



Forensic, Fraud and  
Internal Controls  
Workshop

# Facilitator



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# ***Developing an effective Internal Controls Framework***

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# Outline



1. Definition of Internal Controls
2. Importance of Internal controls
3. Risks Associated with lack of Internal Controls
4. Implementing Effective Internal Control Framework

# Outline



## 1. Definition of Internal Controls

2. Importance of Internal controls

3. Risks Associated with lack of Internal Controls

4. Implementing Effective Internal Control Framework

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# Definitions



- ✓ **Internal Control:** A process, effected by an entity's board of directors, management, and other personnel, designed to provide **reasonable** assurance regarding the achievement of objectives relating to **operations, reporting, and compliance**.
- ✓ **Internal Control Framework** - a structured guide that organizes and categorizes expected controls or control topics.
- ✓ **Controls** are put in place to mitigate **risks**.

# Definitions Cont...



**Internal Control System:** a continuous built-in component of operations, effected by people, that provides *reasonable assurance*, not **absolute** assurance that an entity's objectives will be achieved.

Internal control is a *process*. Each process is defined and implemented by a set of *policies and procedures*- a series of ongoing actions and activities that occur throughout the organization.

**Policies** - Are management or board statements of what should be done to effect internal control (the what).

**Procedures** - Consist of actions that implement a policy (the how).

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# Categories of Internal Controls



***Preventive Controls*** - designed to keep errors from occurring, based on the concept of segregation of duties.

***Detective Controls*** - designed to identify errors or irregularities that already exist; ensure that the preventive controls are working effectively.

***Corrective Controls:*** *Measures taken to repair damages and restore resources and capabilities to their prio state.*

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# Why Internal Controls



1. Establish order and organization
2. Help achieve the organization's goals and objectives efficiently and effectively
3. Prevent fraud and theft
4. Reduce errors

***NB: It is everyone's business***

# Benefits of Internal Controls



- ❖ Provides management with confidence to achieve objectives
- ❖ Provides feedback on functions - performance measurement, annual reviews
- ❖ Ability to meet requirements that create the opportunity for access to capital markets

# Benefits of Internal Controls Cont...



- ❖ Reliable reporting supports management and board decisions for resource deployment
- ❖ Increased ability and confidence to communicate performance
- ❖ Consistent mechanism for processing transactions



1. Definition of Internal Control

2. Importance of Internal controls

### **3. Risks Associated with lack of Internal Controls**

4. Implementing Effective Internal Control Framework

# Risks Associated with lack of Internal Controls



1. Poorly designed business processes
2. IT security risks – CIA exposure
3. Integrity and Ethics risk
4. Human Errors
5. Fraud Risks
6. Reputational Risks



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# Control Development



1. Identify the risk
2. Consider control option (Preventive or Detective)
3. Cost benefit analysis
4. Implement the control with relevant stakeholders
5. Document the control

# Documentation for Internal Controls



- ❖ Provides clarity regarding roles and responsibilities
- ❖ Assists in capturing the design of the internal control
- ❖ Establishes standards and expectations of performance
- ❖ Provides evidence of the processes and procedures in place

# Documentation for Internal Controls ...



- ❖ Enables proper monitoring and enforcement
- ❖ Supports effective reporting
- ❖ Allows an organization to retain knowledge rather than this information being “stored” in an employee’s heads.



