

Leadership in the fast-evolving environment



The Institute of
Internal Auditors

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THE INSTITUTE OF INTERNAL AUDIT 2022 ANNUAL CONFERENCE

THEME: A GLIMPSE INTO THE FUTURE - AGILITY AND IMPACT

Internal Audit as a key Strategy Enabler



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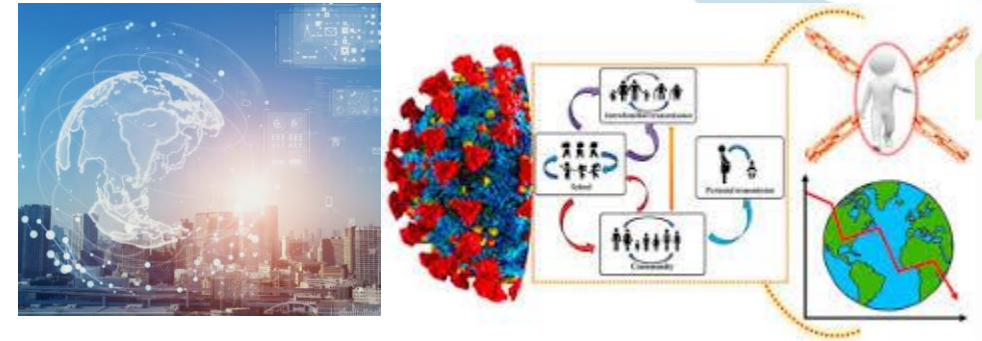
What does success look like for IA?

An organization's leadership draws value from the Internal Audit function if it demonstrates the **ability to embed into the core business** and form strategic partnerships with the rest of the functions/units in the organization to **drive value creation** and the achievement of **overall organizational objectives**.



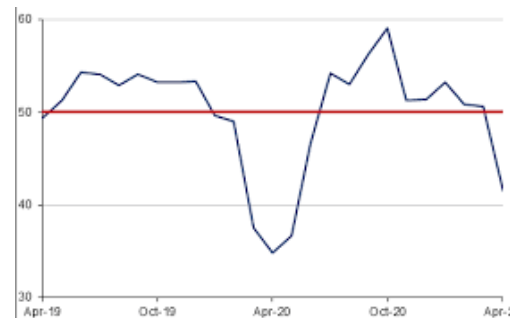
The fast-evolving environment

- ❖ Today's environment is **fast-evolving**, and businesses must quickly adapt to keep up.



- ❖ These have led to **adverse changes in the external business environment** ranging from rising inflation, weakening currencies, declining or stagnant demand and supply chain disruptions.

- ❖ The last 30 months have witnessed a series of **global shocks** such as the Covid-19 pandemic and the Russia-Ukraine conflict.



The role of IA in this dynamic environment



- ❖ Businesses **with inefficient or weak** internal control systems often **fail to adapt** and withstand the heat of global shocks such as witnessed recently. Eventually, they are forced to close down.
- ❖ There is **no room for wastage** in the current environment – internal business efficiency is key.
- ❖ Thus, the internal audit function has had to play a major role as the **promoter of process efficiencies** and **champion for stronger internal control systems** to achieve the requisite business agility for survival.



The evolution of Internal Audit

Traditional IA

1. Largely takes a **historical** view with a focus on reporting past events.
2. A **policing role** with a problem identification mindset.
3. Success is measured by the ability to flag as **many issues** as possible for management's attention and resolution.

Contemporary IA

1. Understands the business and its **external environment**.
2. Understands the strategy and the **key drivers** of value.
3. Designs the audit work plan to focus on areas that potentially have the **biggest impact on value**.
4. Further to identifying audit issues, AI works alongside the management team to achieve **process improvement and enhanced internal control environment**.



