

Stakeholder approach to audit and relationship management

**The audit committee and ,
internal auditors , external
auditors and the auditee**

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Stakeholder Relationship management

- This is a structured program for identifying key Audit stakeholders .
 - The purpose is to
 - document
 - Implement
 - Communicate the audit outcome frequently
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Background

☐ Who is a stakeholder?

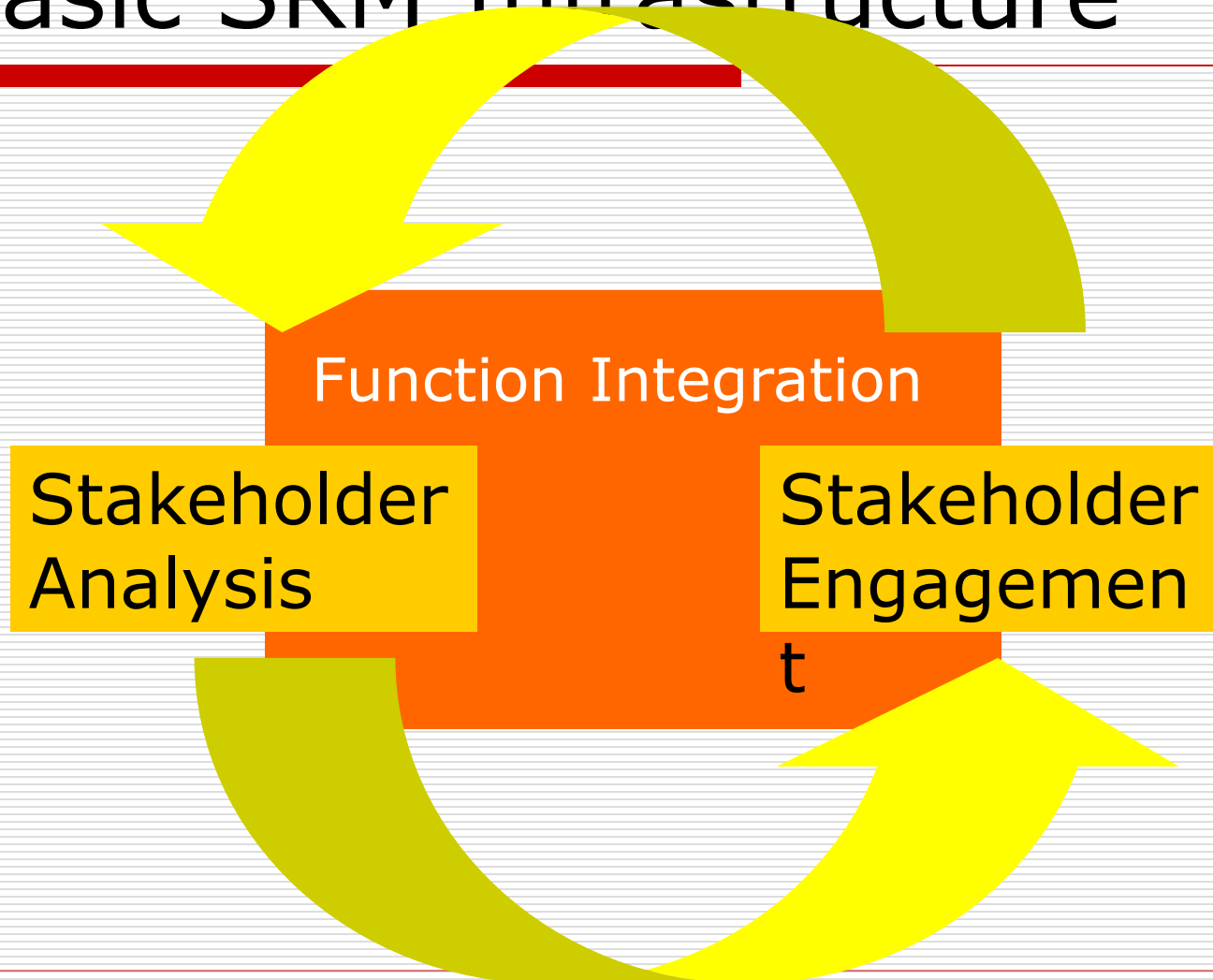
- Is a person
- Group
- Or an organisation

