

ICPAK
THE INTERNAL AUDIT MASTER CLASS 2021
INTERNAL AUDIT GOVERNANCE

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Day 2 Morning Session Agenda



- Audit Planning
- Audit Engagement Vs Advisory Engagements
- Audit Resourcing
- KPIs

Audit Objectives



- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programs;
- Safeguarding of the organizations assets; and
- Compliance with laws, regulations, policies, procedures, and contracts.

Annual Planning



2000 – Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.

2010 – Planning

The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.

2010.A1- Risk assessment documented. at least once annually

2010.A2 – CAE must consider stakeholder expectations

2010.C1 – CAE should consider proposed consulting engagements based on potential to add value and improve risk management.

Assurance Engagement



Assurance engagement

Is an objective examination of evidence for the purpose of providing an independent assessment on risk management, control, or governance processes for the organization

Advisory Services



Purpose- To analyse a situation and provide or give advice to management

- Adds value without giving the internal auditor management responsibility
- May include training, system development reviews, control self assessment guidance etc
- Include the authority to performance advisory services in the internal audit charter
- CAE retains the prerogative to designing the required audit techniques and how to report to the organisation in case the nature and materiality pose risks to the organization
- Ensure due professional care by the internal audit team during performance of advisory services

Advisory Services



- Key steps
 - Determine the methodology
 - Communicate engagement to management and agree on key principles and approach
 - Obtain management assurance on responsibility for corrective action
 - Perform advisory service
 - Communicate results to management

2020 – Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

2030 – Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

Risk Based Audit Planning



A methodology that links internal auditing to an organisation's overall risk management framework.

RBLA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite

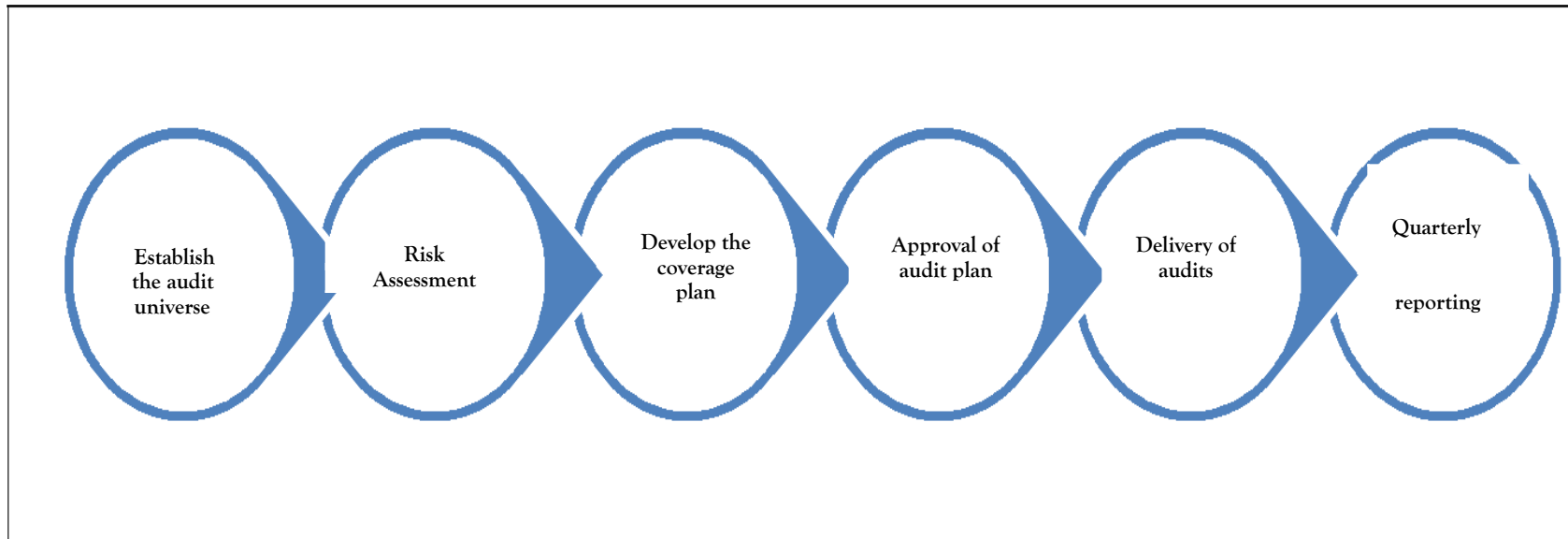
Objectives of Risk Based Auditing



To give assurance that:

- The risk management processes which management has put in place within the organisation (covering all risk management processes at corporate, divisional, business unit, business process level, etc.) are operating as intended.
- These risk management processes are of sound design.
- The responses which management has made to risks which they wish to treat are both adequate and effective in reducing those risks to a level acceptable to the board.
- A sound framework of controls is in place to sufficiently mitigate those risks which management wishes to treat

Summarized Audit Planning Process



Meaning of Audit Universe

The range of business activities, programs, functions, and entities that collectively contribute to the achievement of strategic objectives and could potentially be the subject of an audit.