Alignment of IA to the Business Strategy: - the case of Almasi Beverages Limited

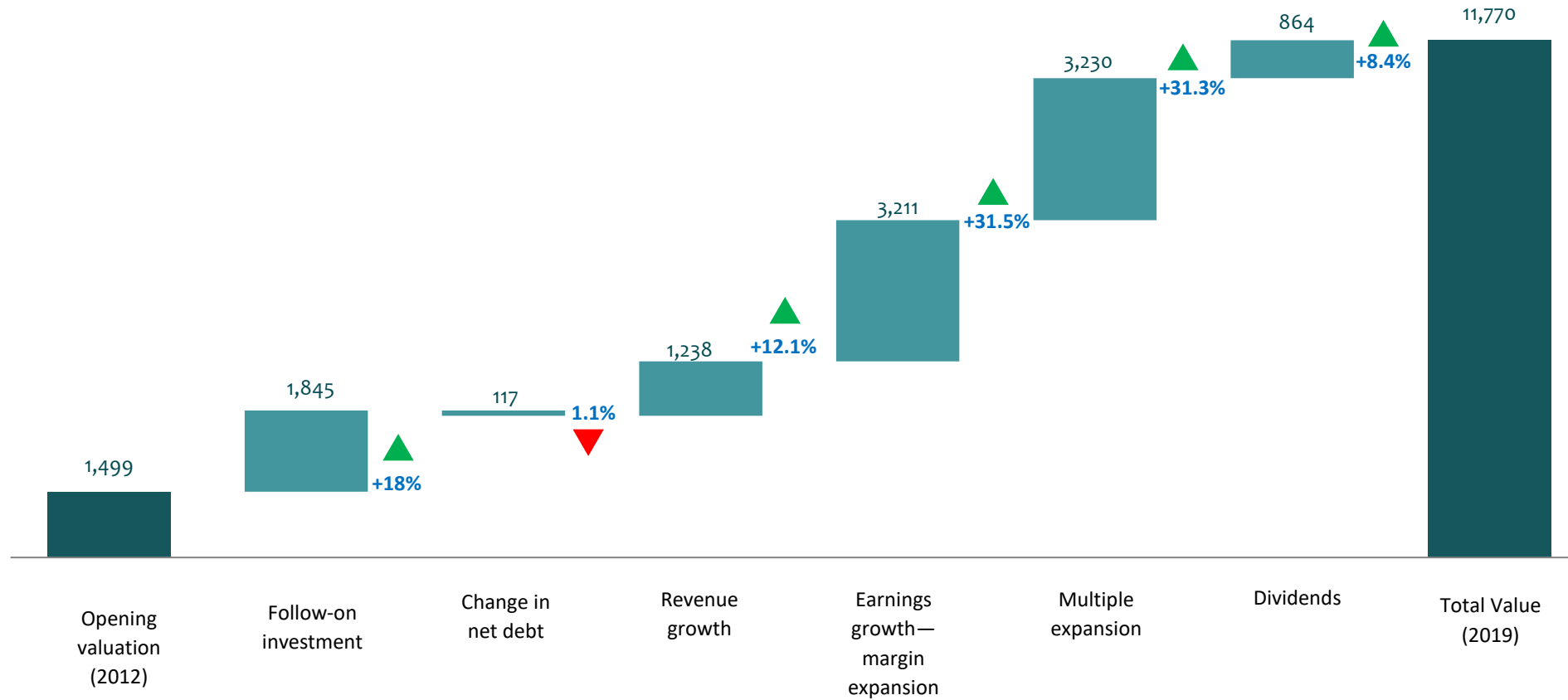


Almasi was founded in December 2012, through a 3-way merger of Kisii Bottlers, Rift Valley Bottlers and Mount Kenya Bottlers. The transaction was engineered and led by Centum as an initiative to enhance the value of these businesses through various synergies and efficiencies.

Upon completion of the merger, Centum set out to work with the leadership team of Almasi to execute the following value drivers:

- 1 Revenue enhancement:** Diversification of product range from RGB (100%) to PET (30%) & RGB (30%)
- 2 Efficiency improvement:** Synergies around management, markets, opex and capex.
- 3 Capital growth:** Raise additional equity capital to fund expansion and optimize working capital management.
- 4 Organizational effectiveness:** Recruit effective top executives, strengthen governance and the internal control environment.
- 5 Risk reduction:** Resolve outstanding tax issue and enhance the levels of compliance.

Value driven leadership: Almasi value attribution *(Centum's Stake)*



Alignment of IA to the Business Strategy: - the case of Almasi Beverages Limited (cont...)

