



Republic of Kenya



Elevating Internal Audit Standards in Public Sector – Presentation at the 19th IIA Conference – 12th May 2022

1. In the wake of Public Finance Trilemma – Governments across the globe are faced with a shrinking fiscal space a situation now better defined a fiscal Trilemma
 - a. There increased demand for government interventions against shrinking fiscal space on account of global economic shocks arising from Covid -19 pandemic, unstable geopolitical space (Russian Ukraine War and even closer home the cyclic economic downturn owing to the pending elections.
 - b. Citizens do not want to pay taxes or rightly so, do not have the ability to pay taxes.
 - c. Citizens do not want Government to borrow.
2. We must evaluate the fiscal trilemma in the wake of revelations of increasing corruption as reported by the various audit reports. Critical would be the growing number of modified audit opinions as reported by the Auditor General, more often against the backdrop of three lines model, questions have been asked on the whereabouts of internal auditors. Does this point to weakness in the oversight arrangements where internal audit is a player? Let us not be fooled, private sector is as guilty as the public sector is on matters corruption.
3. For a successful corrupt event to be carried through, the demand forces generated by the public sector is more often equalized by the supply forces from the private sector. Consequently, it does not matter whether you are an internal auditor practicing in the private or public sector, the responsibility to facilitate oversight arrangements remains heavy on your shoulders as internal auditors.... given the culpability of both sectors, it is a case of breakdown the governance system.
4. Against this backdrop, it calls for greater efficiency in application and utilization of the meagre resources. The centrality of effective internal audit cannot be over-emphasized. Peter Drucker – the renowned writer opines that efficiency is doing better that which had earlier been done whilst effectiveness is the ability to decide on that which to do better.
5. Faced with the situation above, how do we better elevate internal audit to be more efficient and effective in pursuit of the global mission of a practice whose focus and aim is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight?

It is against the backdrop of the PF Trilemma and reported cases of incessant cases of breakdown in the governance system, that I give the following set of submissions as my thoughts on elevating internal auditing standards in public sector in Kenya.
6. Recent corporate governance studies demonstrate that country-level factors influence governance practices much more than entity or industry-level factors. Other studies in the field of corporate governance demonstrate that governments need to get it right first before expecting corporate citizenry to do the right thing. Such research results reinforce

governments' role in promoting good governance practices and accountability, including implementing a robust government internal audit methodology that can positively impact audit practices. At this point, I am delighted to note the heavy representation of Government at this forum and more -so from the National Treasury.

7. Studies in the field of internal audit have highlighted different factors that can impact the quality of the function, including internal auditors' competency, which significantly affects internal audit effectiveness. Furthermore, internal audit department size, relationships between internal auditors and external auditors, the level of management support for internal audit performance also directly affect quality. In addition, the audit committee's involvement in internal audit activities influences IA professionalization and the independence of the IA function.
8. It has been demonstrated that a factor which is seldom considered a major enabler to the general practice of internal audit in third world, is the robustness, level of details, and quality of the government internal audit methodology, which reflect the seriousness with which governments have embraced internal audit function as a critical governance pillar. It is apparent that the level of attention that the general government provides to its own internal audit methodology plays a significant role in the seriousness of non-government business community in adopting internal audit best practices. In the case where the government IA methodology is robust, there is demonstrable positive impact on aspects of internal audit quality would be more evident. The aspects of internal audit quality includes comprehensive charters, policies, staff competencies, processes, planning, and risk assessment.
9. The import of standard-drive internal audit practice would be defined by the following pillars of governance:
 - a. Governance is essential to organisational success and requires an open, trusting collaborative tri-partite relationship among the Board, management and internal audit.
 - All organisations require sound governance practices if they are to remain viable and relevant amidst competition and uncertain business environments.
 - Organisational success is sustainable only if it serves the interests of all stakeholders – both internal and external stakeholders.
 - Governance is exercised through various processes and structures with the aim of maintaining a healthy balance among the interests of all stakeholders. The focus would be the inter-relations between the various facets to create synergies aimed at maximizing stakeholder value .
 - Successful governance arrangements thrive in environments that foster openness and ethically upright cultural orientations.
 - b. Internal audit is essential to governance and where appropriately onboarded, it fosters transparency and accountability within the organization.
 - Relevance of Internal audit increases as organisations grow and develop, become more complex and mature, strive for improvement, and seek positive change.

- Internal audit is essential for organisations that seek to contribute to economic and social well-being within both the general government, state corporations and private sector.
- Internal audit builds trust through frequent and meaningful interactions with the Board and management.