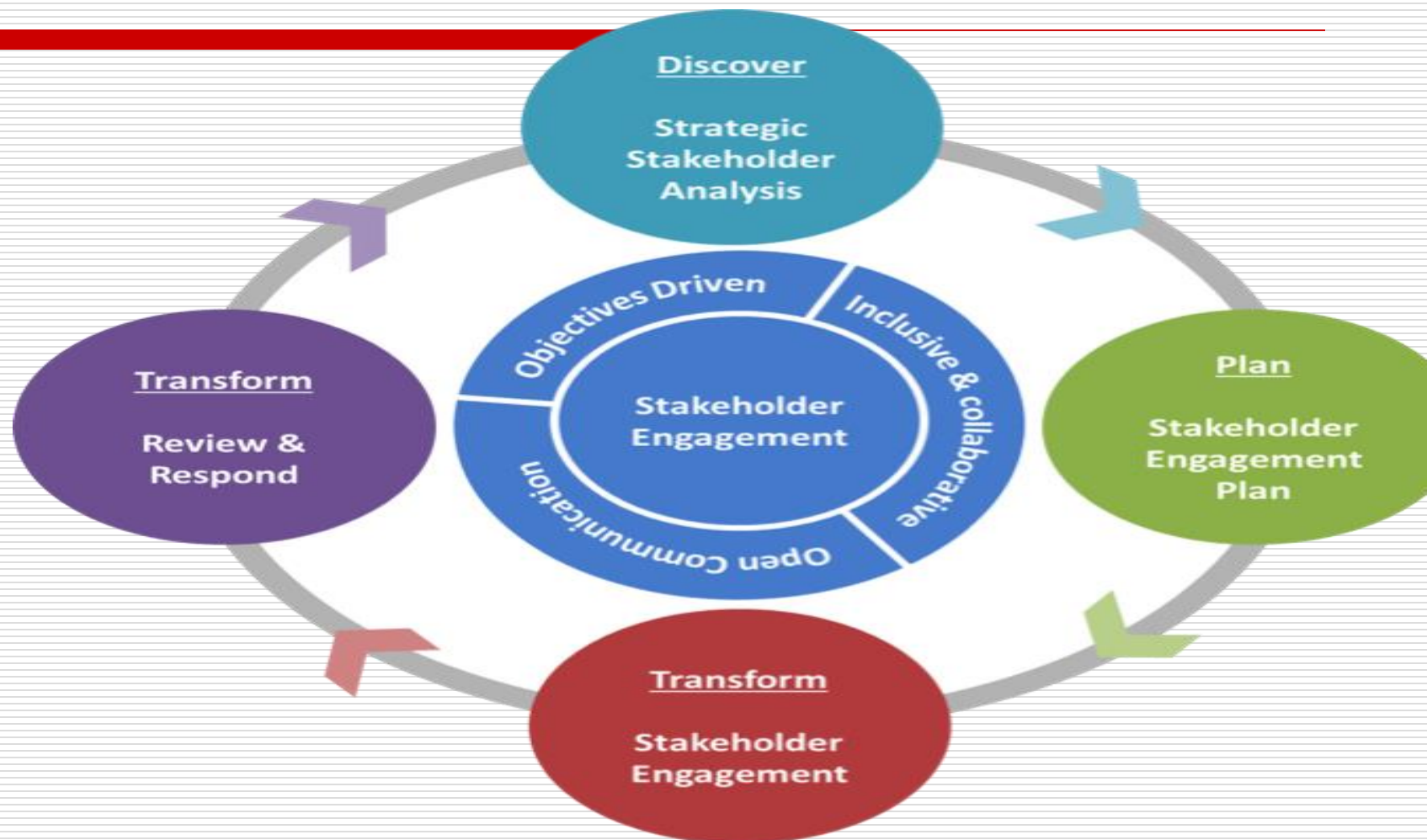
That can affect or can be affected by the
out come of the audit outcome

Background

- Stakeholders. The most quoted definition is that given by Freeman (1984):
 - any group or individual who is affected by or can affect the achievement of an organisation's objectives
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A Basic SRM Infrastructure





Background

- Who are these?
 - Shareholders
 - Clients
 - Creditors
 - Employees
 - Regulators
 - Civil society
 - The list continues
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Why have the relationship?