- ❖ The Internal Audit function was integral to the business strategy and played an important role in ensuring that management was involved and accountable for the key areas highlighted below. IA did this through continuous audits, timely reporting from the audit thus allowing for immediate implementation of recommendations. IA formulated a **work plan that was aligned to the value creation plan and prioritized its work to not only achieve the objectives below, but also help the business in achieving its wider objectives.**
- ❖ The objectives were to enhance control environment, improve business processes, risk identification/assessment/mitigation and compliance.
 - ❖ **Enhanced Business Processes:** Continuous review of the existing business processes (both manual and system), procedures, and policies
 - ❖ **Improved Control Environment:** Continuous audit of the existing processes and ensuring that process owners were accountable.
 - ❖ **Risk Reduction:** Accountable for the Enterprise Risk Management Framework. Through this role, they ensured risks are identified, analyzed, mitigated and tracked.
 - ❖ **Enhanced Compliance:** Continuous audit to ensure the business was in compliance with all statutory, regulatory, operational (internal) and franchise (Coca Cola) requirements.

Alignment of IA to the Business Strategy: - the case of Almasi Beverages Limited (cont...)

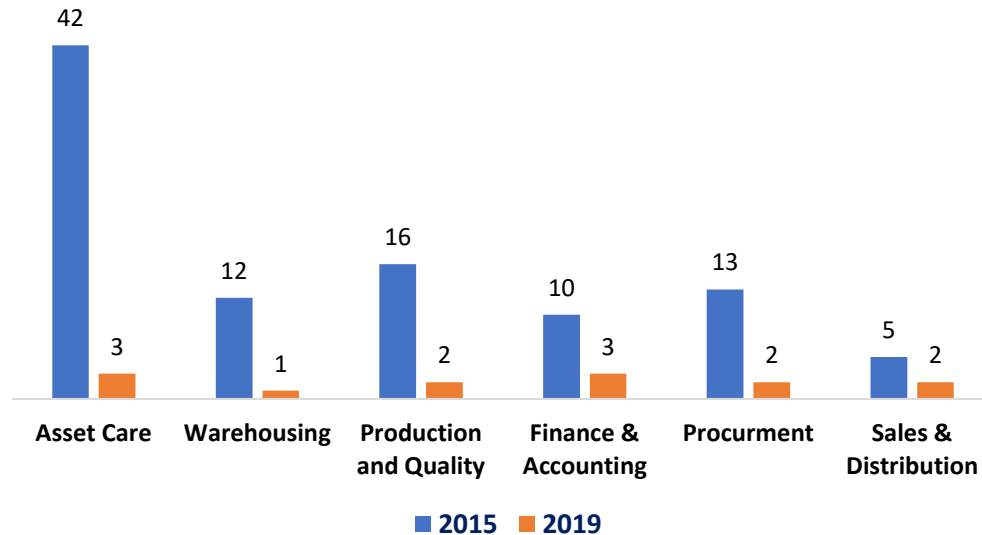
- ❖ Through the foregoing initiatives, Internal Audit enabled the business to achieve the following critical outcomes:
 - ❖ Efficient and effective business processes
 - ❖ Minimal wastage and loss across the business resulting in better financial outcomes with the impact felt in the financial performance
 - ❖ Risk mitigation and reduction on impact arising from risks resulting in better operational and financial outcomes
 - ❖ Compliance to both internal and external regulations thus minimizing risk and loss

- ❖ For purposes of the Value Creation, the above outcomes ensured that the Due Diligence done did not have any significant findings resulting in:
 - ❖ Minimal impact on any negative financial adjustments to the sale price/consideration
 - ❖ Reduced warranties
 - ❖ A premium reflected in the enhanced EBITDA multiple due to a strong control environment and efficient business processes that would make it easier for the buyer to integrate the business.

