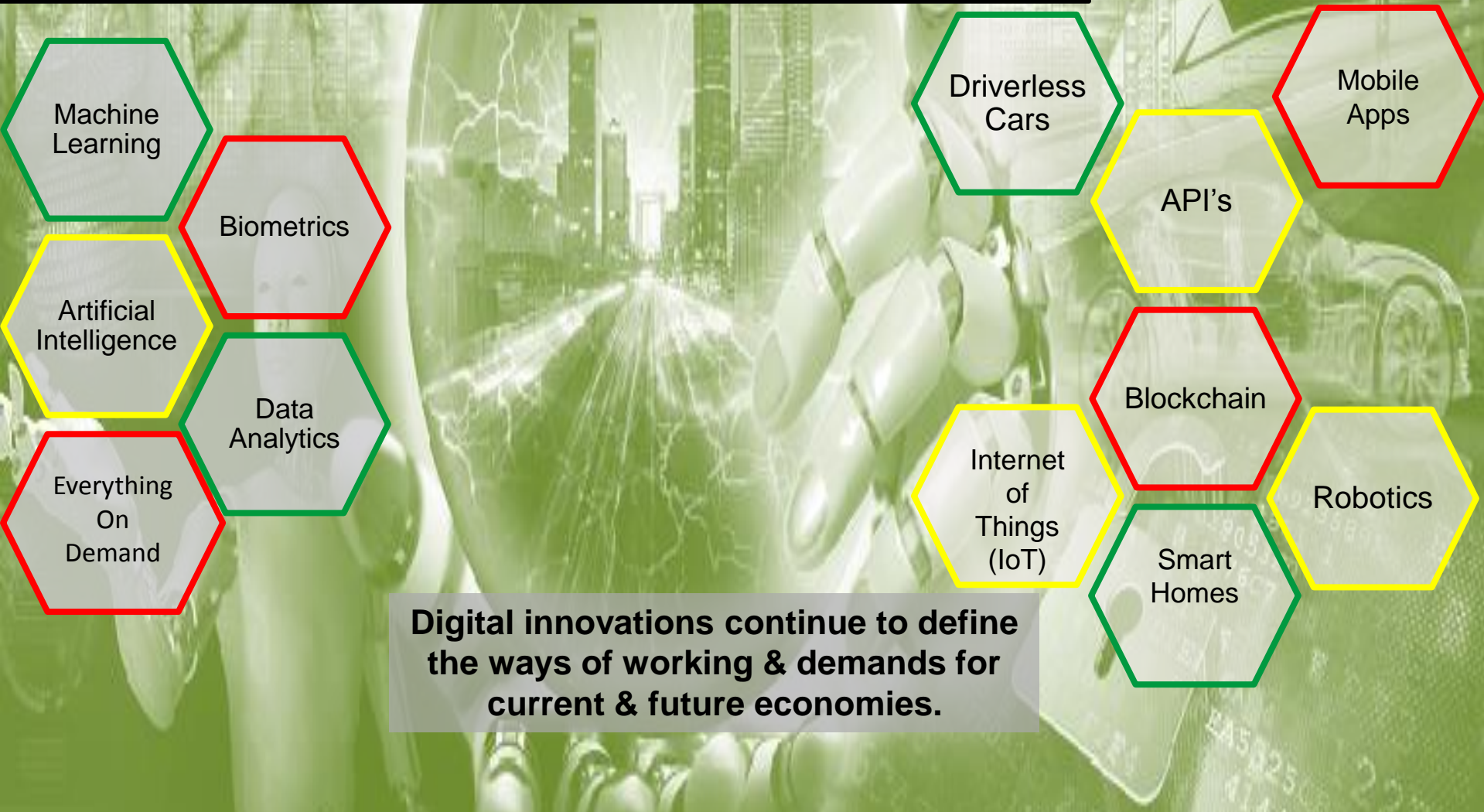
By Paul Ogemba | Published Wed, March 22nd 2017 at 00:00, Updated March 21st 2017 at 19:36 GMT+3

NEWS

## Nakumatt CEO Atul Shah faces probe in Sh18bn theft

THURSDAY, JUNE 21, 2018 9:47

# Digital Pressure Pot for Internal Auditors



# The evolving demands on Internal Auditors

## Intellectual Honesty

Internal Auditors must not give in to pressure to compromise intellectual honesty for expediency

## Cosmopolitan

Adaptability, familiar and at ease with different cultures.