- Keep Audit current issues such as
 - Emerging risks
 - Provide fresh insights in audit trends such as planning and engagements with the client
 - Educating the roles of audit
 - Demonstrating add values
 - Marketing the role to the stakeholders
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Weak relationship indicators

- ☐ Not meeting stakeholder needs and expectations,
 - ☐ or meeting them inconsistently.
 - ☐ Insufficient support from senior management and the board
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Weak relationships

- ❑ Reluctance to provide internal and external audit with adequate resources.
 - ❑ A corporate culture that does not support audit.
 - ❑ The inability to identify and monitor emerging risks, trends and issues.
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Key factors of an effective stakeholders relationship

- ❑ Establish a formal , systematic and cohesive program
 - ❑ Audit committee be a champion for engagement with stakeholders
 - ❑ Rationalize assessment of:
 - influence
 - impact and
 - priority of stakeholders
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Key factors of stakeholders relationship

- ❑ Regular and relevant communication
 - ❑ Transparent and honest communication
 - ❑ Active two way communication
 - ❑ Sharing of meaningful insights
 - ❑ Follow through commitments
 - ❑ Consideration of varying needs of stakeholders
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How to do you do it?

1. *Invest time*

The Audit Committee must communicate the audit activity's plans and resource requirements, including significant interim changes, to stakeholders for review and approval'. This means doing so in a timely fashion, having consulted and taken account of what stakeholders want.

Audit Committee

☐ *Know what's important*

- *What is on their mind?*

- *What is priority ?*

- *What is their expectation ?*

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- The purpose is to
 - Enhance independence
 - Trust
 - Effective style
 - And communication
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- ❑ It must be Continuous process that involves
 - ❑ Auditors
 - ❑ Regulators
 - ❑ Auditees
 - ❑ Shareholders
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Ways to implement

- ❑ Develop a stakeholder relationship management policy
 - ❑ Publicize it on the companies website
 - ❑ Document operational elements of the stakeholder relationship management program
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Ways to implement SRM

- Implement the policy through
 - Identification of key stakeholders and categorise them in terms of influence and impact within the organisation.
 - Assign responsibility for specific stakeholders to members of the internal audit team.
 - Articulate the various engagement strategies.
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- Inform audit staff of the mechanics of the stakeholder relationship program, including how it will operate,
 - their roles, and
 - knowledge management arrangements.
 - Build and maintain effective working relationships with each stakeholder.
 - Develop and refine an understanding of stakeholder needs.
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- Utilize the insights obtained through stakeholder engagements to
 - expand the audit universe,
 - enhance risk-based audit planning, prioritize audit engagements,
 - and report emerging risks and issues to periodically.
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- ❑ Evaluate stakeholder relationship program on a regular basis
 - ❑ At least annually or when there is a significant change to the business, key processes, or organizational
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- Hold 'audit surgeries' for example, where the Audit Committee may periodically meet with a management team to discuss significant risks and issues in workshop set up.
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Linkages