Those charged with governance should establish internal audit as part of the governance framework. To this end CAE must craft a function that is primed on the following key attributes:

- Demonstrates integrity.
 - Demonstrates competence and due professional care.
 - objective and free from undue influence (independent).
 - Aligns with the strategies, objectives, and risks of the organisation.
 - Is appropriately positioned and adequately resourced.
 - Demonstrates quality and continuous improvement.
 - Communicates effectively.
 - Provides risk-based assurance.
 - Is insightful, proactive and future-focused.
 - Promotes organisational improvement.
- c. Internal audit contributes to success, positive change and innovation by delivering assurance, insight and advice.
- By delivering insights on governance, risk and control, internal audit provides a robust challenge to organisational practices and provokes positive change and innovation.
 - Internal audit is best able to provide insight and advice when it combines independence and objectivity with a deep understanding of the organisation, its governance arrangements measured against its operating environment, and by drawing on the power of big data.
 - Internal audit should embrace innovative thinking by maintaining an active awareness of developments in the profession, industry and adopting cutting-edge practices.
 - Through the provision of assurance on the effectiveness of governance, risk and control, internal audit should inspire organisational confidence and enables competent decision-making.
- d. Internal audit is most effective when its resource level, competence and structure are aligned with organisational strategy. To this end,
- Internal auditors have a professional responsibility to improve their proficiency and the effectiveness and quality of their services continually through education and development.
 - Internal audit must efficiently and effectively deploy available resources in a manner that aligns its plans with the business priorities and strategies to maximise the positive impact on organisational success.

- The Chief Audit Executive should possess a thorough understanding of IIA standards as the basis for internal audit operations.
 - The credibility and trust of internal audit are significantly enhanced through continuous review and improvement.
- e. Internal audit contributes the most value when it is relevant, objective, attentive to risk and opportunity, and is future focused.
- To be relevant, internal audit must support long-term business growth. It can achieve this through an appropriate balance of assurance and advisory services that are aligned with organisational strategy and reflective of the operating environment.
 - Objectivity and independence of internal auditors is assured through a systematic and disciplined approach free from bias and undue influence.
 - Internal audit must in this regard, empower management through concise communication of risk-based assessments of current and future conditions that test an organisation's preparedness for future uncertainties.
 - Internal audit must consequently make positive contributions to organisational value when its assurance, insight and advice are credible, trustworthy, promptly communicated and readily accepted by management.
- f. Internal audit must be free from undue influence and demonstrate independence by reporting functionally to the Board/Governing Body. To this end,
- Management must always remain focused in designing and implementing an effective system of governance, risk and control.
 - Internal audit through a risk-based approach, maintains responsibility for evaluating the design, efficiency and effectiveness of implemented systems of governance, risk and control.
 - As articulated by its charter, internal audit shall be guaranteed full, free and unrestricted access to any function or activity under review, with no organisational function or activity considered to be outside of its scope.
 - The Chief Audit Executive must report functionally to the Board to allow internal audit to fulfil its responsibilities independently and must be recognised as an authoritative voice. This is achievable if we attain clear reporting lines supported by appropriate placement for the position of CAE within the approved structure for the organization.
10. All said and done, the CAE must equally be accountable for resources and authority granted to the office. To this end, the CAE must maintain a balanced score card that would typically consider four common elements, notably:
- How well the internal audit function partners with the Board.
 - How well the internal audit function supports management in achieving their business objectives.
 - How well the internal audit processes are managed.
 - The innovation and capabilities of the internal audit team.

- There is also a trend for exemplar chief audit executives to specify the value proposition from each audit to confirm the audit cost was well-spent.

11. Prescription of Standards

Tacking cognizance of the above, the Board approved for adoption and application of the International Professional Practices Framework (IPPF) as issued by the Institute of Internal Auditors for use by all state organs and public sector entities through Gazette Notice number 5440 of 8th August 2014 as the means to promote best practice in internal auditing in the public sector in Kenya. The objectives of the prescribed standards are to:

- define principle-based practice and nature of internal audit within the public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The Board facilitates uptake of the IPPF by standardizing implementation through developing To develop model internal audit manuals, procedures, templates, guidelines, programmes whilst promoting audit automation.

12. Emerging practices

It is critical for internal auditors to create work systems to effectively serve the public interest through participatory auditing - The two main categories of participatory collaborative approaches may include:

- The public using the observations reported by internal auditors to champion a higher level of accountability of Government agencies and entities.
- The public conducting 'audits' of the Government in isolation from public sector auditors, perhaps by obtaining information through freedom of information laws. What facilitative role can internal auditors play in this regard?