## Ethically Far-sighted

Pace and unforeseen consequences of change demand for Ethical resiliency

## Not your Grandfather's CPA

Dynamic risk landscapes require specialized and digitally fluent professionals who have Business / industry knowledge to distinguish between signals and noise.

## Genetically Risk Centric

Internal auditors with risk-centricity in their DNA.

## Tech Fearless

Courage to embrace and adapt to technological change.

## Professionally Skeptical

"Trust but verify" is critical for successful internal auditors

# IA trends around the world



- Industry – Healthcare & Agriculture
- HQ – Germany
- Presence – 75 countries
- 80 Years of IA existence
- 110 IA Staff

1. Blazing a career path through audit – Develop career road maps for internal audit staff.



- Industry – Energy (formerly Agip)
- HQ – Italy
- Presence – 85 Countries
- 15 Years of IA existence
- 128 IA Staff

1. IA new frontier as “Business Consultant” while maintaining independence



- HQ – UAE Abudhabi
- Presence – 70 Countries
- 8 Years of IA existence
- 35 IA Staff

1. Agile Risk focused auditing
2. New expectations on continuing education
3. More training; greater specialisation



- Industry – Govt (Public Service)
- Largest wealth management company in Australia and New Zealand.
- 25 years of IA existence
- 22 IA Staff

1. IA plays key role in assessing culture
2. IA assign assessment rating to the quality of risk management i.e. separate from the control effectiveness rating

# IA trends around the world



- HQ – United States
- 18 Years of IA existence
- 25 IA Staff

1. Aligning culture with tone at the top
2. Assesses Culture in every audit project
3. Solid value system – An ethical company dedicated to doing things the right way



- HQ – United States
- 30 Years of IA existence
- 20 IA Staff

1. Audit integrates Control in Emerging Technologies.
2. Internal Audit helps strengthen Cybersecurity controls by aligning to global frameworks.
3. IA plays lead role in promoting Cybersecurity awareness



- HQ – London
- 122 Years of IA existence
- 650 IA Staff

1. The Art of Conversation & Agile Auditing. Keeps work scopes tight reducing unnecessary testing.
2. Agile Auditing predicated on no multitasking, auditors involved on one audit at a time from start to finish.
3. Data visualization to gain clear picture of business risks

# Permutations in Managing Internal Audit Expectations



# Identified needs and challenges faced by Internal Audit



## 1. Inadequate understanding of the mandate of internal audit function

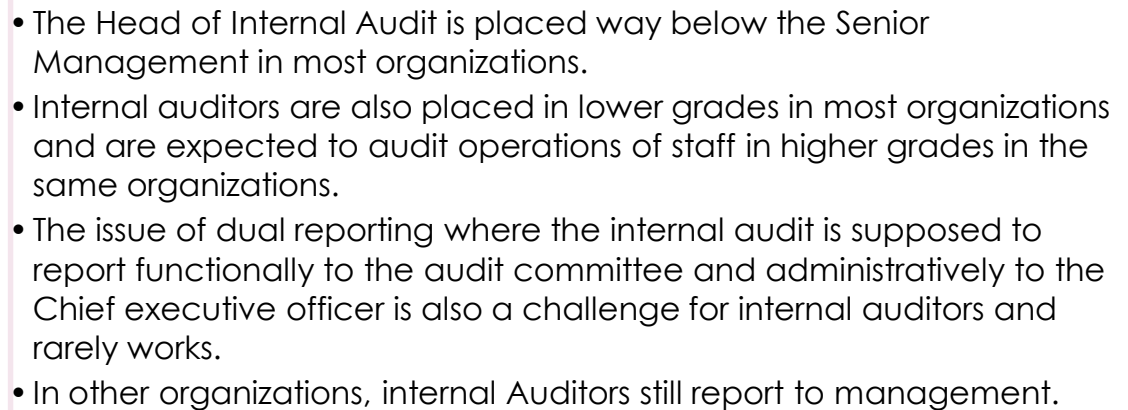
### Mandate Clarity



- Role of internal auditor most often misunderstood to be that of **maintaining strong internal control systems, implementing risk management systems** and **governance processes**.
- According to IPPF, the general role of internal auditing is to **evaluate the adequacy and effectiveness of controls** encompassing the organization's **governance, operations, and information systems**.



# Positioning



# Identified needs and challenges faced by Internal Audit



## 3. Questionable Competence and Skill of Auditors and Inadequate resources provided to internal audit function

### Competence, Skill & Resourcing



Competence and skill of auditors challenged daily by business and technological developments.