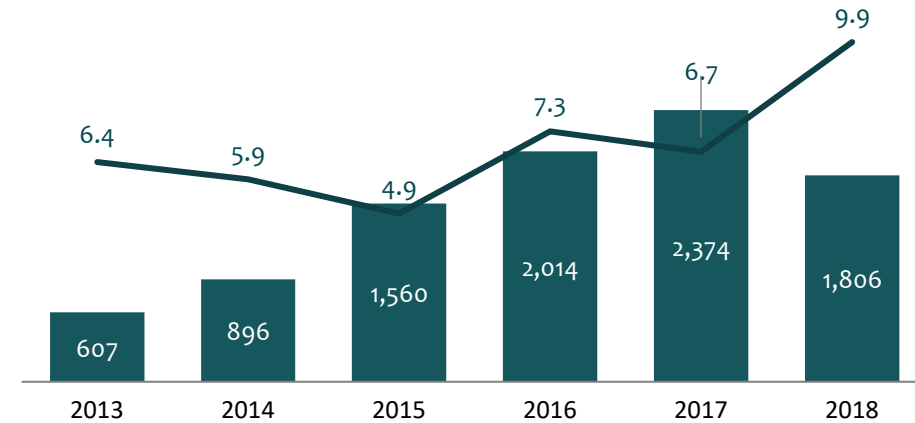
Value driven leadership: the impact of alignment of IA to the core business



No. of Almasi Audit Findings



Almasi EBITDA (Kes Mn) and Adjusted EV/EBITDA multiple



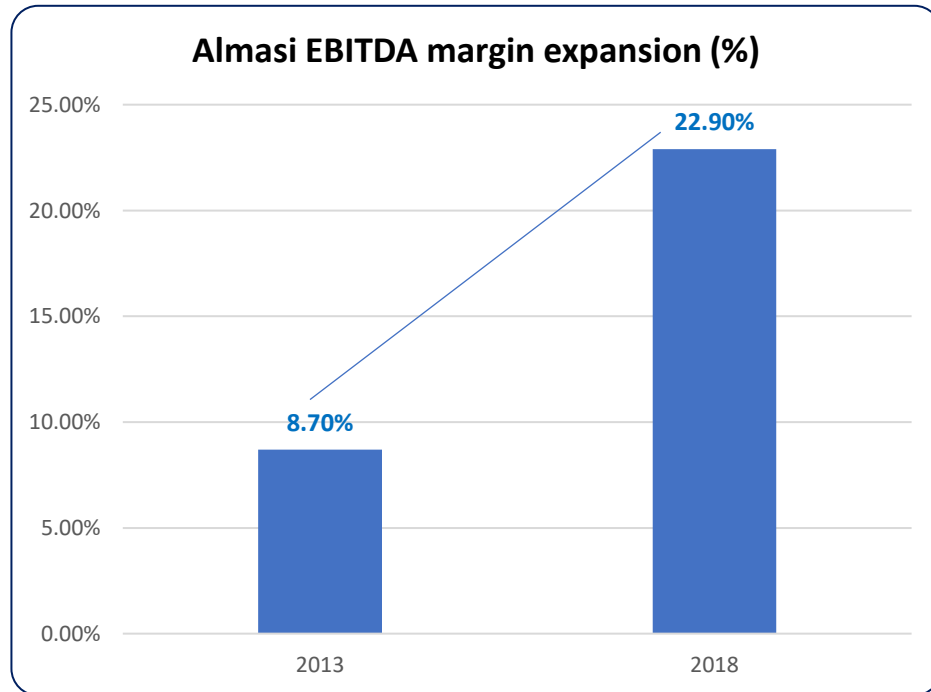
The shift from traditional IA:

- Internal Audit needs to fully understand and appreciate all areas of the business and have a business partner mindset.
- IA plays a strategic role by raising audit issues around the key value drivers, following up and continuously monitoring improvement.
- An improved control environment directly impacts profitability and enhances the value of a business.

Value driven leadership: the impact of alignment of IA to the core business



Process improvement and an enhanced control environment accounted for approximately 75% of the growth in value



Value attribution summary

	Kes Mn	Kes Mn	Kes Mn	Drivers
Opening value (2012)	1,499			
Follow-on investment	+ 1,845		2,592	Capital structure decisions
Change in debt	- (117)			
Dividend distribution	+ 864			
Revenue growth	+ 1,238	1,238	12%	Product diversification
Earnings growth	+ 3,211	6,441	63%	Enhanced efficiency and controls
Multiple expansion	+ 3,230			
Ending value (2019)	11,770			
Total change in value (2012 - 2019)			+ 10,271	



Thank You