- ❑ Audit affects a wide variety of people who have different expectations.
 - ❑ For instance, shareholders' interest is to be served and protected by the audit in the organization they belong
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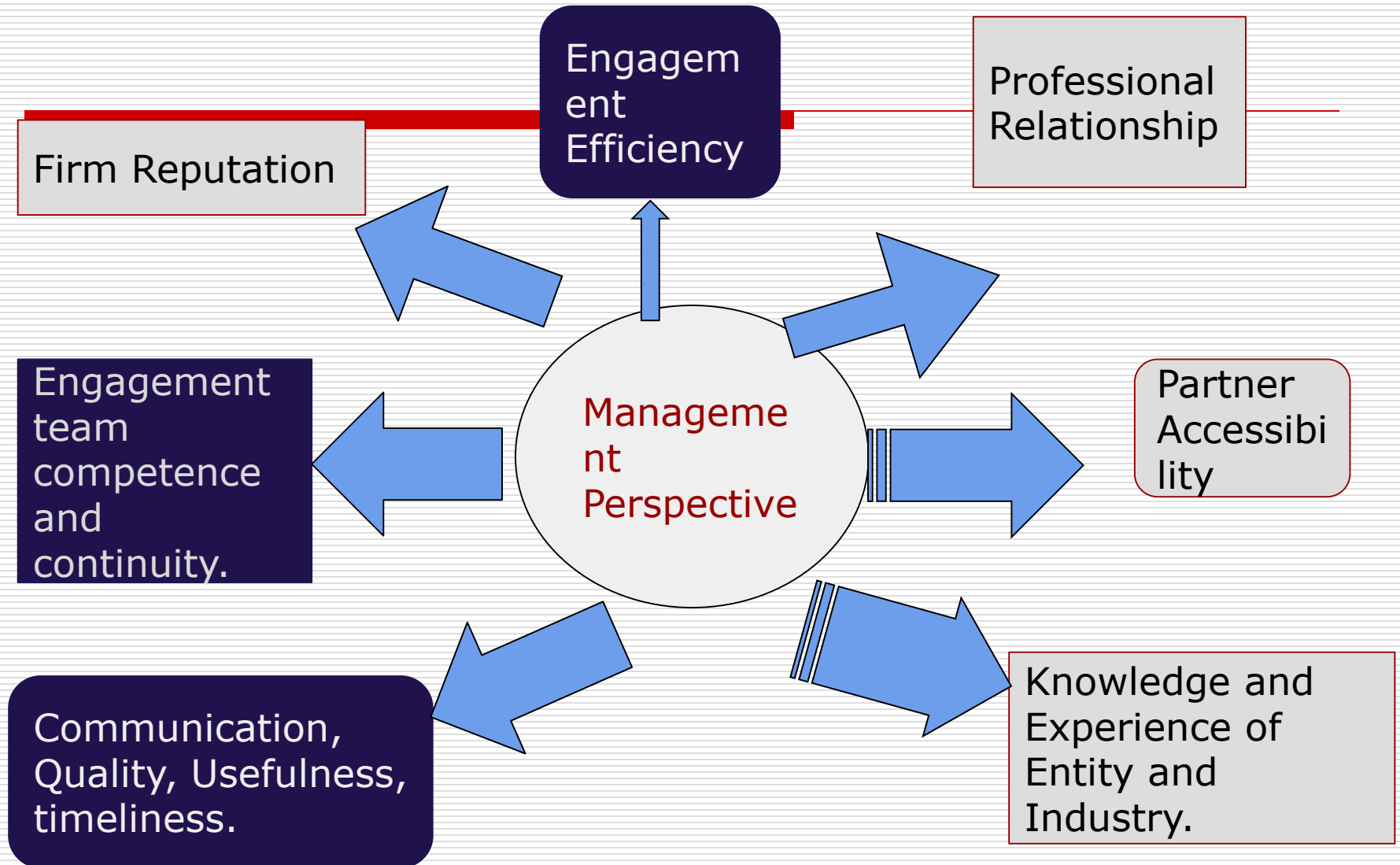
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- ❑ Audit firms may want auditing to provide challenging and rewarding work for auditors so that they can attract the brightest and best.
 - ❑ Employees may want the audit to provide some comfort about job security and the future direction of the organization.
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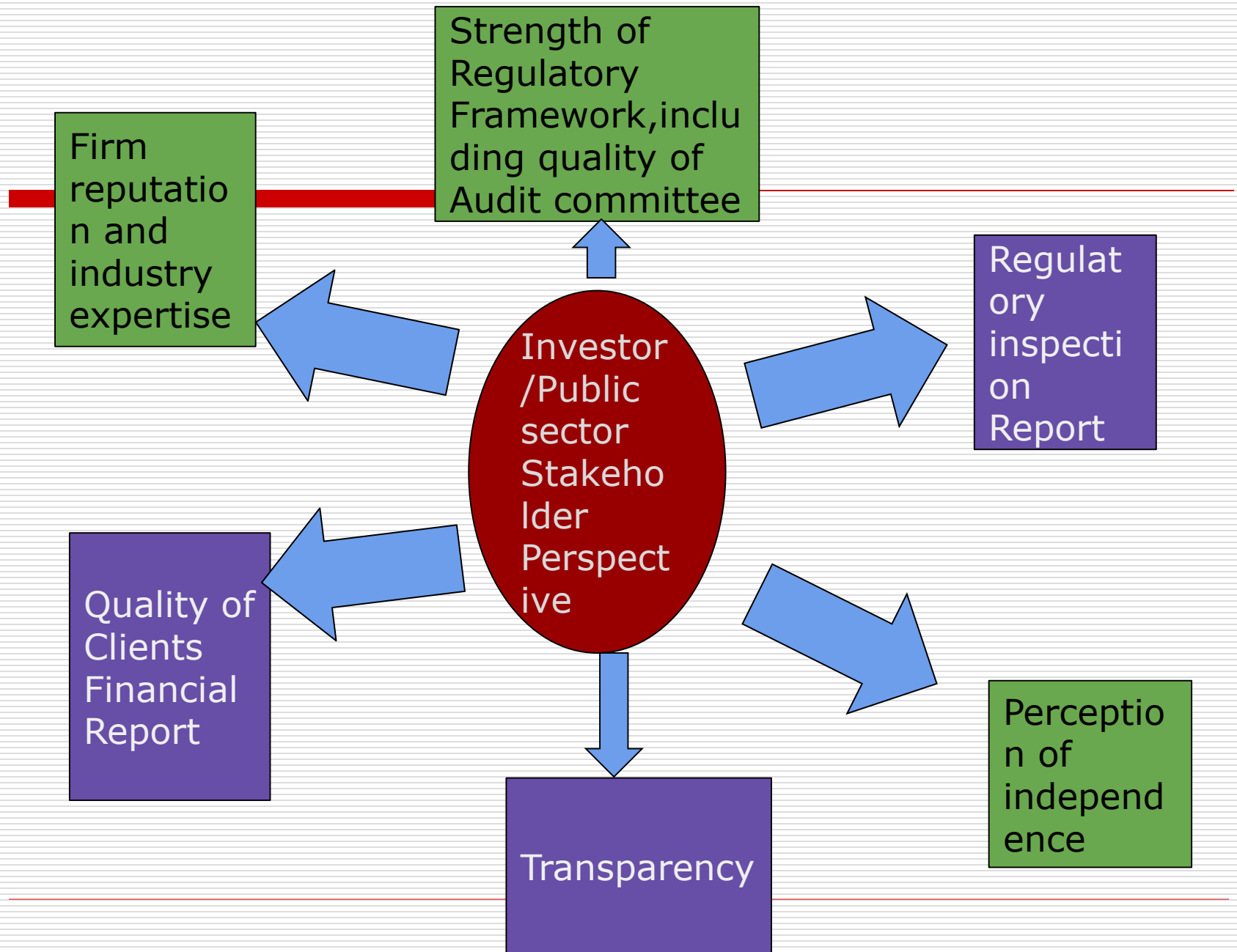
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- ❑ Directors may want auditors to support them in discharging their responsibilities.
 - ❑ Creditors and lenders may see the audit as providing comfort that organizations will continue to be able to pay for goods and services or finance.
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- ❑ Regulators of organizations may see the audit as providing comfort that organizations are complying with their rules and regulations.
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MANAGEMENT AND ENGAGEMENT APPROACH

Let us consider the following illustration:





Conclusion

- Stakeholder relationships can be complex, and may involve a broad range of internal and external stakeholders who affect and/or are affected by the efforts of audit.
 - Effective stakeholder relationship management programs build,
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- develop,
 - and maintain vital working relationships among audit's stakeholders, providing value to audit, stakeholders, and the organization.
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Conclusion

- By listening to stakeholders, auditors are better placed to align their activities to the stakeholders' perception of risks and how they are managed, and to drive continual improvement across the organization in line with its objectives and strategic drivers
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END

☐ *Thank You*