Allocation of resources not prioritized for Internal Audit Functions.

Resource Competency gaps to address changing business needs

Ineffective continuous technical development programs

# Identified needs and challenges faced by Internal Audit



## 4. Lack of clarity on standards to be followed

### Standard and Guidelines Clarity



No singular view of Standards & guidelines to be adhered to.

Adherence to standard is a good to have and not mandatory in the practice of internal audit.

Lack of understanding of the requirements of the standards.

# Identified needs and challenges faced by Internal Audit



## 5. Ineffective Audit Committees

### Audit Committee Effectiveness



- Audit committee composition - Departure from Mwongozo guidelines for Public sector and mismatch of skill sets.
- Audit committee members understanding of their role in governance.
- Audit committee members continuous capacity development.

# Identified needs and challenges faced by Internal Audit



## 6. Interference /undue influence by senior management and lack of support

### Interference



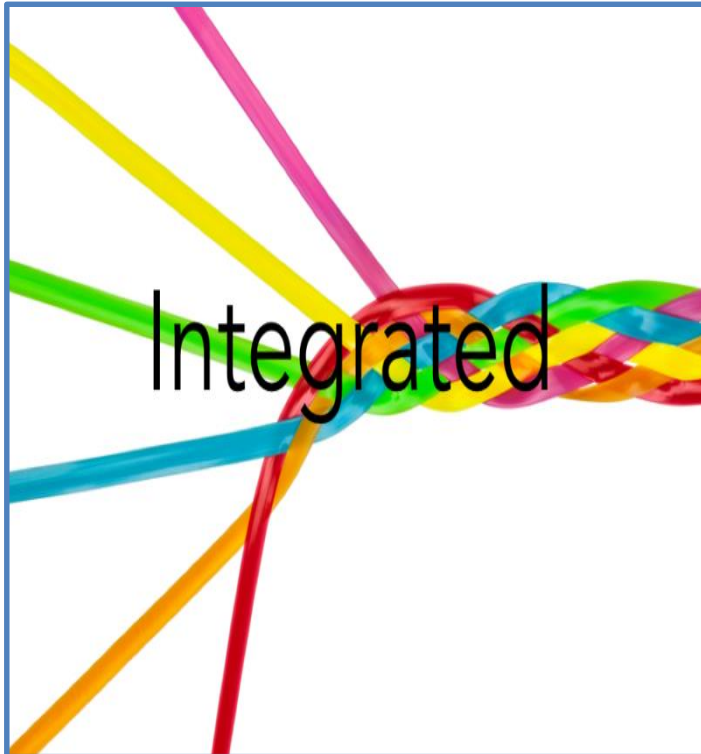
- Interference of internal audit work by senior management.
- Threatening or reprimanding auditors if they issue reports which are not favourable to management or if they unearth frauds.

# Identified needs and challenges faced by Internal Audit



## 7. Managing and collaborating with other assurance providers

### Managing Integrated Assurance



Duplicated efforts.

Gaps in the assurance mapping.

Lack of synergetic efforts to address the assurance needs.

# Interventions from ICPAK



The Internal Auditors subcommittee is a workgroup formed under the practitioner's development committee and tasked with the mandate of looking at ways of addressing the needs of members in internal audit.

Practitioners Development  
Committee

## Internal Auditors' Sub-committee

### Mandate of the Internal Auditors' Sub-committee

- ✓ Build capacity of members in internal audit
- ✓ Promote their role and value in success of organizations
- ✓ Enhance collaboration with relevant stakeholders e.g. IIA
- ✓ Enhance participation of members in internal audit in development plans of the institute.
- ✓ Lobby and advocate for the appointment of members of the institute in audit committees of public institutions.

*The committee has compiled a list of **needs and challenges** faced by internal auditors and is working on proposals to address them.*

# Early response thoughts



- ✓ Publish professional standards on Internal Audit.
- ✓ Issue guidelines on the positioning of internal audit in the organization structure
- ✓ Trainings focused on standards adoption and implementation.
- ✓ Trainings targeting audit committee members
- ✓ Re-evaluate the structure of audit committees in counties and government ministries.
- ✓ Consider inclusion of internal audit in CPA syllabus.
- ✓ Develop guidelines on outsourcing of internal audit services.

# What does the future hold for Internal Auditors?



*The future requires internal auditors to be :*

- *The CEO's Mirror*
- *The Shareholder's Heart-beat*
- *The Public Trustee*



*Are you ready to be the Architects of the Future Audit Profession?*



Thank You