



INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA
(Established under the Accountants Act, Laws of Kenya)

RISK BASED AUDITING

Theme: *Ensuring objectivity and completeness of Internal Audit Planning*

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Venue: Virtual

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Traditional Approach versus Risk Based Internal Audit approach

The audit journey so far.....

Just like any other profession Audit has evolved overtime from mere audits of financial records, to the identification of fraud, risk assessment and system improvement.

Today, Internal Audit enables

- ❖ Governance,
- ❖ Risk management,
- ❖ Compliance,
- ❖ Resource conservation,
- ❖ Data verification and analysis for the entire organization

New order

- ❖ Changing stakeholder expectations
- ❖ Newer perspectives on risk management
- ❖ Demands from the board, senior management, and regulatory authorities

Traditional Audit

- ❖ Process mapping exercises that might rely on outdated manual.
- ❖ Procedure manuals and audit staff spread all over the company trying to cover the audit universe which sometimes extend to more than one year.
- ❖ Focuses on audit cycle (time duration, when last audit occurred
- ❖ Non-compliance with policies and procedure manual which may be outdated sometimes.

Cont....

- ❖ Traditional auditing is transactional based as opposed to processes based.
- ❖ Traditional auditing is compliance based as opposed to processes improvement.
- ❖ Traditional auditing is based on policies and procedures as opposed to risk identification.
- ❖ Traditional auditing is based on multiyear audit coverage as opposed to continual-risk-re-assessment coverage

What is risk based auditing?

- IIA defines risk based internal auditing (RBIA) as a methodology that links internal auditing to an organization's overall risk management framework. RBIA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.

Types of risks

- **Inherent risk** - risk involved in the nature of business or transaction.
- **Control risk** - risk that a misstatement could occur but may not be detected and corrected or prevented by entity's internal control mechanism.
- **Detection risk** - is the probability that the audit procedures may fail to detect existence of a material error or fraud
- **Inherent risk** - the risk that remains after controls are accounted for.

Cont...

- **Business risk**-the exposure a company or organization has to face that might lower its profits or lead it to collapse.

Steps in RBIA

- ❖ Assessing Risks.
- ❖ Preparation of Risk Based Audit Plan
- ❖ Perform Risk-Based Audit
- ❖ Risk Based Reporting
- ❖ Risk-Based Follow Up
- ❖ Monitor Changes in Risk

Question and answer.