# The COSO Framework

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# The COSO Framework



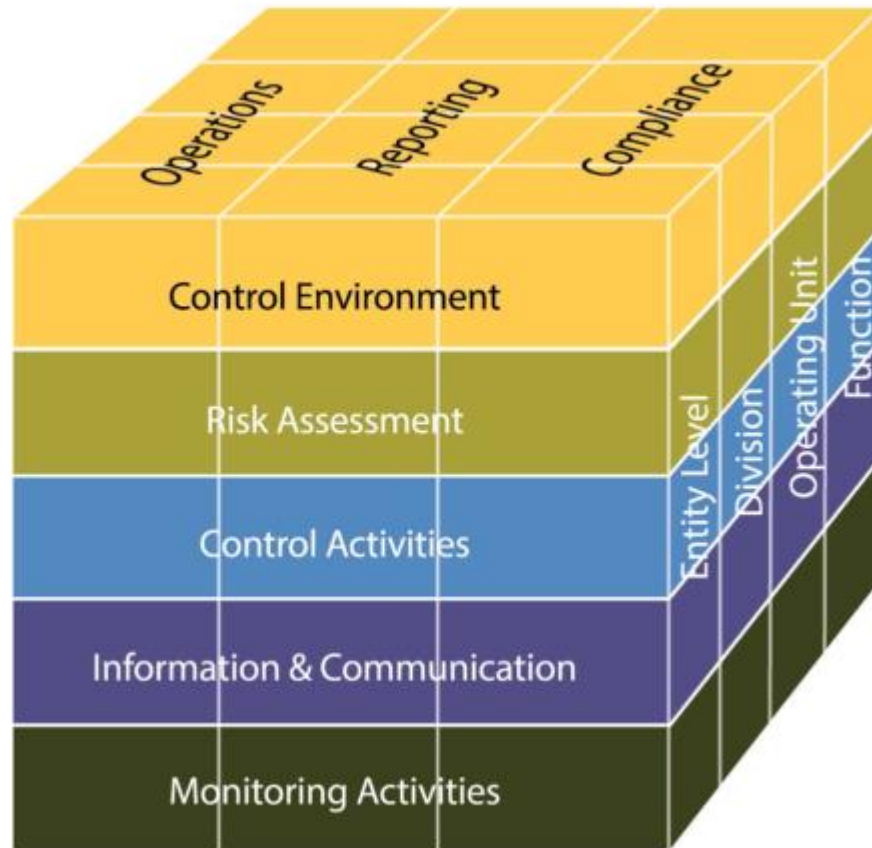
The Committee of Sponsoring Organizations of the Treadway Commission (**COSO**) is a joint initiative of the five private sector organizations and is dedicated to providing thought leadership through the development of frameworks and guidance on **enterprise risk management, internal control and fraud deterrence**.

In 1992 it released its Internal Control—Integrated Framework which has gained broad acceptance and is widely used around the world

It is recognized as a leading framework for designing, implementing, and conducting internal control and **assessing** the effectiveness of internal control.

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# COSO Cube



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# Objectives



## Classification of the Objectives

1. *Operations*: effectiveness and efficiency of operations and safeguarding of assets necessary to carry out operations.
2. *Reporting*: reliable reporting for both internal and external use; this includes financial and non-financial reporting.
3. *Compliance*: compliance with applicable laws and regulations.

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# COSO Principles



Control  
Environment

Risk Assessment

Control  
Activities

Information and  
Communications

Monitoring  
Activities

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# COSO Principles Cont...



## Control Environment

1. Exercise integrity and ethical values.
2. Make a commitment to competence.
3. Use the board of directors and audit committee.
4. Facilitate management's philosophy and operating style.
5. Create organizational structure.
6. Issue assignment of authority and responsibility.
7. Utilize human resources policies and procedures

# COSO Principles Cont...



## Risk Assessment

1. Create company-wide objectives.
2. Incorporate process-level objectives.
3. Perform risk identification and analysis.
4. Manage change.

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# COSO Principles Cont...



## Control Activities

1. Follow policies and procedures.
2. Improve security (application and network).
3. Conduct application change management.
4. Plan business continuity/backups.
5. Perform outsourcing.

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# COSO Principles Cont...



## Information and Communication

1. Measure quality of information.
2. Measure effectiveness of communication.

# COSO Principles Cont...



## Monitoring

1. Perform ongoing monitoring.
2. Conduct separate evaluations.
3. Report deficiencies.

# Organizational Structure



The organizational structure is the hierarchy of an organization.

On the right side of the cube - from left to right Controls should be effected at:

1. Entity level,
2. Division,
3. Operating unit
4. Function

# Conclusion



- Efficacy (effective and efficient) of controls is paramount for organization
- Controls frameworks should be designed to fit an entity's size and complexity
- Implementation of a robust ERM program is core to achieving effective controls

# The End



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