Risk Based Plan

Key Principles



- Understand the organization and develop an audit universe.
 - Identify, assess, and prioritize risks.
 - Coordinate with other assurance providers.
 - Estimate resources required**
 - Propose plan and solicit feedback.
 - Finalize and communicate plan.
 - Assess risks continuously.
 - Update plan and communicate updates
-
- **Core audit staff $(365 - (52 * 2) - 10)$ (PBU-10(training))

Developing the audit universe

Sample framework



Our world	Current	Future
Processes	Strategic objectives	Emerging risks
locations	Risks	Customer interactions
Departments	Projects	Risk appetite
Regulatory requirements	Regulatory returns	Culture
Systems	Governance framework	Key corporate events
	Risk management framework	Key supplier contracts
	Other assurance functions	Key agents/distributors

Linking internal audit strategy to organization strategy



- Identify key organization objectives.
- Identify and assess risks, and prioritize risks.
- Prioritize risks that impact on achievement of strategic objectives (both negatively and positively).
- Include strategic projects (eg new systems or products likely to have an impact on the overall strategy)
- Map the audit universe to the risk assessment and prioritise
- Draft the audit plan and obtain feedback from management and board

Resourcing Models for Internal Audit



- Inhouse
- Co-sourced
- Outsourced
- Outsourced with in house management

Can you outsource the risk?

1. Assess whether the internal audit function has the right amount of competent and professional resources to provide the right blend of internal audit services to the organisation in line with the vision, approved internal audit service catalogue, and internal audit plan.
2. Identify and document the features of the audit universe that cannot be reasonably covered in the internal audit plan, particularly the top five risks that internal audit may not be able to cover with its current resources.
3. Identify any unique features of the audit universe that influence operational risks and internal audit coverage, such as the geographical coverage, international operations, number of locations, extent of centralisation, business maturity, assurance arrangements, and regulatory requirements.
4. Assess the reasonableness of internal audit's coordination with other internal and external assurance providers and whether there is a reasonable spread of assurance costs.
5. . Determine the chief audit executive's insights on whether they consider their resources to be sufficient.
6. Assess past internal audit budgets within the organisation, including performance against budget (e.g. reasonableness of variances) and the organisation's adjustment factors
7. Obtain comparisons of the organisation's internal audit spend for similar organisations, and analyse this data using global and local benchmarks.
8. Consider how well the internal audit function is performing in the context of its Key Performance Indicators (e.g. as reported in the Balanced Scorecard Report or equivalent if this structured style of KPI reporting is used)

Resourcing Internal Audit – Costs



- Staff costs
- Consulting costs
- Co-sourcing costs
- Technology and tools and the required licences costs
- Training and professional development budgets
- Travel costs
- Administrative costs

Internal Audit KPIs

The Balanced Scorecard



Identify stakeholders and their needs

- Internal clients (Senior management)
- Audit clients (may be department or BU heads)
- Audit staff (Detailed KPIs)
- External clients (Audit Committee)

Internal Audit KPIs

Potential KPIs



Switch to IIA whitepaper

<https://iiabelgium.org/wp-content/uploads/2020/10/Pempal-Key-performance-indicators-for-internal-audit.pdf>

Day 1 Case Study



2001 - The Central Bank of Kenya demands details on source of USD 25 million transferred from Liechtestein to a local bank - Bank X. The request is ignored and the money is withdrawn

2004 - An internal auditor at Bank X blows the whistle on an alleged US\$ 573 million tax evasion scheme involving 85 accounts held at the bank. He names companies A, B, C,D, E, F, G, H as participants in the scheme.

2006 - Shadow finance minister, Billow Kerrow, presents documents in Parliament alleging blatant and widespread tax evasion by a net of companies over a period of six years. He links bank X and 8 companies to the tax evasion scheme.

2006 - CBK places Bank X under statutory management.

2009 - Company E, a petroleum importer implodes under a KES 7.6 billion scandal

2018 - Companies A and B are placed under administration - owe KES 30 billion (KES 18 b - suppliers, KES 4 b -commercial paper, KES 8 b to banks)

2020 - Company D is placed in receivership by creditors - owes suppliers KES 6.2 b

Day 1 Case Study



1. With reference to Bank X's auditor, please identify possible audit governance weaknesses that may have encouraged whistle blowing rather than working through the company's structures.
2. Identify internal and external stakeholders affected by the governance failures in bank X. What would have been the value of internal audit to each of the stakeholders.

Interactive Session

